

Joint Project Watch

IASB/FASB joint projects from an IFRS perspective

June 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 expected to soon begin re-deliberations of their second exposure draft (ED) on revenue recognition, and continue to re-deliberate other projects. We encourage you to actively follow the Boards' progress and to respond to requests for comment.

This publication is designed to give you a snapshot of key developments from an IFRS perspective, along with our observations about the potential implications for companies. We also include references to other Ernst & Young publications that provide more background and detail on the projects and proposals. These publications are available at www.ey.com/ifrs.

The following discussion on 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.

At this point, the Boards' decisions and our observations are all subject to change.

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Financial instruments – classification and measurement

Background

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. While the FASB's original proposals would require fair value measurement for many 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 are now jointly re-deliberating selected aspects of their standards. As a result of the re-deliberations, the FASB has made a number of significant changes to their original proposal, which will require less measurement at fair value.

References

- ▶ [IFRS Developments Issue 33: Financial instruments: classification and measurement - the ball continues to roll \(June 2012\) EYG no. AU1201](#)
- ▶ [IFRS Developments Issue 31: Financial Instruments: classification and measurement - the GAAP differences continue to narrow \(May 2012\) EYG no. AU1186](#)
- ▶ [Applying IFRS: New mandatory effective date and transition disclosures \(January 2012\) EYG no. AU1067](#)
- ▶ [IFRS Developments Issue 23: Limited improvements to the IFRS 9 classification and measurement model \(January 2012\) EYG no. AU1062](#)
- ▶ [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 *Financial Instruments*) 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.

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- ▶ To bring about greater convergence, the Boards decided that financial assets would qualify for:
 - ▶ 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.
 - ▶ Fair value through other comprehensive income (FVOCI), if the assets meet the cash flow characteristics assessment and if the entity's business model for a portfolio is to: (1) hold to collect contractual cash flows and (2) sell financial assets. This is consistent with the FASB's proposal.
 - ▶ Fair value through profit or loss (FVTPL) residual category, if the assets do not qualify for amortised cost or for FVOCI classification.
- ▶ The Boards decided that financial assets that have cash flows that are not solely principal and interest would not be eligible for bifurcation. Instead, they would be classified and measured in their entirety at FVTPL. This is consistent with the requirements of IFRS 9. Financial liabilities would be bifurcated using the existing bifurcation requirements in IFRS 9 and US GAAP.
- ▶ The IASB decided to extend the conditional option under IFRS 9 to designate financial assets as at FVTPL, to debt instruments that would otherwise be measured at FVOCI. The FASB's proposal already had a similar option, but the eligibility criteria were different.

Previous key developments

- ▶ IFRS 9 for financial assets was first published in November 2009. It was later updated in October 2010 to include financial liabilities.
- ▶ The IASB amended IFRS 9 to move the mandatory effective date from 1 January 2013 to 1 January 2015. The amendments no longer require restatement of comparatives. However, additional disclosures on transition are either required or permitted, depending on the entity's date of initial application of IFRS 9.
- ▶ The IASB decided to make a minor amendment to the application guidance of IFRS 9 with respect to the contractual cash flow characteristics test. The amendment would clarify that an instrument with modifying features can only be classified at amortised cost if the difference between the cash flows of such an instrument and the cash flows of a similar instrument without modifying features is insignificant.

What's next

The Boards plan to jointly address, amongst other things, accounting for reclassification of financial assets between measurement categories. The IASB is targeting to issue an ED for these changes in Q4 2012.

Financial instruments – impairment

Background

The Boards initially proposed different impairment models, but are now developing a joint approach to credit impairment based on variations of their previous proposals. The new model, based on expected losses, would split financial assets measured at amortised cost or FVOCI into three buckets based on their underlying credit risk characteristics and the unit of evaluation.

References

- ▶ [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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- ▶ Various approaches could be used to estimate expected losses, including leveraging existing approaches that do not explicitly weight the probability of various outcomes. However, the Boards clarified an estimate of expected losses would include:
 - ▶ All reasonable and supportable information considered relevant in making the forward-looking estimate
 - ▶ A range of possible outcomes that considers the likelihood and reasonableness of those outcomes (i.e., the use of a single most likely outcome would not be appropriate)
 - ▶ The time value of money
- ▶ For trade receivables without a significant financing component, an entity would measure impairment using lifetime expected losses, which could result in an allowance being recorded against the current portion of these trade receivables, with a corresponding charge to profit or loss.
- ▶ For lease receivables, an entity could make a policy election to either: (1) fully apply the three-bucket model or (2) always determine the impairment allowance by using lifetime expected losses.
- ▶ The IASB decided that an entity would consider the modified contractual cash flows when assessing whether any modified debt instrument would be eligible for transfer back to Bucket 1. The FASB decided that an entity would consider the original contractual cash flows when assessing whether a debt instrument that is modified due to the borrower's financial difficulty would be eligible for transfer back to Bucket 1.
- ▶ The IASB decided that an entity can elect to use a discount rate between, and including, the risk-free-rate and the IAS 39 effective interest rate when discounting expected losses.

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 purchased assets with an explicit expectation of credit losses at acquisition). 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 Bucket 2 or 3 would capture lifetime expected losses, but the unit of evaluation would differ. Financial assets evaluated on a group basis would be in Bucket 2, while assets evaluated on an individual basis would be in Bucket 3.
 - ▶ Assets would move into Bucket 2 or 3 when: (1) there has been a "more than insignificant" deterioration in credit quality; and (2) it is at least "reasonably possible" that the contractual cash flows will not be recoverable.
 - ▶ Financial assets initially classified in Bucket 1 (i.e., all originated loans and purchased financial assets with no explicit evidence of credit deterioration) that are transferred to Bucket 2 or 3 would move back into Bucket 1 if the criteria requiring transfer out of Bucket 1 are no longer satisfied.
- ▶ Purchased credit-impaired financial assets would follow a modified three-bucket approach. These assets would be captured in Bucket 2 or 3 without an initial impairment loss and would not be eligible to move into Bucket 1, regardless of any subsequent credit improvement. The purchase price would accrete to the expected cash flows using the credit adjusted effective interest rate at the time of purchase. Favourable and unfavourable changes in expected cash flows would be recognised immediately in profit or loss as adjustments to impairment expense.
- ▶ For trade receivables with a significant financing component, entities could make a policy choice to either: (1) fully apply the three-bucket model; or (2) always determine the impairment allowance by using lifetime expected losses.

What's next

In July 2012, the Boards will jointly consider disclosures and how to apply the approach to off-balance sheet commitments. The FASB will separately discuss how the tentative model could be applied to debt securities, the definition of purchased credit-impaired assets, other application guidance and transition. The Boards plan to issue a revised ED in Q4 2012.

Financial instruments – hedge accounting

Background

Although the hedging project is intended to be a joint project, the Boards have issued separate 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 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](#)

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- ▶ The IASB decided to decouple the macro hedge accounting project 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.

Previous key developments

- ▶ When hedging a credit exposure using a credit derivative, an entity could, at any time, elect to account for the loan or loan commitment (i.e., the hedged item) at fair value through profit or loss. 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 to 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 to 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 fair value through OCI. However, hedge accounting would not be allowed for other exposures that affect OCI, such as defined benefit obligations.
- ▶ In a change to 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.
- ▶ The IASB decided that, 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 finished its re-deliberations on general hedge accounting in September 2011. The IASB expects to make a draft of the final standard available on its website in Q3 2012. It is expected to be available on the website for about 90 days. The final standard is expected in the second half of 2012.
- ▶ The IASB is developing proposals on macro hedge accounting and intends to issue a separate discussion paper (DP) in the second half of 2012.

Background

The Boards want to develop a single, common revenue recognition model that can be applied to a wide range of industries and transactions. 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 re-exposed by the Boards 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.

References

- ▶ [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](#)
- ▶ [IFRS Practical Matters: Revenue recognition project: Round 2 for the exposure draft \(January 2012\) EYG no. AU1087](#)
- ▶ [IFRS Developments - Issue 18: IASB and FASB issue revised revenue recognition proposal \(November 2011\) EYG no. AU1008](#)

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

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- ▶ The Boards continued outreach efforts in roundtable meetings and other forums during April and May 2012.
- ▶ The Boards discussed a summary of feedback received and agreed on an initial re-deliberation plan for the topics they expect to address, including many significant issues such as continuous transfer of performance obligations, onerous performance obligations, variable consideration, disclosures and transition method.

Previous key developments

- ▶ The proposal would apply to most contracts with customers. Leases, insurance contracts, financial instruments, guarantees and certain non-monetary transactions would be excluded from the scope.
- ▶ Certain aspects of the proposal would result in significant changes from current practice, including:
 - ▶ An entity would account for promised goods or services separately if they are "distinct". The determination of "distinct" would consider both the individual goods and services promised as well as how those goods and services are bundled in the arrangement. An entity would account for a bundle of goods and services as one performance obligation if the goods and services are highly interrelated and transferring them requires significant integration and modification by the entity.
 - ▶ Variable consideration would be estimated based on a probability weighting or the amount most likely to be received, whichever best predicts the amount to be received. Variable consideration would be allocated to performance obligations, but the entity would recognise as revenue only the amounts to which it is reasonably assured to be entitled.
 - ▶ A performance obligation would be satisfied continuously if: (1) the entity's performance creates or enhances an asset that the customer controls as the asset is being created; or (2) the entity's performance does not create an asset with alternative use to the entity and certain criteria are met.
 - ▶ The scope of the onerous performance obligation test would be limited to performance obligations satisfied over a period greater than one year (determined at contract inception). Any loss and corresponding liability would be measured using the lesser of the cost to fully satisfy the performance obligation or the cost to exit the contract.
 - ▶ Allowances for uncollectible amounts would be presented as a separate line item adjacent to revenue in the statement of comprehensive income. Changes in estimated or actual collections would be recognised in the same line adjacent to revenue.
 - ▶ For contracts longer than one year, an entity would recognise the incremental costs of obtaining a contract as an asset (capitalisation would be permitted, but not required, for contracts with a duration of less than one year). The costs incurred in fulfilling a contract (e.g., set-up costs) 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.
 - ▶ 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.

What's next

Re-deliberations are expected to begin in July 2012 and to continue through December 2012.

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.

Lessees would be required to recognise lease-related assets and liabilities on the balance sheet for most leases. Lessees and lessors would use similar criteria to classify leases. 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.

Other references

- ▶ [IFRS Developments Issue 32: Circling back to straight-line leases but with a twist \(June 2012\) EYG no. AU1200](#)
- ▶ [IFRS Developments Issue 17: Operating lease accounting survives for some real estate lessors \(October 2011\) EYG no. AU0982](#)
- ▶ [IFRS Practical Matters: Lease accounting proposals - simplified, but not simple \(August 2011\) EYG no. AU0930](#)
- ▶ [Applying IFRS: Lessee model comes together as leases project progresses \(July 2011\) EYG no. AU0905](#)

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- ▶ The Boards decided that both lessees and lessors would use similar 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) would generally have a straight-line lease expense recognition pattern, and leases of equipment would generally have an accelerated lease expense recognition pattern. Lessors, including those with leases of investment property, would generally apply operating lease accounting to property leases and would generally apply the receivable and residual approach to equipment leases.

Previous key developments

- ▶ 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 of the proposal certain contracts that are currently accounted for as leases.
- ▶ 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 apply current operating lease accounting to short-term leases.
- ▶ The lease term for accounting purposes would include optional periods only 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).
- ▶ Variable lease payments based on performance or usage would not be included in the amounts recognised on the balance sheet. Instead, they would be recognised as expenses or income when they are incurred or accrued.
- ▶ Reassessment of certain key considerations (e.g., lease term, variable lease payments 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.
- ▶ No unique criteria would exist for sale-leasebacks. The determination of whether sale-leaseback transactions are accounted for as a sale and a lease, or as a financing transaction, would be based on revenue recognition requirements.
- ▶ 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 will address how their latest decisions affect previous decisions (e.g., transition and disclosure) and other remaining issues in the coming months and expect to issue a second exposure draft in late 2012.

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 proposals are far-reaching and would have a significant impact on insurers.

References

- ▶ [Insurance Accounting Alert: Boards discuss reinsurance accounting, insurance contracts and decisions on policy loans and riders \(May 2012\) EYG no. AU1174](#)
- ▶ [Insurance Accounting Alert: Boards agree on separation of investment component; but remain split on definition of a portfolio \(April 2012\) EYG no. AU1145](#)
- ▶ [Applying IFRS: Limited improvements to IFRS classification and measurement: The impact for insurers and next steps \(March 2012\) AU1101](#)
- ▶ [Insurance Accounting Alert: Boards make decisions on the premium allocation approach \(March 2012\) EYG no. AU1133](#)
- ▶ [Insurance Accounting Alert: IASB decides to consider limited improvement to IFRS 9; Boards discuss unbundling \(November 2011\) EYG no. AU1022](#)

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- ▶ Changes in the insurance liability resulting from changes in the discount rate would be presented in other comprehensive income.
- ▶ 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 both reinsurers and cedants would evaluate whether to account for reinsurance contracts under the Building Block Approach (BBA) or Premium Allocation Approach (PAA) using the same criteria as direct contracts. The FASB decided that cedants would evaluate reinsurance contracts applying the approach used for the underlying contracts, while reinsurers would use the same criteria used for direct contracts. For retroactive reinsurance, the single (FASB) or residual (IASB) margin included in the cedant's recoverable and the reinsurer's insurance contract liability would be amortised over the settlement period.
- ▶ The Boards arrived at slightly different definitions of a portfolio of insurance contracts and when those portfolios would be used as the unit of account.

Previous key developments

- ▶ 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 a current rate that is 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 decided that the measurement model 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 of an insurance contract liability would include a single margin. The Boards agreed to eligibility criteria for the PAA. If the criteria are met, the IASB would permit the use of the PAA and the FASB would require it.
- ▶ The objective of the risk adjustment in the IASB model is to determine the compensation an insurer requires for bearing the risk that the ultimate cash flows will exceed those expected. In a change from the ED, the IASB decided not to restrict the use of different techniques for estimating the risk adjustment. However, the IASB decided to retain the proposed disclosure of the confidence level equivalent in those estimations.
- ▶ Fixed-fee service contracts would be excluded from the insurance contracts model when certain criteria are met. The IASB would include investment contracts with discretionary participation features written by insurers in the scope of its proposal. The FASB would not include investment contracts with discretionary participation features.

What's next

The IASB plans to continue re-deliberating jointly with the FASB over the coming months. The IASB will issue either a review draft or an exposure draft in the second half of 2012.

Overall project background

The IASB's consolidation project is being 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 *Consolidated Financial Statements* 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. After hearing from constituents, the FASB decided not to move to a single control model for all entities. 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.

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](#)

Consolidation

Background

Under IFRS 10, 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*.

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- ▶ The IASB made the following amendments to the transition guidance in IFRS 10:
 - ▶ "The date of initial application" in IFRS 10 is defined as "the beginning of the annual reporting period in which IFRS 10 is applied for the first time". This is the date on which the assessment of whether control exists is required to be made.
 - ▶ If the control assessment is different between IFRS 10 and IAS 27 *Consolidated and Separate Financial Statements/SIC-12 Special Purpose Entities*, retrospective adjustments are required to be made. However, if the control assessment is the same, retrospective application is not required.
 - ▶ If more than one comparative period is presented, the amendments provide an additional relief by requiring only one period to be restated.
 - ▶ When an investor concludes under IFRS 10 that it needs to consolidate an investee that was not previously consolidated, the investor can apply either the earlier or the revised version of IAS 27 and IFRS 3 *Business Combinations*, as appropriate to its circumstances.
- ▶ The amendments are applicable for annual periods beginning on or after 1 January 2013.
- ▶ The Board also issued related amendments to the transition guidance of IFRS 11 and 12:
 - ▶ The amendments limit the requirement to provide adjusted comparative information to the immediately preceding period only. However, an entity may choose to provide this information for earlier periods. If the earlier comparative information is not restated, this must be made clear on the face of the financial statements.
 - ▶ The amendments to IFRS 12 remove the requirement to present comparative information for the disclosures of unconsolidated structured entities.

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. Concurrently, the FASB issued a separate proposal to define an investment property entity (a new term) and how it accounts for investments.

References

- ▶ [IFRS Developments Issue 34: Investment Entities - the plot thickens \(June 2012\) EYG no. AU1212](#)
- ▶ [IFRS Practical Matters: Would the proposed definition of an investment entity affect you? \(May 2012\) EYG no. AU1187](#)

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- ▶ The Boards agreed that an investment entity would no longer be required to meet the six previously proposed criteria, but rather to meet a definition that is based on certain of those criteria (e.g., express purpose and nature of the investment activities). Entities would not be required to meet the remaining proposed criteria, but would consider them when determining whether they qualify as investment entities.
- ▶ The Boards agreed to prohibit an investment entity from consolidating another controlled investment entity, including a master fund in a master-feeder and fund-of-funds structures. However, the FASB will further consider whether an investment entity parent that is regulated under the SEC's Investment Company Act of 1940 should be required to consolidate its wholly owned investment company subsidiaries.
- ▶ The Boards affirmed they will diverge on retention of fair value accounting by a non-investment company parent. The IASB favours requiring non-investment entity parents of investment entities to apply IFRS 10 and consolidate all controlled investments, while the FASB favours retaining the fair value accounting of the controlled investment entity.
- ▶ The IASB decided to require investment entities to measure their investments in associates and joint ventures at fair value through profit or loss. This requirement would 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 its investments in associates and joint ventures at fair value through profit or loss would be retained.

Previous key developments

- ▶ The Boards issued separate proposals. The definitions of an investment entity in US GAAP and IFRS would largely converge and both proposals generally would require an investment entity to account for its investments at fair value (consistent with current US GAAP). However, certain differences in accounting and reporting would remain as identified above.

What's next

The Boards will continue their re-deliberations in Q3 2012, with the aim of issuing final standards in the second half of 2012, before IFRS 10 becomes effective on 1 January 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*

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 income

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](#)

Inactive joint projects

Reporting discontinued operations

Background

The Boards plan to align their definitions of discontinued operations and related disclosures.

Emissions trading schemes

Background

The Boards have acknowledged this area is becoming more important, as more countries adopt allocation and trading systems to control emissions.

Financial statement presentation

Background

The proposed model would significantly change the way that entities present their statements of financial position, comprehensive income and cash flows. It would also require more disaggregation of information within the primary financial statements.

Financial instruments with characteristics of equity

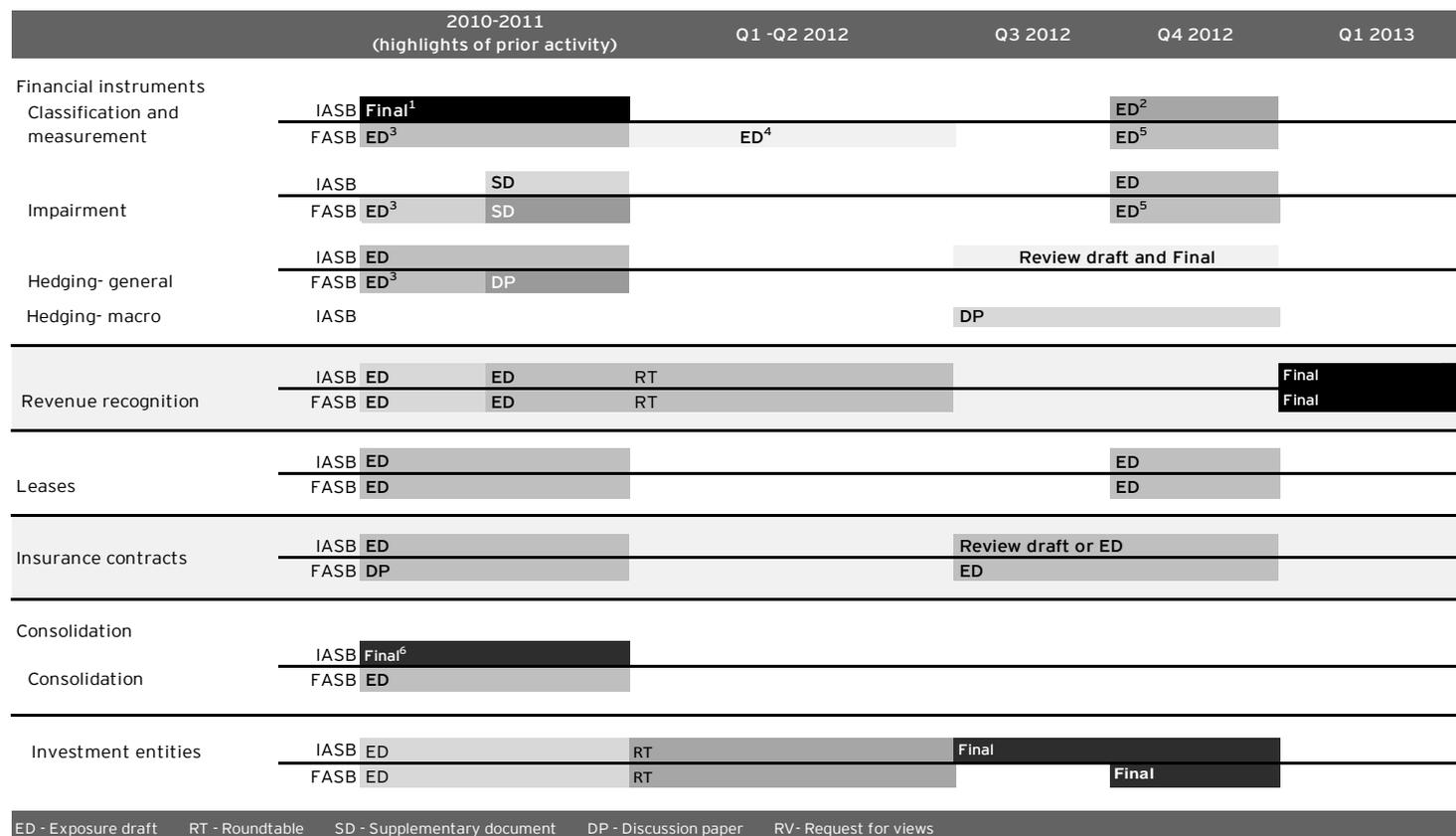
Background

The project to distinguish equity instruments from those that are assets or liabilities responds to criticism that the existing IFRS and US GAAP requirements are complex and inconsistent.

What's next

The above projects were assessed as lower-priority projects. The IASB will consider next steps for these projects as part of its agenda consultation process.

Joint projects timeline



Joint projects completed in 2011
Financial instruments: balance sheet -offsetting
Presentation of other comprehensive income ⁷
Fair value measurement
Inactive joint projects
Reporting discontinuing operations
Emissions trading schemes
Financial statement presentation
Financial instruments with characteristics of equity

¹ The IASB's final IFRS on classification and measurement for financial liabilities. In Q4 2011, the IASB deferred the mandatory effective date of IFRS 9.

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

³ The FASB issued single a comprehensive proposal on its 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 The FASB will at a minimum expose the proposed amendments to the Codification, and may decide to fully re-expose the model.

⁶ In Q2 2012, the IASB issued an amendment to clarify the transition guidance in IFRS 10, IFRS 11 and IFRS 12.

⁷ The FASB is reconsidering some elements of this standard.

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

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