

IFRS Update

of standards and interpretations in issue at
28 February 2013



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Introduction

Companies reporting under International Financial Reporting Standards (IFRS) continue to face a steady flow of new standards and interpretations. There were fewer pronouncements issued during 2012 and early 2013 compared with 2011, but many significant changes are expected in the near future.

The nature of the changes ranges from significant amendments of fundamental principles to some minor changes from the annual improvements process (AIP). They will affect many different areas of accounting ranging from the presentation of financial statements to changes to particular elements, such as financial instruments and employee benefits.

Some of the changes have implications that go beyond matters of accounting, potentially also impacting the information systems of many entities. Furthermore, the changes may impact business decisions, such as the creation of joint arrangements or the structuring of particular transactions.

The challenge for preparers is to gain an understanding of what lies ahead.

Purpose of this publication

This publication provides an overview of the upcoming changes in standards and interpretations. It does not attempt to provide an in-depth analysis or discussion of the topics. Rather, the objective is to highlight key aspects of these changes. Reference should be made to the text of the standards and/or interpretations before taking any decisions or actions.

This publication consists of three sections, which are summarised below.

Section 1 provides a high-level overview of the key requirements of each new pronouncement issued by the IASB and the IFRS Interpretations Committee (Interpretations Committee) as at 28 February 2013 that is applicable for the first time for March 2013 fiscal years and thereafter. This overview provides a summary of the transitional requirements and a brief discussion of the potential impact that the changes may have on an entity's financial statements.

This section is presented in the numerical order of the standards and interpretations, except the AIP. All AIP amendments are presented at the end of Section 1.

In addition, a table comparing mandatory application for different year ends is presented at the beginning of Section 1. In the table, standards and interpretations are presented in order of their effective dates. However, many standards and interpretations contain provisions that would allow entities to adopt in earlier periods.

When a standard or interpretation has been issued, but has yet to be applied by an entity, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires the entity to disclose any known (or reasonably estimable) information relevant to understanding the possible impact that the new pronouncement will have on the financial statements, or indicate the reason for not doing so. The table at the beginning of Section 1 is helpful in identifying the pronouncements that fall within the scope of this disclosure requirement.

Section 2 provides a summary of the agenda rejection notices published in the *IFRIC Update*¹ since March 2012. In some rejection notices, the Interpretations Committee refers to the existing pronouncements that provide adequate guidance. These rejection notices provide a view on the application of the pronouncements and fall within 'other accounting literature and accepted industry practices' in paragraph 12 of IAS 8.

Section 3 lists expected pronouncements from the IASB and the Interpretations Committee. As mentioned above, if a standard or interpretation is published prior to the date on which the financial statements are authorised for issue, an entity will have to provide the IAS 8 disclosures for pronouncements that are issued but not yet effective.

IFRS Core Tools

This publication provides an overview of new pronouncements issued as at 28 February 2013 that contribute to a significant amount of accounting change expected in the next two years and beyond. Frequent changes to IFRS add to the complexity entities face when approaching the financial reporting cycle.

Ernst & Young's *IFRS Core Tools* provide the starting point for assessing the impact of these changes to IFRS. Our *IFRS Core Tools* include a number of practical building blocks that can help the user to navigate the changing landscape of IFRS. In addition to this publication, they include the publications described below.

International GAAP® Disclosure Checklist

Our 2013 *International GAAP® Disclosure Checklist* as of February 2013 captures disclosure requirements applicable to periods ended June 2013. It also includes disclosure requirements for all pronouncements issued as at 28 February 2013 that are not yet effective for periods ended June 2013, including disclosures that are permitted to be adopted early. This tool assists preparers to comply with the presentation and disclosure requirements of IFRS in their interim and year-end IFRS financial statements.

Good Group (International) Limited

Good Group (International) Limited for the period ended 30 June 2013 is a set of illustrative financial statements, incorporating presentation and disclosure requirements effective for 30 June 2013 interim periods (*Good Group Interim*). *Good Group Interim* supplements *Good Group (International) Limited* for the year ended 31 December 2012. Among other things, these illustrative financial statements can assist in understanding the impact accounting changes may have on the financial statements.

Good Group (International) Limited is supplemented by illustrative financial statements that are aimed at specific sectors, industries and circumstances. These include:

- ▶ Good Bank (International) Limited
- ▶ Good Construction (International) Limited
- ▶ Good First-time Adopter (International) Limited
- ▶ Good Insurance (International) Limited
- ▶ Good Investment Fund Limited (Equity)
- ▶ Good Investment Fund Limited (Liabilities)
- ▶ Good Mining (International) Limited
- ▶ Good Petroleum (International) Limited
- ▶ Good Real Estate Group (International) Limited

Also available from Ernst & Young:

Other Ernst & Young publications

References to other Ernst & Young publications that contain further details and discussion on these topics are included throughout the *IFRS Update*, all of which can be downloaded from our website www.ey.com/ifrs.

International GAAP® 2013²

Our *International GAAP® 2013* is a comprehensive guide to interpreting and implementing IFRS. It includes standards and interpretations mentioned in this publication that were issued prior to September 2012, and it provides examples that illustrate how the requirements are applied.

² International GAAP® is a registered trademark of Ernst & Young LLP.

Section 1: New pronouncements issued as at 28 February 2013

Table of mandatory application

New pronouncement
IFRS 1 <i>First-Time Adoption of International Financial Reporting Standards</i> (Amendment) – <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
IFRS 7 <i>Financial Instruments: Disclosures</i> (Amendment)
IAS 12 <i>Income Taxes</i> (Amendment) – <i>Deferred Taxes: Recovery of Underlying Assets</i>
IAS 1 <i>Presentation of Items of Other Comprehensive Income</i> – <i>Amendments to IAS 1</i>
IFRS 1 <i>Government Loans</i> – <i>Amendments to IFRS 1</i>
IFRS 7 <i>Disclosures – Offsetting Financial Assets and Financial Liabilities</i> – <i>Amendments to IFRS 7</i>
IFRS 10 <i>Consolidated Financial Statements</i> , IAS 27 <i>Separate Financial Statements</i>
IFRS 11 <i>Joint Arrangements</i> , IAS 28 <i>Investments in Associates and Joint Ventures</i>
IFRS 12 <i>Disclosure of Interests in Other Entities</i>
IFRS 13 <i>Fair Value Measurement</i>
IAS 19 <i>Employee Benefits</i> (Revised)
IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>
AIP IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> – Repeated application of IFRS 1
AIP IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> – Borrowing costs
AIP IAS 1 <i>Presentation of Financial Statements</i> – Clarification of requirements for comparative information
AIP IAS 16 <i>Property, Plant and Equipment</i> – Classification of servicing equipment
AIP IAS 32 <i>Financial Instruments: Presentation</i> – Tax effects of distributions to holders of equity instruments
AIP IAS 34 <i>Interim Financial Reporting</i> – Interim financial reporting and segment information for total assets and liabilities
IFRS 10, IFRS 12 and IAS 27 <i>Investment Entities</i> (Amendments)
IAS 32 <i>Offsetting Financial Assets and Financial Liabilities</i> – <i>Amendments to IAS 32</i>
IFRS 9 <i>Financial Instruments</i>

Effective Date*	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Page
1 Jul 2011													6
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1 Jan 2013													16
1 Jan 2013													17
1 Jan 2013													17
1 Jan 2014													10
1 Jan 2014													15
1 Jan 2015													8

- AIP Annual IFRS Improvements Process
- * Effective for annual periods beginning on or after this date
- Pronouncements effective for the previous reporting period
- New pronouncements effective for the current reporting period
- New pronouncements that will become effective for the next reporting period
- New pronouncements that will become effective in periods subsequent to the next reporting period

IFRS 1 *First-time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

Effective for annual periods beginning on or after 1 July 2011.

Key requirements

The IASB has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation.

When an entity's date of transition to IFRS is on, or after, the date its functional currency ceases to be subject to severe hyperinflation (the functional currency normalisation date), the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, that were subject to severe hyperinflation, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

The amendment also removes the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions. In the amended standard these dates coincide with the date of transition to IFRS.

Transition

The amendment may be applied earlier than the effective date, in which case, this must be disclosed.

Impact

The deemed cost exemption for entities that have been subject to severe hyperinflation provides significant relief to such entities in these economies. Having been unable to report under IFRS, the exemption allows for these entities to recommence reporting under IFRS. However, the entities will have to perform a fair value exercise on affected assets and liabilities to make use of this exemption.

The removal of fixed dates relating to derecognition and day one gain or loss transactions may provide relief to first-time adopters by reducing the cost and resources required to retrospectively restate past transactions.

Other Ernst & Young publications

Supplement to IFRS Outlook Issue 92: First-time adoption of IFRS: severe hyperinflation and removal of fixed dates (December 2010) EYG no. AU0728.

IFRS 1 *Government Loans – Amendments to IFRS 1*

Effective for annual periods beginning on or after 1 January 2013.

Key requirements

The IASB has added an exception to the retrospective application of IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement*, as applicable) and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. These amendments require first-time adopters to apply the requirements of IAS 20 prospectively to government loans existing at the date of transition to IFRS. However, entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans.

The exception will give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. As a result of not applying IFRS 9 (or IAS 39, as applicable) and IAS 20 retrospectively, first-time adopters will not have to recognise the corresponding benefit of a below-market rate government loan as a government grant.

Transition

The amendments may be applied earlier than the effective date, in which case, this must be disclosed.

Impact

These amendments give first-time adopters the same relief that existing preparers of IFRS financial statements had on the first-time application of IAS 20 (as revised in May 2008) and, therefore, will reduce the cost of transition to IFRS.



IFRS 7 *Financial Instruments: Disclosures* (Amendment)

Effective for annual periods beginning on or after 1 July 2011.

Key requirements

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when:

- ▶ Financial assets are derecognised in their entirety, but the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets).
- ▶ Financial assets are not derecognised in their entirety.

Transition

The amendment may be applied earlier than the effective date, in which case, this must be disclosed. Comparative disclosures are not required for any period beginning before the effective date.

Impact

The amended disclosures are more extensive and onerous than previous disclosures. 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.

Other Ernst & Young publications

Supplement to IFRS Outlook Issue 97: IFRS 7 Financial Instruments: Disclosures – impending changes effective for 2011 and 2012 (March 2011) EYG no. AU0785.

Supplement to IFRS Outlook Issue 85: New disclosures for derecognition of financial instruments (October 2010) EYG no. AU0654.

IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7*

Effective for periods beginning on or after 1 January 2013.

Key requirements

These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures will provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32.

Transition

These amendments are applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy. If an entity chooses to early adopt IAS 32 *Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*, it also must make the disclosure required by IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7*.

Impact

To extract the necessary data to prepare the new disclosures, entities (in particular banks) may need to modify management information systems and internal controls, including linking their credit systems to accounting systems. Such modifications need to be executed as soon as possible in light of the 2013 mandatory effective date and the requirement to apply these disclosures retrospectively.

Other Ernst & Young publications

Applying IFRS: Offsetting financial instruments: clarifying the amendments (May 2012) EYG no. AU1182.

IFRS Developments Issue 22: Offsetting of financial instruments (December 2011) EYG no. AU1053.

IFRS 9 *Financial Instruments*

IFRS 9 for financial assets was first published in November 2009 and was updated in October 2010 to include financial liabilities. These pronouncements initially required the adoption of the standard for annual periods on or after 1 January 2013. Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 from 1 January 2013 to 1 January 2015.

Key requirements

IFRS 9 is being developed in phases. The first phase addressed the classification and measurement of financial instruments (Phase 1). The Board's work on the other phases is ongoing, and includes impairment of financial instruments and hedge accounting, with a view to replacing IAS 39 in its entirety. Phase 1 of IFRS 9 applies to all financial instruments within the scope of IAS 39.

Financial assets

All financial assets are measured at fair value at initial recognition. Debt instruments may, if the fair value option (FVO) is not invoked, be subsequently measured at amortised cost if:

- ▶ The asset is held within a business model that has the objective to hold the assets to collect the contractual cash flows

And

- ▶ The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

All other debt instruments are subsequently measured at fair value.

All equity investment financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity instruments held for trading must be measured at fair value through profit or loss. Entities have an irrevocable choice of recognising changes in fair value either in OCI or profit or loss by instrument for all other equity investment financial assets.

Financial liabilities

For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

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.

Transition

An entity may choose to apply the classification and the measurement requirements of IFRS 9 retrospectively, in accordance with the requirements of IAS 8. However, the restatement of comparative period financial statements is not required.

IFRS 7 requires additional disclosures on transition from IAS 39 to IFRS 9. The new disclosures are either required or permitted on the basis of the entity's date of transition and whether the entity chooses to restate prior periods.

Early application of the financial asset requirements is permitted. Early application of the financial liabilities requirements is permitted if the entity also applies the requirements for financial assets. Early application must be disclosed.

Impact

Phase 1 of IFRS 9 will have a significant impact on:

- ▶ The classification and measurement of financial assets
- ▶ Reporting for entities that have designated liabilities using the FVO

For entities considering early application, there are a number of benefits and challenges that should be considered. Careful planning for this transition will be necessary.

Other Ernst & Young publications

Applying IFRS – IFRS 9 New mandatory effective date and transition disclosures (January 2012) EYG no. AU1067.

Implementing Phase 1 of IFRS 9 – Second edition (July 2011) EYG no. AU0897.

Supplement to IFRS Outlook Issue 89: IASB completes Phase 1 of IFRS 9: Financial Instruments – Classification and Measurement (October 2010) EYG no. AU0680.

Supplement to IFRS Outlook Issue 60: IASB publishes IFRS 9 – Phase 1 of new standard to replace IAS 39 (November 2009) EYG no. AU0387.



IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

Effective for annual periods beginning on or after 1 January 2013.

Key requirements

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation – Special Purpose Entities*, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements.

IFRS 10 does not change consolidation procedures (i.e., how to consolidate an entity). Rather, IFRS 10 changes whether an entity is consolidated by revising the definition of control. Control exists when an investor has:

- ▶ Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- ▶ Exposure, or rights, to variable returns from its involvement with the investee

And

- ▶ The ability to use its power over the investee to affect the amount of the investor's returns

IFRS 10 also provides a number of clarifications on applying this new definition of control, including the following key points:

- ▶ An investor is any party that potentially controls an investee; such party need not hold an equity investment to be considered an investor
- ▶ An investor may have control over an investee even when it has less than a majority of the voting rights of that investee (sometimes referred to as *de facto* control)
- ▶ Exposure to risks and rewards is an indicator of control, but does not in itself constitute control
- ▶ When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether a decision-maker is a principal or an agent to determine whether it has control
- ▶ Consolidation is required until such time as control ceases, even if control is temporary

Transition

IFRS 10 must be applied using a modified retrospective approach. The entity will need to make an assessment of whether control exists at the date of initial application (i.e., the beginning of the annual reporting period in which IFRS 10 is applied for the first time). If the control assessment is the same between IFRS 10 and IAS 27/SIC-12, no retrospective application is required. However, if the control assessment under the two standards is different, retrospective adjustments have to be made. If more than one comparative period is presented, additional relief is given to require only one period to be restated.

Earlier application is permitted if the entity also applies the requirements of IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011) and IAS 28 *Investments in Associates* (as revised in 2011) at the same time.

Impact

IFRS 10 creates a new, and broader, definition of control. This may result in changes to a consolidated group (i.e., more or fewer entities being consolidated than under current IFRS).

Assessing control will require a comprehensive understanding of an investee's purpose and design, and the investor's rights and exposures to variable returns, as well as rights and returns held by other investors. This may require input from sources outside of the accounting function, such as operational personnel and legal counsel, and information external to the entity. It will also require significant judgement of the facts and circumstances.

Other Ernst & Young publications

IFRS Developments Issue 35: Transition guidance amendments for IFRS 10, IFRS 11 and IFRS 12 (July 2012) EYG no. AU1235.

Applying IFRS: Challenges in adopting and applying IFRS 10 (September 2011) EYG no. AU0920.

IFRS Practical Matters: What do the new consolidation, joint arrangements and disclosures accounting standards mean to you? (June 2011) EYG no. AU0853.

IFRS Developments Issue 1: IASB issues three new standards: Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities (May 2011) EYG no. AU0839.

IFRS 10, IFRS 12 and IAS 27 *Investment Entities* (Amendments)

Effective for annual periods beginning on or after 1 January 2014.

Key requirements

The investment entities amendments apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity.

The key amendments include:

- ▶ 'Investment entity' is defined in IFRS 10
- ▶ An investment entity must meet three elements of the definition and consider four typical characteristics, in order to qualify as an investment entity
- ▶ An entity must consider all facts and circumstances, including its purpose and design, in making its assessment
- ▶ An investment entity accounts for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as applicable), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which must be consolidated (investments in subsidiaries) or accounted for using the equity method (investments in associates or joint ventures)
- ▶ An investment entity must measure its investment in another controlled investment entity at fair value
- ▶ A non-investment entity parent of an investment entity is not permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees
- ▶ For venture capital organisations, mutual funds, unit trusts and others that do not qualify as investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, is retained

Transition

The amendments must be applied retrospectively, subject to certain transition reliefs.

Early application is permitted and must be disclosed.

Impact

The concept of an investment entity is new to IFRS. The amendments represent a significant change for investment entities, which are currently required to consolidate investees that they control. Significant judgement of facts and circumstances may be required to assess whether an entity meets the definition of investment entity.

Other Ernst & Young publications

IFRS Developments Issue 44: Investment entities final amendment - exception to consolidation (October 2012) EYG no. AU1330.



IFRS 11 *Joint Arrangements*, IAS 28 *Investments in Associates and Joint Ventures*

Effective for annual periods beginning on or after 1 January 2013.

Key requirements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. 'Control' in 'joint control' refers to the definition of 'control' in IFRS 10.

IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

Joint operation – An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. In respect of its interest in a joint operation, a joint operator must recognise all of its assets, liabilities, revenues and expenses, including its relative share of jointly controlled assets, liabilities, revenue and expenses.

Joint venture – An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. The option in IAS 31 to account for joint ventures as defined in IFRS 11 using proportionate consolidation has been removed.

Under these new categories, the legal form of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

IAS 28 has been amended to include the application of the equity method to investments in joint ventures.

Transition

IFRS 11 must be applied using a modified retrospective approach. Similar to IFRS 10, relief is given to require only one period to be restated, if more than one comparative period is presented.

Early application of IFRS 11 is permitted, provided that an entity also applies the requirements of IFRS 10, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011) at the same time.

Impact

IFRS 11 represents a significant change for entities accounting for interests in jointly controlled entities using proportionate consolidation, if such arrangements are classified as joint ventures under IFRS 11. It is also possible that arrangements that were considered to be jointly controlled entities will be considered joint operations under IFRS 11, which will affect the accounting for such entities, regardless of whether they have been accounted for using the equity method or proportionate consolidation.

Since 'control' in 'joint control' refers to the new definition of 'control' in IFRS 10, it is possible that what is considered a joint arrangement under IFRS 11 will change. Significant judgement of the facts and circumstances may be required to assess whether joint control exists and to determine the classification of the arrangement.

Other Ernst & Young publications

IFRS Developments Issue 35: Transition guidance amendments for IFRS 10, IFRS 11 and IFRS 12 (July 2012) EYG no. AU1235.

Applying IFRS: Challenges in adopting and applying IFRS 11 (September 2011) EYG no. AU0921.

IFRS Practical Matters: What do the new consolidation, joint arrangements and disclosures accounting standards mean to you? (June 2011) EYG no. AU0853.

IFRS Developments Issue 1: IASB issues three new standards: Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities (May 2011) EYG no. AU0839.

IFRS 12 Disclosure of Interests in Other Entities

Effective for annual periods beginning on or after 1 January 2013.

Key requirements

IFRS 12 applies to an entity that has an interest in subsidiaries, joint arrangements, associates and/or structured entities. Many of the disclosure requirements of IFRS 12 were previously included in IAS 27, IAS 31, and IAS 28, while others are new.

The objective of the new disclosure requirements is to help the users of financial statements understand the following:

- ▶ The effects of an entity's interests in other entities on its financial position, financial performance and cash flows
- ▶ The nature of, and the risks associated with, the entity's interest in other entities

Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include:

- ▶ Summarised financial information for each subsidiary that has non-controlling interests that are material to the reporting entity
- ▶ Significant judgements used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e., joint operation or joint venture), if applicable
- ▶ Summarised financial information for each individually material joint venture and associate
- ▶ Nature of the risks associated with an entity's interests in unconsolidated structured entities, and changes to those risks

Transition

IFRS 12 must be applied retrospectively in accordance with the requirements of IAS 8 for changes in accounting policy, with some relief being provided:

- ▶ Disclosure requirements of IFRS 12 need to be applied only for the current period and one comparative period, if more than one is presented
- ▶ Comparatives for disclosures relating to unconsolidated structured entities are not required

An entity may early adopt IFRS 12 before adopting IFRS 10, IFRS 11, IAS 27 and IAS 28. Entities are encouraged to provide some of the information voluntarily even if they are not adopting all of IFRS 12 before its effective date.

Impact

The new disclosures will assist users to make their own assessment of the financial impact of management's conclusion regarding consolidation. Additional procedures and changes to systems may be required to gather information for the preparation of the additional disclosures.

Other Ernst & Young publications

IFRS Developments Issue 35: Transition guidance amendments for IFRS 10, IFRS 11 and IFRS 12 (July 2012) EYG no. AU1235.

IFRS Practical Matters: What do the new consolidation, joint arrangements and disclosures accounting standards mean to you? (June 2011) EYG no. AU0853.

IFRS Developments Issue 1: IASB issues three new standards: Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities (May 2011) EYG no. AU0839.



IFRS 13 Fair Value Measurement

Effective for annual periods beginning on or after 1 January 2013.

Key requirements

IFRS 13 does not change when fair value is used, but rather describes how to measure fair value when fair value is required or permitted by IFRS.

Fair value under IFRS 13 is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” (i.e., an ‘exit price’). ‘Fair value’ as used in IFRS 2 *Share-based Payments* and IAS 17 *Leases* is excluded from the scope of IFRS 13.

The standard provides clarification on a number of areas, including the following:

- ▶ Concepts of ‘highest and best use’ and ‘valuation premise’ are relevant only for non-financial assets
- ▶ Adjustments for blockage factors (block discounts) are prohibited in all fair value measurements
- ▶ A description of how to measure fair value when a market becomes less active

New disclosures related to fair value measurements are also required to help users understand the valuation techniques and inputs used to develop fair value measurements and the effect of fair value measurements on profit or loss.

Transition

IFRS 13 is applied prospectively (in the same way as a change in accounting estimate). Early application is permitted and must be disclosed.

Impact

Specific requirements relating to the highest and best use and the principal market may require entities to re-evaluate their processes and procedures for determining fair value, and assess whether they have the appropriate expertise.

Other Ernst & Young publications

IFRS Developments Issue 2: Fair value measurement guidance converges (May 2011) EYG no. AU0840.

Applying IFRS: IFRS 13 Fair Value Measurement (November 2012) EYG no. AU1362.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

Effective for annual periods beginning on or after 1 July 2012.

Key requirements

The amendments to IAS 1 change the grouping of items presented in OCI. Items that would be reclassified (or recycled) to profit or loss in the future (for example, the effective portion of gains and losses on hedging instruments in a cash flow hedge) would be presented separately from items that will never be reclassified (for example, changes in revaluation surplus recognised as a result of applying the revaluation model in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*).

The amendments do not change the nature of the items that are recognised in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit or loss in future periods.

Transition

These amendments are applied retrospectively in accordance with the requirements of IAS 8 for changes in accounting policy. Earlier application is permitted and must be disclosed.

Impact

Although the change in presentation of OCI is relatively minor with respect to the overall financial statements, it will assist users to identify more easily the potential impact that OCI items may have on future profit or loss.

Other Ernst & Young publications

IFRS Developments Issue 7: Changes to the presentation of other comprehensive income – amendments to IAS 1 (June 2011) EYG no. AU0787.

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

Effective for annual periods beginning on or after 1 January 2012.

Key requirements

The amendment to IAS 12 introduces a rebuttable presumption that deferred tax on investment properties measured at fair value 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.

The amendment also introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis.

As a result of this amendment, SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* has been withdrawn.

Transition

This amendment is applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy. Earlier application is permitted and must be disclosed.

Impact

In certain jurisdictions entities have noted difficulties in applying the principles of IAS 12 to certain investment properties. This amendment is intended to give guidance on the tax rate that should be applied.

Other Ernst & Young publications

Supplement to IFRS Outlook Issue 93: Amendments to IAS 12 Income Taxes (December 2010) EYG no. AU0729.

IAS 19 Employee Benefits (Revised)

Effective for annual periods beginning on or after 1 January 2013.

Key requirements

The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The more significant changes include the following:

- ▶ For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability), including actuarial gains and losses are recognised in OCI with no subsequent recycling to profit or loss.
- ▶ Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new and revised disclosure requirements. These new disclosures include quantitative information about the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.
- ▶ Termination benefits will be recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- ▶ The distinction between short-term and other long-term employee benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits.

Transition

The revised standard is applied retrospectively in accordance with the requirements of IAS 8 for changes in accounting policy. There are limited exceptions for restating assets outside the scope of IAS 19 and for presenting sensitivity disclosures for comparative periods in the period the amendments are first effective. Early application is permitted and must be disclosed.

Impact

These changes represent a significant further step in reporting gains and losses outside of profit or loss, with no subsequent recycling. Actuarial gains and losses will be excluded permanently from earnings.

Other Ernst & Young publications

Applying IFRS: Implementing the 2011 revisions to employee benefits (November 2011) EYG no. AU1007.

IFRS Developments Issue 6: Significant changes to accounting for pensions (June 2011) EYG no. AU0888.



IAS 32 *Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

Effective for annual periods beginning on or after 1 January 2014.

Key requirements

These amendments to IAS 32 clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems), which apply gross settlement mechanisms that are not simultaneous.

The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event.

The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendments clarify that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion.

Transition

These amendments are applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy. Early application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosure required by IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7*.

Impact

Entities will need to review legal documentation and settlement procedures, including those applied by the central clearing houses they deal with to ensure that offsetting of financial instruments is still possible under the new criteria. Changes in offsetting may have a significant impact on financial presentation. The effect on leverage ratios, regulatory capital requirements, etc., will need to be considered.

Other Ernst & Young publications

Applying IFRS: Offsetting financial instruments: clarifying the amendments (May 2012) EYG no. AU1182.

IFRS Developments Issue 22: Offsetting of financial instruments (December 2011) EYG no. AU1053.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

Effective for annual periods beginning on or after 1 January 2013.

Key requirements

This Interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine.

If the benefit from the stripping activity will be realised in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity recognises these costs as a non-current asset, only if certain criteria are met. This is referred to as the 'stripping activity asset'. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset.

If the costs of the stripping activity asset and the inventory produced are not separately identifiable, the entity allocates the cost between the two assets using an allocation method based on a relevant production measure.

After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortisation and less impairment losses, in the same way as the existing asset of which it is a part.

Transition

This Interpretation is applied to production stripping costs incurred on or after the beginning of the earliest period presented. The Interpretation does not require full retrospective application. Instead it provides a practical expedient for any stripping costs incurred and capitalised prior to that date.

Earlier application is permitted and must be disclosed.

Impact

IFRIC 20 represents a change from the current life of mine average strip ratio approach used by many mining and metals entities reporting under IFRS. Depending on the specific facts and circumstances of an entity's mines, these changes may impact both financial position and profit or loss. In addition, changes may also be required to processes, procedures and systems of the reporting entity.

Other Ernst & Young publications

IFRS Developments for Mining & Metals: Accounting for waste removal costs (October 2011) EYG no. AU0979.

Improvements to International Financial Reporting Standards – 2009-2011 Cycle

Key requirements

The IASB's annual improvements process deals with non-urgent but necessary clarifications and amendments to IFRS. In the 2009-2011 annual improvements cycle, the IASB issued six amendments to five standards, summaries of which are provided below.

The amendments are applicable to annual periods beginning on or after 1 January 2013. Earlier application is permitted and must be disclosed. The amendments are applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy.

<p>IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i></p>	<p>Repeated application of IFRS 1</p> <ul style="list-style-type: none"> ▶ The amendment clarifies that an entity that has stopped applying IFRS may choose to either: <ul style="list-style-type: none"> (i) Re-apply IFRS 1, even if the entity applied IFRS 1 in a previous reporting period Or (ii) Apply IFRS retrospectively in accordance with IAS 8 (i.e., as if it had never stopped applying IFRS) <p>in order to resume reporting under IFRS.</p> <ul style="list-style-type: none"> ▶ If the entity re-applies IFRS 1 or applies IAS 8, it must disclose the reasons why it previously stopped applying IFRS and subsequently resumed reporting in accordance with IFRS. <hr/> <p>Borrowing costs</p> <ul style="list-style-type: none"> ▶ The amendment clarifies that, upon adoption of IFRS, an entity that capitalised borrowing costs in accordance with its previous GAAP, may carry forward, without adjustment, the amount previously capitalised in its opening statement of financial position at the date of transition. ▶ Once an entity adopts IFRS, borrowing costs are recognised in accordance with IAS 23, including those incurred on qualifying assets under construction.
<p>IAS 1 <i>Presentation of Financial Statements</i></p>	<p>Clarification of the requirements for comparative information</p> <ul style="list-style-type: none"> ▶ The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. ▶ An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. ▶ The opening statement of financial position (known as 'the third balance sheet') must be presented when an entity changes its accounting policies (making retrospective restatements or reclassifications) and those changes have a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. For example, the beginning of the preceding period for a 31 December 2014 year-end would be 1 January 2013. However, unlike the voluntary comparative information, the related notes are not required to include comparatives as of the date of the third balance sheet.
<p>IAS 16 <i>Property, Plant and Equipment</i></p>	<p>Classification of servicing equipment</p> <ul style="list-style-type: none"> ▶ The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.



<i>IAS 32 Financial Instruments: Presentation</i>	Tax effects of distributions to holders of equity instruments <ul style="list-style-type: none">▶ The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.
<i>IAS 34 Interim Financial Reporting</i>	Interim financial reporting and segment information for total assets and liabilities <ul style="list-style-type: none">▶ The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 <i>Operating Segments</i>.▶ Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment.

Other Ernst & Young publications

IFRS Developments Issue 29: Annual Improvements to IFRS - the 2009 – 2011 cycle (May 2012) EYG no. AU1180.

Section 2: Items not taken onto the Interpretations Committee's agenda

Since the publication of the *IFRS Update* in March 2012, the Interpretations Committee deliberated a number of items. Certain items were published in the IASB's *IFRIC Update* as not having been added to the Interpretations Committee's agenda, together with the reasons for not doing so. For some of these items, the Interpretations Committee included further information about how the standards should be applied.

This guidance does not constitute an interpretation, but rather, provides additional information on the issues raised and the Interpretations Committee's views on how the standards and current interpretations are to be applied.

The table below summarises topics that the Interpretations Committee decided not to take onto its agenda for the period from 1 March 2012 to 28 February 2013. All items considered by the Interpretations Committee during its meetings, as well as the full text of its conclusions, can be found in the *IFRIC Update* on the IASB's website.³

Final date considered	Issue	Summary of reasons given for not adding issue to the Interpretations Committee's agenda
July 2012	IAS 1 <i>Presentation of Financial Statements</i> and IAS 12 <i>Income Taxes</i> - Presentation of production-based royalty payments to tax authorities	<p>The Interpretations Committee received a request seeking clarification of whether production-based royalty payments payable to one taxation authority that are claimed as an allowance against taxable profit for the computation of income tax payable to another taxation authority, should be presented as an operating expense or a tax expense in the statement of comprehensive income. That is, whether the production-based royalty payments can be viewed as prepayment of the income tax payable.</p> <p>The Interpretations Committee noted that the payments do not meet the definition of an income tax. Therefore, they are outside the scope of IAS 12 and should not be presented as an income tax expense in the statement of comprehensive income.</p>
July 2012	IAS 12 <i>Income Taxes</i> - Accounting for deferred taxes related to market value uplifts on assets that are to be introduced by a new income tax regime	<p>The Interpretations Committee received a request to clarify the accounting for market value uplifts introduced in a new income tax regime in a jurisdiction.</p> <p>In calculating taxable profit under the tax regime, entities are permitted to calculate tax depreciation for certain mining assets using the market value of the assets as of a particular date as the 'starting base allowance', rather than the cost or carrying amount of the assets.</p> <p>The Interpretations Committee noted that the market uplift forms part of the related asset's 'tax base' and, accordingly, the uplift would result in the recognition of a deferred tax asset to the extent that it meets the relevant criteria.</p>

³ The *IFRIC Update* is available at <http://www.ifrs.org/Updates/IFRIC+Updates/IFRIC+Updates.htm>.

Final date considered	Issue	Summary of reasons given for not adding issue to the Interpretations Committee's agenda
September 2012	IAS 16 <i>Property, Plant and Equipment</i> , IAS 38 <i>Intangible Assets</i> and IAS 17 <i>Leases</i> - Purchase of right to use land	<p>The Interpretations Committee received a request to clarify whether the purchase of a right to use land should be accounted for as:</p> <ul style="list-style-type: none"> ▶ Purchase of property, plant and equipment ▶ Purchase of an intangible asset <p>Or</p> <ul style="list-style-type: none"> ▶ Lease of land <p>In the fact pattern submitted, the laws and regulations in the jurisdiction concerned do not permit entities to own freehold title to land. Instead, entities can purchase the right to exploit or build on land. The Interpretations Committee noted that the specific fact pattern contains the characteristics of a lease.</p>
September 2012	IAS 19 <i>Employee Benefits</i> - Accounting for contribution-based promises: impact of the 2011 amendments to IAS 19	<p>The Interpretations Committee received a request to clarify the accounting in accordance with IAS 19 (2011) for contribution-based promises. An underlying concern in the submission was whether the revisions to IAS 19 in 2011 that, for example, clarified the treatment of risk-sharing features related to defined benefit obligations, affect the accounting for contribution-based promises.</p> <p>The Interpretations Committee noted that the 2011 amendments should not cause changes to the accounting for contribution-based promises, unless such promises also include elements of risk sharing arrangements between employees and employers.</p>
September 2012	IAS 39 <i>Financial Instruments: Recognition and Measurement</i> - Derecognition of financial instruments upon modification	<p>The Interpretations Committee received a request for guidance on the circumstances in which the restructuring of Greek government bonds (GGBs) should result in derecognition, in accordance with IAS 39, of the whole asset or only part of it. In particular, the Interpretations Committee was requested to consider whether the portion of the old GGBs that are exchanged for twenty new bonds with different maturities and interest rates should be derecognised or accounted for as a modification or transfer that would not require derecognition.</p> <p>In the specific fact pattern submitted, the Interpretations Committee noted that the relevant alternative approaches to address this matter would result in derecognition.</p>
September 2012	IAS 39 <i>Financial Instruments: Recognition and Measurement</i> - Classification of a GDP-linked security	<p>The Interpretations Committee received a request for guidance on the appropriate accounting for the GDP-linked security that was offered as part of the restructuring of GGBs.</p> <p>The Interpretations Committee noted it would not be able to reach consensus on the issue on a timely basis, but that the GDP-linked security would either be classified as fair value through profit or loss or as available-for-sale.</p>

Section 3: Expected pronouncements from the IASB

The IASB is working on a number of projects and interpretations, some of which are expected to be issued by the end of 2013.

Any standards or interpretations that are issued, but not yet effective, need to be considered in the disclosure requirements as set out in IAS 8. This includes disclosing the known or reasonably estimable impact that initial application of the pronouncement is expected to have on the entity's financial statements. If the impact is not known or reasonably estimable, disclosures of this fact must also be made. Therefore, users of this publication should be alert for any changes in IFRS requirements between 28 February 2013 and the date on which their financial statements are authorised for issue.

The table below sets out an estimated timeline for the projects on the IASB's active agenda. Many of these projects are joint projects between the IASB and the US Financial Accounting Standards Board (FASB).

Please note that this timeline is subject to change by the IASB. Full details are available on the IASB website.

IASB projects ⁴	Q1-2 2013	Q3 2013	Q4 2013
Financial instruments			
Classification and measurement ⁵	Redeliberations		
Impairment ^{5, 6}	Re-exposure		
General hedge accounting	Final IFRS		
Macro hedge accounting	Discussion paper		
Insurance contracts ⁵	Re-exposure		
Leases ⁵	Re-exposure		
Rate-regulated Activities			
Interim IFRS	Exposure draft		
Comprehensive project	Request for information		Discussion paper
Revenue recognition ⁵	Final IFRS		
Acquisition of an interest in a joint operation (proposed amendment to IFRS 11)			Final IFRS
Annual improvements 2010 – 2012		Final IFRS	
Annual improvements 2011 – 2013		Final IFRS	
Annual improvements 2012 – 2014		Exposure draft	
Bearer Biological Assets (proposed amendments to IAS 41)	Exposure draft		
Clarification of Acceptable Methods of Depreciation and Amortisation (proposed amendments to IAS 16 and IAS 38)		Final IFRS	
Equity Method: Share of Other Net Asset Changes (proposed amendments to IAS 28)		Final IFRS	
Defined Benefit Plans: Employee Contributions (proposed amendments to IAS 19)	Exposure draft		
Novation of Derivatives and Continuation of Hedge Accounting (proposed amendments to IAS 39 and IFRS 9) ⁷	Exposure draft		
Recognition of Deferred Tax Assets for Unrealised Assets (proposed amendments to IAS 12)			Exposure draft
Recoverable Amount Disclosures for Non-Financial Assets (proposed amendments to IAS 36)	Final IFRS		
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (proposed amendments to IFRS 10 and IAS 28)		Final IFRS	

IASB projects ⁴	Q1-2 2013	Q3 2013	Q4 2013
Separate Financial Statements (Equity Method) (proposed amendments to IAS 27)	Exposure draft		
Interpretations			
Levies Charged by Public Authorities on Entities that Operate in a Specific Market	Final Interpretation		
Put Options Written on Non-controlling Interests			Final Interpretation
Post-implementation reviews			
IFRS 8 <i>Operating Segments</i>	Report on post-implementation review		
IFRS 3 <i>Business Combinations</i>	Initiate review		
Conceptual Framework			
Chapters addressing elements of financial statements, measurement, reporting entity, and presentation and disclosure	Discussion paper		
Disclosures: Discussion Forum	Feedback statement		

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Further information about these proposed pronouncements can be found at www.ey.com/GL/en/Issues/IFRS/Publications.

⁴ The timeline and most up to date information for these projects can be found on the IASB's website <http://www.ifrs.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm>. This is updated on a regular basis by the IASB.

⁵ Projects developed jointly with the FASB.

⁶ The exposure draft was issued in March 2013.

⁷ The exposure draft was issued in February 2013.

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ED None

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