



IASB Projects

A pocketbook guide

As at 31 December 2010

In this edition ...

Introduction	3
Priority projects (joint Boards)	6
▶ Consolidation	6
▶ Derecognition	10
▶ Fair value measurement	11
▶ Financial instruments	12
▶ Leases	20
▶ Revenue recognition	22
▶ Insurance contracts	23
Other projects	25
▶ Joint arrangements	25
▶ Post-employment benefits (including pensions)	26
▶ Effective dates and transition (joint Boards)	28
▶ Financial statement presentation (joint Boards)	29
▶ Financial instruments with characteristics of equity (joint Boards)	31
▶ Emissions trading schemes (joint Boards)	31
▶ Income taxes	32
▶ Liabilities (IAS 37 amendments)	33
▶ Management commentary	34
▶ Rate regulated activities	35

Introduction

We hope you have found the previous editions of this pocketbook guide, issued in August 2010 and May 2010, helpful. This third edition has been updated for two Exposure Drafts (EDs) issued by the International Accounting Standards Board (IASB or the Board), the Board's modified Work Plan and the revised timelines for finalising its active projects. We have also updated the summaries provided herein for the tentative decisions made and projects finalised since August 2010 through 31 December 2010. The EDs issued by the IASB include a revised model for hedge accounting and a limited scope amendment on income taxes.

In November 2010, the IASB and US Financial Accounting Standards Board (FASB and collectively with the IASB, the Boards) jointly issued a progress report on their major projects. This includes a modified work-plan and amended timetable for their projects, including deferral of many joint and independent projects that are important, but less urgent, to the Boards. This was in response to stakeholders' concerns about their ability to provide high quality input on such a large number of active projects and to enable more field testing on these priority projects. The Boards committed to a mid-2011 deadline for their priority projects, specifically consolidations, derecognition, fair value measurement, financial instruments, leases, revenue recognition and insurance contracts. The target dates for other joint projects are expected to extend into the second half of 2011.

The new work-plan focuses standard-setting activities on certain priority projects primarily to allow more effective stakeholder participation in the standard-setting process. Ernst & Young supports the Boards' decision to delay certain projects to allow adequate time for Board deliberations and due process. Even with the planned delays, the agenda remains extremely ambitious and will place considerable pressure on constituents to provide quality feedback on the proposals and allow adequate field testing on the final standards. An estimated timeline of the changes to IFRS expected as a

result of the projects is set out on page 5 of this pocketbook guide. Please note that this timeline is subject to change by the IASB. Full details are available on the IASB website.

Another significant development in October 2010 was the Boards' request for views on the effective date and the transition of new standards. The Boards will consider constituent responses, as well as the results of outreach work related to the individual projects, in developing an implementation plan that is intended to work for the financial reporting system as a whole.

The political environment surrounding IFRS continues to be fragile, with ongoing concerns around the sometimes conflicting demands on the standard setters. The Boards will continue their efforts to balance these demands and work towards the G-20's stated goal of one set of high quality global standards by 2011. The reprioritisation of significant projects during this quarter, request for views on effective dates and issuance of the ED on hedge accounting is certainly evidence of the Boards' progress. However, many constituents continue to have concerns surrounding the Boards' ability to meet this aggressive timeline, while maintaining an appropriate level of quality in the financial reporting standards. We encourage you to analyse the Board's proposals and to submit comment letters on any concerns identified.

We trust that you will find this guide useful.

Yours sincerely,

Ruth Picker
Global Leader – IFRS Services
Global Professional Practice

January 2011

Background

The onset of the financial crisis and ongoing efforts to converge IFRS and US GAAP have resulted in increased scrutiny of accounting standards by the financial community including governments, the G-20 and regulators. The IASB issued an updated Work Plan for completing these projects, which can be broadly classified as:

- ▶ Priority projects (those projects where completion is targeted on or before June 2011)
- ▶ Other projects

The various priority projects are joint projects between the IASB and FASB. Other projects, namely effective dates and transition, financial statement presentation, financial instruments with characteristics of equity and emissions trading schemes, have also been jointly undertaken by the Boards.

This quarterly pocketbook guide provides a summary of the salient features of the proposed standards based on tentative decisions made as of 31 December 2010, the potential financial and business implications and Ernst & Young's views on the respective projects that have been shared with the Boards. Our views are developed and agreed globally, with input from sectors and subject matter groups. We also align the views we express to the FASB with those we express to the IASB. The Boards have been open and relatively responsive to comments received on their projects.

If you require more detail on any of the projects, please contact your Ernst & Young representative. You may also wish to refer to our Global IFRS resources on ey.com/ifrs for further details of these projects or other IASB projects.

Project timeline

Ongoing projects	2010	2011			
	Q4	Q1	Q2	Q3	Q4
Financial instruments					
Classification and measurement ¹	▲				
Impairment		RV	▲		
Hedging	■		▲		
Asset and liability offsetting		■	▲		
Derecognition	▲				
Consolidation		▲			
Investment companies			■		▲
Fair value measurement		▲ ²			
Financial statement presentation			TBD ³		
Statement of comprehensive income					
Leases	○	○	▲		
Revenue recognition	○		▲		
Joint arrangements		▲			
Post-employment benefits		▲			
Effective dates and transition	RV				
Income taxes			TBD ³		
Financial instruments with characteristics of equity			TBD ³		
Insurance contracts	○		▲		
Emissions trading schemes			TBD ³		
Liabilities (IAS 37 amendments)			TBD ³		
Management commentary	X				

■ Exposure draft ○ Roundtable discussions ▲ Final standard X Final guidance RV Request for views

¹ The IASB addressed this project in stages: classification and measurement-assets and liabilities (issued final IFRS in Q4 2009 and Q4 2010, respectively).

² The disclosures related to measurement uncertainty will be finalised separately from the main Fair Value project.

³ These projects are on hold until after June 2011.

Note: The IASB also has narrow scope improvements that have not been reflected in the above timetable (e.g., Annual Improvements Project).

Priority projects (joint Boards)

Priority projects (joint Boards)	Key developments to date	Implications
<p>Consolidation – overview</p>	<p>Update: this project has three parts:</p> <ul style="list-style-type: none"> ▶ The standard IFRS 10 <i>Consolidated Financial Statements</i> will replace portions of IAS 27 <i>Consolidated and Separate Financial Statements</i> and the interpretation SIC-12 <i>Consolidation – Special Purpose Entities</i>. This standard is expected to be published in Q1 2011. ▶ At the same time, the IASB will issue a standard IFRS 12 <i>Disclosure of Involvement with Other Entities</i>, which includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities. ▶ A separate ED of proposed changes to consolidation requirements related to investment entities is targeted to be issued in Q2 2011. 	<ul style="list-style-type: none"> ▶ Splitting the project into three parts allows the IASB to complete its project on <i>Consolidated Financial Statements</i>, which was accelerated as a result of the 2008 financial crisis, while allowing time for due process regarding the proposed changes in the accounting by investment entities.
<p>Consolidation – replacement of IAS 27</p>	<p>Scope: an entity consolidates all entities that it controls.</p> <p>Salient features:</p> <ul style="list-style-type: none"> ▶ Control exists when the reporting entity is exposed, or has rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its power over that other entity. 	<ul style="list-style-type: none"> ▶ By changing the definition of control to the ‘power to direct the activities’ from the ‘power to govern the financial and operating policies of an entity’, the definition is broader. The proposed standard may result in changes to a consolidated group (more or fewer entities being consolidated than under current IFRS).

Priority projects (Joint Boards)	Key developments to date	Implications
	<ul style="list-style-type: none"> ▶ A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the other entity's returns ('the relevant activities'). ▶ Judgement is required to assess the facts and circumstances when determining whether the reporting entity has control over another entity. ▶ Exposure to risks and rewards is an indicator of control, but does not in itself constitute control. ▶ Power arises from substantive rights. Protective rights, such as some veto rights, do not prevent others from having power. There is currently no specific guidance on protective rights under IFRS. ▶ Consolidation is required until such time as control ceases, even if control is temporary. <p>Transition: retrospective generally retrospective, as if the controlled entity had always been consolidated. The new standards will include transition requirements and effective dates based on the IASB's assessment of them on a stand-alone basis. The IASB will reconsider effective dates and transition methods in its project on effective dates and transition.</p>	<ul style="list-style-type: none"> ▶ For example, an entity might reach a different conclusion regarding control under the new standard than it did under IAS 27 <i>Consolidated and Separate Financial Statements</i> in the following circumstances: <ul style="list-style-type: none"> ▶ An entity holds less than half the voting rights of another entity ▶ An entity has a principal-agency relationship with another entity ▶ An entity holds currently exercisable options that if exercised, would give the reporting entity more than half of the voting rights in the entity ▶ Additional procedures might be required to assess control on a continuous basis, or to consolidate entities that are controlled (consider impact on systems, processes, and internal controls). ▶ An entity may not currently have access to investee information to be able to apply the standard. <p><i>Ernst & Young is concerned that the definition of control is very broad and could lead to significant challenges in making the standard operational and applying the new standard consistently.</i></p>

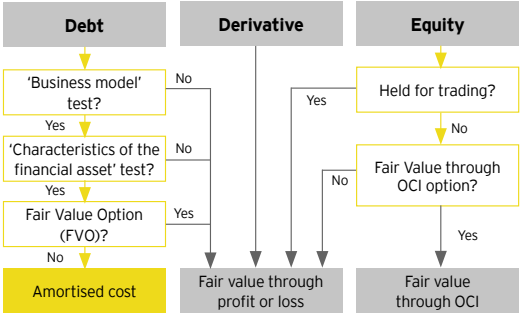
Priority projects (joint Boards)	Key developments to date	Implications
Consolidation – disclosures	<p>Salient features: the objective of the IASB is to require disclosures that help the users of financial statements understand:</p> <ul style="list-style-type: none"> ▶ The significant judgements and assumptions (and changes to those judgements and assumptions) made by the reporting entity in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest (such as joint control or significant influence), if applicable. ▶ The financial effects of the reporting entity's involvement with other entities on its financial position, financial performance and cash flows. ▶ The nature of, and the risks associated with, the reporting entity's involvement with other entities. 	<ul style="list-style-type: none"> ▶ Entities should continue to monitor developments in this area as extensive qualitative/quantitative disclosures may be required. ▶ Additional procedures and information might be required to prepare disclosures (consider impact on systems, processes and internal controls). <p><i>Ernst & Young expressed concern about the increased volume of disclosures required under this standard. The need for extensive disclosures of unconsolidated entities meant that the principle of control was not sufficiently clearly established in the standard.</i></p>

Priority projects (joint Boards)	Key developments to date	Implications
Consolidation – investment entities	<p>Scope: investment entities (as defined)</p> <p>Salient features: an investment entity would not consolidate investments in entities that it controls, and would not equity account or proportionately consolidate joint ventures and associates. Instead, an investment entity would measure those investments at fair value, with changes in fair value recognised in profit or loss.</p> <p>Transition: the standard would be applied to all existing investments that meet the definition of an investment entity. An adjustment to opening retained earnings would be made that represents the difference between the previous carrying amount of the net assets of the investee and the fair value of the investee as of the date of first applying the standard.</p>	<ul style="list-style-type: none"> ▶ This would be a significant change for investment entities that are currently required to consolidate entities that they control. ▶ If the parent of an investment entity is not itself also an investment entity, the parent would be required to consolidate entities that are controlled by any subsidiary investment entities in its consolidated financial statements. In essence, the parent may not retain the fair value accounting in respect of controlled entities. ▶ Investment entities would be required to measure investments in joint ventures and associates at fair value (this is currently permitted for some entities, but not required). ▶ Entities that do not meet the criteria to be an investment entity would be prohibited from measuring investments in joint ventures and associates at fair value (this is currently permitted, but not required, for certain entities, such as investment-linked insurance funds).

Priority projects (joint Boards)	Key developments to date	Implications
<p>Derecognition</p>	<p>Update: in June 2010, the Boards announced that their near term priority was to increase the transparency and comparability of their disclosure requirements in respect of the accounting for derecognition of financial instruments. In October 2010, the IASB decided to carry forward the existing derecognition requirements of IAS 39 <i>Financial Instruments: Recognition and Measurement</i> into IFRS 9 <i>Financial Instruments</i>, but released improved disclosure requirements. These were released as amendments to IFRS 7: <i>Financial Instruments: Disclosures</i>.</p> <p>Scope: all financial instruments within the scope of IAS 39.</p> <p>Transition: applied retrospectively and effective for annual periods beginning on or after 1 July 2011, with early application permitted. In the first year of application, an entity need not provide comparative information.</p>	<ul style="list-style-type: none"> ▶ The IASB's amended disclosure requirements are broadly similar to US GAAP disclosures (amended in June 2009), notwithstanding the fact that different derecognition models are applied. ▶ The amended disclosures are more extensive and onerous. Consequently, entities may need to modify management information systems and internal controls to be able to extract the necessary quantitative information to prepare the disclosures. ▶ The qualitative disclosure requirements for derecognised financial assets will require entities to undertake a comprehensive review of the terms of their continuing involvements to ensure that the necessary information can be presented in sufficient detail. ▶ Given the retrospective application of the amendments, disclosures will be required even if the financial assets were previously fully derecognised, provided that continuing involvement, as defined in the amendments, still exists.

Priority projects (joint Boards)	Key developments to date	Implications
<p>Fair value measurement</p>	<p>Update: in June 2010, the IASB issued a limited re-exposure draft <i>Measurement Uncertainty Analysis Disclosure for Fair Value Measurements</i>. In November 2010, the IASB decided to move its proposals on measurement uncertainty into a separate project so that it can perform outreach activities. The remainder of the IASB's proposals from the May 2009 ED will proceed.</p> <p>Scope exceptions: the use of 'fair value' in IFRS 2 <i>Share-based Payment</i> and IAS 17 <i>Leases</i> would be excluded from the scope of the standard and the term 'fair value' applicable to reimbursement rights under IAS 19 <i>Employee Benefits</i> would be changed.</p> <p>Salient features:</p> <ul style="list-style-type: none"> ▶ Would not affect when fair value is used, only describes how to measure fair value ▶ Would provide a single framework for measuring fair value whilst requiring enhanced disclosures when fair value is applied ▶ Fair value would be defined as the 'exit price' ▶ Concepts of 'highest and best use' and 'valuation premise' would be relevant only for non-financial assets and liabilities 	<ul style="list-style-type: none"> ▶ Specific requirements relating to the highest and best use and the principal market may require companies to re-evaluate their processes and procedures for determining fair value, and determine whether they have the appropriate expertise. ▶ The guidance on 'how' to measure fair value may change the amount recognised by entities. This might impact financial ratios, loan covenants, remuneration structures and analyst expectations.

Priority projects (joint Boards)	Key developments to date	Implications
Fair value measurement <i>cont'd</i>	<ul style="list-style-type: none"> ▶ Additional guidance would be provided on measuring fair value when a market becomes less active. ▶ Fair value disclosures would be extended to all assets, liabilities or equity that are measured at fair value. <p>Transition: prospective application. The proposed effective date is currently unknown pending completion of the IASB's project on effective dates and transition. In addition, the IASB is reconsidering the proposed transition method as part of that project.</p>	<p><i>Ernst & Young, whilst supporting the IASB's proposals to increase consistency in IFRS in determining 'how' to measure fair value and converging with the US, believes it is also important to converge on 'when' to measure at fair value.</i></p> <p><i>In our view, there are a number of issues that need to be addressed to ensure that the proposed 'measurement uncertainty' disclosures result in meaningful information to financial statement users. We recommend that the Boards consider an alternative disclosure requirement that focuses on the sensitivity of Level 3 measurements to unobservable inputs, rather than on management's judgement in determining where fair value falls within a range of values.</i></p>
Financial instruments (IAS 39 replacement) – overview	<p>Scope: the IASB divided the replacement of IAS 39 project into several phases. The first phase, which focuses on the classification and measurement of financial instruments, has been published as IFRS 9. Work on the other phases, specifically hedge accounting and impairment, is ongoing.</p>	<p>The FASB and IASB have divergent views on several areas, particularly on the extent of use of fair value.</p>

Priority projects (joint Boards)	Key developments to date	Implications
<p>Financial instruments – classification and measurement</p>	<p>Salient features: IFRS 9 was first published in November 2009 for financial assets and updated in October 2010 for financial liabilities. The following is a summary of the decision model on classification and measurement of financial assets and liabilities respectively:</p> <p>Financial assets</p>  <pre> graph TD subgraph Debt BMT["'Business model' test?"] CFA["'Characteristics of the financial asset' test?"] FVO["Fair Value Option (FVO)?"] AC["Amortised cost"] end subgraph Derivative FVPL["Fair value through profit or loss"] end subgraph Equity HFT["Held for trading?"] FVOCI["Fair Value through OCI option?"] FVOCI_2["Fair value through OCI"] end BMT -- No --> FVPL BMT -- Yes --> CFA CFA -- No --> FVPL CFA -- Yes --> FVO FVO -- Yes --> FVPL FVO -- No --> AC HFT -- Yes --> FVPL HFT -- No --> FVOCI FVOCI -- Yes --> FVOCI_2 FVOCI -- No --> FVPL </pre> <p>► In order to qualify for amortised cost, entities can no longer rely on management intent, but instead, need to demonstrate that the business model and 'characteristics' criteria in IFRS 9 are met.</p>	<p><i>Ernst & Young, in its comment letter as well as in public commentary, recommended that the Boards work on developing a converged model for financial instruments. We support the mixed measurement model in IFRS 9.</i></p>

Priority projects (joint Boards)	Key developments to date	Implications
Financial instruments – classification and measurement <i>cont'd</i>	<ul style="list-style-type: none"> ▶ The change in measurement basis will have a consequential impact on the profit or loss for the period, with related effects potentially on tax and regulatory requirements. ▶ A debt instrument eligible for measurement at amortised cost can be measured at fair value through profit or loss if the entity elects to apply the fair value option to eliminate an accounting mismatch. ▶ IFRS 9 provides an option to designate non-trading equity investments at fair value through other comprehensive income (OCI) upon recognition. In that case, dividend income is recognised in profit or loss with no recycling of the fair value gain/loss to profit or loss upon derecognition of the investment. Other equity investments not so designated are measured at fair value through profit or loss. The designation is irrevocable. ▶ An important change from IAS 39 is that 'whether or not the instrument is quoted in an active market' is not relevant for the measurement basis under IFRS 9. ▶ Separation of embedded derivatives is no longer required. 	

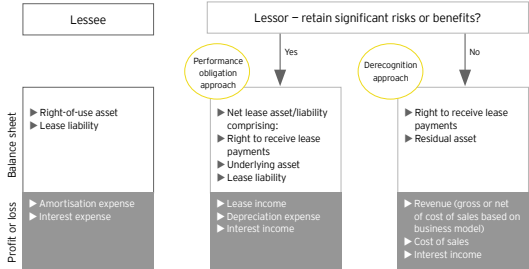
Priority projects (Joint Boards)	Key developments to date	Implications
	<p>Financial liabilities</p> <pre> graph TD Q1[FVO used?] -- No --> A[No changes, IAS 39 carried over to IFRS 9] Q1 -- Yes --> Q2[Is a portion of the change in fair value caused by credit risk?] Q2 -- No --> B[Entire fair value change in profit or loss] Q2 -- Yes --> Q3[Will an accounting mismatch arise by presenting fair value changes attributable to credit risk in OCI?] Q3 -- Yes --> B Q3 -- No --> C[Present fair value changes attributable to credit risk in OCI] D[Other fair value changes in profit or loss] </pre> <ul style="list-style-type: none"> ▶ The new standard proposes changes to the measurement of financial liabilities designated using the fair value option (FVO). All other IAS 39 classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. ▶ For FVO liabilities, the amount of change in fair value that is attributable to changes in the credit risk of the liability is presented in OCI. The remainder of the fair value change is presented in profit or loss, unless this would create or enlarge an accounting mismatch. The amount that is recorded in OCI will not be recycled to profit or loss upon derecognition of the liability. 	<ul style="list-style-type: none"> ▶ The accounting for financial liabilities (other than those designated under the FVO) will not change. For example, liabilities held for trading and freestanding derivatives are likely to remain at fair value through profit or loss. In addition, financial liabilities that are held to pay contractual cash flow characteristics and have 'plain vanilla' features are likely to remain at amortised cost. Nevertheless, entities should continue to monitor developments on this front as the IASB finalises the remaining phases of IFRS 9.

Priority projects (joint Boards)	Key developments to date	Implications
Financial instruments – classification and measurement <i>cont'd</i>	<ul style="list-style-type: none"> ▶ IFRS 9 clarifies that credit risk is not the same as asset-specific performance risk. In the case of asset specific performance risk, the entire fair value change of the liability is recognised in profit or loss. <p>Transition:</p> <ul style="list-style-type: none"> ▶ This phase of IFRS 9, required to be applied retrospectively, is effective for annual periods beginning on or after 1 January 2013. The IASB is reconsidering the effective date as part of its project on effective dates and transition. Early application may be permitted if the entity also applies any of the previously finalised requirements of IFRS 9. There will be no relief in respect of restating comparative information. However, some transitional relief is available for early adopters with an initial application date before 1 January 2012. ▶ There are several benefits of adopting Phase 1 of IFRS 9 early including: <ul style="list-style-type: none"> ▶ A unique opportunity to revoke the FVO and reclassify instruments previously designated at fair value through profit and loss, or to re-apply the FVO for instruments where there is an accounting mismatch ▶ Reversal of previously recorded impairment on available-for-sale (AFS) equity instruments whose fair value has increased by reclassifying them to fair value through profit or loss 	

Priority projects (Joint Boards)	Key developments to date	Implications
Financial instruments – impairment	<p>Salient features:</p> <ul style="list-style-type: none"> ▶ The IASB issued an ED in November 2009 that proposed an expected cash flow model for impairment that applies to all financial assets recorded at amortised cost under IFRS 9. ▶ As a result of responses to this ED and information received from stakeholders, the IASB has been discussing modifications to the expected cash flow model to address operational concerns for open portfolios. ▶ In addition, the Boards have commenced joint discussions on impairment accounting with the objective of achieving a common solution, if possible. The Boards expect to publish a proposed joint approach on credit impairment of loans and other financial assets managed in an open portfolio in Q1 2011. <p>Scope: applies to all financial assets recorded at amortised cost under IFRS 9.</p> <p>Transition: would be applied retrospectively, by adjusting the effective interest rate to approximate the rate that would have been determined at inception as if the entity had always used the expected cash flows approach.</p>	<ul style="list-style-type: none"> ▶ Forecasting expected cash flows could require significant new processes to be introduced and changes to information systems, procedures and controls. ▶ More judgement would be needed in assessing expected future cash flows. ▶ Changes in expectations could result in volatility in profit or loss as the impact of such changes would be recorded in the period that expectations are revised. <p><i>The prudential regulators have been the main drivers of the 'expected cash flow' model because they believe that the 'incurred loss' model in IAS 39 caused loan loss provisions to be recognised too late in the economic cycle.</i></p>

Priority projects (Joint Boards)	Key developments to date	Implications
Financial instruments – hedge accounting	<p>Salient features:</p> <ul style="list-style-type: none"> ▶ The ED on hedge accounting was issued in December 2010, with proposals that substantially simplify the current requirements under IAS 39. ▶ Under the proposed approach, there would be a better link between an entity’s risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Hedge accounting would be permitted for components of financial and non-financial items, provided the risk component that is being hedged can be separately identified and measured. ▶ There would be no bright line tests for hedge effectiveness assessments and hedge effectiveness testing would only be required prospectively using a methodology that is driven by the entity’s risk management policies. ▶ One of the topics that banks have historically been interested in is portfolio or macro fair value hedging. This is a contentious topic that has been debated at length and over many years between the IASB and the banking industry. Given the complexities of this topic, and the tight timeline for the hedging project, the proposals relating to portfolio hedging will be issued as a separate ED. 	<ul style="list-style-type: none"> ▶ The ED’s principles-based approach is consistent with the IASB’s objective to simplify and reduce complexity under the proposed standard. Whilst financial reporting would be more aligned to risk management, the proposals also place a greater onus on entities to manage their hedge relationships in line with their risk management approach. ▶ The ED is likely to have a significant impact on those entities that already apply hedge accounting, as well others that use economic hedging practices, but are currently unable to reflect this in their financial statements. The most significant benefit may be for non-financial services entities, because hedge accounting would be permitted for components of non-financial items. ▶ Banks and financial institutions also stand to gain from the new proposals, because hedge effectiveness testing would be much simpler and would only be required on a prospective basis. Qualitative testing would be possible where appropriate and there would be no arbitrary bright lines.

Priority projects (joint Boards)	Key developments to date	Implications
	<p>Transition:</p> <ul style="list-style-type: none"> ▶ The proposals would be applicable prospectively, with no restatement of comparative figures (or requirement to provide disclosures for the comparative period). For entities that already apply IFRS, it is expected that almost all of the previous hedge accounting relationships under IAS 39 would still qualify under the proposed model. ▶ Application of the standard would be mandatory for annual periods beginning on or after 1 January 2013, with earlier application permitted. However, feedback from the ongoing consultation on effective dates for new standards will be considered in finalising the mandatory effective date of the new standard. As with other phases of the standard, the new hedge accounting model can only be adopted together with all other IFRS 9 requirements that have been finalised earlier. 	<p><i>The ED has only recently been issued and we have not yet provided any official views.</i></p>
Financial instruments – asset and liability offsetting	<p>Salient features: the Boards are expected to jointly issue an ED in Q1 2011. This is in response to stakeholders' concerns (including those of the Basel Committee on Banking Supervision and the Financial Stability Board) regarding the differences that currently exist between IFRS and US GAAP in the requirements for balance sheet offsetting of derivative contracts and other financial instruments.</p>	<ul style="list-style-type: none"> ▶ The purpose of this project is potential convergence of one of the more significant financial instrument presentation differences between IFRS and US GAAP. ▶ Financial institutions that are considering conversion from US GAAP to IFRS should closely monitor developments in this project as it may have a significant impact on the size of their balance sheet.

Priority projects (Joint Boards)	Key developments to date	Implications
<p>Leases</p>	<p>Update: the ED was issued in August 2010 and the comment period closed in December 2010. The Board will now hold outreach activities and consider comments received. The Boards expect to complete this project by the end of Q2 2011.</p> <p>Scope: leases of property, plant and equipment and investment property measured at cost.</p> <p>Salient features:</p>  <pre> graph TD Lessor{Lessor - retain significant risks or benefits?} Lessor -- Yes --> PO[Performance obligation approach] Lessor -- No --> DR[Derecognition approach] PO --> PO_L[Lessee: Right-of-use asset, Lease liability] PO --> PO_Less[Net lease asset/liability comprising: Right to receive lease payments, Underlying asset, Lease liability] DR --> DR_L[Lessee: Right to receive lease payments, Residual asset] DR --> DR_Less[Revenue (gross or net of cost of sales based on business model), Cost of sales, Interest income] PO_L --- PO_L_P["Balance sheet"] PO_L --- PO_L_I["Profit or loss"] PO_Less --- PO_Less_P["Balance sheet"] PO_Less --- PO_Less_I["Profit or loss"] DR_L --- DR_L_P["Balance sheet"] DR_L --- DR_L_I["Profit or loss"] DR_Less --- DR_Less_P["Balance sheet"] DR_Less --- DR_Less_I["Profit or loss"] </pre> <ul style="list-style-type: none"> ▶ Lessees would recognise an asset for the right to use the leased item and a corresponding obligation to pay rentals. ▶ Lessors would need to account for lease arrangements in accordance with the performance obligation approach or the derecognition approach on the basis of whether the lessor retains exposure to significant risks or benefits associated with the underlying asset. 	<ul style="list-style-type: none"> ▶ This is a significant change from the existing model. The classification of leases as either finance or operating would cease and be replaced with a right of use approach. ▶ Ratios (e.g., gearing, EBITDA and interest coverage), particularly for lessees with numerous operating leases, would be significantly impacted. Bank covenants may need to be renegotiated. ▶ Cash flows from operating activities, in a lessee's statement of cash flows, would be more favourable. ▶ Timing of expense recognition for lessees would be accelerated and expense would be re-characterised as interest expense and amortisation instead of rent. ▶ Initial and ongoing estimation would require new processes and changes to information systems to capture information required by the standard (e.g., expected lease term and contingent rentals). ▶ The way that leases are structured could change substantially. For example: <ul style="list-style-type: none"> ▶ Shorter terms or leases without renewals would generally result in less of gross up of the balance sheet for lessees ▶ Some lessees may reassess lease-versus-buy decisions

Priority projects (joint Boards)	Key developments to date	Implications
	<ul style="list-style-type: none"> ▶ Under the performance obligation approach, lessors would recognise an asset for the right to receive lease payments as well as a liability for the performance obligation to the lessee. ▶ Under the derecognition approach, lessors would recognise an asset for the right to receive lease payments, derecognise a portion of the underlying asset that has been leased and reclassify, as a residual asset, the remaining portion of the carrying amount of the asset. ▶ For both lessees and lessors, initial and subsequent periodic reassessment of the expected payments, including consideration of optional renewal periods, contingent rents and residual value guarantees, would be required. ▶ Simplified measurement rules for leases with a maximum term of 12 months would be applicable. <p>Transition: under the proposed changes, existing lease arrangements would not be grandfathered. Accordingly, an assessment of all existing leases and application of a simplified retrospective approach would be required upon transition. The Board is considering the effective date and reconsidering the proposed transition method in its project on effective dates and transition.</p>	<p><i>Ernst & Young believes there are conceptual and practical issues with respect to the recognition and measurement of assets and liabilities by both lessees and lessors. The model requires significant use of estimation in determining both the length of the lease term and amount of the rental payments due, which would require a significant amount of judgement to be applied and pose a risk to reliable estimates.</i></p> <p><i>Moreover, Ernst & Young do not believe the lessor model has been thoroughly developed and recommend that the Boards undertake efforts, including additional fieldwork, to better understand the financial statement effects of the proposed model.</i></p>

Priority projects (joint Boards)	Key developments to date	Implications
<p>Revenue recognition</p>	<p>Update: the ED was issued in June 2010 and the comment period ended in October 2010. The Boards will begin deliberations on the new standard in January 2011.</p> <p>Scope: excludes financial instruments, insurance and leasing contracts as well as certain non-monetary exchanges.</p> <p>Salient features:</p> <ul style="list-style-type: none"> ▶ Contracts with customers (written, verbal or implied), together with the performance obligations within the contract, would need to be identified. ▶ Consideration would need to be allocated to identified performance obligations in proportion to their stand-alone selling prices. ▶ Revenue would be recognised as the performance obligations are satisfied by the transferor upon transfer of control of the goods or services to the customer. ▶ Probability weighted basis of recognition for contingent consideration may result in earlier recognition than currently allowed. <p>Transition: full retrospective application is proposed. The Board is considering the effective date and reconsidering the proposed transition method in its project on effective dates and transition.</p>	<ul style="list-style-type: none"> ▶ Accounting for multiple element deliverables in a contract may impact the timing of revenue recognition. ▶ The notion of ‘transfer of control’ would have a significant impact on revenue recognition mainly in long-term contracts. Contracts, existing and forthcoming, would need to take this into consideration. ▶ No significant impact is expected for normal sales contracts. ▶ Revenue and its related KPIs may change. Financial measures driven by revenue also could affect loan covenants, financing agreements, and regulatory requirements. For example, as proposed, initial estimates of collectibility would be deducted from revenue but subsequent changes would affect other income/expense. ▶ Among other changes, the proposal would require additional disaggregated disclosures of revenue, rollforwards of contract asset and liability account balances within the notes to the financial statements, and disclosure of key estimates. These changes may require significant modifications to existing internal data gathering efforts and processes.

Priority projects (joint Boards)	Key developments to date	Implications
		<p><i>Many of the changes will have significant impacts on businesses and may require significant cost to implement. Ernst & Young believes that further field testing is needed to ensure that the model is operational and the accompanying application guidance supports different types of revenue across industries and provides decision-useful information for users of financial statements.</i></p>
<p>Insurance contracts</p>	<p>Update: although this is a joint project, the IASB issued an ED in July 2010, while the FASB issued a Discussion Paper (soliciting input on its preliminary views and the IASB ED). The comment period for the ED ended in November 2010. The Boards will discuss a comment letter summary in January 2011 and expect to start deliberations of the comments in February 2011. The IASB targets issuing a final standard by June 2011.</p> <p>Scope: applies to all types of insurance contracts (life, non-life, direct insurance and reinsurance).</p>	<ul style="list-style-type: none"> ▶ The Board’s proposals are far-reaching and may have significant impacts on insurers in areas such as estimating all future cash flows arising from the fulfilment of an insurance contract on a probability-weighted basis, and accounting for acquisition costs incurred by insurers to secure contracts with policyholders. ▶ The ED would have a significant impact on a number of financial metrics and may also result in an increase in volatility of profit or loss. ▶ The proposals in the ED could have significant implications for key processes and internal controls.

Priority projects (joint Boards)	Key developments to date	Implications
<p>Insurance contracts <i>cont'd</i></p>	<p>Salient features: proposed approach for the measurement of insurance contracts is based on four building blocks:</p> <ul style="list-style-type: none"> ▶ The unbiased, probability weighted average of future cash flows expected to arise as the insurer fulfils the obligation (expected cash flows including those cash flows that depend on whether policyholders exercise options in a contract are to be included in the measurement of insurance contracts) ▶ The time value of money ▶ A risk adjustment ▶ A residual margin (to eliminate any gain at inception of the contract) <p>Transition: a limited retrospective approach is proposed. The Board is considering the effective date and reconsidering the transition method in its project on effective dates and transition discussed below.</p>	<p>Ernst & Young has significant concerns about some of the features of the proposed measurement model and believe these must be resolved before a standard on insurance contracts can be finalised. In our comment letter, we proposed a number of changes in the key aspects of the model.</p>

Other projects

Other projects	Key developments to date	Implications
<p>Joint arrangements</p>	<p>Scope: applies when accounting for interests in joint arrangements where there is joint control.</p> <p>Salient features:</p> <ul style="list-style-type: none"> ▶ Joint arrangements would be classified as either joint operations or joint ventures. ▶ The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. ▶ The option to account for jointly controlled entities using proportionate consolidation would be removed. Equity accounting would be required. <p>Transition: venturers would transition the accounting for jointly controlled entities from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item. The IASB is considering the effective date and reconsidering the transition method in its project on effective dates and transition discussed above.</p>	<ul style="list-style-type: none"> ▶ Would represent a significant change for venturers currently accounting for interests in jointly controlled entities using proportionate consolidation. ▶ It is possible that the scope of arrangements that are considered joint arrangements would change, because the definition of control would be changed as a result of the consolidation project (replacement of IAS 27) discussed above. ▶ It is also possible that arrangements that were previously considered jointly controlled entities would be considered joint operations under the proposed standard, which would affect their accounting.

Other projects	Key developments to date	Implications
Post-employment benefits (including pensions)	Scope: no substantive change in scope from IAS 19.	<i>Overall, Ernst & Young agrees that short-term improvements to IAS 19 can provide users of financial statements with better information about long-term employee benefits. To achieve this objective we support the removal of the 'corridor' and the reappraisal of disclosures. However, this project is an interim step to be followed by a comprehensive review of the accounting for long term employee benefits. We disagree with many of the other proposed amendments. In our view, the Board should wait for the comprehensive review of the accounting for long-term employee benefits.</i>
Termination benefits	<p>Salient features:</p> <ul style="list-style-type: none"> ▶ The definition of termination benefits would no longer include benefits provided in exchange for future employee service. ▶ An entity would recognise termination benefits when it no longer has the ability to withdraw an offer of those benefits. The current IAS 19 specifies instead that an entity can recognise termination benefits when it is demonstrably committed to providing those benefits. 	<ul style="list-style-type: none"> ▶ Entities would need to assess the impact of the proposals when developing their restructuring or cost reduction plans.
Post employment benefits – defined benefit plans	<p>Salient features:</p> <ul style="list-style-type: none"> ▶ Entities would recognise changes in the value of plan assets and changes in the post-employment benefit obligations in the period in which they occur. Similarly, entities would recognise unvested past service costs in the period of the related plan amendment. Hence, the 'corridor method' would be removed. 	<ul style="list-style-type: none"> ▶ Classification of short-term and long-term benefit plans may change. ▶ For entities currently using the corridor approach, full recognition of the benefits obligation would impact balance sheet ratios and increase volatility.

Other projects	Key developments to date	Implications
	<ul style="list-style-type: none"> ▶ Entities would present service cost in profit or loss, finance cost as part of finance costs in profit or loss and the effect of remeasurement in OCI. Finance costs would be based upon the net asset or liability rather than gross. ▶ The characteristics, risks arising and amounts recognised in the financial statements from defined benefit plans would be disclosed. Participation in multi-employer plans would also see improved disclosure requirements. ▶ The distinction between long-term and short-term benefits would change to be based on when an employee is expected to receive the benefit rather than when the employee becomes entitled to it. <p>Update:</p> <ul style="list-style-type: none"> ▶ During the Q4 2010 re-deliberations, the IASB made the following tentative decisions: <ul style="list-style-type: none"> ▶ Confirmed the proposals in the ED that an entity should present the service cost and finance cost components in profit or loss (however, the standard would not specify where in profit or loss an entity should present the service cost and finance cost components) ▶ Determined not to remove the accounting policy choice for an entity to present the remeasurement component either in profit or loss or in OCI 	

Other projects	Key developments to date	Implications
<p>Post employment benefits – defined benefit plans <i>cont'd</i></p>	<ul style="list-style-type: none"> ▶ Confirmed all other salient features of the ED discussed above ▶ This is an active project and the Boards will continue deliberation of other elements of the proposal in early 2011. <p>Transition: the proposed amendments to IAS 19 are expected to be applied retrospectively. The IASB is considering the effective date and reconsidering the transition method in its project on effective dates and transition discussed above.</p>	
<p>Effective dates and transition (joint Boards)</p>	<p>The Boards issued consultation documents in October 2010 (IASB Request for Views and FASB Discussion Paper), asking constituents for input on when the new standards, due to be issued by June 2011, should become effective.</p> <p>The consultation documents focus on the following key issues:</p> <ul style="list-style-type: none"> ▶ Preparing for and transitioning to the new requirements ▶ Implementation approach and timetable ▶ International convergence considerations ▶ Considerations for first-time adopters of IFRS 	<ul style="list-style-type: none"> ▶ The new standards that are due to be issued by June 2011 will cover major areas of financial reporting and will impact virtually every entity applying IFRS. Therefore, it is critical that the timing and method of transition is carefully considered for each project. <p><i>The consultation documents have only recently been issued and we have not yet provided any official views.</i></p>

Other projects	Key developments to date	Implications
<p>Financial statement presentation (joint Boards)</p>	<p>Scope: applies to all reporting entities. The project is separated into three parts: discontinued operations, presentation of items of OCI, and replacement of IAS 1 <i>Presentation of Financial Statements</i> and IAS 7 <i>Statement of Cash Flows</i>.</p> <p>Update: the Boards jointly worked on the Financial Statement Presentation (FSP) project, which was intended to replace IAS 1 and IAS 7. In November 2010, the Boards decided to amend the timetable for their joint projects. Except for the project on presentation of items of OCI discussed below, the FSP project was put on hold. The Boards expect to resume discussion after June 2011.</p>	<p><i>Ernst & Young supports a project that addresses how a business reports its financial performance in a way that enables it to communicate clearly with its stakeholders. However, we do not believe that this project addresses the communication challenge adequately. In addition, we highlighted in our comment letter to the IASB, the need to balance the costs involved in preparing the financial statements with the benefits to users of financial statements.</i></p>

Other projects	Key developments to date	Implications
<p>Financial statement presentation – presentation of items of other comprehensive income</p>	<p>Scope: applies to all reporting entities.</p> <p>Salient features:</p> <ul style="list-style-type: none"> ▶ The changes were proposed in response to an increased number of items in OCI due to IFRS 9 and changes to IAS 19. ▶ The proposed standard would retain the option to present the statement of comprehensive income either in a single continuous statement or in two separate, but consecutive, statements. ▶ Separate presentation of OCI items that will and will not be reclassified would be required. ▶ Entities would retain the option to present the tax effect of items of OCI gross or net. ▶ The proposals would be linked to the changes in accounting for defined benefit plans. Please refer to Post employment benefits above for details. <p>Transition: the effective date of OCI proposals is expected to be 1 January 2012, with full retrospective application. However, the IASB is reconsidering the proposed effective date and transition method in its project on effective dates and transition discussed above.</p>	<ul style="list-style-type: none"> ▶ There would be a need to distinguish the components of OCI in greater detail than is currently required.

Other projects	Key developments to date	Implications
Financial instruments with characteristics of equity (joint Boards)	<p>Update:</p> <ul style="list-style-type: none"> ▶ The IASB received comments from external reviewers on a staff draft of the ED that the proposed approach did not provide adequate principles for consistent application of the proposed model. ▶ This project has been put on hold as part of the Boards modified work-plan announced in November 2010, which means that an ED is no longer expected in Q1 2011. Discussion is expected to recommence after June 2011. 	<p><i>Ernst & Young had recommended that the Boards jointly develop a conceptual framework for defining liabilities and equity. In the meantime, for purposes of short-term convergence with US GAAP, amendments to current IAS 32 could be made.</i></p>
Emissions trading schemes (joint Boards)	<p>Scope: accounting for tradable emissions rights and obligations arising under emissions trading schemes, as well as activities undertaken in contemplation of receiving such rights in future periods. The standard is expected to apply to participants in a scheme and non-participants that buy and sell tradable rights.</p> <p>Update:</p> <ul style="list-style-type: none"> ▶ Discussion by the Boards is in early stages, but they have tentatively determined that purchased and allocated allowances would meet the asset recognition criteria and that a liability would exist when the allowances are allocated. However the Boards will continue to discuss the measurement basis on initial and subsequent recognition. 	<ul style="list-style-type: none"> ▶ Entities with such schemes should continue to monitor developments on the project. ▶ The project could result in greater income statement volatility and require increased tracking of market inputs if the Boards mandate a fair value approach for initial and subsequent measurement of emission credits and the related scheme obligation.

Other projects	Key developments to date	Implications
Emissions trading schemes (joint Boards) <i>cont'd</i>	<ul style="list-style-type: none"> ▶ The Boards also intend to address in their deliberations whether the emissions obligation in excess of the allocated credits should also be recognised as a liability and whether net presentation of the obligation and the allowance is appropriate. ▶ This project has been put on hold as part of the Boards modified Work Plan that was announced in November 2010. This means that an ED is no longer expected in Q2 2011 and discussion is expected to recommence after June 2011. 	
Income taxes	<p>Update: in Q4 2010, the IASB issued a limited scope ED regarding the recovery of underlying assets in the measurement of deferred taxes. The related limited scope amendments to IAS 12 <i>Income Taxes</i> were finalised in December 2010. The Board will consider how to address other practical issues within the scope of this project in the second half of 2011. This includes issues regarding uncertain tax positions where developments would follow from the revision of IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>.</p>	<ul style="list-style-type: none"> ▶ Those entities currently struggling to apply the principles of IAS 12 to the recognition of deferred tax on investment properties will now have clear guidance to follow.

Other projects	Key developments to date	Implications
<p>Income taxes <i>cont'd</i></p>	<p>Salient features:</p> <ul style="list-style-type: none"> ▶ The limited scope amendment to IAS 12 addresses the recognition of deferred tax in relation to investment properties that are measured using the fair value model in IAS 40 <i>Investment Property</i>. The amendments introduce a rebuttable presumption where deferred tax in relation to such assets will be recognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed, a use basis may be adopted. ▶ The amendments also introduce the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 <i>Property, Plant and Equipment</i>, should always be measured on a sale basis. ▶ As a result of the above amendments, SIC 21 has been withdrawn. <p>Transition: the amendments are effective for annual periods beginning on or after 1 January 2012, but earlier application is permitted.</p>	
<p>Liabilities (IAS 37 amendments)</p>	<p>Update: the Board issued its latest ED in January 2010. Based on feedback on the ED, the IASB expanded the scope of the project and plans to issue an ED on a revised comprehensive standard. The staff is considering further outreach activities and the Board expects to continue discussion on this topic after June 2011.</p>	<ul style="list-style-type: none"> ▶ Main impact is expected to be on items previously treated as contingent liabilities. ▶ New processes and changes to the information systems would be needed to capture information required by the standard. Entities would need to obtain evidence of the range of possible outcomes and their probabilities.

Other projects	Key developments to date	Implications
<p>Liabilities (IAS 37 amendments) <i>cont'd</i></p>	<p>Scope: applies to all liabilities except:</p> <ul style="list-style-type: none"> ▶ Liabilities that are already within the scope of other standards (e.g., financial liabilities, pension liabilities, income tax liabilities and insurance liabilities) ▶ Executory contracts that are not onerous <p>Salient features:</p> <ul style="list-style-type: none"> ▶ A liability would be defined as 'a present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits'. ▶ Unlike IAS 37, the recognition criteria proposed in the ED would no longer require a probable outflow of resources to recognise a liability. Instead, an entity would account for uncertainty about the amount and timing of outflows by using the probability-weighted average of the outflows for the range of possible outcomes. 	<ul style="list-style-type: none"> ▶ Timing and quantum of liabilities recognised may change, compared with what is recognised based on IAS 37. ▶ Potential impact on financial ratios and debt covenant compliance. <p><i>Ernst & Young has raised concerns about the practical application of the proposed requirements, particularly the difficulty in accounting for uncertainty under the proposed model (which eliminates contingent liabilities).</i></p>
<p>Management commentary</p>	<p>Update: the IASB issued IFRS Practice Statement <i>Management Commentary</i> in December 2010.</p> <p>Scope: non-binding 'best practice' guidance that is focused on publicly traded entities, but may also be useful for non-exchange traded entities.</p>	

Other projects	Key developments to date	Implications
	<p>Salient features:</p> <ul style="list-style-type: none"> ▶ Establishes guiding principles on what constitutes decision-useful management commentary, such as management providing a unique view of the entity's performance, position and development, and consistency with financial statements. ▶ Key elements of management commentary include disclosure of performance measures and indicators (both financial and non-financial) that are used by management as well as a description of the entity's most important resources, risks and relationships. <p>Transition: the guidance can be applied prospectively from 8 December 2010.</p>	<ul style="list-style-type: none"> ▶ Voluntary application for reporting entities in jurisdictions with no existing regulatory requirements for such disclosures.
<p>Rate-regulated activities</p>	<p>Update:</p> <ul style="list-style-type: none"> ▶ In its September 2010 Board meeting, the IASB was unable to conclude on the key aspects of the proposed standards outlined in the July 2009 ED. Consequently, the Board concluded that the accounting issues of rate-regulated activities could not be resolved quickly. ▶ Next steps are to determine whether to include rate regulated activities in the Board's future agenda and, if included, what form that project might take (e.g., disclosure only standard, comprehensive project on intangible assets, potential interim standard). ▶ No decision on these possible next steps has been made and the project has been removed from the Board's current agenda. 	<ul style="list-style-type: none"> ▶ It is unlikely that clear guidance on rate regulated activities will be provided in the near future and entities will need to continue to look to existing IFRS framework when accounting for rate-regulated activities.



Ernst & Young
Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com

© 2011 EYGM Limited.
All Rights Reserved.

EYG No. AU0758

About Ernst & Young's International Financial Reporting Standards Group

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.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.