

Joint Project Watch

IASB/FASB joint projects from an IFRS perspective

December 2012

The standard-setting activities of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) (collectively, the Boards) on their joint projects continue to move forward. The Boards are re-deliberating their second exposure draft (ED) on revenue recognition, and are preparing to issue a second ED on leases in early 2013. Separate documents on financial instruments have been issued or are expected to be issued in early 2013. We encourage you to actively follow the Boards' progress and to respond to requests for comment.

This will be the final edition of *Joint Project Watch*¹, which is designed to give you a snapshot of key developments from an IFRS perspective, along with our observations about the potential implications for companies and references to other Ernst & Young publications that provide more background and detail on the projects and proposals. We will continue to keep you informed about the active projects of the IASB, along with potential implications and our views, in our publication, *IASB Projects: A pocketbook guide*. This and our other publications are available at www.ey.com/ifrs.

The following discussion of ongoing projects is based on our observations of the standard-setter meetings. During re-deliberations, the Boards make tentative decisions that may be different from earlier decisions and those in the EDs, which often are revised during re-deliberations. At this point, the Boards' decisions and our observations remain subject to change.

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¹ Recently, the IASB has indicated that the convergence projects with the FASB are coming to an end.

Financial instruments – classification and measurement

Background

IFRS 9 *Financial Instruments* for financial assets was first published in November 2009. It was later updated in October 2010 to include financial liabilities. IFRS 9 requires entities to classify financial assets on the basis of the objective of the entity's business model for managing the financial assets and the characteristics of the contractual cash flows. The IASB amended IFRS 9 to move the mandatory effective date from 1 January 2013 to 1 January 2015. While the FASB's original proposals would have required fair value measurement for most financial assets and financial liabilities, IFRS 9 permits greater use of amortised cost. To more closely align their respective models and reduce key differences, the Boards jointly re-deliberated selected aspects of their standards. Both Boards completed their deliberations during Q4 2012.

References

- ▶ [IFRS Developments Issue 47: The IASB proposes limited amendments to IFRS 9 classification and measurement model \(November 2012\) EYG no. AU1360](#)
- ▶ [Applying IFRS: 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](#)

Overall project background

The financial instruments project addresses classification and measurement, impairment, hedging and offsetting. The Boards' overall objective is to simplify, improve and converge the accounting for financial instruments. Except for offsetting, the Boards initially deliberated these topics separately to accommodate different timelines and priorities, resulting in separate proposals. The IASB issued a final standard on classification and measurement (IFRS 9) and separate proposals on impairment and hedging, whereas the FASB issued one comprehensive ED. In December 2011, the Boards issued amendments to their respective standards related to the disclosures associated with offsetting. The IASB also issued clarifying amendments to IAS 32 *Financial Instruments: Presentation* related to the offsetting of financial instruments together with related disclosures in IFRS 7 *Financial Instruments: Disclosures*. The IASB subsequently began re-deliberating certain elements of IFRS 9, and, in November 2012, proposed narrow scope amendments. In September 2012, the IASB posted a review draft of the final standard on general hedge accounting, which is expected to be issued in Q1 2013.

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- ▶ In November 2012, the IASB issued an ED proposing narrow scope amendments to the IFRS 9 classification and measurement requirements for financial assets. The proposals re-affirm the previous decisions made by the IASB and include:
 - ▶ Introduction of a fair value through other comprehensive income (FVOCI) category for eligible debt instruments.
 - ▶ Clarifications to the existing application guidance in IFRS 9 on business model assessment.
 - ▶ A requirement that six months after IFRS 9 is issued in its entirety, earlier versions of IFRS 9 will no longer be available for early adoption. Instead, early adopters of IFRS 9 will have the option either to apply IFRS 9 in its entirety or only apply the requirements for the presentation of fair value gains or losses attributable to changes in the issuer's own credit risk in other comprehensive income (OCI).
- ▶ Following these proposals, consistent with the FASB's proposal, financial assets would be classified at:
 - ▶ Amortised cost, if an entity's business model is to hold the assets to collect contractual cash flows and if the assets have contractual cash flows that are solely payments of principal and interest (i.e., they meet the cash flow characteristics assessment). This approach would generally be consistent with IFRS 9.
 - Or
 - ▶ FVOCI, if the assets meet the cash flow characteristics assessment and if the entity's business model for a portfolio is to:
 - (i) hold to collect contractual cash flows; and (ii) sell financial assets.
 - Or
 - ▶ Fair value through profit or loss (FVTPL) residual category, if the assets do not qualify for amortised cost or for FVOCI classification.

What's next

Comments on the IASB's ED are due by 28 March 2013. The FASB plans to expose a document in Q1 2013.

Financial instruments – impairment

Background

Initially, the Boards proposed impairment models that were significantly different from their current accounting models and from each other. The Boards then began working on a joint solution and developed the 'three-bucket' expected loss model. Under the three-bucket model, for financial assets measured at amortised cost or at FVOCI, entities would recognise lifetime expected losses for assets that have experienced significant credit deterioration since origination or acquisition and 12 months of expected losses for all other assets. During the FASB's outreach, constituents expressed concern about the model's complexity and how it would work in practice. As a result, in December 2012, the FASB proposed a simpler model that has a single measurement objective and retains many of the jointly developed core principles. The IASB plans to issue a separate ED on the three-bucket model.

References

- ▶ [IFRS Developments Issue 37: Impairment of financial assets – the last details? \(July 2012\) EYG no. AU1246](#)
- ▶ [IFRS Developments Issue 26: IFRS 9 Impairment of financial assets – a step closer to completion \(April 2012\) EYG no. AU1150](#)
- ▶ [IFRS Practical Matters: Impairment – assessing the impact of the new proposal \(March 2012\) EYG no. AU1104](#)
- ▶ [IFRS Developments Issue 21: Impairment – a major step forward in achieving convergence \(December 2011\) EYG no. AU1056](#)

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- ▶ The IASB clarified that the criterion for recognising lifetime expected losses (i.e., moving assets from Bucket 1 into Buckets 2 or 3) would be when there has been a significant deterioration in credit quality since initial recognition, taking into consideration the term of the asset and the original credit quality. An example would be a change in pricing due to an increase in credit risk.
- ▶ As a practical expedient to reduce the operational cost and complexity in assessing (rather than measuring) the lifetime expected losses criterion:
 - ▶ For an originated or acquired asset, deterioration to below 'investment grade' would be deemed to be significant
 - ▶ The use of a 12-month probability of default would be allowed, unless this would result in a different outcome from using a lifetime probability of default
- ▶ If delinquency information is used, there would be a rebuttable presumption that the recognition criterion for lifetime expected losses is met if the asset is more than 30 days past due. If this presumption is rebutted, further disclosures would be required.
- ▶ There would be some disclosure exceptions for entities applying the simplified approach for trade and lease receivables.

Previous key developments

- ▶ The three-bucket approach is intended to reflect the general pattern of the deterioration in the credit quality of financial assets. All financial assets would initially be included in Bucket 1, regardless of credit quality except for credit-impaired assets and when an entity is required or has opted for the policy to apply the simplified approach.
- ▶ The allowance for financial assets in Bucket 1 would capture expected losses related to loss events expected in the next 12 months, with a corresponding charge to profit or loss. The allowance for assets in Buckets 2 and 3 would capture lifetime expected losses.
- ▶ Interest revenue would be calculated on the gross carrying amount for assets in Buckets 1 and 2. When there is objective evidence of impairment (as defined in IAS 39), assets would move from Bucket 2 into Bucket 3 and interest revenue would be calculated on the carrying amount net of impairment.
- ▶ The simplified approach would be required for trade receivables without a significant financing component and available as a policy election for lease receivables and trade receivables with a significant financing component. Under this approach, an entity would recognise lifetime expected losses on initial recognition and throughout the receivables' lives. Therefore, an entity would not be required to track credit deterioration.
- ▶ The impairment requirements would apply on a retrospective basis, with some transition relief.
- ▶ New qualitative and quantitative disclosures would be introduced to supplement the proposed expected loss impairment model. □
- ▶ The FASB proposed a single, principles-based credit impairment model, called the current expected credit loss model. All entities would be affected by the proposal, which would change the way they estimate credit losses on receivables (e.g., trade, lease, reinsurance), debt securities and loans, including loan commitments.

What's next

The IASB plans to issue an ED on the three-bucket model in Q1 2013. Comments on the FASB proposal are due by 30 April 2013.

Financial instruments – hedge accounting

Background

Although hedging was intended to be a joint project, the Boards have issued separately developed EDs. The IASB's proposed hedging model is designed to align the accounting for hedging activities more closely with risk management practices and to simplify certain aspects of hedge accounting. The FASB's proposal attempts to simplify hedge accounting while leaving the basic framework intact, including what constitutes eligible hedge relationships.

References

- ▶ [IFRS Developments Issue 40: The general hedge accounting project on the home straight \(September 2012\) EYG no. AU1270](#)
- ▶ [IFRS Developments Issue 30: The IASB decouples macro hedge accounting from the IFRS 9 project \(May 2012\) EYG no. AU1185](#)
- ▶ [IFRS Outlook: Hedge accounting moves closer to risk management practices \(January 2012\) EYG no. AU1071](#)
- ▶ [IFRS Developments Issue 16: Hedge accounting – summary of redeliberations \(September 2011\) EYG no. AU0965](#)
- ▶ [IFRS Developments Issue 14: A step forward in hedge accounting \(August 2011\) EYG no. AU0926](#)
- ▶ [Hedge accounting under IFRS 9 – a closer look at the changes and challenges \(February 2011\) EYG no. AU0765](#)

Key developments to date

- ▶ The IASB released a review draft of the final standard on general hedge accounting.
- ▶ The macro hedge accounting project was decoupled from the IFRS 9 project. This will give the IASB more time to develop a macro hedge accounting model without affecting the timing of the completion of IFRS 9.
- ▶ When hedging a credit exposure using a credit derivative, an entity could, at any time, elect to account for the hedged item, such as a loan and loan commitment at FVTPL. The difference between the fair value and the carrying amount when the election is made would be recognised in profit or loss immediately.
- ▶ In a change from the ED, the IASB would permit the forward points of a foreign exchange forward contract (i.e., the forward premium or discount compared to the spot rate) that exist at the inception of a hedging relationship to be recognised in profit or loss over time on a rational basis. The subsequent changes in the fair value of the forward contract would be recorded in OCI.
- ▶ In another change from the ED, for a cash flow hedge of the foreign currency risk of a net position, the offsetting items in the hedged net position would not be required to affect the profit or loss in the same reporting period. However, the initial hedge documentation would need to describe how such items (within the net position) will affect profit or loss.
- ▶ Hedge accounting would be permitted for equity investments measured at FVOCI. However, hedge accounting would not be allowed for other exposures that affect OCI, such as defined benefit obligations.
- ▶ In a further change from the ED, the current accounting for fair value hedges would continue to apply.
- ▶ Hedge accounting would be permitted for components of financial and non-financial items, provided the risk component that is being hedged can be separately identified and reliably measured.
- ▶ There would be no bright line tests for hedge effectiveness assessments. A prospective hedge effectiveness test would be required based on the quantity of the hedged item that an entity actually hedges and the quantity of the hedging instrument that is actually being used to hedge that quantity of the hedged item. In addition, there must be an economic relationship between the hedged item and the hedging instrument, and the effect of credit risk must not dominate the changes in value that result from that relationship.
- ▶ After the inception of a hedging relationship, rebalancing would be required when an entity adjusts the quantities of the hedging instrument, or the hedged item in response to changes in circumstances that affect the hedge ratio.
- ▶ The IASB affirmed the ED's proposal that a hedge relationship may be discontinued only when it no longer meets the qualifying criteria. Voluntary discontinuation would be prohibited if the risk management objective remains unchanged.

What's next

The IASB expects to finalise its discussions on hedge accounting at its January 2013 meeting and to issue its amendments to IFRS 9 in Q1 2013. The IASB is also developing proposals on macro hedge accounting and intends to issue a separate discussion paper (DP) in the first half of 2013.

Background

The Boards want to develop a single, common revenue recognition model that can be applied to most contracts with customers. Leases, insurance contracts, financial instruments and certain non-monetary transactions would be excluded from the scope. IFRS is perceived as lacking necessary application guidance, while US GAAP has been criticised for complexity in the revenue recognition area. Under the joint proposal the Boards exposed in November 2011, revenue would be recognised when an entity satisfies its obligations to customers, which occurs when control of the good or service is transferred to the customer. All entities would apply the standard retrospectively, although some practical relief from full retrospective application would be permitted with appropriate disclosures. A final standard would not be effective before 1 January 2015.

References

- ▶ [IFRS Developments - Issue 49: Boards progress further on revenue re-deliberations \(December 2012\)](#) EYG no. AU1396
- ▶ [IFRS Developments - Issue 46: The Boards progress on revenue recognition re-deliberations \(November 2012\)](#) EYG no. AU1348
- ▶ [Applying IFRS: Joint revenue recognition project – Boards to begin re-deliberations on key issues \(May 2012\)](#) EYG no. AU1183
- ▶ [IFRS Outlook: More work needed on revenue recognition \(March 2012\)](#) EYG no. AU1139
- ▶ [Applying IFRS: Revenue from contracts with customers – the revised proposal \(January 2012\)](#) EYG no. AU1074

A number of sector-specific publications on this project are also available on www.ey.com/ifrs.

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- ▶ The objective of the proposed constraint on variable consideration would be clarified by explaining that an entity should have a high degree of certainty that any revenue recognised will not subsequently be subject to significant reversals. In addition, the constraint would be applied when determining the total contract consideration, rather than when recognising revenue as previously proposed.
- ▶ The specific constraint associated with sales-based royalties on licensed intellectual property would be removed.
- ▶ The effects of customer credit risk would be presented prominently as a separate line item in expenses, rather than adjacent to revenue.
- ▶ Licences of intellectual property would be treated as either rights transferred to a customer at a point in time or promises to provide access over time, depending on the nature of the licence.
- ▶ Consistent with the 2011 proposal, for contracts longer than one year, an entity would recognise the incremental contract acquisition costs as an asset (capitalisation would be permitted, but not required, for contracts with a duration of less than one year). Certain direct costs incurred in fulfilling a contract would also be capitalised. Such costs would be recognised in the statement of comprehensive income consistent with the pattern of transfer of the related good or service.

Previous key developments

- ▶ The proposed requirement for an onerous test would be removed. Existing requirements under IFRS and US GAAP would be applied to determine whether a provision for an onerous contract is needed.
- ▶ An entity would account for promised goods or services separately if they are distinct. An entity would consider both the individual goods and services promised and how those goods and services are bundled in the arrangement to make that determination. An entity would account for a bundle of goods and services as one performance obligation if the goods and services are highly dependent on, or highly interrelated with, other goods and services in the contract.
- ▶ Variable consideration would be estimated based on a probability weighting or the amount most likely to be received, whichever best predicts the amount to which the entity is entitled. However, the cumulative amount of revenue recognised would be subject to a constraint.
- ▶ A performance obligation would be satisfied continuously if: (i) the entity's performance creates or enhances an asset that the customer controls as the asset is being created; (ii) the customer receives and consumes the benefits of the entity's performance as the entity performs; or (iii) the entity's performance does not create an asset with alternative use to the entity and the entity has a right to payment for performance completed to date. The requirements for identifying separate performance obligations and the criteria for determining whether performance obligations are satisfied over time or at a point in time were clarified in redeliberations. For example, the Boards decided to provide application guidance on distribution networks to help entities determine when a performance obligation exists.

What's next

Re-deliberations are expected to continue into early 2013.

Background

Although current requirements under IFRS and US GAAP are similar, the Boards consider this a priority project because they believe significant improvement in the accounting for leases is needed.

Based on the Boards' re-deliberations, lessees would be required to recognise lease-related assets and liabilities on the balance sheet for most leases. Lessees and lessors would use the same criteria to classify leases on the basis of whether the lessee acquires and consumes more than an insignificant portion of the underlying asset over the lease term. The classification of a lease would affect how the lessee and the lessor account for the lease. Lessees and lessors would be required to make a number of estimates and periodically reassess those estimates in accounting for leases. The standard would affect existing leases at transition.

References

- ▶ [Applying IFRS: Leases project on the brink of re-exposure \(September 2012\) EYG no. AU1267](#)
- ▶ [IFRS Developments Issue 32: Circling back to straight-line leases but with a twist \(June 2012\) EYG no. AU1200](#)

Key developments to date

- ▶ The Boards clarified the key concepts underlying the definition of a lease to align control concepts with other standards. These changes could exclude from the scope certain contracts that are currently accounted for as leases.
- ▶ Both lessees and lessors would use the same criteria, based primarily on the nature of the underlying asset, to distinguish between two types of leases. For lessees, leases of property (i.e., land, a building or part of a building) generally would have a straight-line lease expense recognition pattern, and leases of assets other than property (e.g., equipment) generally would have an accelerated lease expense recognition pattern. Lessors generally would apply operating lease accounting to property leases and the receivable and residual approach to leases of assets other than property.
- ▶ Lessees would be required to recognise all leases (other than short-term leases) on the balance sheet.
- ▶ Lessors applying the receivable and residual approach would recognise a lease receivable, a residual asset and any profit or loss at the commencement of each lease. Over the term of the lease, the lessor would recognise income related to interest on the receivable and accretion of the residual asset.
- ▶ Both lessees and lessors could elect to apply current operating lease accounting to short-term leases.
- ▶ The lease term for accounting purposes would include optional periods when there is a significant economic incentive for the lessee to extend or not terminate the lease (e.g., renewal rates priced at a bargain).
- ▶ Lease payments would not include contingent rents based on performance or usage. Instead, such contingent rents would be recognised as expense or income when they are incurred or accrued.
- ▶ Reassessment of certain key considerations (e.g., lease term, contingent rents that depend on an index or rate) would be required throughout the life of the lease. The reassessment requirements would vary, as would the offset recorded when the liability to make lease payments or lease receivable is adjusted.
- ▶ All non-lease components (including services and executory costs) of contracts containing both lease and non-lease components would be separated from the lease components, except in limited circumstances.
- ▶ Determining whether a sale-leaseback transaction is accounted for as a sale and a lease, or as a financing transaction, would be based on revenue recognition requirements. The existence of the leaseback would not, in isolation, prevent the transaction from being accounted for as a sale and leaseback. However, the Boards identified certain conditions that would indicate that a sale has not occurred, requiring the transaction to be accounted for as a financing.
- ▶ In transition, lessees and lessors could follow either a full retrospective approach or a modified retrospective approach (i.e., an approach that allows certain types of relief that the Boards designed to reduce transition costs).

What's next

The Boards expect to issue a second ED in Q1 2013.

Background

The IASB's ED contains a proposal for a comprehensive model on the accounting for insurance contracts. The FASB issued a DP to solicit input on both its preliminary views and the IASB's ED. The Boards continue to jointly re-deliberate the proposal, but acknowledge they will not issue a single standard.

References

- ▶ [Insurance Accounting Alert: IASB and FASB continue to deliberate the insurance contracts standard \(November 2012\) EYG no. AU1343](#)
- ▶ [Insurance Accounting Alert: Boards discuss recognition of acquisition costs in the pre-coverage period and accounting for insurance contracts at transition, IASB discussed exposure \(October 2012\), EYG no. AU1326](#)
- ▶ [Insurance Accounting Alert: Boards decide on allocation of cash flows; discussions continue on earned premium presentation for contracts \(July 2012\) EYG no. AU1236](#)
- ▶ [Insurance Accounting Alert: Boards review OCI, unbundling investment components and recognition of acquisition costs \(June 2012\) EYG no. AU1197](#)
- ▶ [Insurance Accounting Alert: Boards discuss reinsurance accounting, insurance contracts and decisions on policy loans and riders \(May 2012\) EYG no. AU1174](#)
- ▶ [Applying IFRS: Limited improvements to IFRS classification and measurement: The impact for insurers and next steps \(March 2012\) AU1101](#)

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- ▶ Acquisition costs would be reported as part of the portfolio of insurance contracts.
- ▶ Premiums presented in the statement of comprehensive income would be measured using earned premiums under both the building block approach (BBA) and premium allocation approach (PAA).
- ▶ Upon initial adoption of the insurance contracts standard, an insurer would be permitted to re-designate eligible financial assets.
- ▶ For contracts with cash flows that are affected by expected asset returns, certain changes in the insurance liability resulting from changes in the discount rate would be presented in OCI, while others would be presented in profit or loss.
- ▶ Interest expense reported in profit or loss on the liability for incurred claims would be determined based on the rate at the inception of the contract.
- ▶ The IASB expects the period between the issuance of the final insurance contracts standard and the mandatory effective date to be around three years. Insurers would need to restate comparatives. Early adoption of the final standard would be permitted.

Previous key developments

- ▶ The Boards agreed to eligibility criteria for the PAA. If the criteria are met, the IASB would allow the use of the PAA and the FASB would require it.
- ▶ Distinct investment components of insurance contracts (i.e., investment components that are not highly interrelated with the insurance component) would be unbundled and measured separately under the financial instruments standard.
- ▶ The IASB decided that the BBA would contain an explicit risk adjustment and residual margin. The IASB's residual margin would be adjusted (i.e., unlocked) on a prospective basis for changes in estimates of cash flows, and would be amortised over the coverage period. The FASB decided that the measurement under the BBA would include a single margin.
- ▶ The standards would not prescribe a particular method for determining the discount rate, but the rate should reflect the characteristics of the liability and should be updated each reporting period. To the extent that cash flows depend on the performance of specific assets, the rate should reflect that dependence.
- ▶ The IASB would include in the scope of its proposal investment contracts with discretionary participation features written by insurers, while the FASB's proposals would not.
- ▶ The Boards decided that preparers should retrospectively apply the standard at transition, but provided a practical expedient if full retrospective application is not practicable.

What's next

The IASB expects to issue a revised ED in the first half of 2013, but will only seek feedback on a limited number of issues.

Background

Under IFRS 10 *Consolidated Financial Statements*, more judgement is required to determine whether one entity controls another. IFRS 10 is similar to US GAAP for the consolidation of variable interest entities, but creates new differences between IFRS and US GAAP in some areas. Some long-standing differences between IFRS and US GAAP also remain, including differences with respect to the concept of *de facto* control and considerations of potential voting rights. In June 2012, the IASB issued amendments to the transition guidance in IFRS 10 along with related amendments to IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*.

References

- ▶ [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 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 arrangement and disclosures accounting standards mean to you? \(June 2011\) EYG no. AU0853](#)

Overall project background

The IASB's consolidation project was conducted in two phases: the consolidation model, and the exception to consolidation for investment entities. The IASB split the project into two phases to allow it to publish IFRS 10, while allowing time for due process regarding proposed changes to accounting by investment entities. The IASB issued IFRS 10 in May 2011. IFRS 10 establishes a single consolidation model for all entities that will result in closer alignment with US GAAP on consolidation of variable interest entities and related disclosures. The FASB previously had worked with the IASB on a single consolidation model, but the FASB disagreed with the application of certain principles (e.g., potential voting rights, *de facto* control) in the IASB's model. Instead, the FASB decided to make targeted revisions to the two consolidation models in US GAAP to more closely align the models with IFRS. In 2011, the Boards each issued proposals on investment entities. In October 2012, the IASB issued its amendment on investment entities.

Highlights of the standard

- ▶ Under IFRS 10, control exists when the reporting entity is exposed, or has rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its power over that other entity.
- ▶ IFRS 10 must be applied using a modified retrospective approach.
- ▶ An 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 *Consolidated and Separate Financial Statements/SIC-12 Special Purpose Entities*, no retrospective application is required.
 - ▶ However, if the control assessment 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. Similar relief has been provided in the transition guidance of IFRS 11 and IFRS 12.
- ▶ The FASB's proposal would affect all reporting entities, particularly those in the asset management industry, and would rescind the current FAS 167 *Amendments to FASB Interpretations No. 46 (R)* deferral for certain investment entities.

What's next

IFRS 10, IFRS 11 and IFRS 12 are effective for annual periods beginning on or after 1 January 2013. The FASB will continue re-deliberations and expects to issue final guidance in the first half of 2013.

Consolidation – investment entities

Background

In 2011, the Boards issued separate proposals to define an investment entity and to provide the accounting requirements for its investments. The concept of an investment entity is new to IFRS. In October 2012, the IASB issued its investment entities amendment to IFRS 10, along with related amendments to IFRS 12 and IAS 27.

References

- ▶ [IFRS Developments Issue 44: Investment entities final amendment – exception to consolidation \(October 2012\) EYG no. AU 1330](#)
- ▶ [IFRS Developments Issue 34: Investment entities E the plot thickens \(June 2012\) EYG no. AU1212](#)

Highlights of the amendment

- ▶ An entity must meet all three elements of the definition and consider whether it has four typical characteristics, in order to qualify as an investment entity.
- ▶ The three elements of the definition are:
 - ▶ Obtaining funds from one or more investors for the purpose of providing those investor(s) with professional investment management services
 - ▶ Committing to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both
 - ▶ Measuring and evaluating the performance of substantially all of its investments on a fair value basis
- ▶ The four typical characteristics of an investment entity are that it has:
 - ▶ More than one investment, in order to diversify the risk portfolio and maximise returns
 - ▶ Multiple investors who pool their funds to maximise investment opportunities
 - ▶ Investors that are not related parties of the entity
 - ▶ Ownership interests in the form of equity or similar interests
- ▶ The absence of one or more of the typical characteristics does not necessarily disqualify an entity from being an investment entity, but additional disclosure is required.
- ▶ An entity must consider all facts and circumstances, including its purpose and design, in making its assessment.
- ▶ An investment entity does not consolidate its subsidiaries (unless the subsidiary provides services that relate only to the entity's own investment activities).
- ▶ The Boards diverged on retention of fair value accounting by a non-investment company parent. The IASB requires a non-investment entity parent of investment entities to apply IFRS 10 and consolidate all controlled investments, while the FASB decided that a non-investment entity parent would retain the fair value accounting of the controlled investment entity.
- ▶ An investment entity is required to measure its investments in subsidiaries, associates and joint ventures at FVTPL, in accordance with IFRS 9. This requirement does not apply to investments in associates and joint ventures that provide services to the investment entity, which must be accounted for using the equity method of accounting.
- ▶ For non-investment entities, the existing option in IAS 28 *Investments in Associates*, to measure investments in associates and joint ventures at FVTPL, has been retained.

What's next

The investment entities amendment is effective for annual periods beginning on or after 1 January 2014, with early adoption allowed. The FASB plans to issue its final guidance on investment entities in the first half of 2013.

Joint projects completed in 2011

Financial instruments – balance sheet offsetting

Standards issued in December 2011

- ▶ IASB: Amendments to IFRS 7 and IAS 32
- ▶ FASB: ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*²

References

- ▶ [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](#)

Presentation of other comprehensive income³

Standards issued in June 2011 and December 2011

- ▶ IASB: Amendments to IAS 1 *Presentation of Financial Statements*
- ▶ FASB: ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*
- ▶ FASB: ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*

References

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

Fair value measurement

Standards issued in May 2011

- ▶ IASB: IFRS 13 *Fair Value Measurement*
- ▶ FASB: ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*

References

- ▶ [IFRS Developments Issue 2: Fair value measurement guidance converges \(May 2011\) EYG no. AU0840](#)
- ▶ [Applying IFRS: Fair Value Measurement \(November 2012\) EYG no. AU1362](#)

Note: No joint projects have been completed by the FASB in 2012. The IASB completed its project on consolidation in Q4 2012.

² In November 2012, the FASB proposed a scope clarification of ASU 2011-11.

³ In Q1 2013, the FASB is expected to issue a standard that would require enhanced disclosures about items reclassified out of accumulated OCI.

Joint projects timeline

	2010 – 2011 (highlights of prior activity)				Q1 – Q3 2012	Q4 2012	Q1 2013	Q2 2013
Financial instruments								
Classification and measurement	IASB	Final¹				ED ²		
	FASB	ED ³		ED ⁴			ED	
Impairment	IASB	SD					ED	
	FASB	ED ³	SD			ED		
Hedge accounting – general	IASB	ED		Review Draft			Final	
	FASB	ED ³	DP					
Hedge accounting – macro	IASB						DP	
Revenue recognition	IASB	ED	ED	RT			Final	
	FASB	ED	ED	RT			Final	
Leases	IASB	ED					ED	
	FASB	ED					ED	
Insurance contracts	IASB	ED					ED	
	FASB	DP					ED	
Consolidation								
Consolidation	IASB	Final⁵						
	FASB	ED					Final	
Investment entities	IASB	ED		RT		Final		
	FASB	ED		RT			Final	

ED – Exposure draft RT – Roundtable SD – Supplementary document DP – Discussion paper

¹ The IASB's final IFRS on classification and measurement for financial liabilities. In 2011, the IASB deferred the mandatory effective date of IFRS 9.

² The IASB's project is to undertake limited scope improvements to IFRS 9.

³ The FASB issued a single comprehensive proposal on all three phases of this project.

⁴ In Q2 2012, the FASB separately issued an ED on liquidity and interest rate risk disclosures related to financial instruments.

⁵ In Q2 2012, the IASB issued an amendment to clarify the transition guidance in IFRS 10, IFRS 11 and IFRS 12.

⁶ In Q4 2012, the FASB proposed a scope clarification.

⁷ In Q1 2013, the FASB is expected to issue a standard that would require enhanced disclosures about items reclassified out of accumulated OCI.

⁸ Further action by the IASB on these projects is not expected in the near term.

Note: Our timeline for some projects is based on discussions with staff and may differ from the technical plan on the Boards' websites.

Joint projects completed in 2011

Financial instruments: balance sheet – offsetting⁶

Presentation of other comprehensive income⁷

Fair value measurement

Inactive projects⁸

Emissions trading schemes

Financial instruments with characteristics of equity

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ED None

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