



In this issue ...

Past, present and future state of IFRS – regulators reflect on the adoption of IFRS in Europe and Australia	2
IFRS update	9
Resources	10

Past, present and future state of IFRS – regulators reflect on the adoption of IFRS in Europe and Australia

2010 marks the sixth anniversary of the adoption of IFRS for many reporting entities in the European Union (EU) and Australia. We spoke to representatives from the EU and Australian securities regulators to get their views on the impact of adopting IFRS, as well as the lessons that other countries that are currently adopting IFRS can learn from the EU and Australian experience.

IFRS update

Find out what's new from the IASB. Also highlighted are the projects currently being discussed by the IASB.

Resources

Look here for an up-to-date list of our recent publications, including *Good Bank (International) Limited 2010*, a set of illustrative consolidated financial statements of a fictitious group of banking companies, and *Refining IFRS*, which provides an overview of the January meeting of the IFRS Interpretations Committee's discussions on the Draft Interpretation *Stripping Costs in the Production Phase of a Surface Mine*.

We welcome your feedback on *IFRS Outlook*. Please contact us at ifrs@ey.com.

Ruth Picker
Global Leader of IFRS Services

Past, present and future state of IFRS – regulators reflect on the adoption of IFRS in Europe and Australia



Fernando Restoy is the Chair of the Corporate Reporting Standing Committee of the European Securities and Markets Authority (ESMA) (formerly the Committee of European Securities Regulators (CESR)). The committee conducts all ESMA's work on issues related to accounting, audit, periodic reporting and storage of regulatory information. Mr. Restoy is also the Vice-Chairman of CNMV, the Spanish stock market regulator.



Doug Niven is the Senior Executive Leader of the Accountants and Auditors stakeholder team of the Australian Securities and Investments Commission (ASIC). Mr. Niven leads ASIC's financial reporting surveillance and audit inspection programmes, development of financial reporting and audit policy, and is responsible for external liaison on accounting and audit related matters. His team also supports and advises other areas of ASIC on accounting and audit related issues and developments.

2010 marks the sixth anniversary of the adoption of IFRS for many reporting entities in the European Union (EU) and Australia. As a number of other countries are continuing to adopt IFRS, this is an appropriate time to reflect on the experiences in Europe and Australia and the current views on expected developments. We spoke to representatives from both the EU and Australian securities regulators to get their views on the impact of adopting IFRS. As many more countries continue to adopt IFRS, we consider the success of the EU and Australian adoption and what lessons other countries can learn to assist their own adoption processes.

Question: The introduction of IFRS in the EU and Australia was seen as achieving several goals, amongst which were to stimulate, or at least take away barriers to, cross-border capital markets transactions and to improve public trust in financial reports of EU and Australian companies by increasing comparability. Based upon your experience so far, to what extent do you think these goals have been achieved?

Mr. Restoy: I think it is important to start by saying that it is difficult to isolate the effect of the introduction of IFRS in Europe from the effects of other initiatives that took place at the same time that were also designed to increase the competitiveness of the European markets by creating a more integrated capital market system within Europe. The move to IFRS was a very important element of these overall changes, but we should not lose sight of the sweeping changes that were taking place around the same time.

Over the past five years, we have observed a substantial increase in the number of investors coming from outside the EU and the degree of cross-border investment activity within the EU market itself has also grown tremendously over this same period. There is no doubt that the adoption of a common accounting language has contributed to this achievement. Today, we have a much better ability to understand financial reports. Therefore, we are in a more favourable position to assess the prospects of companies located in different EU member states. Also, analysts can more easily compare companies in the same sector across different countries. For example, in Spain, foreign investors highly appreciate the fact that companies apply IFRS as adopted by the European Union. This makes it easier for those investors to understand the financial statements and invest in these companies. From the standpoint of achieving greater clarity and comparability of financial information for the benefit of investors and regulators, moving to IFRS as the common accounting language for Europe has been quite successful.

Mr. Niven: I certainly believe the objectives have largely been achieved and the adoption of IFRS in Australia has been successful. It has created a level playing field for Australian entities internationally by promoting greater confidence in Australian financial reporting. Increasingly, the use of a single set of financial reporting standards within the global capital markets has clear benefits for all stakeholders. It is very difficult to quantify those benefits in terms of the monetary impact on measures such as cost of capital, but users of financial reports have clearly benefited from having a common financial reporting language. This is particularly true of overseas users who are now better able to understand the financial reports of Australian companies in comparison with other international

“Ultimately, the adoption of IFRS in other countries is very important to support the EU’s original decision to move to IFRS, as well as to ensure its long-term success.” *Fernando Restoy*

companies. Although people had confidence in the old Australian standards, the fact that overseas users are now better able to understand Australian financial reports in the context of a single set of global standards creates greater confidence in the quality and transparency of financial reporting.

Multinational groups based in Australia have also benefited from being able to use a single set of reporting requirements for companies both within and outside Australia. Previously, these companies had to apply different requirements in different jurisdictions, which added to the time and cost of reporting. There is now much greater consistency across jurisdictions, which has major advantages for those companies.

I think the accounting profession has also benefited from the change to IFRS as skills are much more transferable, which has increased global mobility among professionals.

Unlike most other jurisdictions, Australia adopted IFRS for all entities, including both listed and private companies that prepare general purpose financial statements. This has made things much simpler for users as they are able to compare both listed and private companies across markets. It has also helped others in the financial reporting cycle as they only have to deal with one set of standards. It is also an advantage for entities that decide to list at a later date as they don’t need to go through a conversion process.

Question: What remains to be done to achieve the goals of IFRS?

Mr. Restoy: The introduction of IFRS in Europe was an important step forward, but this must be followed with other initiatives.

First, we are operating in a global economy and thus the ultimate objective should be to extend the use of IFRS to the rest of the world. The successes that we have achieved in Europe by moving to a common accounting language can also be realised on a global basis. It is very positive that more than 100 countries have already adopted IFRS. However, it is the decision of the United States that is very important in this process; I hope that the SEC makes the decision in 2011 to go to IFRS. It is also important that Japan in 2012 fulfils the envisaged roadmap to move to IFRS. Ultimately, the adoption of IFRS in other countries is very important to support the EU’s original decision to move to IFRS, as well as to ensure its long-term success.

Second, although it is important that we have established a single set of accounting standards in Europe, it is equally important to ensure that the standards are being consistently applied. The only way to have a common interpretation and application of IFRS is by means of a common approach to enforcement. We have done a lot to achieve this and, of course, CESR-FIN has some responsibility in this regard, but we need to strengthen our coordination efforts to make enforcement activity truly homogenous across European jurisdictions.

Third, we initiated measures to make the financial information of EU companies more accessible to investors. For example, we are in the process of improving access to stored information by means of the internet to allow comparison of IFRS financial statements of companies across industries or countries. The use of XBRL, or another similar language, in Europe might also increase the accessibility of information, making the information network fully functional. Regarding XBRL, it would be good to improve the availability of taxonomies which, as currently developed by the IASB, has some limitations.

Mr. Niven: In terms of what still needs to be done to achieve the goals of IFRS, I think the most important thing is that more countries need to adopt IFRS, or, at least, continue their convergence programmes, preferably without exceptions to IFRS, so that the benefits I mentioned continue to be realised.

Improving the quality of standards is an important objective. The IASB also has a number of important projects that are still to be finalised including: financial instruments; consolidation; insurance; revenue; leases; and extractive industries. When these projects are finalised, they will bring further improvements to financial reporting.

One area that poses big challenges to all concerned in the financial reporting cycle is the interpretation of standards. A big advantage of IFRS is that it has principles-based standards, which means the financial information is more likely to reflect the substance of arrangements and there is less opportunity for abuse. However, there are cases where there are legitimate needs for interpretations to promote consistent and comparable financial reporting. The challenge is achieving a balance between making interpretations when they are needed, but not becoming too rules-based and losing the benefit of principles-based standards.

Past, present and future state of IFRS – regulators reflect on the adoption of IFRS in Europe and Australia *continued*

Question: When IFRS was introduced, there was concern about a number of issues, including: (i) users being unable to understand the numbers; (ii) the costs of conversion outweighing the benefits; and (iii) financial statements becoming more complex. In your opinion, have these concerns become a reality?

Mr. Niven: To address these concerns, we need to consider them in turn:

- i) IFRS was adopted in Australia for years commencing 1 January 2005 and so it is now well understood. Users became accustomed to IFRS and understood it fairly quickly, partly because Australian GAAP underwent a process of harmonisation with IFRS prior to 2005, although there were still some changes on transition.

The transition to IFRS in Australia went very smoothly, which is a credit to the preparers. Companies made a big effort upfront to understand the changes and prepare for IT changes. They also put a lot of effort into educating users on the impacts of the changes and separating those changes from the underlying business.

In Australia, companies were also required to make disclosures in their financial statements in the years leading up to 2005, about the key impacts of adoption and how the transition process was being managed. This forced companies to think about the impact early on and to start communicating with stakeholders.

- ii) It is very difficult to quantify the cost/benefit equation. The main costs were identifying the differences between Australian GAAP and IFRS, staff training, system and process changes and educating the market on the impact of the changes. The costs were incurred at the time of transition and were not recurring.

For large corporations, these costs were typically a small proportion of revenue. Once these costs have been incurred, the benefits to both users and preparers are ongoing. As well as consistent and comparable high-quality financial information for users, there are savings for many preparers in the ultimate reduction in costs of capital and consistent financial reporting within groups.

- iii) The issue of complexity is an interesting one. When we discuss this issue with users, they say they want all of the information available. Different users use it in different ways and may rely on advisors who analyse the information in more detail. Standard setters are now very conscious of the complexity issue when they are setting standards and are more focused on whether a particular disclosure is really needed. The IASB engages in extensive consultation and due process. However, it is important that users and preparers contribute to the standard-setting process at an early stage. Often preparers only focus on new standards once they are finalised, by which time, it is a bit late. The issue of complexity may also be partly addressed by having a component approach to getting information. Over time, I expect the use of XBRL to help in this regard, as users can access just the information that they want to see. Having high-quality management commentary is also essential to help users to understand the underlying drivers of the business and the results.

Mr. Restoy: Although there were fears about IFRS because it was such an unknown prior to 2005, generally speaking, I do not think those fears became a reality in Europe. What we saw in 2005 was that those companies which undertook a proper transition process, including adequate planning and training, and maintained good dialogue with regulators, standard setters and stakeholders, were able to apply IFRS in an effective and efficient manner. We also benefited from having a stable IFRS platform in 2005 on which to perform the transition to IFRS. Overall, I believe the efforts to adopt IFRS in Europe were appropriately planned and executed and this is reflected in the number of infringement and enforcement actions that we had to undertake as compared with the number of such actions prior to transition to IFRS.

I believe that the transition phase was really successful. Arguably, there were substantial costs involved in achieving this success. There was a significant investment in human capital, in terms of training and implementing process changes, but the investment has been worthwhile.

“Imagine what would have happened in the financial crisis, after 2007, if we still had 27 national GAAPs. This would have significantly reduced transparency and might have made the confidence crisis that was at the root of the financial crisis even worse.” *Fernando Restoy*



Imagine what would have happened in the financial crisis, after 2007, if we still had 27 national GAAPs. What if there had been the possibility to amend the accounting requirements without appropriate consultation and due process according to the needs of an individual jurisdiction? This would have significantly reduced transparency and might have made the confidence crisis that was at the root of the financial crisis even worse. It was therefore a big advantage to have IFRS for listed companies.

Question: What can countries in the process of adopting IFRS learn from the experience in Europe and Australia?

Mr. Niven: In terms of what converting countries can learn from the Australian experience, it is very important that companies educate their investors early in the process. Although others may contribute to this, it is up to each company to identify and communicate how they will be impacted by IFRS adoption. Regulators may need to mandate disclosures in the financial statements as to how the transition process is being managed and what the expected impacts are. Australian companies did a very good job of identifying recognition and measurement issues, which was very important, but it meant that a lot of the disclosure requirements were left until the last minute on first-time adoption. A lot of this could have been done more effectively earlier in the process. Finally, companies need to focus on the wider business impacts outside accounting, such as the impact on incentive plans, tax requirements and loan covenants and make sure these areas are addressed early in the conversion process.

Mr. Restoy: Our experience reflects the importance of planning and allowing for a sufficiently long transition phase. We also recommend the close involvement of public authorities in the transition process, encouraging an intensive dialogue with enforcers, preparers and the standard setter. Discussing the new principles and consequences of the transition early is vital to the process under the specific situations of the country and company transitioning to IFRS. CESR has organised seminars with countries that have yet to adopt IFRS to share and exchange the experience the EU has gained during the 2005 transition.

There are a number of new standards being proposed for issue in the near term and thus I am concerned that the stable IFRS platform that Europe enjoyed back in 2005 will not be available for those converting in the near future. However, there is currently a lot of pressure on the IASB to slow down the process. More cost/benefit analysis and prioritisation of the really important projects will help to slow down the process of change and, therefore, reduce the

uncertainty. As seasoned adopters of IFRS, we are commenting on the Exposure Drafts, we are contributing to the due process and yet, we are struggling to keep up with the changes and number of proposals. It is hard to imagine how new adopters of IFRS are dealing with this on top of first-time adoption. The IASB has received this input from many current stakeholders, but it is also important to think of this in light of countries adopting IFRS in the near term.

Question: Global standards are truly global if they are applied consistently. What role do you see securities regulators playing in this? Could you elaborate on the level of coordination between securities regulators when it comes to the supervision of financial reporting and interpretation of accounting standards?

Mr. Niven: The key objective of securities regulators is to promote confident and informed participation in financial markets. While the IFRS Interpretations Committee and national standard setters develop interpretations, preparers also need to interpret the standards to prepare the financial reports, auditors need to interpret them to form their audit opinions and regulators need to interpret them to regulate and enforce compliance in the interests of users and informed markets. I can't speak on behalf of other securities regulators, but there are processes in place to communicate with other regulators internationally on individual regulatory decisions, views on application of the standards and emerging issues.

Sharing information helps to promote comparability and consistent application, but each regulator makes their own decisions in terms of the application of standards. The jurisdictions applying IFRS were using various different GAAPs and this does influence their views. It is really valuable to understand the thinking on a particular issue in other jurisdictions because their perspective may be very different. Discussing the issues across borders helps to resolve some of these issues and create greater consistency of application. I think it is important that we continue to respect the principles-based approach and not create a rules-based environment by having too much interpretation.

Mr. Restoy: Several years ago, CESR issued a set of "standards of enforcement of financial information principles" aimed at national securities regulators. CESR-FIN has also set up an enforcement working group, named EECS (European Enforcement Coordination Sessions) which discusses enforcement decisions and develops common enforcement criteria, operating under the framework established by the formerly mentioned enforcement standards.

Past, present and future state of IFRS – regulators reflect on the adoption of IFRS in Europe and Australia *continued*

Although the standards of CESR are, in principle, non-binding, we have a system of peer pressure to monitor who is not following the standards. We publish these results and this comparison of who is and who is not following the CESR standards is proving to be helpful in increasing compliance by all member states. In the future, I would not rule out the possibility that the standards become binding, taking advantage of the new powers and capacities of the new markets authority, ESMA. Binding standards could improve the possibility of coordinating and achieving consistency beyond what CESR can do today.

CESR has also set up an enforcement decisions database containing some 900 decisions, 110 of which have been made public on an anonymous basis. This database has proven helpful to enforcers, preparers and auditors.

In summary, in order to enhance consistent application of IFRS and coherent enforcement activities, I see the following:

- ▶ In the short to medium term, build on and improve the current set-up, increase the enforcement coordinating sessions and maintain the enforcement decisions database
- ▶ In the medium term, go in the direction of developing binding technical standards on enforcement activities which would be endorsed by the European Commission. This would require harmonising power in terms of the ability to request information and impose sanctions. By endorsing those standards in the European Union, interpretations and enforcement decisions would be much more aligned

I would leave to the very, very long term, the possibility of even considering moving towards a centralised enforcement authority in the EU. In my opinion, this option would not be advisable today.

Question: The introduction of IFRS in the EU was made conditional upon an endorsement process on a standard-by-standard and interpretation-by-interpretation basis. Similar processes have been introduced in other countries. What has been your experience so far with this endorsement process from the perspective of a securities regulator? Do you think at some stage it will be replaced by an endorsement of the process rather than the outcome (e.g., standard-by-standard basis)?

Mr. Restoy: Although we can dream about the possibility of an international treaty reflecting the endorsement of acceptance of the process to be organised at an international level and thus taking the place of existing national and regional endorsement mechanisms that exist today, I don't see in the foreseeable future a way to avoid some sort of endorsement process, at least in the European Union, given the political circumstances and the private nature of the IASB. What we have to make sure of is that the standard setting process fully takes into account the interests and views of all different stakeholders. And also that the EU is able to contribute constructively to that part of the process and ensure that the public interest of the EU is taken into account and properly represented in the IFRS Foundation Monitoring Board and among the Trustees of the IFRS Foundation. When that representation is in place and the process proves that it can incorporate the different stakeholder views, the incentive for an endorsement process will be less significant than today. Especially if, as I mentioned, the governance of the IFRS Foundation is improved.

Question: The credit crisis has caused some to criticise IFRS reporting for not acting in the interests of financial stability. As a securities regulator, do you have a view on the role of financial reporting during the financial crisis? Do you think the current efforts by the IASB to respond to this criticism are adequate? Where would you like to see the Board focus more of its efforts? Some people still have concerns about a potential conflict between the public interest of the IASB in terms of its independence and its role to support financial stability. Do you believe there is a potential conflict, or is it just a matter of how to define the role of the IASB and be transparent about how it reaches decisions?



“Transparency helps to promote financial stability because users are better able to make confident and informed economic decisions.” *Doug Niven*

Mr. Niven: It is fundamental that the standards form the basis of preparation of transparent and comparable quality financial reports. Transparency helps to promote financial stability because users are better able to make confident and informed economic decisions. We have been fortunate in Australia because we were not as impacted by the global conditions. I think this was partly due to the confidence in the Australian financial markets. There have been lots of concerns that the crisis was made worse by the pro-cyclical effects of fair value accounting. However, in our reviews, we have not found any evidence that fair value accounting contributed to the financial crisis. In fact, fair value accounting reflects what is happening in the underlying business and limits the ability of entities to manipulate results.

I think the IASB response to the criticisms of financial reporting has been appropriate. The Board has given priority to areas of focus identified by the G-20, which is the right approach. The IASB has continued to follow due process, therefore, it takes time to develop new standards and to give constituents adequate time to respond to new proposals. I think the Board has done a good job of getting the balance right and setting an appropriate work programme.

Mr. Restoy: The debate about the role of IFRS financial reporting has been very intense over the last few years. The discussions that I observed and took part in with the Financial Crisis Advisory Group provided a very frank debate among regulators, central banks, standard setters, and securities market regulators on the matter. There is a consensus now that accounting standard setters should listen more openly to prudential regulators as their input is very important for the accounting standard setting process. However, when it comes to making a major decision, transparency should have priority over other concerns.

There are obviously many different users of financial statements, which implies that, in the development of standards, you need to have a very intensive dialogue with a number of different stakeholders and interest groups including tax authorities. With respect to the purpose of accounting standards, the main priority is to convey reliable and accurate information to investors. This does not mean that accounting objectives are orthogonal to financial stability and prudential regulators' concerns, but I think that the major contribution that accounting can make to financial stability is to improve transparency. That transparency will foster confidence to help market function and thereby promote financial stability. The dialogue between authorities promoting financial stability, prudential regulators and accounting standard setters is very helpful to all parties.

I would like to share an example of this as it related to the debate on improving impairment rules for loans and receivables and pro-cyclicality and dynamic provisioning. The debate was very difficult; prudential regulators wanted to change the rules to make the determination of profit less pro-cyclical. Regulators, however, also accepted their role to promote informative financial statements. Accounting standard setters responded to the request by developing a new impairment model, focusing on expected losses rather than only incurred losses. This proved to be more useful than the previous model, as investors are actually more interested in knowing the losses that are expected by management rather than the incurred ones. The dialogue has therefore led to a common solution that is acceptable to both regulators and investors.

Regarding the Monitoring Board, I think that it should be mainly composed of public officials that have responsibilities in capital markets, but other interested parties should not be excluded (although probably as observers). I have no doubt that, right now, the Monitoring Board mainly focuses on transparency of capital markets but we have some concerns about its current composition as it currently has only very few jurisdictions and relevant parties represented. Countries which committed or have recently adopted IFRS, e.g., India, China and Brazil, should also be represented.

Besides, in some cases, it could make sense to have more than one body to represent one jurisdiction, take China for example, or Europe, where the European Commission has no responsibility on enforcement or supervision of securities markets. These functions are performed by national securities regulators and are coordinated by the new authority, ESMA. Therefore, I think that there is a very strong case for ESMA to be in the Monitoring Board, of course, along with the European Commission.

Past, present and future state of IFRS – regulators reflect on the adoption of IFRS in Europe and Australia *continued*

Question: In order to make IFRS more successful over the next five years, what would you like to see achieved? Are there particular developments you would like to see from your perspective?

Mr. Niven: I think to get the full benefits from IFRS that we have discussed, we need to see broader adoption of IFRS by other countries, or at least, the continued convergence of national GAAPs. There needs to be ongoing and consistent application of IFRS across all jurisdictions within the context of principles-based standards with supporting interpretations where necessary. Entities and others involved in the financial reporting cycle need to support the application of standards by genuinely applying the principles. It is also important that the financial statements are supported by high quality management commentary and that company directors give appropriate consideration to disclosure of the business model, the risks involved and how they are managed.

I believe it is really important to continue to protect the independence of the IASB and avoid undue influence so that it can continue to develop high quality standards. The focus should be on transparency and the information needs of the users of financial statements. The IASB needs to focus on completing current projects including financial instruments, leases, revenue and extractive industries, which is particularly important in Australia. Looking forward, possible future projects could include presentation of components of financial reports, the meaning of other comprehensive income and common control transactions in the context of business combinations.

Finally, the development of the Asian-Oceanian Standard-Setters Group (AOSSG) has been a very important development for the region, and the AOSSG needs to ensure it provides effective input to the IASB giving perspectives from this region to assist in the standard setting process.

Mr. Restoy: As indicated earlier, paramount is the adoption of IFRS by more countries, in particular, the larger economies. It will be only then that the full benefits of a global accounting language can be achieved. Also, the IASB should slow down the standard setting process somewhat to help users and preparers cope with the changes. Prioritisation of projects will also help in the allocation of time and resources. We also believe the IASB should consider the costs and benefits of its proposals before new standards are issued. After the new standards are issued, the Board should focus on the post-implementation analyses of these standards.

We are confident that the incoming chairman of the IASB, Hans Hoogervorst, will be able to lead the IASB through the turbulent and challenging times ahead. He has the right skill set and background as minister and securities regulator in the Netherlands and IOSCO chair. We look forward to working together in making IFRS a global success.

“There needs to be ongoing and consistent application of IFRS across all jurisdictions within the context of principles-based standards with supporting interpretations where necessary.” *Doug Niven*

IFRS update



What's new?

The following table shows new publications issued by the IASB.

Projects	Publication	Status
Financial Instruments: amortised cost and impairment	<p>The IASB has recently published a request for public comment on <i>Financial Instruments: Impairment</i>. This is a supplementary document to the IASB's November 2009 exposure draft <i>Financial Instruments: Amortised Cost and Impairment</i>. The supplementary document is a joint document published by the IASB and the US FASB that reflects a joint approach for the recognition of credit impairment of financial assets based on an expected loss model. The scope of the document is open portfolios of financial assets measured at amortised cost, excluding short-term trade receivables.</p> <p>The Ernst & Young <i>Supplement to IFRS Outlook Issue 95</i> contains details of the proposals and can be downloaded at www.ey.com/ifrs.</p>	Open for comment until 1 April 2011
Offsetting financial assets and liabilities	<p>The IASB and US FASB have issued an exposure draft <i>Offsetting Financial Assets and Financial Liabilities</i> (ED) that proposes a common approach to offsetting financial assets and liabilities on the balance sheet. Presently, the circumstances under which offsetting is permissible under IFRS and USGAAP differ which can lead to a substantial reduction in the comparability of financial statements prepared under IFRS and USGAAP. The proposals in the ED would eliminate this difference.</p> <p>The Ernst & Young <i>Supplement to IFRS Outlook Issue 94</i> contains details of the proposals and can be downloaded at www.ey.com/ifrs.</p>	Open for comment until 28 April 2011
Income taxes	<p>The IASB has issued amendments to IAS 12 <i>Income Taxes</i>. These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recovered through sale. The amendments also incorporate SIC-21 <i>Income Taxes – Recovery of Revalued Non-Depreciable Assets into IAS 12</i>.</p> <p>The Ernst & Young <i>Supplement to IFRS Outlook Issue 93</i> contains details of the amendments and can be downloaded at www.ey.com/ifrs.</p>	Effective for annual periods beginning on or after 1 January 2012 (early adoption permitted)
First-time adoption	<p>The IASB has issued two narrow scope improvements to IFRS 1 <i>First-time Adoption of IFRS</i>. The first amendment replaces references to the fixed date of 1 January 2004 with 'the date of transition to IFRS'. The second amendment provides guidance on resuming reporting in accordance with IFRS after a period when an entity could not comply due to its functional currency being subject to hyperinflation.</p> <p>The Ernst & Young <i>Supplement to IFRS Outlook Issue 92</i> contains details of the amendments and can be downloaded at www.ey.com/ifrs.</p>	Effective for annual periods beginning on or after 1 July 2011 (early adoption permitted)
IFRS taxonomy	<p>The IFRS Foundation has published an exposure draft of the IFRS Taxonomy 2011. The proposed taxonomy is consistent with IFRS and also includes IFRS for SMEs.</p> <p>The exposure draft can be accessed at www.ifrs.org.</p>	Open for comment until 18 March 2011

Current discussions

The IASB held meetings on 1, 3 and 8 December, from 13 to 17 December 2010 and from 18 to 21 January 2011. Some of these meetings were held jointly with the FASB.

Tentative decisions were made on a number of projects including fair value measurement, asset and liability offsetting and financial instrument impairment. The Boards also began their deliberations on the revenue and leases projects following the comment letters received.

The IFRS Interpretations Committee met on 6 & 7 January 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 put options written over non-controlling interests.

Updates from Board meetings and the Interpretations Committee meetings can be accessed at www.ifrs.org/updates.

IASB work plan

The IASB work plan outlines all of the projects the Board is currently working on, and includes projected publication dates. Further details of all the ongoing projects can also be accessed at www.ifrs.org/current+projects.

Resources

The publications below are all available at www.ey.com/ifrs.

Refining IFRS – January 2011

At the January 2011 meeting of the IFRS Interpretations Committee, the staff provided a summary of the comments received on the Draft Interpretation *Stripping Costs in the Production Phase of a Surface Mine* (Draft Interpretation) that was published in August 2010. This edition of *Refining IFRS* provides a high-level overview of the discussions from the meeting and outlines the issues that will be taken back to the March 2011 Interpretations Committee meeting. We also set out our understanding of the likely next steps and the anticipated timing of this finalised.

Good Bank (International) Limited 31 December 2010

This publication contains an illustrative set of consolidated financial statements of a fictitious group of banking companies for the year ended 31 December 2010. Good Bank (International) Limited's activities include providing retail and corporate banking, investment banking and asset management services. This publication illustrates specific IFRS disclosures made by the banking industry.

These illustrative financial statements have been prepared in accordance with IAS 39 *Financial instruments: Recognition and Measurement* and other IFRS in issue as at 31 August 2010. A supplement illustrating the early adoption of the first phase of IFRS 9 *Financial instruments: Classification and Measurement* by Good Bank (International) Limited will be released in due course.

Supplements to IFRS Outlook

Issue 92: First-time adoption of IFRS: severe hyperinflation and removal of fixed dates

On 20 December 2010, the IASB issued *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1)*. The amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards* introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. They also remove the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions.

Issue 93: Amendments to IAS 12 Income Taxes

On 20 December 2010, the IASB issued *Deferred Tax: Recovery of Underlying Assets (amendments to IAS 12)* concerning the determination of deferred tax on investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax in relation to such property should be measured on the basis that the carrying amount will be recovered through sale as well, they also incorporate SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets into IAS 12*.

Issue 94: Offsetting of financial instruments: Is convergence on the horizon?

Ever since the introduction of IFRS in Europe, the offsetting of financial assets and liabilities on the balance sheet has been a controversial issue. The ability to offset under IFRS is more limited than that allowed under US GAAP, especially for derivatives. Given the greater focus on banks' risks since the financial crisis, the Basel Committee on Banking Supervision and the Financial Stability Board have raised concerns about this major GAAP difference. In response to these concerns, the IASB and the US FASB issued a joint exposure draft on 28 January 2011, proposing changes to their existing requirements to address such differences. Read about the proposals and their likely impact on existing IFRS reporters in this publication.

Issue 95: IASB and US FASB propose a joint approach to accounting for credit losses

The IASB and US FASB are proposing a joint approach for accounting for impairment of financial assets such as loans managed in an open portfolio. The IASB published a supplementary document to its November 2009 Exposure Draft *Financial Instruments: Amortised Cost and Impairment* to seek input on this joint approach. In this publication, we take a look at the proposed joint approach and other proposals in the supplementary document and consider their likely impact on businesses.



Coming soon

Hedge accounting under IFRS - a closer look at the changes and challenges

When the IASB released the Exposure Draft – *Hedge Accounting* (ED) in December 2010, we published the highlights of the proposals contained in the ED to substantially simplify hedge accounting in our *Supplement to IFRS Outlook Issue 91*. In this publication, we take a closer look at the main changes that are in the pipeline. In addition, we focus on the potential benefits for entities in both the financial and non financial sectors and consider the potential challenges the proposals would create.

The Road to Convergence: the revenue recognition proposal

We recently issued a publication entitled *Revenue from Contracts with Customers: The road to convergence: what the revenue proposals mean in practice* which provided a summary of the revenue recognition model proposed in the IASB Exposure Draft *Revenue from Contracts with Customers* (ED), highlighted some issues for companies to consider in evaluating the merits of the ED and discussed some of the expected changes to current IFRS.

We are planning to issue a series of additional publications for certain industries such as Oil & Gas, Mining, Consumer Products and Telecommunications that are expected to be impacted by the revenue recognition proposals. These publications are designed to highlight some of the more significant implications that the proposed revenue recognition model may have on entities operating in these types of industries.

IASB Projects – a pocketbook guide

This is the third edition of our quarterly guide which summarises the key features of the various IASB projects, many of which are joint projects with the US FASB as part of ongoing efforts to converge IFRS and USGAAP. In particular, the pocketbook guide summarises the proposed standards based on the tentative decisions to date and sets out some of the potential financial and business implications of these decisions, together with our views on the various projects.

Good Construction Group (International) 2010

This publication contains an illustrative set of consolidated financial statements of Good Construction Group (International) Limited, a fictitious construction company for the year ended 31 December 2010. These illustrative financial statements have been prepared in accordance with IFRS in issue as at 30 September 2010.

Good Group (International) Limited First-time Adoption of IFRS 2010

This publication contains an illustrative set of consolidated financial statements of Good Group (International) Limited and subsidiaries for the year ended 31 December 2010 as a first-time adopter of IFRS with a date of transition as of 1 January 2009. These illustrative financial statements have been prepared in accordance with IFRS as of 31 August 2010.

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