

IFRS Update for financial year ending 31 December 2011

(including all standards and interpretations
issued at 30 September 2011)

Contents



Introduction	2
Section 1: New pronouncements applicable to December 2011 year-ends	4
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>	4
IAS 24 <i>Related Party Disclosures</i> (Revised)	4
IAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> (Amendment)	5
IFRIC 14 <i>Prepayments of a Minimum Funding Requirement</i> (Amendment)	5
IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	6
<i>Improvements to International Financial Reporting Standards</i> (issued 2010)	7
IFRS Practice Statement: <i>Management Commentary</i>	11
Section 2: New pronouncements applicable to December 2012 year-ends	12
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>	12
IFRS 7 <i>Financial Instruments: Disclosures</i> (Amendment)	12
IAS 12 <i>Income Taxes</i> (Amendment) – <i>Deferred Taxes: Recovery of Underlying Assets</i>	13
Section 3: New and amended pronouncements that are effective subsequent to December 2012 year-ends	14
IFRS 9 <i>Financial Instruments – Classification and Measurement</i>	14
IFRS 10 <i>Consolidated Financial Statements</i> , IAS 27 <i>Separate Financial Statements</i>	15
IFRS 11 <i>Joint Arrangements</i> , IAS 28 <i>Investments in Associates and Joint Ventures</i>	16
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	17
IFRS 13 <i>Fair Value Measurement</i>	17
IAS 1 <i>Presentation of Items of Other Comprehensive Income – Amendments to IAS 1</i>	18
IAS 19 <i>Employee Benefits</i> (Revised)	18
Section 4: Items not taken onto the Interpretations Committee agenda where the Interpretations Committee has provided guidance on the interpretation of IFRS	19
Section 5: Expected future pronouncements from the IASB	23

Introduction

Companies reporting under International Financial Reporting Standards (IFRS) continue to face a steady flow of new standards and interpretations. The volume of changes to IFRS is significant and is likely to continue in the foreseeable future.

The nature of the changes ranges from significant amendments of fundamental principles to some minor changes included in the annual improvements process. They will affect many different areas of accounting such as the presentation of financial statements, financial instruments and accounting for employee benefits.

Some of the changes have implications that go beyond matters of accounting, potentially also impacting the IT systems of many companies. Furthermore, these changes may impact business decisions, such as the design of joint arrangements or the structuring of transactions.

The challenge for preparers will be 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, focusing on entities that have a December year-end. 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.

As many of the changes will come into effect in the future, this publication focuses, in particular, on December 2011 reporting, but also considers the effect on December 2012 reporting and beyond.

This publication includes all changes finalised by 30 September 2011. The *Table of Contents* contains the list of all such changes, which are presented in the following order:

Section 1: New pronouncements that must be applied to financial years ending December 2011.

Section 2: New pronouncements that must be applied to financial years ending December 2012, although entities may elect to apply some of these in an earlier period.

Section 3: New pronouncements that will be effective subsequent to December 2012 year-ends, although entities may elect to apply some of these in an earlier period.

Section 4: Items that have not been taken onto the International Financial Reporting Standards Interpretations Committee (Interpretations Committee) agenda, when the reason for the rejection provides some accounting guidance that assists with the interpretation and application of IFRS.

Section 5: Proposed future pronouncements that are expected to be issued as standards or interpretations based on the IASB's current work plan.

Sections 1, 2 and 3 provide a high-level overview of the key requirements of each new pronouncement issued by the International Accounting Standards Board (IASB) and interpretations issued by the Interpretations Committee. 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. These sections are presented in the numerical order of the standards/interpretations based on the December year-end in which they become effective. However, certain standards may contain provisions that allow entities to adopt in earlier periods.

When a standard or interpretation has been issued, but an entity has yet to apply it, 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 when it is initially applied. Therefore, management must disclose, in the December 2011 financial statements, the impact of the pronouncements noted in Sections 2 and 3, or indicate the reason for not doing so.

Section 4 provides a summary of the agenda rejection notices published in the *IFRIC Update*¹, of selected issues on which the Interpretations Committee was requested to provide an interpretation. In certain rejection notices, the Interpretations Committee refers to the existing IFRS or interpretations that provide adequate guidance. While these rejection notices are not authoritative, they do provide a view on the application of the standards.

Section 5 considers future expected pronouncements from the IASB. If a standard is published prior to the date on which the financial statements are authorised for issue, an entity will need to comply with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* disclosures on standards issued but not yet effective.

¹ The *IFRIC Update* is available on the IASB webpage at <http://www.ifrs.org/Updates/IFRIC+Updates/IFRIC+Updates.htm>.



IFRS Core Tools

This publication details a number of new standards and interpretations that contribute to a significant amount of accounting change in the next three 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.

IFRS Core Tools include a number of practical building blocks that can help a user to navigate the changing landscape of IFRS. They include this publication, *IFRS Update*, and the publications described below.

International GAAP Disclosure Checklist

Our 2011 *International GAAP*[®] *Disclosure Checklist* captures the currently applicable disclosure requirements, as well as those of standards and interpretations that are permitted to be adopted early, for all standards/interpretations that are issued by 30 September 2011. This tool assists preparers to comply with IFRS in their interim and year-end IFRS financial statements.

Good Group (International) Limited

Our publication, *Good Group (International) Limited*, is an illustrative set of financial statements (both interim and annual) incorporating new disclosures that arise from the changes required by standards effective for the December 2011 year-end. These illustrative financial statements can also assist in understanding the impact changes may have on the financial statements. This publication is supplemented by illustrative financial statements that are aimed at specific sectors and industries. These now include:

- ▶ Good Bank (International) Limited
- ▶ Good Construction (International) Limited
- ▶ Good Insurance (International) Limited
- ▶ Good Investment Fund Limited (Equities)
- ▶ Good Investment Fund Limited (Liabilities)
- ▶ Good Petroleum (International) Limited
- ▶ Good Mining (International) Limited
- ▶ Good Real Estate Group (International) Limited

Also available from Ernst & Young:

International GAAP[®] 2011

Our *International GAAP*[®] 2011 is a comprehensive guide to interpreting and implementing IFRS. It includes standards and interpretations mentioned in this publication that were issued prior to September 2010, and it provides examples that illustrate how the requirements are applied. *International GAAP*[®] 2012 will be published early in 2012.

Other Ernst & Young publications

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

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

Section 1: New pronouncements applicable to December 2011 year-ends

IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

Effective for annual periods beginning on or after 1 July 2010.

Key requirements

IFRS 1 has been amended to allow first-time adopters to utilise the transitional provisions of IFRS 7 *Financial Instruments: Disclosures* as they relate to the March 2009 amendments to the standard. These provisions give relief from providing comparative information in the disclosures required by amendments to IFRS 1 in the first year of application.

To achieve this, the transitional provisions in IFRS 7 were amended to clarify that the disclosures need not be provided for:

- ▶ Annual or interim periods, including any statement of financial position, presented with an annual comparative period ending before 31 December 2009

And

- ▶ Any statement of financial position as at the beginning of the earliest comparative period as at a date before 31 December 2009

Transition

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

Impact

The amendments can provide relief to first-time adopters, by reducing the cost and resources required to provide certain comparative disclosures.

Other Ernst & Young publications

Supplement to IFRS Outlook Issue 66: Amendments to financial instrument disclosure exemptions (February 2010)
EYG no. AU0442

IAS 24 *Related Party Disclosures* (Revised)

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

Key requirements

The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control.

A partial exemption from the disclosures has been included for government-related entities, whereby the general disclosure requirements of IAS 24 will not apply. Instead, alternative disclosures have been included, requiring:

- ▶ The name of the government and the nature of its relationship with the reporting entity
- ▶ The nature and amount of individually significant transactions
- ▶ A qualitative or quantitative indication of the extent of other transactions that are collectively significant

Transition

This amendment is applied retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted for either the partial exemption for government-related entities or the entire revised standard, with disclosure of such fact.

Impact

Entities will need to consider the revised definition of related parties to ensure all relevant information is still being captured. The reduced disclosures for government-related entities may provide some relief to such entities. However, a substantial amount of work is likely to be required to identify relationships caused by the amended definitions and ensure information is captured for the disclosures that are required under the revised standard.

Other Ernst & Young publications

Supplement to IFRS Outlook Issue 59: Related Party disclosures – Amendments to IAS 24 (November 2009) EYG no. AU0386



IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (Amendment)

Effective for annual periods beginning on or after 1 February 2010.

Key requirements

The definition of a financial liability has been amended to classify rights issues (and certain options or warrants) as equity instruments if:

- ▶ The rights are given *pro rata* to all of the existing owners of the same class of an entity's non-derivative equity instruments
- ▶ The rights are to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency

Transition

This amendment is applied retrospectively, in accordance with requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for changes in accounting policy. Earlier application is permitted and must be disclosed.

Impact

The amendment will provide relief to entities that issue rights fixed in a currency other than their functional currency, and then treat the rights as derivatives with fair value changes recorded in profit or loss. Rights issued in foreign currencies that were previously accounted for as derivatives will now be classified as equity instruments.

Retrospective application of the change will result in the reversal of profits or losses previously recognised. This impact on previously reported results would be a reclassification in equity.

Other Ernst & Young publications

Supplement to IFRS Outlook Issue 58: Classification of rights issues denominated in a foreign currency (October 2009)
EYG no. AU0374

IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment)

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

Key requirements

The amendment to IFRIC 14 provides further guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Transition

This amendment is applied retrospectively to the beginning of the earliest period presented in the first financial statements in which the entity originally applied IFRIC 14.

Impact

Entities will need to determine whether prepayments made will need to be re-assessed for their impact on the recoverability of pension assets. Entities applying the corridor approach to recognise actuarial gains and losses will also need to take account of the interaction between the corridor and the recoverability of the plan assets.

Other Ernst & Young publications

Supplement to IFRS Outlook Issue 64: Prepayments of a minimum funding requirement – amendments to IFRIC 14 (November 2009) EYG no. AU0407



IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Effective for annual periods beginning on or after 1 July 2010.

Key requirements

IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with paragraph 41 of IAS 39 *Financial Instruments Recognition and Measurement*. The equity instruments issued are measured at their fair value, unless this cannot be reliably measured, in which case, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.

If only part of a financial liability is extinguished, the entity needs to determine whether part of the consideration paid relates to a modification of the liability outstanding. If so, the consideration paid is allocated between both components.

The interpretation does not apply when the creditor is acting in the capacity of a shareholder, in common control transactions, or when the issue of equity shares was part of the original terms of the liability.

Transition

This interpretation is applied retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* from the beginning of the earliest comparative period presented if the amendment results in a change in accounting policy. Earlier application is permitted and must be disclosed.

Impact

In many cases, IFRIC 19 will result in a gain recognised in profit or loss as the fair value of the equity issued will often be less than the carrying value of the liability. Determining the fair value of the equity may be difficult if the shares are not actively traded. As the interpretation is applied retrospectively, determining past fair values may be particularly difficult.

When these transactions occur within the same group, entities will need to develop an appropriate accounting policy as common control transactions are scoped out of the interpretation.

Other Ernst & Young publications

Supplement to IFRS Outlook Issue 62: Extinguishing financial liabilities with equity instruments (November 2009)

EYG no. AU0405



Improvements to International Financial Reporting Standards (issued 2010)

Key requirements

The annual improvements process has been adopted by the IASB to deal with non-urgent but necessary amendments to IFRS (the 'annual improvements').

In this third edition of the annual improvements, the IASB issued eleven amendments to six standards and one interpretation. The following table summarises the amendments that are effective for December 2011 year-ends.

<p>IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i></p>	<p>Accounting policy changes in the year of adoption</p> <ul style="list-style-type: none"> ▶ The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 <i>Interim Financial Reporting</i>, it must explain those changes and update the reconciliations between previous GAAP and IFRS. ▶ Applicable to annual periods beginning on or after 1 January 2011. Earlier application is permitted and must be disclosed.
<p>IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i></p>	<p>Revaluation basis as 'deemed cost'</p> <ul style="list-style-type: none"> ▶ The amendment allows first-time adopters to use an event-driven fair value as 'deemed cost', even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. When such re-measurement occurs after the date of transition to IFRS, but during the period covered by its first IFRS financial statements, the adjustment is recognised directly in retained earnings (or if appropriate, another category of equity). ▶ Applicable to annual periods beginning on or after 1 January 2011. Entities that adopted IFRS in previous periods are permitted to apply the amendment retrospectively in the first annual period after the amendment is effective, with disclosure of such fact.
<p>IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i></p>	<p>Use of 'deemed cost' for operations subject to rate regulation</p> <ul style="list-style-type: none"> ▶ The amendment expands the scope of 'deemed cost' for property, plant and equipment or intangible assets to include items subject to rate regulated activities. The exemption will be applied on an item-by-item basis. All assets to which the deemed cost exemption is applied will also need to be tested for impairment at the date of transition. ▶ The amendment allows entities with rate-regulated activities to use the carrying amount of their property, plant and equipment and intangible balances from their previous GAAP as their deemed cost upon transition to IFRS. These balances may include amounts that would not be permitted for capitalisation under IAS 16 <i>Property, Plant and Equipment</i>, IAS 23 <i>Borrowing Costs</i> and IAS 38 <i>Intangible Assets</i>. ▶ Applicable to annual periods beginning on or after 1 January 2011. Earlier application is permitted and must be disclosed.



<p>IFRS 3 <i>Business Combinations</i></p>	<p>Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS</p> <ul style="list-style-type: none"> ▶ The amendment clarifies that the amendments to IFRS 7 <i>Financial Instruments: Disclosures</i>, IAS 32 <i>Financial Instruments: Presentation</i> and IAS 39 <i>Financial Instruments: Recognition and Measurement</i>, which eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). ▶ The amendment is applicable to annual periods beginning on or after 1 July 2010. The amendment is applied retrospectively, in accordance with requirements of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> for changes in accounting policy.
<p>IFRS 3 <i>Business Combinations</i></p>	<p>Measurement of non-controlling interests (NCI)</p> <ul style="list-style-type: none"> ▶ The amendment limits the scope of the measurement choices for NCI. Only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, are measured either: <ul style="list-style-type: none"> ▶ At fair value Or ▶ At the present ownership instruments' proportionate share of the acquiree's identifiable net assets ▶ Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS (e.g., IFRS 2). ▶ Applicable to annual periods beginning on or after 1 July 2010. The amendment is applied prospectively from the date the entity applies IFRS 3 (revised 2008).
<p>IFRS 3 <i>Business Combinations</i></p>	<p>Un-replaced and voluntarily replaced share-based payment awards</p> <ul style="list-style-type: none"> ▶ The amendment requires an entity in a business combination to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily). These transactions need to be split between consideration paid as part of the business combination and post combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognised as post-combination expenses. ▶ The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: <ul style="list-style-type: none"> ▶ If vested – they are part of NCI and measured at their market-based measure. ▶ If unvested – they are measured at market-based value as if granted at the acquisition date, and allocated between NCI and post-combination expense. ▶ The amendment is applicable to annual periods beginning on or after 1 July 2010. The amendment is applied prospectively.



<p>IFRS 7 <i>Financial Instruments Disclosures</i></p>	<p>Clarification of disclosures</p> <ul style="list-style-type: none"> ▶ The amendment emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. ▶ The amendments to quantitative and credit risk disclosures: <ul style="list-style-type: none"> ▶ Clarify that only financial assets with carrying amounts that do not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk ▶ Require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements, including the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk) ▶ Remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired ▶ Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired ▶ Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets held at the reporting date ▶ Applicable to annual periods beginning on or after 1 January 2011. The amendment is applied retrospectively, in accordance with requirements of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> for changes in accounting policy. ▶ Further information about this amendment can be found in Ernst & Young's publication <i>Supplement to IFRS Outlook Issue 97: IFRS 7 Financial Instruments: Disclosures – Impending changes effective for 2011 and 2012</i> (March 2011) EYG no. AU0785.
<p>IAS 1 <i>Presentation of Financial Statements</i></p>	<p>Clarification of statement of changes in equity</p> <ul style="list-style-type: none"> ▶ The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. ▶ Applicable to annual periods beginning on or after 1 January 2011. The amendment is applied retrospectively, in accordance with requirements of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> for changes in accounting policy.



<p>IAS 27 <i>Consolidated and Separate Financial Statements</i></p>	<p>Transition requirements for amendments made as a result of IAS 27 <i>Consolidated and Separate Financial Statements</i></p> <ul style="list-style-type: none"> ▶ The amendment clarifies that the consequential amendments from IAS 27 made to IAS 21 <i>The Effect of Changes in Foreign Exchange Rates</i>, IAS 28 <i>Investments in Associates</i> and IAS 31 <i>Interests in Joint Ventures</i> apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier. ▶ The amendment is applicable to annual periods beginning on or after 1 July 2010. The amendment is applied retrospectively, in accordance with requirements of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> for changes in accounting policy.
<p>IAS 34 <i>Interim Financial Reporting</i></p>	<p>Significant events and transactions</p> <ul style="list-style-type: none"> ▶ The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and requires additional disclosures on: <ul style="list-style-type: none"> ▶ The circumstances likely to affect fair values of financial instruments and their classification ▶ Transfers of financial instruments between different levels of the fair value hierarchy ▶ Changes in classification of financial assets ▶ Changes in contingent liabilities and assets ▶ The amendment is applicable to periods beginning on or after 1 January 2011. The amendment is applied retrospectively, in accordance with requirements of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> for changes in accounting policy.
<p>IFRIC 13 <i>Customer Loyalty Programmes</i></p>	<p>Fair value of award credits</p> <ul style="list-style-type: none"> ▶ The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. ▶ Applicable to annual periods beginning on or after 1 January 2011. The amendment is applied retrospectively, in accordance with requirements of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> for changes in accounting policy.

Other Ernst & Young publications

Supplement to IFRS Outlook Issue 71: Improvements to IFRSs 2010 (May 2010) EYG no. AU0530



IFRS Practice Statement: *Management Commentary*

Issued 8 December 2010.

Key features

This Practice Statement is not an IFRS standard. Consequently, an entity need not comply with the Practice Statement to comply with IFRS. However, it does qualify as guidance on 'other financial reporting' in accordance with the Conceptual Framework. The Practice Statement provides a broad, non-binding framework for the presentation of narrative reporting to accompany financial statements prepared in accordance with IFRS. This Practice Statement is directed at preparers in jurisdictions where no regulatory requirements regarding management commentary exist, but where users still request meaningful information.

The Practice Statement permits entities to adapt the information provided to the particular circumstances of their business, including the legal and economic circumstances of individual jurisdictions. This approach enables preparers to provide meaningful disclosures about the most important resources, risks and relationships that can affect an entity's value and how they are managed. It also enables preparers to explain the main trends and factors that might affect their future performance, financial position and progress (i.e., how an entity has and expects to grow or change in current and future periods). Hence, management commentary combines information about the past, present and future.

Transition

The Practice Statement may be applied to management commentary presented prospectively from 8 December 2010.

Impact

Entities in jurisdictions with no existing regulatory requirements for management commentary disclosures, and who voluntarily apply the Practice Statement, should consider the requirements of the Practice Statement. Additional disclosure requirements could impact on an entity's systems and processes to gather the necessary and pertinent information for reporting purposes.

Other Ernst & Young publications

Supplement to IFRS Outlook Issue 48: Proposed guidance for management commentary (July 2009) EYG no. AU0333

Section 2: New pronouncements applicable to December 2012 year-ends

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, and 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. The amended standard has these dates coinciding with the date of transition to IFRS.

Transition

The amendment may be applied earlier than the effective date and 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, it allows for these entities to recommence reporting under IFRS. However, these entities will have to perform a fair value exercise on affected assets and liabilities in order 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 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 and 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



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. If consumed, an own use basis must be adopted.

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 requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* 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

Section 3: New and amended pronouncements that are effective subsequent to December 2012 year-ends

IFRS 9 *Financial Instruments – Classification and Measurement*

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

However, the IASB issued Exposure Draft (ED) *Mandatory Effective Date of IFRS 9 (ED/2011/3)* that proposes the following:

- ▶ To move the mandatory effective date for IFRS 9 to annual periods beginning on or after 1 January 2015 with early application continuing to be permitted
- ▶ Not to provide further relief from restatement of comparative amounts to periods beginning after 2012

The comment period for the ED closes on 30 November 2011 and amendments, if any, are expected to be issued by the end of 2011.

Key requirements

The first phase of IFRS 9 *Financial Instruments* addresses 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 *Financial Instruments: Recognition and Measurement* 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. However, entities have an irrevocable choice by instrument for all other equity 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

This standard has numerous specific transitional requirements. To summarise, Phase 1 of IFRS 9 is applied retrospectively, in accordance with requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for changes in accounting policy. However, Phase 1 of IFRS 9 is not applied to items that have already been derecognised at the date of initial application.

Early application of the financial asset requirements is permitted and must be disclosed. Early application of the financial liabilities requirements is permitted if the entity also applies the previously finalised requirements for financial assets. Early adopters with an initial application date before 1 January 2012 need not restate comparative information for prior periods.

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 adoption, there are a number of benefits and challenges that should be considered. Careful planning for this transition will be necessary.

Other Ernst & Young publications

IFRS Developments Issue 12: IFRS 9 mandatory effective date to move to 2015 (July 2011) EYG no. AU0915

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 Measurements (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* resulting 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

The new standard is applied retrospectively in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for changes in accounting policy, with some modifications. An example of such a modification is where an investor controls an investee that was previously not consolidated, the investor applies acquisition accounting as of the date on which it obtained control. However, the standard provides relief when it is not practicable to apply IFRS 10 on a retrospective basis. In such cases, consolidation of the controlled investee (and acquisition accounting) is required from the earliest date practicable.

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 (as revised in 2011) at the same time.

Impact

IFRS 10 creates a new, and broader, definition of control than under current IAS 27. This may result in changes to a consolidated group (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 1: IASB issues three new standards: Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities (May 2011)
EYG no. AU0839

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

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



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. The reference to '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. Joint operations are accounted for by showing the party's interest in the assets, liabilities, revenues and expenses, and/or its relative share of jointly controlled assets, liabilities, revenue and expenses, if any.

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 accounting method. The option to account for joint ventures (as newly defined) using proportionate consolidation has been removed.

Under this new classification, the structure 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.

In addition, IAS 28 was amended to include the application of the equity method to investments in joint ventures.

Transition

IFRS 11 will be applied using a modified retrospective approach. For example, jointly controlled entities under current IAS 31 that will be classified as joint ventures under IFRS 11, will transition from proportionate consolidation to the equity method by aggregating the carrying values previously recorded, testing that amount for impairment and then using that amount as the deemed cost for applying the equity method going forward.

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 parties currently 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 previously considered jointly controlled entities will be considered joint operations under IFRS 11, which would affect the accounting for such entities.

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

Other Ernst & Young publications

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

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



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 with a material non-controlling interest
- ▶ 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 will be applied retrospectively in accordance with requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for changes in accounting policy, with comparative disclosures required. An entity may early adopt IFRS 12 before adopting IFRS 10, IFRS 11, IAS 27 and IAS 28. Entities are also encouraged to provide some of the information voluntarily without necessarily 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 were management to reach a different 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 1: IASB issues three new standards: Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities (May 2011) EYG no. AU0839

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

IFRS 13 *Fair Value Measurement*

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

Key requirements

IFRS 13 does not affect **when** fair value is used, but rather describes **how** to measure fair value where 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 and liabilities
- ▶ Market participants are assumed to transact in a way that maximises value in situations where the unit of account for the item being measured is not clear from other IFRS
- ▶ The impact of blockage discounts is 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. 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

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 at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.

The amendments do not change the nature of the items that are currently 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 requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* 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 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, actuarial gains and losses are recognised in OCI when they occur. 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) 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 or revised disclosure requirements. These new disclosures include quantitative information of 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 *Liabilities*.
- ▶ The distinction between short-term and other long-term employee benefits will be based on expected timing of settlement rather than the employee's entitlement to the benefits.

Transition

The revised standard is applied retrospectively in accordance with requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for changes in accounting policy. There are limited exceptions for restating assets outside the scope of IAS 19 and 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 and loss, with no subsequent recycling. Actuarial gains and losses will be excluded permanently from earnings.

Other Ernst & Young publications

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

Section 4: Items not taken onto the Interpretations Committee agenda where the Interpretations Committee has provided guidance on the interpretation of IFRS

Since the publication of the *IFRS Update for financial year ending 31 December 2010*, the IFRS Interpretations Committee has deliberated a number of items. Certain items were published in the IASB's *IFRIC Update* as not having been added to the Interpretations Committee agenda, together with the reason for not doing so. When issuing their reasons, the Interpretations Committee added some 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 possibly how the standards and current interpretations are to be applied.

The table below summarises only topics that Ernst & Young believes the Interpretation Committee provided information helpful to the preparers of financial statements. The full list of items considered, and the full text of the reasons for not being taken onto the agenda, can be found in the *IFRIC Update* on the IASB's website.³

Final date considered	Issue	Summary of the reasons given for not adding to the Interpretations Committee agenda
November 2010	IAS 36 <i>Impairment of Assets</i> – Calculation of value in use	<p>The Interpretations Committee received a request for clarification on whether estimated future cash flows expected to arise from dividends, which are used for a dividend discount model (DDM), are an appropriate cash flow projection when determining the calculation of value-in-use of a cash generating unit (CGU), in accordance with paragraph 33 of IAS 36.</p> <p>The Interpretations Committee noted that:</p> <ul style="list-style-type: none"> ▶ Calculations using a DDM, which values shares at the discounted value of future dividend payments, may be appropriate when calculating value in use of a single asset. For example, when an entity applies IAS 36 to determine whether an investment is impaired in the separate financial statements of an entity. ▶ Some DDMs may focus on future cash flows that are expected to be available for distribution to shareholders, rather than future cash flows from dividends. Such a DDM could be used to calculate value-in-use of a CGU in consolidated financial statements, if it is consistent with the principles and requirements in IAS 36.
November 2010	IAS 19 <i>Employee Benefits</i> – Accounting for a statutory employee profit-sharing arrangement	<p>The Interpretations Committee received a request for clarification of the accounting for a statutory employee profit sharing arrangement that requires an entity to share 10 per cent of profit, as calculated in accordance with tax law (subject to specific exceptions), with employees.</p> <p>The Interpretations Committee noted that:</p> <ul style="list-style-type: none"> ▶ Although such a statutory employee profit sharing arrangement calculates amounts payable to employees in accordance with tax law, it meets the definition of an employee benefit and is in the scope of IAS 19. Therefore, the employee profit-sharing arrangement described in the request should not be accounted for by analogy to IAS 12 <i>Income Taxes</i> or IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>. ▶ The objective of IAS 19 is to record compensation expenses only when the employee has provided the related service. Consequently, an entity should not recognise an asset or liability related to future expected reversals of differences between taxable profit and accounting profit in connection with such an employee profit-sharing arrangement. ▶ The statutory employee profit-sharing arrangement described in the request should be accounted for in accordance with IAS 19.

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



Final date considered	Issue	Summary of the reasons given for not adding to the Interpretations Committee agenda
November 2010	IAS 1 <i>Presentation of Financial Statements</i> – Current/non-current classification of a callable term loan	<p>The Interpretations Committee received a request on the classification of a liability as either current or non-current when the liability is not scheduled for repayment within twelve months after the reporting period, but may be callable by the lender at any time without cause. The Interpretations Committee noted that:</p> <ul style="list-style-type: none"> ▶ Paragraph 69(d) of IAS 1 requires that a liability must be classified as a current liability if the entity does not have the unconditional right at the reporting date to defer settlement for at least twelve months after the reporting period.
March 2011	IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> – Application of the IAS 8 hierarchy	<p>IAS 8 requires that management uses judgement to develop and apply an accounting policy that is relevant and reliable, in the absence of an IFRS that specifically applies to a transaction. IAS 8 requires management to refer to and consider the applicability of requirements in IFRS dealing with similar and related issues. The Interpretations Committee received a question whether it would be appropriate to consider analogy to only certain aspects of an IFRS, or whether all aspects of the IFRS being analogised to need to be considered.</p> <p>The Interpretations Committee noted that:</p> <ul style="list-style-type: none"> ▶ When management develops an accounting policy by analogy to an IFRS dealing with similar and related matters, it needs to use its judgement and apply all aspects of the IFRS that are relevant to the particular issue. ▶ The process for developing accounting policies by analogy does not need additional clarification as paragraphs 10-12 of IAS 8 provide sufficient guidance.
March 2011	IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> – Inclusion of own credit risk in the discount rate	<p>The Interpretations Committee received a request for interpretation of the phrase 'the risks specific to the liability' and whether this means that an entity's own credit risk (performance risk) should be excluded from any adjustments made to the discount rate used to measure liabilities. The request assumed that future cash flow estimates have not been adjusted for the entity's own credit risk. The Interpretations Committee noted that:</p> <ul style="list-style-type: none"> ▶ Paragraph 47 of IAS 37 states that 'risks specific to the liability' should be taken into account in measuring the liability. ▶ IAS 37 does not explicitly state whether or not own credit risk should be included. ▶ The predominant practice today is to exclude own credit risk, which is generally viewed in practice as a risk of the entity rather than a risk specific to the liability.



Final date considered	Issue	Summary of the reasons given for not adding to the Interpretations Committee agenda
July 2011	IAS 16 <i>Property, Plant and Equipment</i> – Cost of testing	<p>The Interpretations Committee received a request to clarify whether the sales proceeds from one asset in a group of assets could be offset against the costs of testing the other assets in the group that were not yet available for use. In the fact pattern, the asset group is subject to regulation that requires it to identify a 'commercial production date' for the whole of the group.</p> <p>The Interpretations Committee noted that:</p> <ul style="list-style-type: none"> ▶ Paragraph 17(e) of IAS 16 applies separately to each item of property, plant and equipment. ▶ The 'commercial production date' for the asset group referred to in the submission is a different concept from the 'available for use' assessment in paragraph 16(b) of IAS 16. ▶ The guidance in IAS 16 is sufficient to identify the date at which an item of property, plant and equipment is 'available for use' such that proceeds that reduce costs of testing an asset can be distinguished from revenue from commercial production.
July 2011	IAS 19 <i>Employee Benefits</i> – Defined contribution plans with vesting conditions	<p>The Interpretations Committee was asked whether contributions to defined benefit plans with vesting conditions should be recognised as an expense in the period in which they are paid or over the vesting period. In the examples given in the submission, the employee's failure to meet a vesting condition could result in the refund of contributions to, or reductions in future contributions by, the employer.</p> <p>The Interpretations Committee noted that:</p> <ul style="list-style-type: none"> ▶ The classification of the plan is not affected by vesting conditions if the employer is not required to make additional contributions to cover shortfalls because of these vesting conditions. ▶ Each contribution to a defined contribution plan is to be recognised as an expense or recognised as a liability (accrued expense) over the period of service that obliges the employer to pay the contribution to the defined contribution plan. ▶ The period of service that obliges the employer to pay the contribution to the defined contribution plan is distinguished from the period of service that entitles an employee to receive the benefit from the defined contribution plan (i.e., the vesting period), although both periods may be coincident in some circumstances. ▶ Refunds are recognised as an asset and as income when the entity/employer becomes entitled to the refunds.

Final date considered	Issue	Summary of the reasons given for not adding to the Interpretations Committee agenda
September 2011	IFRS 3 <i>Business Combinations</i> – Acquirer in a reverse acquisition	<p>The Interpretations Committee received a request for guidance on whether a business that is not a legal entity could be considered to be the acquirer in a reverse acquisition under IFRS 3.</p> <p>The Committee observed that IFRS and the current Conceptual Framework do not require a 'reporting entity' to be a legal entity. Consequently, the Committee noted that an acquirer that is a reporting entity, but not a legal entity, can be considered to be the acquirer in a reverse acquisition.</p>
September 2011	IAS 27 <i>Consolidated and Separate Financial Statements</i> – Group reorganisations in separate financial statements	<p>The Interpretations Committee received a request to clarify the accounting for reorganisations of groups that result in a new intermediate parent having more than one direct subsidiary. The request addresses the accounting of the new intermediate parent for its investments in subsidiaries when it accounts for these investments in its separate financial statements at cost.</p> <p>The Interpretations Committee noted that:</p> <ul style="list-style-type: none"> ▶ The normal basis for determining the cost of an investment in a subsidiary has to be applied to reorganisations that result in the new intermediate parent having more than one direct subsidiary. Paragraphs 38B and 38C of IAS 27 (amended 2008) or paragraphs 13 and 14 of IAS 27 (revised 2011) apply only when the assets and liabilities of the new group and the original group (or original entity) are the same before and after the reorganisation. This condition is not met in reorganisations that result in the new intermediate parent having more than one direct subsidiary. Therefore, these paragraphs in IAS 27 do not apply to such reorganisations as those presented in the Interpretations Committee submission. ▶ The guidance in paragraphs 38B and 38C of IAS 27 (amended 2008) or paragraphs 13 and 14 of IAS 27 (revised 2011) cannot be applied to reorganisations that result in the new intermediate parent having more than one direct subsidiary by analogy, because this guidance is an exception to the normal basis for determining the cost of an investment in a subsidiary.

Section 5: Expected future pronouncements from the IASB

The IASB is currently working on a number of projects and interpretations, some of which are expected to be issued by the end of 2011 or in 2012. Therefore, users of this publication are advised to verify that there has been no change in the IFRS requirements between 30 September 2011 and the date on which their financial statements are authorised for issue.

Any standards or interpretations that are issued, but not yet effective, need to be considered in the disclosure requirements of a reporting entity as set out in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. This includes disclosing the known or reasonably estimable impact that initial application of the IFRS 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.

Stripping Costs in the Production Phase of a Surface Mine (expected in October 2011)

The IASB ratified IFRIC 20 at the September 2011 meeting and expects to issue a final interpretation in October 2011. The Interpretation is expected to be effective for annual periods beginning on or after 1 January 2013.

Key requirements

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

When the benefit from the stripping activity is the production of inventory, an entity would be 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 would recognise these costs as a non-current asset only if certain criteria are met, which is referred to as the 'stripping activity asset'. The stripping activity asset would be 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 would be 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 would not require full retrospective application. Instead it would provide a practical expedient for any stripping costs incurred and capitalised prior to that date.

Earlier application is expected to be permitted and would need to be disclosed.

Impact

The proposals for IFRIC 20 represent 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 proposed 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 Issue 13: Accounting for waste removal costs (July 2011) EYG no. AU0907

Ongoing IASB projects

The table below sets out an estimated timeline of the changes to IFRS as a result of the ongoing IASB projects. 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.

Ongoing IASB projects ⁴	Q4 2011	2012	
Financial instruments			
Deferral of mandatory effective date of IFRS 9	Exposure draft comment period ⁶		
Impairment ⁴	Re-exposure or Review draft ⁷		
General hedge accounting	Review draft	Final IFRS	
Portfolio hedge accounting	Exposure draft ⁷		
Asset and liability offsetting ⁵	Final IFRS		
Consolidation – investment entities ⁵	Exposure draft comment period	Final IFRS ⁸	
Insurance contracts ⁵		Re-exposure or Review draft ⁷	
Leases ⁵		Re-exposure	Final IFRS
Revenue recognition ⁵	Re-exposure	Final IFRS	
Annual improvements 2009 – 2011	Exposure draft comment period	Final IFRS ⁸	

The IASB also has a number of other projects that are considered important, but less urgent and, therefore, are not included in its current work plan. These include financial statement presentation, financial instruments with characteristics of equity, emissions trading schemes, liabilities and income taxes). The IASB will review these projects as part of its agenda consultation process, at the beginning of 2012.

Ernst & Young publications

Further information about these proposed new pronouncements can be found in:

Joint Project Watch – IASB/FASB joint projects from an IFRS perspective (August/September 2011) EYG no. AU0971

IFRS Developments Issue 8: Proposed improvements to IFRS (June 2011) EYG no. AU0885

Publications on individual IASB projects can also 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 IASBs 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 Final IFRS, if any, expected by the end of 2011.

⁷ Timing of final IFRS is not included on the IASB work plan. However, final IFRS is not expected in the first half of 2012.

⁸ Timing based on individual project web pages on the IASB website.

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 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.

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.

© 2011 EYGM Limited.
All Rights Reserved.

EYG no. AU0984

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 judgement. 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.