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### **What you need to know about the new consolidation, joint arrangements and disclosure standards**

The International Accounting Standards Board (IASB) issued in May the long awaited package of standards, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. Read about the impact of the new requirements and key issues that you should be considering now.

### **Fair value measurement: What you need to know about the new standard**

IFRS 13 *Fair Value Measurement* was issued on completion of this joint project between the IASB and US Financial Accounting Standards Board (FASB) in May. This new standard does not change *when* an entity is required to use fair value, but rather, describes *how* to measure fair value under IFRS, when fair value is required or permitted to be used. Learn about the principles and key elements of the new standard from this article.

### **IFRS update**

Find out which projects the IASB and the IFRS Interpretations Committee are currently discussing.

### **Resources**

Look here for an up to date list of our recent publications, including *Good First Time Adopter Limited 31 December 2011*, an illustrative set of consolidated financial statements of a fictitious company presenting IFRS financial statements for the first time, and *Joint Project Watch*, which provides a snapshot of the key developments on the various joint projects of the IASB and the US FASB.

We welcome your feedback on *IFRS Outlook*. Please contact us at [ifrs@ey.com](mailto:ifrs@ey.com).

Ruth Picker  
Global Leader of IFRS Services

# What you need to know about the new consolidation, joint arrangements and disclosure standards



In May 2011, the International Accounting Standards Board (IASB) issued three new standards, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. While these new standards are not effective until 2013, because retrospective application is required, it is best to plan for adoption now.

Entities most likely to be affected by these changes are those that:

- ▶ Have significant, but not majority (i.e., less than 50%) equity interests in other entities
- ▶ Hold potential voting rights over investments, such as options over shares or convertible debt
- ▶ Are investment, asset, or fund managers
- ▶ Use special purpose entities (now called 'structured entities')
- ▶ Account for jointly controlled entities using proportionate consolidation
- ▶ Operate in construction, life sciences, and extractive industries, which commonly participate in collaborative arrangements, that may be joint arrangements

Five questions for management to address:

1. How are you identifying the population of the entities and arrangements that might be affected?
2. What steps are you taking to gather information for the initial control assessment and can this process be maintained in the future for 'continuous assessment'?
3. What are likely to be the most judgemental areas of assessing control, joint control, and in classifying joint arrangements?
4. Whom are you involving in the process? Are M&A, legal, and tax functions aware of the potential impact?
5. Are there arrangements currently structured that achieve a certain accounting outcome (e.g., consolidation or non-consolidation), and are those arrangements likely to be affected and therefore require renegotiation?

## Why issue new standards on consolidation and joint arrangements?

The financial crisis hastened the issuance of the new consolidation standard - it heightened criticism that some entities were not consolidating other entities they appeared to control, or were funding a distressed entity for which previously they never disclosed a relationship or obligation. This crisis accelerated the previously existing plans to change the requirements for how management determines which entities it consolidates.

“The new disclosure standard should increase the transparency of financial reporting.”

The new disclosure standard should increase the transparency of financial reporting. For example, even if it is determined that an entity does not control another entity, management must disclose the information that it considered in reaching that decision, so its judgement becomes more transparent.

The new standard for joint arrangements aims to better reflect the substance of these arrangements, rather than solely focus on legal form. It also aims to improve consistency in the accounting for joint ventures by eliminating one of the accounting choices available under existing IFRS.

## What are the key concepts?

### Consolidated financial statements

The basic elements of the new consolidation standard are:

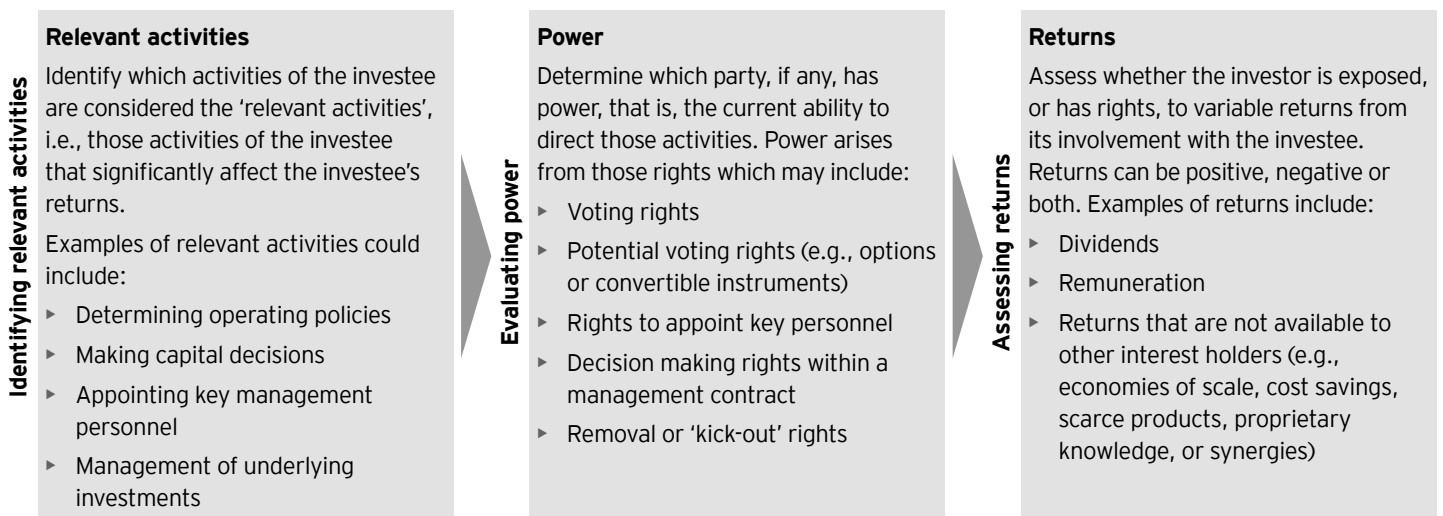
- ▶ A new control model applies to all entities, including those that were previously considered ‘special purpose entities’
- ▶ An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee
- ▶ An investor has power over an investee when it has existing rights that give the current ability to direct the activities of the investee that significantly affect the investee’s returns (such activities are referred to as the ‘relevant activities’)

- ▶ Understanding the purpose and design of an investee is critical to the assessment of control
- ▶ An investor may still have power over an investee even when the investor does not have a majority of the voting rights of that investee
- ▶ An investor may have power over specified assets of an investee that are considered to be a separate ‘deemed entity’ (a ‘silo’)
- ▶ An investor consolidates entities that it controls into the investor’s group financial statements (consolidation procedures do not change)

These concepts of ‘relevant activities’, ‘power’ and ‘returns’ are further described in Diagram 1.

There is a proposed exception to consolidation of controlled investments by investment entities that is currently being deliberated by the IASB. This exception would help address what many in the asset management and private equity industries believe is a significant problem with the consolidation requirements in IFRS (under both IFRS 10 and its predecessor, IAS 27 *Consolidated and Separate Financial Statements*). The proposals would require an investment entity (as defined) to measure investments in entities at fair value. It is expected that the timing of any such changes to consolidation by investment entities would amend IFRS 10 prior to the effective date of the standard. This would avoid investment entities having to potentially change the accounting for controlled investments twice.

**Diagram 1 – Assessing control**



**Understand purpose and design**

# What you need to know about the new consolidation, joint arrangements and disclosure standards *continued*

## Joint arrangements

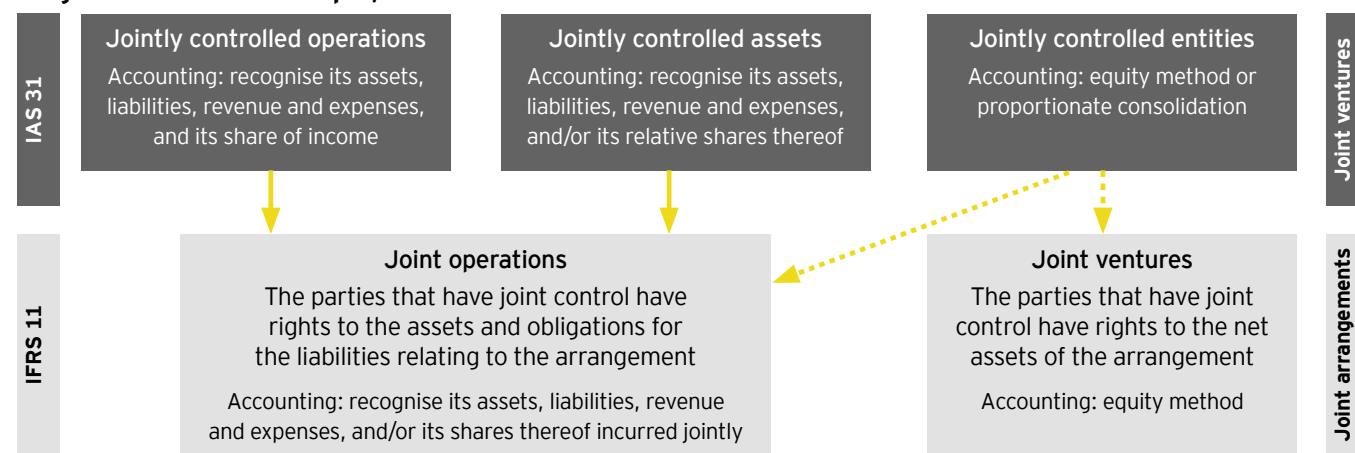
The basic elements of the new joint arrangements standard are:

- ▶ A joint arrangement is a contractual arrangement over which two or more parties have joint control
- ▶ Joint arrangements are classified into one of two types: joint operations or joint ventures
- ▶ The nature and substance of the contractual rights and obligations arising from the arrangement are considered when classifying it as either a joint operation or a joint venture; the legal form or structure of the arrangement is not the most significant factor in classifying the arrangement
- ▶ To be classified as a joint venture, the joint arrangement must be structured through a separate vehicle (which is defined as a separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality), such as a partnership or corporation
- ▶ Joint ventures (as newly defined) must be accounted for using the equity method (**proportionate consolidation is not an option for joint ventures**); the new standards do not change how equity accounting is applied
- ▶ For joint operations, a joint operator (a newly defined term) recognises its assets, liabilities, revenues and expenses, and relative shares thereof

Diagram 2 illustrates how the concepts in the new joint arrangements standard relate to current IFRS from the perspective of joint operators and joint venturers.

The level of judgement involved in classifying a joint arrangement as either a joint operation or a joint venture, leads us to caution against voluntarily changing to the equity method under IAS 31

## Diagram 2 – Similar concepts, different terms



before assessing the impact of the new standard. Management should first carefully analyse the classification under IFRS 11, to avoid changing the accounting twice.

## Disclosure of interests in other entities

The basic elements of the new disclosure standard are:

- ▶ It includes all of the required disclosures that are related to an entity's involvement with other entities (such as subsidiaries, joint arrangements, associates and structured entities)
- ▶ It requires increased disclosure about the nature, risks, and financial effects of an entity's relationship with other entities
- ▶ Significant judgements and assumptions (and changes thereto) made by the investor are also disclosed

For more information on IFRS 10, 11, and 12, see our *IFRS Developments, Issue 1 (May 2011)* and our *IFRS Practical Matters (May 2011)*. We are also holding webcasts on these topics. Information on the availability of these publications and the timing of the webcasts (including replays) can be found at [www.ey.com/ifrs](http://www.ey.com/ifrs).

## How will the new standards affect business?

The impact of the new standards will depend on an entity's structure, industry and the types of contracts and arrangements that it is involved with. Some of the more significant financial and operational effects are discussed below.

### Step 1 – Gather information

Processes and systems may need to be developed or modified to gather information that will be used to implement the new standards, to make judgements on an ongoing basis and to comply with new disclosure requirements.



Information that may need to be gathered, analysed, and tracked includes, for example:

- ▶ Terms and conditions of contracts, agreements and structured arrangements
- ▶ Voting interests held by other shareholders, including any relationships between those parties on a continuing basis
- ▶ Voting patterns at previous shareholder meetings
- ▶ Terms and conditions of remuneration structures, and comparison to market terms

When the accounting for an interest in another entity changes as a result of adopting the new standards (e.g., an entity is consolidated for the first time), management may also need to gather information about the fair value of assets acquired and liabilities assumed. Third party assistance, such as valuation expertise, might be required to analyse this information.

### Step 2 – Make critical judgements

Adopting these new standards will require time, effort and the exercise of considerable judgement because of a lack of 'bright lines'. Many of these judgements will require a comprehensive understanding of an entity's business, its operations, and legal rights and obligations. Accounting personnel should not make such judgements alone; rather, they should get input from executive management, operations personnel, and legal counsel. Management should be closely involved in the implementation process and in making decisions in judgemental areas. Audit committees should monitor management's involvement, and understand key decisions, challenging them, if necessary.

Key assessments include determining whether:

- ▶ An entity has control if it holds less than a majority of voting rights in an investee ('de facto control')
- ▶ Potential voting rights give power
- ▶ Rights are merely protective rights
- ▶ A party is a principal or agent
- ▶ An entity can direct another entity to act on its behalf (as a 'de facto agent')
- ▶ Structured entities are controlled
- ▶ Assets and liabilities are ring-fenced (i.e., whether 'silos' exist)
- ▶ Control (or joint control) changes based on a change in facts and circumstances
- ▶ There is more than one joint arrangement
- ▶ A joint arrangement is classified as a joint operation or a joint venture

### Step 3 – Evaluate and plan for effects

In addition to those charged with the preparation of financial statements, the Audit Committee and the Compensation Committee will also need to consider the potential effects of adopting these new standards. This issue should be on the agenda in the next general business review.

It will be essential for entities to understand the ways in which key metrics will change upon adoption of the new standards. For example, total assets and total liabilities may increase or decrease, as may total revenues and total expenses. As a result, the new standards may impact key performance indicators used for:

- ▶ Reports on the performance of an entity (or portion thereof), both internally and externally
- ▶ Analyst and shareholder communications
- ▶ Loan covenant compliance
- ▶ Bonus targets or share-based payment vesting conditions

Implementing the new standards could affect compliance with regulatory requirements. For example, regulators might require certain leverage or gearing ratios. Entities that are required to report on internal controls should include any newly consolidated entities.

While adopting these new standards is unlikely to change income tax payable (in most jurisdictions), accounting for income taxes for financial reporting purposes might be significantly affected. For example, additional tracking of deferred tax assets and liabilities could be necessary.

The personnel responsible for mergers and acquisitions activity, and structuring new arrangements or entities (such as in a fund, or structured entities) should be educated about the new standards, so that they are aware of the accounting consequences during negotiations. If arrangements were historically structured in a manner that achieved a particular accounting treatment, consider whether the same results will be achieved under the new standards.

### What comes next?

Although the effective date of these new standards is not until 1 January 2013, management is required to disclose the impact of adopting the new IFRS even before they become effective. An early analysis will help avoid unwelcome surprises and ease transition.

In order to ensure successful implementation of the standards, management and others charged with governance (e.g., the Audit Committee) should monitor both implementation progress and key decisions made during implementation.

# Fair value measurement: What you need to know about the new standard

In May 2011, the International Accounting Standards Board (IASB) issued IFRS 13 *Fair Value Measurement*. This represents the completion of the joint project to establish a single source for the requirements on how to measure fair value under IFRS (and US GAAP). This new standard does not change when an entity is required to use fair value, but rather, describes how to measure fair value under IFRS, when fair value is required or permitted to be used.

Entities most likely to be affected by these changes to IFRS are those that:

- ▶ Hold financial instruments
- ▶ Use fair value to measure investment property
- ▶ Revalue property, plant and equipment or intangible assets
- ▶ Hold biological assets or agricultural produce

Five questions for management to address:

1. Where does the entity use fair value in its financial statements, for measurement or for disclosures?
2. Which aspects of the new standard are most likely to change current practice, if any?
3. What are the most judgemental and/or sensitive fair value measurements in the financial statements?
4. How will you gather information for the new disclosure requirements?
5. Who are you involving in the process? Will you need external valuation assistance? How will you determine (and monitor) whether management and supporting valuation professionals are appropriately applying IFRS 13 (and not some other valuation convention)?

## Why did the IASB issue a new standard on fair value measurement?

The IASB issued IFRS 13 for several reasons; the main reason being to reduce complexity and improve consistency in application when measuring fair value. Many IFRS require or permit entities to measure or disclose the fair value of assets, liabilities, or equity instruments, but prior to the issuance of IFRS 13, the description of how to measure fair value was limited and, in some cases, the requirements were conflicting. IFRS 13 consolidates and clarifies the requirements on how to measure fair value.

Another reason was to enhance disclosures about fair value. The IASB believes the new disclosures will help users to better assess the valuation techniques and inputs used to measure fair value. This was a critical part of the IASB's response to the G20's requests in the wake of the financial crisis.

A third reason for issuing IFRS 13 was to converge with US GAAP, which was also amended by the US Financial Accounting Standards Board (FASB) concurrently. The IASB and the FASB worked together to ensure that 'fair value' has the same meaning in IFRS and in US GAAP and that their respective requirements on how to measure fair value measurement and disclosure requirements are the same. However, some differences will still remain between IFRS and US GAAP regarding when fair value is required or permitted to be used.

## What are the new principles?

The basic elements of the fair value framework outlined in the new standard are:

- ▶ Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).
- ▶ The exit price objective applies regardless of the entity's intent and/or ability to sell the asset or transfer the liability as of the measurement date.
- ▶ A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market, which is the market with the greatest volume and level of activity for the asset or liability. In the absence of a principal market, a fair value measurement is assumed to take place in the most advantageous market, which is the market that maximises the amount that would be received to sell the asset, or minimises the amount that would be paid to transfer the liability, after considering transaction costs and transport costs.
- ▶ When determining fair value, management uses the assumptions that market participants would use when pricing the asset or liability.
- ▶ For non-financial assets, management must consider the highest and best use of the asset by market participants, which may differ from its current use.
- ▶ The fair value of a liability and an entity's own equity instruments are measured from the perspective of a market participant holding the identical instrument as an asset.



- ▶ The fair value of a liability reflects the effect of non-performance risk, which includes, but may not be limited to, the entity's own credit risk.
- ▶ Blockage factors are prohibited in any fair value measurement. A blockage factor is an adjustment to a price for a reduction that would occur if a market participant were to sell a large holding of assets or liabilities in one or a few transactions
- ▶ Premiums and discounts (other than blockage factors) are permitted if market participants would consider them in a transaction for the asset or liability (but only if the inclusion of the premium or discount is not inconsistent with the unit of account in the standard that requires or permits the fair value measurement).

When measuring fair value, an entity is required to maximise the use of relevant observable inputs and minimise the use of unobservable inputs. IFRS 13 includes a three-level fair value hierarchy (described below), which prioritises the inputs in a fair value measurement.

IFRS 13 requires that a quoted price in an active market for the identical item (i.e., a Level 1 input) be used when available, as this provides the best indication of fair value. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For more information on IFRS 13, see our *IFRS Developments, Issue 2* (May 2011) at [www.ey.com/ifrs](http://www.ey.com/ifrs) and our US publication *To the Point* (May 2011) at [www.ey.com/accountinglink](http://www.ey.com/accountinglink).

### What should be done to prepare for adoption?

The impact of IFRS 13 will depend on an entity's past valuation practices, accounting policy choices, and industry. When planning for adoption, the financial and operational considerations discussed in the recommendations set forth below should be considered.

#### Step 1 - Gather information

Processes and systems may need to be developed or modified to gather information that will be used to implement the new standard, to measure fair value on an ongoing basis and to comply with new disclosure requirements. In some cases, third party assistance may be required to measure fair value, such as valuation expertise. In other cases, management may need to gather information that it has not previously used, such as credit valuation adjustments, or risk premiums.

The process used to gather this information, may vary depending on whether, for example:

- ▶ The fair value measurement is recurring (i.e., at the end of each reporting period, for example, as is required for many financial instruments) or non-recurring (i.e., only measured upon certain triggering events, such as an impairment or classification as held for sale)

	Level 1	Level 2	Level 3
<b>Definition</b>	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly	Unobservable inputs for the asset or liability
<b>Example</b>	Quoted prices for an equity security that trades on the London Stock Exchange	Interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads	Growth rate applied to historical cash flows used to value a business or non-controlling interest in an entity that is not publicly listed

# Fair value measurement: What you need to know about the new standard *continued*

- ▶ The item being measured is a financial asset or financial liability, or a non-financial asset or liability
- ▶ Fair value is only required to be disclosed (e.g., if an entity uses the cost model for investment property) or if fair value is recognised in the financial statements
- ▶ Fair value is based on quoted market prices, observable inputs (other than quoted prices), or unobservable inputs

Because the level of disclosure requirements varies, in some cases, it may be more cost-beneficial to gather information manually, rather than investing in more automated data systems.

## Step 2 – Make critical judgements

Depending on the extent to which an entity uses fair value in its financial statements, as well as how its past valuation practices differ from IFRS 13, adopting this new standard may require significant time, effort, valuation expertise and management judgement. Some of these judgements will require a comprehensive understanding of the nature of the asset, liability or equity instrument being measured, including its characteristics, restrictions, and the relevant markets in which the item is typically transacted. Accounting personnel should not make such judgements alone; rather, they should get input from executive management, valuation professionals, and in some cases, legal counsel. Management should be closely involved in the implementation process and in the decision-making activities in such judgemental areas. Audit committees should monitor management's involvement, and understand key decisions, challenging them (where appropriate).

Key assessments that may be required include determining whether:

- ▶ A non-financial asset is being used in its highest and best use
- ▶ The market in which the entity normally transacts is the principal (or most advantageous) market
- ▶ A particular valuation technique is appropriate in the circumstances, or whether additional techniques may also be applicable
- ▶ A market participant acting in their own best economic interest would consider a premium or discount when pricing an asset
- ▶ There has been a significant decline in the volume and activity in a market
- ▶ There is evidence that a transaction within a market is not orderly
- ▶ Adjustments to observable inputs are significant to the fair value measurement as a whole

- ▶ Two (or more) unobservable inputs might change in reaction to changes in the other (i.e., is there an interrelationship between inputs)
- ▶ A fair value measurement is sensitive to unobservable inputs (i.e., whether changing an unobservable input might result in a significantly higher or lower fair value)

## Step 3 – Evaluate and plan for effects

Understanding how key financial metrics will change upon adopting the new standard is critical. For example, total assets and total liabilities may increase or decrease, as might net income or comprehensive income. As a result, the new standard might impact key financial metrics used for:

- ▶ Monitoring the performance of a business, both internally and externally
- ▶ Analyst and shareholder communications
- ▶ Loan covenant compliance
- ▶ Bonus targets or metrics in share-based payment vesting conditions
- ▶ Compliance with regulatory requirements (e.g., leverage or gearing ratios)
- ▶ Income taxes payable and the effective tax rate

Accordingly, the effects of adopting IFRS 13 should be considered – not only in the Audit Committee, but also in the Compensation Committee (as bonus targets or share-based payment vesting conditions might need to be re-evaluated if key performance metrics are affected) and in the general business review.

Regardless of whether management uses internal or external valuation resources, management should ensure that the personnel responsible for valuations are knowledgeable regarding IFRS 13, and have considered how adopting IFRS 13 might change existing valuation practices in the entity's valuations. Ultimately, fair value measurements reported in an entity's financial statements are the responsibility of management. Using external resources to assist in the process, while helpful, does not alleviate this responsibility.

## What comes next?

The new standard is effective 1 January 2013 (with prospective application). However, transition will be easier (including surprises avoided) for those entities that begin their planning early. For successful implementation, it is critical to monitor both significant decisions and implementation progress.

# IFRS update

## What's new?

The following table shows new publications issued by the IASB.

Projects	Publication
<b>Consolidation</b>	The IASB has published IFRS 10 <i>Consolidated Financial Statements</i> on completion of its improvements to the accounting requirements for off balance sheet activities. The completion of this review brings the accounting treatment for off balance sheet activities in IFRS and US GAAP broadly into alignment and concludes an important element of the IASB's comprehensive response to the financial crisis. IFRS 10 can be accessed at <a href="http://www.ifrs.org">www.ifrs.org</a> .
<b>Joint Ventures</b>	The IASB issued IFRS 11 <i>Joint Arrangements</i> on completion of its review of joint arrangements. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method of account for interests in jointly controlled entities. IFRS 11 can be accessed at <a href="http://www.ifrs.org">www.ifrs.org</a> .
<b>Disclosure of interests in other entities</b>	IFRS 12 <i>Disclosure of Interests in Other Entities</i> was issued together with IFRS 10 and IFRS 11. It is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 can be accessed at <a href="http://www.ifrs.org">www.ifrs.org</a> .
<b>Fair value measurement</b>	The IASB has issued IFRS 13 <i>Fair Value Measurement</i> and the US FASB has issued an update to Topic 820 in the FASB's Accounting Standards Codification, on conclusion of one of their major convergence projects, in response to the financial crisis. IFRS 13 can be accessed at <a href="http://www.ifrs.org">www.ifrs.org</a> .
<b>Financial statement presentation (presentation of OCI)</b>	The IASB and the US FASB issued amendments that are intended to improve and align the presentation of items of other comprehensive income (OCI) in financial statements prepared in accordance with IFRS and US GAAP. The amendments to IAS 1 can be accessed at <a href="http://www.ifrs.org">www.ifrs.org</a> .
<b>Post-employment benefits</b>	The IASB has published amendments to IAS 19 <i>Employee Benefits</i> , which proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). The amendments to IAS 19 can be accessed at <a href="http://www.ifrs.org">www.ifrs.org</a> .
<b>Exposure Draft of IFRS Taxonomy 2011 interim release: common practice concepts</b>	The IFRS Foundation has published for public comment an exposure draft of the IFRS Taxonomy 2011 interim release: common-practice concepts. The proposed interim release contains supplementary tags for the IFRS Taxonomy that reflects disclosures that are commonly reported by entities in their IFRS financial statements. The supplementary tags are intended to enhance the comparability of financial information, and are consistent with IFRS and with the XBRL (eXtensible Business Reporting Language) architecture of the IFRS Taxonomy 2011. Comments on the exposure draft are due by 2 August 2011. The exposure draft can be accessed at <a href="http://www.ifrs.org">www.ifrs.org</a> .

## Current discussions

In recent months, the IASB has focused its discussions on key projects that are intended to result in the issue of standards in the second half of 2011.

Tentative decisions were made regarding a number of projects, including leases, insurance contracts, impairment of financial assets, hedge accounting, offsetting financial assets and financial liabilities and the annual improvements project. In addition, the IASB (together with the US FASB) have elected to formally expose their joint revenue recognition proposal for a second time. This allows constituents to comment on the overall model, proposed last

year, as some of the changes may be significant in certain industries. Their decision will delay the project, possibly until September 2012, according to the staff paper presented to the Boards.

The IFRS Interpretations Committee met on 5 and 6 May 2011. The Committee continued discussions of the current agenda items including accounting for stripping costs in the production phase of a surface mine, contingent pricing of property, plant and equipment and intangible assets and issues considered for annual improvements.

Updates from Board meetings and the Interpretations Committee meetings can be found at [www.ifrs.org/Updates](http://www.ifrs.org/Updates).

# Resources

The publications below are all available at [www.ey.com/ifrs](http://www.ey.com/ifrs). Anyone closely following the development of IFRS will be aware that we previously issued a *Supplement to IFRS Outlook* for all projects undertaken by the IASB and IFRS Interpretations Committee. In their place, we are now issuing *IFRS Developments* for projects that have a broad audience, and broad application or appeal. We have highlighted these changes on [ey.com/ifrs](http://ey.com/ifrs).

## **IFRS Developments (formerly Supplements to IFRS Outlook): Issues 1 – 7**

### **Issue 1: IASB issues three new standards: Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities**

The IASB has issued three new standards:

- ▶ IFRS 10 *Consolidated Financial Statements* includes a new definition of control, which is used to determine which entities are consolidated, and describes consolidation procedures
- ▶ IFRS 11 *Joint Arrangements* describes the accounting for joint arrangements with joint control; proportionate consolidation is not permitted for joint ventures (as newly defined)
- ▶ IFRS 12 *Disclosures of Interests in Other Entities* includes all of the disclosure requirements for subsidiaries, joint ventures, associates, and “structured entities”

### **Issue 2: Fair value measurement guidance converges**

The IASB has issued a new standard:

- ▶ IFRS 13 *Fair Value Measurement* provides guidance on how to measure fair value, but does not change when fair value is required or permitted under IFRS.

This new standard is effective for annual periods beginning on or after 1 January 2013. This issue of *IFRS Developments* summarises and provides perspective on the key points of IFRS 13.

These new standards are effective for annual periods beginning on or after 1 January 2013. This issue of *IFRS Developments* summarises and provides perspective on the key points of IFRS 10, IFRS 11 and IFRS 12.

### **Issue 3: A U-turn on straight-line lease expense**

The IASB and the US FASB have reversed course on their tentative decision to introduce lease classification and straight-line rent expense into their new accounting model for lessees. The Boards have decided to go back to their exposure draft approach of requiring lessees to recognise interest expense using the interest method and separately amortise the right-of-use asset (generally on a straight-line basis). This approach accelerates lease expense for today's operating leases.

*IFRS Developments Issue 3* summarises what you need to know about these developments.

### **Issue 4: SEC Staff Paper explores a possible approach to incorporating IFRS**

The staff of the Securities and Exchange Commission (SEC) has published a Staff Paper exploring a possible approach for incorporating IFRS into the US financial reporting system.

*IFRS Developments Issue 4* provides a high-level summary of the Staff Paper. Under the proposed approach in the Staff Paper, US GAAP would be retained and the US FASB would incorporate IFRS into US GAAP during a transition period. Newly issued or amended IFRSs would be incorporated following an endorsement protocol.

The SEC is seeking comments on this and other approaches for incorporating IFRS into US GAAP by 31 July 2011.

### **Issue 5: Boards to re-expose revenue proposal, delaying project to seek comments**

The IASB and the US FASB have elected to formally expose their joint revenue recognition proposal for a second time because they have made significant changes to the model they proposed last year. Their decision will delay the project, possibly until September 2012, according to the staff paper presented to the Boards, but will give constituents a chance to comment on the changes.

*IFRS Developments Issue 5* provides our views on the Boards' decision, as well as additional issues raised in the latest re-deliberations on the revenue recognition proposals.

### **Issue 6: Significant changes to accounting for pensions**

The IASB has recently published amendments to IAS 19 *Employee Benefits*, which proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the “corridor approach”). *IFRS Developments Issue 6* summarises what you need to know about these developments.



### **Issue 7: Changes to the presentation of other comprehensive income – amendments to IAS 1**

The IASB and the US FASB recently issued amendments that are intended to improve and align the presentation of items of other comprehensive income in financial statements prepared in accordance with IFRS and US GAAP.

The amendments are effective for annual periods beginning on or after 1 July 2012. *IFRS Developments Issue 7* summarises what you need to know about these developments.

### **IFRS Practical matters: What do the new consolidation, joint arrangements and disclosures accounting standards mean to you?**

This publication follows on from the *IFRS Developments Issue 1*: IASB issues three new standards: *Consolidated Financial Statements*, *Joint Arrangements*, and *Disclosure of Interests in Other Entities* (May 2011).

While this publication provides a summary overview of the technical accounting requirements of the new standards, its primary focus is to highlight the significant judgements that will be required by management to implement these new standards and the more pervasive effects these new standards may have on entities. In addition to considering the data that will need to be accumulated, management should also consider the effects on financial metrics, regulatory compliance, tax, and the structuring of transactions and arrangements. This publication also discusses ways Ernst & Young can help entities approach the new standards.

### **Joint Project Watch – May 2011**

Keeping up to date with the standard-setting activities of the IASB and US FASB (collectively, the Boards) on their many joint projects can be challenging. The Boards are actively redeliberating many of their projects and, as a result, they are making tentative decisions that may be different from earlier decisions and those in the exposure drafts. This issue of *Joint Project Watch* provides a snapshot of the key developments through May 2011 (including tentative decisions made on 1-2 June 2011 for certain projects) from an IFRS perspective, together with our observations on the potential implications for companies.

### **IFRS 10, 11 and 12 on consolidation and joint arrangements – Additional sector supplements**

- ▶ *A changing balance sheet: Implications for the real estate and construction industries*. This publication concentrates on the implications of these new IFRS for the real estate and construction industries.
- ▶ *IFRS Insights for Asset Managers: Consolidated Financial Statements*. This publication provides an overview of new standards IFRS 10 and IFRS 12 and their impact for asset managers and funds.

### **IFRS 13 Fair value measurement – Additional sector supplements**

- ▶ *21st century real estate values: Implications for the real estate and construction industries*. This publication concentrates on the implications of this new IFRS for the real estate and construction industries.

### **Good First-time Adopter (International) Limited 31 December 2011**

This publication contains an illustrative set of consolidated financial statements of a fictitious entity (and its subsidiaries) for the year ended 31 December 2011. This entity is a first-time adopter of IFRS with a date of transition as of 1 January 2010. These illustrative financial statements have been prepared in accordance with IFRS as of 31 March 2011 that are effective for December 2011 year-ends.

### **Insurance Accounting Alert May 2011**

The IASB and the FASB continue re-deliberations on its insurance contract project with the objective of issuing a final standard in the second half of 2011. In these publications, we summarise the Boards' recent discussions on insurance contracts and their tentative decisions.

### **Getting up to speed: Solvency II data and systems**

This publication touches on how insurance organisations should be adapting their data and systems to account for the similarities and differences between Solvency II and Phase II of the development of IFRS 4 *Insurance* (IFRS 4 Phase II). It also addresses regulatory requirements in relation to data quality, takes stock of the market response to date and reflects on the challenges still to come.

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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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