

IFRS outlook



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Convergence of accounting standards – can the different perspectives ever be reconciled?

Based on their first *Joint Quarterly Progress Report* on the co-development of selected accounting standards, the IASB and FASB signalled potential delays on two major projects due to differences in opinions on important technical issues. Discover more about the reasons for the delays, the broader context of the issues surrounding the convergence of accounting standards, and the potential implications, should the differences not be reconciled.

Derecognition of financial instruments: the way forward

The IASB has tentatively decided to further develop the alternative approach proposed in the Exposure Draft on derecognition of financial instruments. Learn about the proposed approach, including an assessment of practical examples on the application of the model and the implications arising for businesses.

Financial reporting developments

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

Resources

Read about the first edition of our *IFRS foundation tools* package which provides a comprehensive suite of tools to help you keep up with the changing landscape of IFRS. Register as well for our upcoming webcast on lessons learned for year-end reporting.

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

Ruth Picker
Global Leader of IFRS Services

Convergence of accounting standards – can the different perspectives ever be reconciled?



Ruth Picker, Global Leader of IFRS Services



Danita Ostling, Americas IFRS Technical Leader

In their first *Joint Quarterly Progress Report*¹ on the co-development of selected accounting standards, the IASB and the US FASB (collectively, the Boards) highlighted potential issues on two major projects – financial instruments and insurance contracts, due to different conclusions on certain important technical issues. The Boards also noted that “... addressing those differences in ways that foster convergence could affect the project timetable ...”.

With more than 110 countries either already applying International Financial Reporting Standards (IFRS) or having announced plans to adopt IFRS, and with the US Securities and Exchange Commission (SEC) committed to making a decision about adoption in 2011, the ramifications of non-convergence of accounting standards are potentially far-reaching. We spoke to Ruth Picker (RP), Global IFRS Leader and Danita Ostling (DO), Americas IFRS Technical Leader about why the convergence of accounting standards is important and whether the different perspectives of stakeholders in the standard-setting process can ever be reconciled.

What is the cause of the different conclusions on the two major projects and how might resolution be reached?

DO: The delay in the financial instruments project stems from the differing views and perspectives between the Boards about when fair value should be used to measure financial assets. The IASB favours a mixed measurement model,² whereas the FASB seeks a wider application of fair value. The Boards have acknowledged that these differences in opinion exist for a variety of reasons, primarily about the extent of use of fair value, but also the phased approach adopted by the IASB as compared with the comprehensive approach adopted by the FASB. However, Sir David Tweedie, Chairman of the IASB and Bob Herz, Chairman of the FASB, believe that, even if a single approach is not agreed upon, both Boards' proposals could provide sufficient information in banks' disclosures to enable a comparison to be made between US GAAP and IFRS reporting. The Boards have agreed to expose both approaches for public comment and the views of the users of financial statements are important when considering these differing approaches.

¹ The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) agreed in their 2006 Memorandum of Understanding (MOU), to align certain of their respective accounting standards, such as revenue recognition and leasing, and to reach convergence on these projects. The MOU was further updated in 2008 and 2009. The aim is to achieve a single, globally-accepted set of high quality accounting standards by mid 2011. The financial crisis has resulted in increased calls for this goal to be achieved by groups such as the G-20.

² This would be either amortised cost or fair value, depending on an entity's business model and the nature of the asset as set out in IFRS 9 *Financial Instruments*.

“Convergence alone is neither sufficient nor sustainable in the long-term. We believe that all countries, including the US, should ultimately commit to adopting IFRS.”

RP: The IASB has indicated that it does not intend to move away from the mixed measurement model in IFRS 9, which was developed in response to calls from existing IFRS adopters, particularly in Europe. The fair value approach proposed by the FASB is unlikely to gain much support in Europe. There is a concern that, by exposing the FASB’s proposal, the IASB could be seen to be reconsidering IFRS 9 to increase the use of fair value and this will likely concern existing opponents to IFRS 9, especially in Europe.³ However, we understand that this is clearly not the IASB’s intention. On the contrary, we think that the FASB’s proposals may be unlikely to gain wide support in the US and there is a possibility that IFRS 9’s approach may be preferred by some US constituents. Ernst & Young has globally publicly supported both IFRS 9 and the mixed measurement model as a reasoned approach.

DO: Similarly, the Boards currently have divergent views on the measurement of margins (profit) in insurance contracts. These differences may demand more attention and consideration from the Boards, but I do not believe they are insurmountable.

Why is the convergence of accounting standards important?

DO: The US is a key and important financial market in the world’s economy, and the US SEC has, for many years, promoted the view that a single set of high-quality, globally-accepted accounting standards would be useful. In this regard, the SEC also has strongly supported the efforts of the IASB and the FASB to align their standards, noting that successful completion of the convergence agenda would be a “significant accomplishment toward improving financial reporting for investors worldwide”.⁴ The convergence of accounting standards is seen by many in the US as a pre-requisite step towards developing a single accounting language. However, as we noted in our Point of View piece last year, convergence alone is neither sufficient nor sustainable in the long-term. We believe that all countries, including the US, should ultimately commit to adopting IFRS. The US is the remaining major capital market that has not made this commitment. Existing IFRS adopters are growing increasingly frustrated with the US influence on the IASB, given that it has not formally committed to the adoption of IFRS.

RP: A single globally-accepted set of high-quality accounting standards would serve to improve the capital flows of global capital markets. Investors would be able to compare the financial statements of companies around the world and make informed decisions accordingly. This would improve the transparency of financial information and also address concerns and limit the potential for accounting arbitrage where the accounting rules of one country may provide for a more favourable accounting treatment than another.

DO: Multinational companies also can gain efficiencies when the parent and subsidiaries are able to report under the same accounting standards. Furthermore, the onset of the financial crisis and the political push by the leaders of the Group of Twenty nations (G-20) has served to add impetus to the convergence project as global leaders seek to improve financial stability.

Detractors have stated that the IASB is not independent and investor-oriented. What can the IASB do to address these concerns?

DO: The IASB’s composition of members now has representatives from the major economies of the world, such as Europe, Japan, Oceania, China, India and Brazil, as well as the US. The Standards Advisory Council also has been set up to provide independent advice to the IASB on technical issues. In addition, the International Accounting Standards Committee Foundation (IASCF), the oversight body of the IASB, has revised the IASB’s Constitution to introduce a three-year public consultation period on its technical agenda and identify investors as a target audience for financial information. The IASCF’s Monitoring Board also was established to facilitate interaction with capital market authorities and ensure public accountability of the IASCF. The Monitoring Board recently agreed to review the governance of the IASCF and IASB, including its own composition. These are steps in the right direction to demonstrate that the standard-setting process is free from political interference and underpinned by appropriate due process that gives all stakeholders an opportunity to provide input.

³ IFRS 9 has not been endorsed in Europe and opposition to it remains, as some consider that it increases the use of fair value.

⁴ SEC, Release Nos. 33-9109; 34-61578, Commission Statement in support of Convergence and Global Accounting Standards.

Convergence of accounting standards – can the different perspectives ever be reconciled? *continued*

“Ultimately, the governance of the IASB needs to ensure a balance between independence and accountability to all stakeholders.”

“For our part, Ernst & Young has been working to build the bridges between the different stakeholders, to encourage discussion and co-operation to achieve this goal. ”

RP: I would add that the IASCF and the IASB also recently launched an investor outreach programme to enhance investors’ participation in the development of IFRS. However, the heightened scrutiny of other stakeholders, including prudential regulators and governments, has led to a greater involvement and desire to influence the standard-setting process. This desire to improve financial stability can cause conflict with the stated objective of an independent standard-setter. Ultimately, the governance of the IASB needs to ensure a balance between independence and accountability to all stakeholders.

With the differing views on two of the key joint projects and the fragile political environment surrounding IFRS, can the aim of a single set of accounting standards ever be reality?

DO: I think so. This brings to mind an analogy about the upcoming Football World Cup that Jim Turley (Chairman and CEO of Ernst & Young) made in a webcast in September 2009 – that a key part of the global appeal about the game of football is that a single common set of rules exists. Imagine how chaotic it would be if each country brought their own rules to a global tournament! There may be a different ball or size of goal posts, depending on which countries were competing. So, the case for a common accounting language is clearly compelling. How we get there is the challenge but I believe it is achievable.

RP: I agree and I think this is the right time, given that the calls for one accounting language are coming from numerous sources and that we have come so far in the journey. We now stand, closer than before, at the crossroads of possibly developing a single globally-accepted set of accounting standards. Some challenging steps in this journey still lie ahead and some will undoubtedly involve difficult decisions. However, I think, we now have a chance of a lifetime to make this happen. For our part, Ernst & Young has been working to build the bridges between the different stakeholders, to encourage discussion and co-operation to achieve this goal.

Derecognition of financial instruments: the way forward

Background

The current derecognition requirements for financial instruments are generally regarded as both difficult to understand and complex to apply in practice. In response to these complaints, the IASB (the Board) initiated a project to improve and simplify the requirements for determining when financial instruments should be derecognised from the statement of financial position. This is part of the Board's overall project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

In March 2009, the Board published an exposure draft (ED), containing an approach based on control and an outline of an alternative approach. Based on the feedback received from respondents, the Board decided to further develop the alternative approach. This will be published as a new ED in the second or third quarter of 2010. The final standard is expected to be published in the first quarter of 2011.

In this article, we discuss the principles of the proposed new approach, illustrate the application of these principles and highlight some of the potential business implications.

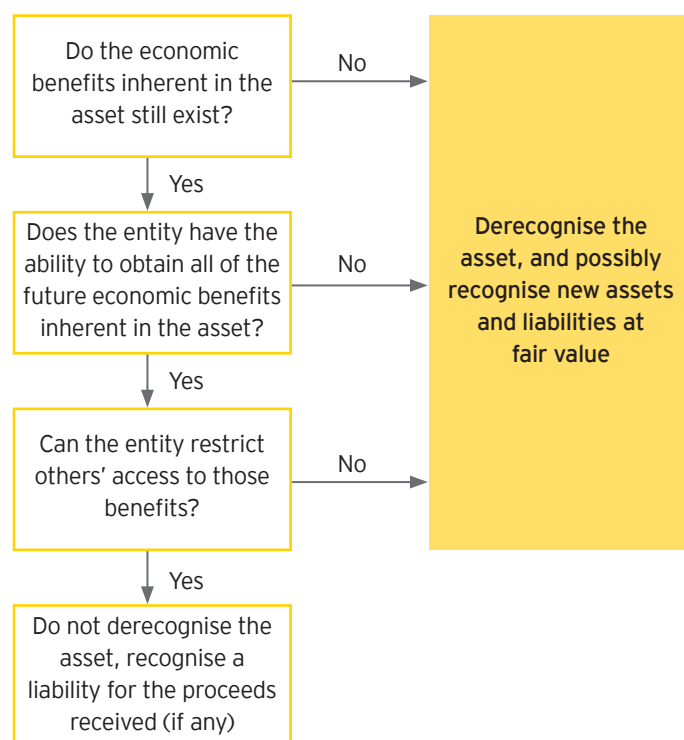
Summary of the proposed new approach

Derecognition criteria for financial assets

The underlying principle of the alternative approach (the 'new approach') is that a financial asset is derecognised when the transferor does not have present access, for its own benefit, to all of the cash flows or other economic benefits of the transferred asset.

Unlike IAS 39, and the original proposed approach in the ED, the term 'transfer' is not defined in the new approach. The focus of the new approach is on the appropriate recognition of an entity's contractual rights and obligations. Whether an entity has conveyed those rights and obligations by means of a transfer, or otherwise, is not considered relevant. Flow chart 1 summarises the derecognition criteria for financial assets from the perspective of the transferor.

Flow chart 1



Derecognition of financial instruments: the way forward *continued*

Under this approach, when the rights to any identified cash flows are passed to another party, the transferor derecognises the previously recognised asset and recognises new assets and liabilities, at fair value, for the rights and obligations either retained or obtained in the transaction.

The new approach also considers partial derecognition. For a transfer of a proportionate interest in the cash flows (e.g., 10%), the entity would treat the retained proportionate interest in the previously recognised asset (in this case, 90%) as part of the original asset. If the asset were previously recognised at amortised cost, the retained interest would continue to be measured at amortised cost. The entity would recognise a gain or loss only on the part transferred.

But, if an entity retains a disproportionate interest in the previously recognised asset (e.g., retaining the first or last 10% of the cash flows), the entity would treat the whole of the retained interest as a new asset. The entity would measure this asset initially at fair value, recognising any gain or loss resulting from the transfer in profit or loss. The new asset would be measured subsequently in accordance with the classification and measurement requirements of IFRS 9.

Where an entity meets all of the criteria, as illustrated in flow chart 1, a financial asset would not be derecognised. Hence, any proceeds received would be treated as a financial liability of the entity.

Exception

The IASB has tentatively decided that most sale and repurchase agreements (repos) and securities lending arrangements will not be subject to the above criteria and will continue to be accounted for as secured borrowing.

Derecognition criteria for financial liabilities

A financial liability is derecognised when it no longer qualifies as a liability of the entity, that is when the present obligation is eliminated and a transfer of economic resources is no longer required.

The new standard will make it clear that the derecognition criteria for financial assets cannot be applied to a financial instrument (or group of financial instruments) that can be either an asset or a

liability at various points during its life, such as an interest rate swap, unless the counterparty to the instrument has expressly consented to the novation of the liability.

Modification of financial instruments

A financial liability would be also derecognised if the contract giving rise to that liability is substantially modified. A contract would be considered to be substantially modified if:

- ▶ The timing, amounts or uncertainty of the 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 in the nature of the investment that the contract represents.
An example would be a change in the currency in which the principal is denominated or the addition of prepayment or cross-collateralisation provisions.

The first criterion for substantial modification is a quantitative test and is similar to the existing guidance in IAS 39, although no particular threshold is prescribed (unlike the current 10% rule). The second criterion is a qualitative test. It does not explicitly exist within IAS 39, although it is sometimes inferred, based on the general principle set out in that standard.

Unlike IAS 39, the new standard will expressly state that, if a financial liability is derecognised as a result of modification, then the holder will also derecognise the corresponding asset.

Practical examples of the application of the new approach

Example 1

Consider the sale of a floating rate bond in which, as part of the sale, the seller writes a put option.

Accounting analysis

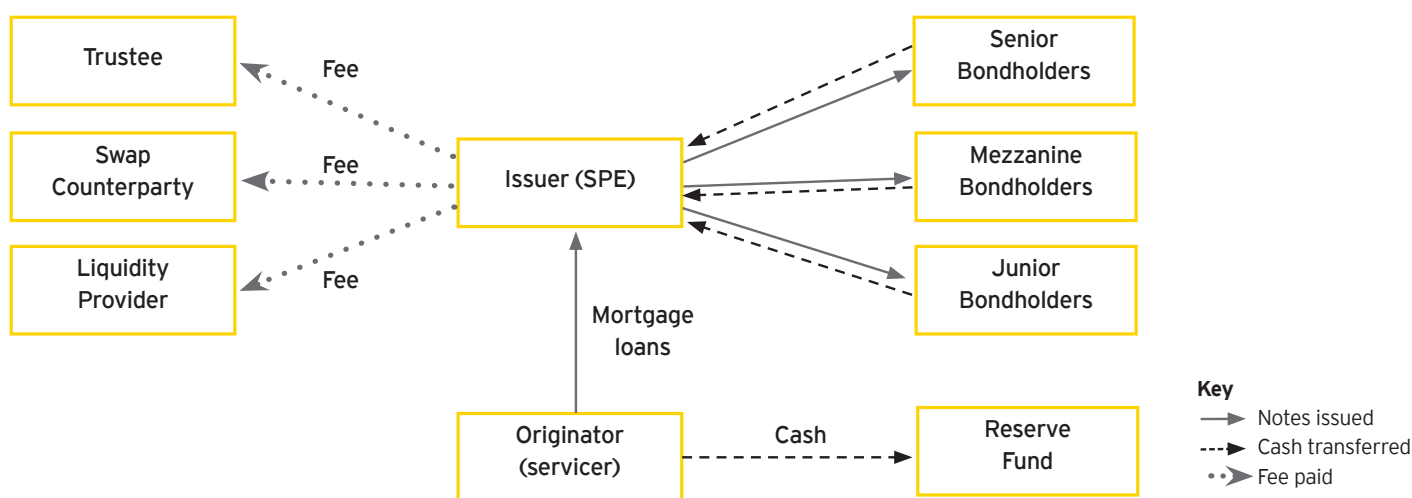
The option obliges the seller to repurchase the cash flows if the buyer decides to exercise the option and sell back the bond. However, until the buyer exercises that right, the seller does not have present access to those cash flows. Hence, the seller derecognises the bond and recognises the option at fair value.



Example 2

Fact pattern

The second example is of a typical residential mortgage-backed securitisation (adapted from the example used in the IASB Staff Agenda papers).



- ▶ Originator sells fixed rate mortgage loans to a Special Purpose Entity (SPE)
- ▶ SPE issues floating-rate senior, mezzanine and junior notes to third-party investors to finance the purchase of the loans
- ▶ SPE enters into fixed-for-floating interest rate swap with an unrelated counterparty, who has not consented to the swap's novation
- ▶ Originator services the loans for a market fee
- ▶ Originator provides credit support to the SPE by funding a reserve fund

Accounting analysis

In the originator's stand-alone financial statements, following the sale of the loans, the originator no longer has present access for its own benefit to all the cash flows of the loans. This is because its servicing contract requires it to pass through all the cash flows (net of its servicing fee and any excess above the required reserve fund level) to the bondholders and other stakeholders (e.g., the swap counterparty and the trustee of the SPE). Consequently, the originator will derecognise the loans and recognise its interest in the reserve fund as a new asset, at fair value.

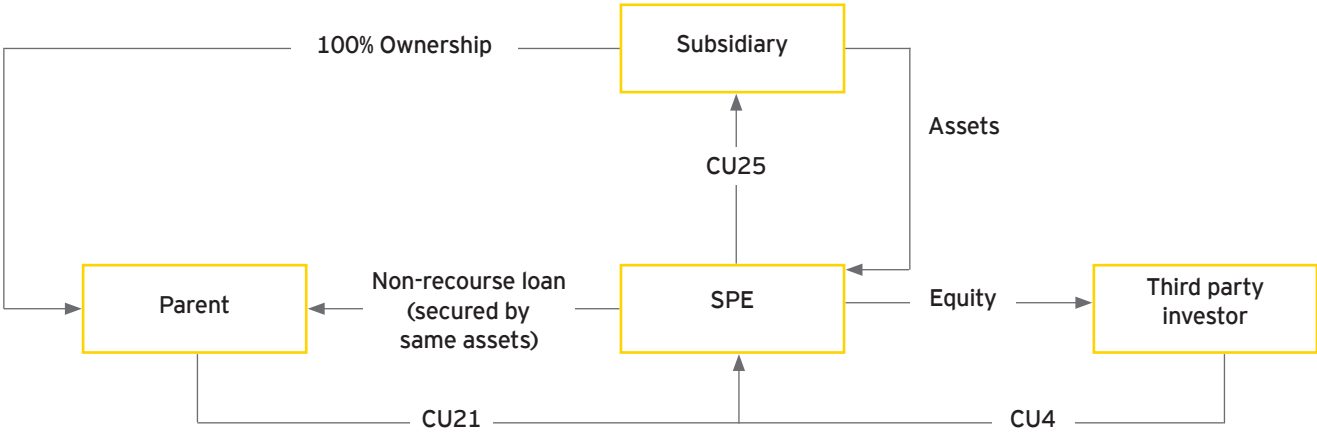
Derecognition of financial instruments: the way forward *continued*

If the originator consolidates the SPE in its consolidated financial statements¹, the issue of the notes will not result in the group derecognising the loans. This is because the cash flows to be paid out on the notes depend on those received from both the loans and the interest rate swap, so the loans cannot be assessed for derecognition in isolation. The swap can be an asset or a liability over its term, consequently, as discussed earlier in the derecognition criteria for financial liabilities, it cannot be derecognised unless the counterparty to the liability has expressly consented to its novation.

Example 3

Fact pattern

Consider another securitisation example involving the sale of distressed debt (adapted from the IASB staff agenda papers) by a subsidiary to an SPE:



¹ Further analysis would be required of the terms of the structure to determine if the SPE should be consolidated, which is not the purpose of this article.



- ▶ Subsidiary transfers CU25 distressed debt to an SPE
- ▶ SPE finances the purchase through:
 - ▶ CU21 non-recourse loan by the parent of the subsidiary
 - ▶ CU4 equity from an unrelated third-party investor (that is exposed to the first risk of loss)
- ▶ The debt is serviced by an unrelated third party for a market-based fee

Accounting analysis

In the subsidiary's stand-alone financial statements, the distressed debt will be derecognised as the subsidiary no longer has present access for its own benefit to all of the cash flows of the distressed debt following the sale to the SPE.

It is assumed that the SPE is consolidated by the third party investor. The existence of the CU21 non-recourse loan gives the parent the present ability to obtain some of the economic benefits of the distressed debt. Hence, in its consolidated financial statements, the CU25 distressed debt will be derecognised and the CU21 non-recourse loan will be recognised as a new asset, initially at fair value.

Business impact of the proposed new model

The new approach is simpler than the existing derecognition requirements. In particular, it removes the need for accounting for the 'continuing involvement'.

A key point to note about the proposed changes is that a company could be required to derecognise a financial asset even when it retains substantially all of the risks and rewards. Consequently, it is likely that more financial assets will be derecognised. In turn, this would result in more fair value gains or losses being recognised by the transferor.

Note also that the change in the derecognition requirements may have an impact on the application of Phase 1 of IFRS 9, as it may be difficult to claim that the objective of a business model is to hold assets to collect principal and interest, if those assets are required to be derecognised.

Finally, in order to demonstrate the risks that the entity is exposed to from its continuing involvement in the transferred assets, the amended standard is expected to include extensive disclosure requirements.

Financial reporting developments

The IASB (the Board) met in London on 8 April 2010 and from 19 to 23 April 2010. Joint meetings were held with the FASB (the Boards) for several of these sessions. 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
Fair value measurement	<p>The Board tentatively decided to publish a limited scope exposure draft of the measurement uncertainty analysis disclosure, including the effect of correlation.</p> <p>The Board also tentatively agreed to publish a Request For Views on the FASB's proposed amendments to Topic 820 (Fair Value Measurements and Disclosures).</p>	ED expected May 2010
Consolidation	The Boards made tentative decisions regarding the criteria that define an investment company, on which the Board intends to publish a limited scope exposure draft. The Boards also made tentative decisions on specific transition issues.	ED expected Q2 2010
Leases	<p>The Boards continued deliberating proposals for the ED and made tentative decisions on a number of issues:</p> <ul style="list-style-type: none"> ▶ Accounting for sale and leaseback transactions ▶ Lessor accounting for the performance obligation ▶ Accounting for subleases ▶ Accounting for long-term leases of land ▶ Lessor accounting for purchase options ▶ First time adoption ▶ Consequential amendments ▶ Revaluation of right-of-use assets ▶ Lessor accounting for impairment of assets 	ED expected Q2 2010
Insurance contracts	<p>The Boards discussed:</p> <ul style="list-style-type: none"> ▶ Margins ▶ Discounting ▶ Contract boundary ▶ Recognition 	ED expected Q2 2010



Projects	Key discussion points	Status
Financial statement presentation	<p>The Boards discussed the following issues:</p> <ul style="list-style-type: none"> ▶ Unusual or infrequently occurring items ▶ Guidance on classifying short-term assets and liabilities ▶ Classification of debt ▶ Mixed presentation in the statement of financial position ▶ Supplemental cash flow information ▶ Other disclosures from IAS 7 <i>Statement of Cash Flows</i> 	ED expected Q2 2010

ED = Exposure Draft, Q2 2010 = Second quarter of 2010.

Consolidation

The Boards tentatively decided that an investment company is an entity that meets all of the following criteria:

- ▶ *Express business purpose* – the express business purpose is investing for current income, capital appreciation, or both
- ▶ *Exit strategy* – the entity has identified potential exit strategies and a defined time when it expects to exit the investment
- ▶ *Investment activity* – substantially all of the entity's activities are investment activities carried out for the purpose of generating income or capital appreciation, or both
- ▶ *Unit ownership* – ownership is represented by units of investment
- ▶ *Pooling of funds* – owners' funds are pooled to provide owners with collective investment management
- ▶ *Fair value* – all investments are managed and performance evaluated on a fair value basis
- ▶ *Reporting entity* – the entity must be a reporting entity
- ▶ *Debt* – providers of debt to investees do not have direct recourse to any of the entity's other investees

Transition requirements

The Boards tentatively agreed that an entity not previously considered an investment company, that meets the new definition, should recognise its investments at fair value when it first applies the requirements, with an adjustment to retained earnings.

Leases

The Boards reached the following tentative decisions:

Accounting for sale and leaseback transactions

If the underlying asset has been sold, a sale and leaseback transaction should be treated as such, rather than as a financing transaction. The asset is considered sold if control has been transferred to the buyer and all but a trivial amount of the risks and benefits associated with the underlying asset have been transferred.

Lessor accounting for the performance obligation

The amortisation of the performance obligation of a lessor should be performed in a systematic and rational manner based on the pattern of use by the lessee. The Boards also asked staff to provide additional analysis of how revenue should be recognised on commencement of the lease.

Financial reporting developments *continued*

Accounting for subleases

The intermediate lessor as a lessee in a head lease, accounts for the head lease using the lessee model. The intermediate lessor as a lessor in a sublease accounts for the sublease using the lessor model.

The intermediate lessor will present all assets and liabilities arising from lease contracts with subleases together in the statement of financial position. Rentals due to the head lessor will be presented separately.

Accounting for long-term leases of land

Long-term leases of land will not be excluded from the scope of the new standard.

Lessor accounting for purchase options

Purchase options will be accounted for by lessors in the same way as renewal or termination options. Therefore:

- ▶ Purchase options are not recognised as separate assets.
- ▶ The receivable and performance obligation are measured based on lease payments expected to be received. As such, if it is more likely than not that an option to purchase will be exercised, the lease receivable will include the exercise price of the purchase option.
- ▶ The likelihood of exercise is reassessed at each reporting date.
- ▶ Any change to the lease receivable resulting from this reassessment is recognised as an adjustment to the performance obligation.
- ▶ The performance obligation is recognised in income over the lease term in a manner that reflects the consumption pattern of the underlying asset by the lessee. The lessor's performance obligation relating to the purchase option is not recognised in income until it is exercised.

First time adoption

First-time adopters of IFRS will apply the transitional requirements of the standard, in the same way as other lessees and lessors applying the standard for the first time.

Consequential amendments

- ▶ IFRS 3 *Business Combinations* – at the acquisition date, the acquirer will measure the acquired lease assets and liabilities in accordance with the leases standard, rather than using fair value measurement.
- ▶ IAS 40 *Investment Property* – if an entity elects to use the fair value model, the right-of-use asset will be measured at fair value in accordance with IAS 40. If an entity elects to use the cost model, the right-of-use asset is measured in accordance with the leases standard.

Revaluation of right-of-use assets

A lessee will be permitted to revalue its right-of-use assets, even if there is no active market for those assets. If a lessee chooses to revalue its owned assets in a class of property, plant and equipment, they will be permitted to revalue any leased assets. Lessees will be required to revalue the entire class of property, plant and equipment to which the leased asset belongs, if it chooses to revalue leased assets.

Lessor accounting for impairment of assets

Under the performance obligation approach to lessor accounting, the lease receivable will first be evaluated for impairment. Any impairment would result in an adjustment to the lease receivable and the performance obligation, with any remaining difference being recognised in profit or loss. Lessors will also have to evaluate the leased asset for impairment.

Insurance contracts

The Boards continued their discussion on the two approaches to margins.

Risk adjustment and residual margin

The Boards tentatively decided that the residual margin should be part of the insurance liability rather than a separate liability. The IASB tentatively decided that the interest on residual margins should be accreted (the FASB took the view that it should not be).



Composite margin

The Boards tentatively agreed that if the initial measurement of an insurance contract results in a day-one loss, this should be recognised immediately in profit or loss. A day-one loss will only arise if the expected present value of outflows exceeds the expected present value of the premiums at inception. The Boards also decided that the composite margin should be released over both the coverage period and the claims handling period.

The IASB tentatively decided that the interest on composite margins should be accreted (the FASB took the view that it should not be).

Discounting

The Boards tentatively decided that the discount rate for insurance contracts should reflect the characteristics of the contract, rather than the characteristics of the assets held to back the contracts, unless they share the same characteristics.

Therefore:

- ▶ If the cash flows for insurance contracts do not depend on the performance of specific assets, the discount rate will be a risk free rate, adjusted for illiquidity.
- ▶ If the cash flows depend wholly or partly, on the performance of specific assets, the measurement of contracts should consider this.

The Boards also decided that the ED on insurance contracts should ask for specific input regarding concerns that there could be significant losses at the inception of some contracts and possible accounting mismatches if the discount rate does not take into account changes in market credit spreads.

Contract boundary

The Board tentatively decided that the boundary of an insurance contract is when the insurer either:

- ▶ Is no longer required to provide coverage
or
- ▶ Has the right to reassess the risk of the policyholder, and can set a price that reflects that risk.

Recognition

The Board agreed in principle that an insurer should recognise the rights and obligations arising from an insurance contract at the earlier of:

- ▶ The insurer being on risk to provide coverage to the policyholder and
- ▶ The signing of the insurance contract.

Financial statement presentation

The Boards discussed the following issues.

Unusual or infrequently occurring items

The exposure draft will include the requirement to present unusual or infrequently occurring items in the statement of comprehensive income with disclosure of related information in the notes.

Guidance on classifying short-term assets and liabilities

The application guidance on the classification of assets and liabilities as current and non-current within IAS 1 *Presentation of Financial Statements* will not be included within the exposure draft because the proposed requirements are deemed sufficient.

Classification of debt

The Boards agreed to consider the different guidance in IFRS and US GAAP on the classification of financial liabilities as a separate project. The ED will retain the guidance in IAS 1 on classification of financial liabilities.

Mixed presentation in the statement of financial position

The guidance in IAS 1 on using a mixed basis of presentation (i.e., a combination of current, non-current and order of liquidity) in the statement of financial position will be retained in the exposure draft and its application will be clarified.

Supplemental cash flow information

The reconciliation of operating income and cash flows, and the presentation on non-cash transactions, as proposed in the exposure draft, will be an integral part of the statement of cash flows, not the notes.

Other disclosures from IAS 7 Statement of Cash Flows

IAS 7 currently encourages disclosure of the amount of undrawn borrowing facilities that may be available. The exposure draft will include this as a required disclosure.

Resources

Supplements to *IFRS outlook*

Issue 69: IASB discussion paper on extractive activities

The lack of comprehensive financial reporting guidance for the minerals and oil and gas industries has led to significant divergence in financial reporting under IFRS. In response, the IASB has published a Discussion Paper (DP) for comment, comprising the results of the research project (that were first published in a working draft of the DP in August 2009) and the views of the project team. This supplement provides an overview of the team's main proposals regarding the definitions of reserves and resources, as well as proposals for the recognition and measurement of assets and an extensive list of disclosures. Comments are due by 30 July 2010.

Issue 70: Employee benefits: significant changes proposed by the IASB

This supplement summarises the major changes proposed to the accounting for long-term employee benefits in the IASB's new ED. Chief among the new proposals is the removal of the 'corridor mechanism' that many companies use for accounting for pension obligations to defer actuarial gains and losses. This would lead to greater volatility in the value of net assets, in turn, requiring companies to consider implications for debt covenant ratios and other ratios. Other proposals include: changes to the treatment of administration costs for benefit plans; the removal of the distinction between post-employment benefits and long-term benefits; greater disclosure on both the characteristics and risks of employee benefit plans, and multiple employer plans. The IASB has requested comments by 6 September, 2010.

Issue 71: Improvements to IFRSs 2010

The IASB's Improvements Project is an annual project that provides a mechanism for making necessary, but non-urgent, amendments to standards and the related Basis for Conclusions. This supplement summarises 11 amendments to 6 standards and 1 interpretation including transitional provisions that were included in the 2009 exposure draft of Improvements to IFRSs. Unless otherwise noted, the proposed effective date for the amendments is for annual periods beginning on or after 1 January 2011.

Insurance accounting alert April 2010

This publication contains our summary of the agenda papers for the IASB and FASB discussions that took place during a week of meetings from 19 April. At these meetings, the Boards were seeking to resolve a number of open issues including margins (risk and residual versus composite), discount rates and contract boundaries in order to meet their timetable for issuing an Exposure Draft of a new standard in June 2010.



IFRS foundation tools

The first edition of our bi-annual *IFRS foundation tools* package comprises:

IFRS update (March 2010)

This publication provides an overview of the effective and upcoming changes in IFRS standards and interpretations, highlighting key aspects of these changes. It focuses on the June 2010 year-end, but also considers the effect on the June 2011 year-end and beyond.

Good Group (International) Limited Illustrative interim financial statements 2010

This edition of Good Group (International) Limited contains an illustrative set of interim condensed consolidated financial statements of Good Group (International) Limited and subsidiaries (the Group) for the six months ending 30 June 2010.

International GAAP Disclosure Checklist

The checklist contains tags that highlight requirements that have been issued or have become effective in the last 12 months and is available in a variety of formats to suit your needs.

Online checklist: This is our efficient and user-friendly version of the checklist because it is referenced and linked to IFRS guidance.

Desktop checklist: If connectivity is an issue, a user can download and install our desktop checklist tool, which features functionality similar to our online checklist but which does not include a direct link to IFRS guidance.

Word and PDF checklist: These traditional formats contain all of the required disclosures for financial statements.

Both the online and desktop checklists are available through the firm's Ernst & Young Online portal. The online checklist tool is available in two formats - a subscription-based version that includes links to IFRS and a free version that omits those links. For details, see www.ey.com/checklist.

Coming soon

"EARLY BIRD" DISCOUNT: Ernst & Young Financial Reporting Outlook conference 2010

Ernst & Young once again hosts its annual Financial Reporting Outlook conference in London on Monday, 15 November 2010. The conference will focus on 'Financial reporting - a year of change?' The last two years have stimulated debate on a number of accounting and regulatory issues likely to bring change to the world of financial reporting. The conference will provide an insight into the changing landscape of financial reporting, helping you prepare for the journey ahead.

Register before 31 July to receive a special "early bird" discount and, for the first time, we are offering an additional discount for previous attendees. For more information and to register, please go to www.financialreportingoutlook.com

Forthcoming IFRS webcast series

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. An exposure draft is expected in May 2010.

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EYG no. AU0531

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The move to International Financial Reporting Standards (IFRS) is the single most important initiative in the financial reporting world, the impact of which stretches far beyond accounting to affect every key decision you make, not just how you report it. We have developed the global resources – people and knowledge – to support our client teams. And we work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide. It's how Ernst & Young makes a difference.

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