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# IASB Projects A pocketbook guide

As at 30 June 2011

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<b>Other projects</b>	<b>Key developments to date</b>	<b>Implications</b>
<p><b>Research and other projects</b> (Request for Views expected Q3 2011)</p>	<p>In addition to the ongoing projects discussed above, the Board is considering the following projects for its future agenda in 2011:</p> <ul style="list-style-type: none"> <li>▶ Rate-regulated activities</li> <li>▶ Extractive activities</li> <li>▶ Common control</li> <li>▶ Earnings per share</li> <li>▶ Government grants</li> <li>▶ Intangible assets</li> </ul> <p>The IASB will seek constituents' views in determining the overall balance and strategic direction of its future agenda.</p>	

Other projects	Key developments to date	Implications
<b>Liabilities (IAS 37 amendments)</b>	<p><b>Scope:</b> Applies to all liabilities except:</p> <ul style="list-style-type: none"> <li>▶ Liabilities that are already within the scope of other standards (e.g., financial liabilities, pension liabilities, income tax liabilities and insurance liabilities).</li> <li>▶ Executory contracts that are not onerous.</li> </ul> <p><b>Key features:</b></p> <ul style="list-style-type: none"> <li>▶ The Board issued its latest ED in January 2010. Based on feedback on the ED, the IASB expanded the scope of the project and plans to issue an ED on a revised comprehensive standard. The IASB is considering further outreach activities and expects to continue discussion on this topic later in 2011.</li> <li>▶ A liability would be defined as 'a present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits'.</li> <li>▶ Unlike IAS 37, the recognition criteria proposed in the ED would no longer require a probable outflow of resources to recognise a liability. Instead, an entity would account for uncertainty about the amount and timing of outflows by using the probability-weighted average of the outflows for the range of possible outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>▶ The main impact is expected to be on items previously treated as contingent liabilities.</li> <li>▶ New processes and changes to the information systems would be needed to capture information required by the standard. Entities would need to obtain evidence of the range of possible outcomes and their probabilities.</li> <li>▶ Timing and quantum of liabilities recognised may change compared with what is recognised under current IAS 37. There is a potential impact on financial ratios and debt covenant compliance.</li> </ul> <p><i>Ernst &amp; Young has raised concerns about the practical application of the proposed requirements, particularly the difficulty in accounting for uncertainty under the proposed model (which eliminates contingent liabilities).</i></p>

## Introduction

We hope you have found the previous editions of this pocketbook guide helpful. This edition has been updated for the issuance of four new IFRS, four amended standards, one Exposure Draft (ED) and a supplementary document to a previous ED (SD) issued by the International Accounting Standards Board (IASB or the Board). We have also updated the summaries provided herein for the Board's modified Work Plan and tentative decisions made up to 30 June 2011.

The IASB issued the following four new standards in May 2011 (effective for annual periods beginning on or after 1 January 2013): IFRS 10 *Consolidated Financial Statements*; IFRS 11 *Joint Arrangements*; IFRS 12 *Disclosures of Interests in Other Entities*; and IFRS 13 *Fair Value Measurement*. The issuance of IFRS 10 and IFRS 11 resulted in amendments to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The IASB also published amendments to IAS 19 *Employee Benefits* and IAS 1 *Financial Statement Presentation*, which significantly change the accounting for post-employment benefits and presentation of other comprehensive income (OCI), respectively. The SD and ED were issued early in 2011 as part of the Board's financial instruments project. Other significant updates in 2011 include tentative decisions made on significant aspects of the leases, revenue recognition, financial instruments and insurance contracts projects.

The IASB updated its Work Plan on 30 June 2011 to reflect the amended timetable for its projects. This includes a deferral of final standards on leases, revenue recognition, insurance contracts and remaining phases of financial instruments. The IASB also recently decided to formally expose the revenue recognition proposal for a second time because they have made significant changes to the model they proposed last year. The decision to re-expose the revenue recognition proposals will allow constituents an opportunity to provide further feedback on the proposals.

In addition, the delays in the timetable for the Board's projects will allow for more field testing prior to finalising the final standards. An estimated timeline of the changes to IFRS expected as a result of the projects is set out on page 5 of this pocketbook guide. Please note that this timeline is subject to change by the IASB and full details are available on the IASB website.

We also refer you to our *Joint Project Watch – IASB/FASB joint projects from an IFRS perspective* for additional details of projects discussed in this pocketbook guide that have been undertaken jointly with the US Financial Accounting Standards Board (FASB and collectively with the IASB, the Boards). The *Joint Project Watch*, first issued in February 2011, provides a snapshot of the key developments on joint projects from an IFRS perspective, together with our observations on the potential implications for entities. We plan to update this publication regularly based on the key decisions made by the Boards.

We trust that you will find this guide, as well as the *Joint Project Watch*, useful.

Yours sincerely,

Ruth Picker  
Global Leader – IFRS Services  
Global Professional Practice

June 2011

<p><b>Implications</b></p> <p><i>Ernst &amp; Young, along with other respondents, had highlighted that the initial proposed changes in the project were more difficult to interpret, and less easy to understand conceptually than the current IAS 12. Ernst &amp; Young also recommended that amendments be made to IAS 12 rather than the complete replacement of IAS 12 as originally proposed in the ED. We are pleased to note that the IASB has taken the various responses into consideration and has now decided to re-focus the project.</i></p>	<p><b>Key developments to date</b></p> <p><b>Scope:</b></p> <ul style="list-style-type: none"> <li>▶ The Board issued an amendment to IAS 12 Income Taxes in Q4 2010, which addresses the recovery of underlying assets and its impact on the measurement of deferred taxes. Refer to IFRS Update for financial year ending 30 June 2011 for details of the amendment.</li> <li>▶ The Board will consider how to address other practical issues within the scope of the income taxes project later in 2011. This includes issues regarding uncertain tax positions where developments would follow from the revision of IAS 37.</li> </ul>	<p><b>Other projects</b></p> <p><b>Income taxes</b></p>
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<p><b>Background</b></p> <p>The onset of the financial crisis and ongoing efforts to converge IFRS and US GAAP have resulted in increased scrutiny of accounting standards by the financial community, including: government, the G-20 and regulators. The IASB's updated Work Plan for completing these projects can be broadly classified as:</p> <ul style="list-style-type: none"> <li>▶ Joint priority projects (those joint projects for which completion is targeted in 2011 and 2012)</li> <li>▶ Other projects</li> </ul> <p>The various joint priority projects are projects between the IASB and FASB. Other projects, namely effective dates and transition, financial statement presentation, financial instruments with characteristics of equity and emissions trading schemes, have also been jointly undertaken by the Boards. In addition, the IASB has completed a number of individual projects in 2011, namely joint arrangements and post-employment benefits (including pensions).</p> <p>This pocketbook guide provides a summary of the key features of the proposed standards based on tentative decisions made as of 30 June 2011, potential financial and business implications and Ernst &amp; Young's views on the respective projects that have been shared with the Board. Our views are developed and agreed globally, with input from sectors and subject matter groups. We also align the views we express to the FASB with those we express to the IASB. The Boards have been open and relatively responsive to comments received on their projects.</p> <p>If you require more detail on any of the projects, please contact your Ernst &amp; Young representative. You may also wish to refer to our Global IFRS resources on <a href="http://www.ey.com/ifrs">www.ey.com/ifrs</a> for further details of these projects or other IASB projects.</p>
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Other projects	Key developments to date	Implications
<b>Emissions trading schemes (joint Boards)</b>	<p><b>Scope:</b> Accounting for tradable emissions rights and obligations arising under emissions trading schemes, as well as activities undertaken in contemplation of receiving such rights in future periods. The standard is expected to apply to participants in a scheme and non-participants that buy and sell tradable rights.</p> <p><b>Key features:</b></p> <ul style="list-style-type: none"> <li>▶ This project has been put on hold as part of the Boards modified work plan that was announced in November 2010. Discussion is expected to recommence later 2011.</li> <li>▶ Prior to the delay in the project, the Boards tentatively determined that purchased and allocated allowances would meet the asset recognition criteria and that a liability would exist when the allowances are allocated. However, the Boards will continue to discuss the measurement basis on initial and subsequent recognition.</li> <li>▶ The Boards also intend to address in their deliberations whether the emissions obligation in excess of the allocated credits should also be recognised as a liability and whether net presentation of the obligation and the allowance is appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Entities with such schemes should continue to monitor developments on the project.</li> <li>▶ The project could result in greater income statement volatility and require increased tracking of market inputs if the Boards mandate a fair value approach for initial and subsequent measurement of emissions credits and the related scheme obligation.</li> </ul>

### Project timeline

Ongoing projects	2011				2012	
	Q1	Q2	Q3	Q4	Q1	Q2
<b>Financial instruments<sup>1</sup></b>						
Impairment	SD			■ <sup>4</sup>		
General hedge accounting				▲		
Portfolio ('macro') hedge accounting				■		
Asset and liability offsetting	■		▲			
<b>Consolidation</b>		▲ <sup>3</sup>				
Investment companies			■			
<b>Fair value measurement</b>		▲ <sup>2,3</sup>				
<b>Financial statement presentation – statement of comprehensive income</b>		▲ <sup>3</sup>				
Leases	○		■ <sup>4</sup>			▲
Revenue recognition			■			▲
Joint arrangements		▲ <sup>3</sup>				
Post-employment benefits		▲ <sup>3</sup>				
Insurance contracts				■ <sup>4</sup>		▲

■ Exposure draft (including re-exposure)    ○ Roundtable discussions    ▲ Final standard    SD Supplementary document

<sup>1</sup> The IASB addressed this project in stages. Final IFRS for classification and measurement of financial assets and liabilities were issued in Q4 2009 and Q4 2010, respectively.

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

<sup>3</sup> Final IFRS issued in 2011.

<sup>4</sup> Re-exposure or Review draft.

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

<p><b>Joint priority projects</b></p>	<p><b>Key developments to date</b></p>	<p><b>Consolidation – overview</b></p>
<p><b>Implications</b></p> <p>▶ Splitting the project into three parts allowed the IASB to complete its projects on consolidated financial statements, which were accelerated as a result of the 2008 financial crisis, while allowing time for due process regarding the proposed changes in the accounting for investment entities.</p>	<p><b>Update:</b></p> <ul style="list-style-type: none"> <li>▶ This project has three parts: <ul style="list-style-type: none"> <li>▶ IFRS 10 <i>Consolidated Financial Statements</i>, published in Q2 2011, replaces portions of IAS 27 <i>Consolidated and Separate Financial Statements</i> and the interpretation SIC-12 <i>Consolidation – Special Purpose Entities</i>.</li> <li>▶ IFRS 12 <i>Disclosure of Interests in Other Entities</i>, published in Q2 2011, includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as both consolidated and unconsolidated structured entities.</li> <li>▶ A separate ED of proposed changes to consolidation requirements for investment entities is targeted to be issued in Q3 2011.</li> <li>▶ IFRS 10 and 12 were accompanied by consequential amendments to IAS 27 <i>Separate Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i>.</li> <li>▶ Requirements in IAS 27 (as revised in 2011) are limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. IAS 28 (as revised in 2011) describes significant influence, and how to apply the equity method for investments in associates and joint ventures.</li> </ul> </li> </ul>	

<p><b>Other projects</b></p>	<p><b>Key developments to date</b></p>	<p><b>Financial instruments with characteristics of equity</b></p>
<p><b>Implications</b></p> <p><i>Ernst &amp; Young had recommended that the Boards jointly develop a conceptual framework for defining liabilities and equity. However, in the meantime, for the purpose of short-term convergence with US GAAP, amendments to current IAS 32 could be made.</i></p>	<p><b>Scope:</b></p> <ul style="list-style-type: none"> <li>▶ The IASB received comments from external reviewers on a staff draft of the ED that the proposed approach did not provide adequate principles for consistent application of the proposed model.</li> <li>▶ This project has been put on hold as part of the Boards' modified Work Plan announced in November 2010. Discussion is expected to recommence later in 2011.</li> </ul>	

Other projects	Key developments to date	Implications
<p><b>Financial statement presentation – other comprehensive income</b> (IFRS issued Q2 2011)</p>	<p><b>Update:</b> The IASB issued amendments to IAS 1 in June 2011.</p> <p><b>Scope:</b> Applies to all reporting entities.</p> <p><b>Key features:</b></p> <ul style="list-style-type: none"> <li>▶ The changes were proposed in response to an increased number of items in OCI due to changes to IFRS 9 and IAS 19.</li> <li>▶ The amendments retain the option to present the statement of comprehensive income either in a single continuous statement or in two separate, but consecutive, statements.</li> <li>▶ Separate presentation of OCI items that will and will not be reclassified into future profit or loss is required.</li> <li>▶ Entities will retain the option to present the tax effect of items of OCI gross or net.</li> </ul> <p><b>Transition:</b> These amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012 with full retrospective application.</p>	<ul style="list-style-type: none"> <li>▶ There will be a need to distinguish the components of OCI in greater detail than is currently required.</li> </ul>

Joint priority projects	Key developments to date	Implications
<p><b>Consolidation</b> (IFRS 10 issued Q2 2011)</p>	<p><b>Scope:</b> An entity consolidates all entities that it controls.</p> <p><b>Key features:</b></p> <ul style="list-style-type: none"> <li>▶ Control exists when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.</li> <li>▶ An investor has power when it has existing rights that give it the current ability to direct the activities that significantly affect the investee's returns ('the relevant activities').</li> <li>▶ Judgement is required to assess the facts and circumstances when determining whether the reporting entity has control over the investee.</li> <li>▶ An investor is any party that potentially controls an investee; a party need not hold an equity investment to be considered an investor.</li> <li>▶ Exposure to risks and rewards is an indicator of control, but does not in itself constitute control.</li> <li>▶ Power arises from substantive rights.</li> <li>▶ Consolidation is required until such time as control ceases, even if control is temporary.</li> </ul>	<ul style="list-style-type: none"> <li>▶ IFRS 10 creates a broader definition of control by changing from the 'power to govern the financial and operating policies of an entity' to when 'an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee'.</li> <li>▶ IFRS 10 may result in changes to a consolidated group (more or fewer entities being consolidated than under current IFRS). For example, an entity might reach a different conclusion regarding control under IFRS 10 than it did under IAS 27 in the following circumstances: <ul style="list-style-type: none"> <li>▶ An investor holds less than half the voting rights of an investee</li> <li>▶ An investor has a principal-agency relationship with an investee</li> <li>▶ An investor holds currently exercisable options that if exercised, would give the investor more than half of the voting rights in the investee</li> </ul> </li> <li>▶ Assessing control will require a comprehensive understanding of an entity's business, its operations, and legal rights and obligations. This may require input from sources outside of accounting personnel, such as operational personnel and legal counsel.</li> <li>▶ Additional procedures might be required to assess control on a continuous basis, or to consolidate entities that are controlled.</li> </ul>

<p><b>Implications</b></p> <p><i>Ernst &amp; Young supports a project that addresses how a business reports its financial performance in a way that enables it to communicate clearly with its stakeholders. However, we do not believe that this project addresses the communication challenge adequately. In addition, the need highlighted in our comment letter to the IASB, the need to balance the costs involved in preparing the financial statements with the benefits to users of financial statements.</i></p>	<p><b>Key developments to date</b></p> <p><b>Scope:</b> The project is separated into three parts: discontinued operations, presentation of items of OCI, and replacement of IAS 1 Presentation of Financial Statements and IAS 7 Statement of Cash Flows. The Boards jointly worked on this project, which was intended to replace IAS 1 and IAS 7. Except for the project on presentation of items of OCI discussed below, this project has been put on hold. Discussion is expected to recommence later in 2011.</p>	<p><b>Other projects</b></p> <p><b>Financial statement presentation (Joint Boards)</b></p>
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<p><b>Implications</b></p> <p><i>We support having one consolidation principle in IFRS 10, based on control, which is applicable to all types of entities. Significantly more judgement is required to apply IFRS 10 and could lead to challenges in making the standard operational and applying the new standard consistently.</i></p>	<p><b>Key developments to date</b></p> <p><b>Transition:</b> Effective for annual periods beginning on or after 1 January 2013, with modified retrospective application, as if the controlled entity had always been consolidated. Earlier application is permitted if the entity also applies the requirements of IFRS 11 Joint Arrangements, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011) at the same time.</p> <p><b>Key features:</b> The objective of the new disclosure requirements is to help the users of financial statements understand:         <ul style="list-style-type: none"> <li>▶ The effects of the reporting entity's interests in other entities on its financial position, financial performance and cash flows.</li> <li>▶ The nature of, and the risks associated with, the reporting entity's interest in other entities.</li> </ul> <b>Transition:</b> Effective for annual periods beginning on or after 1 January 2013, with early application permitted.         <p><b>Scope:</b> IFRS 12 applies to an entity that has an interest in subsidiaries, joint arrangements, associates and/or structured entities. Many of the disclosure requirements were previously included in IAS 27, IAS 31, and IAS 28, while others are new.</p> <p><b>Key features:</b> The objective of the new disclosure requirements is to help the users of financial statements understand:         <ul style="list-style-type: none"> <li>▶ The effects of the reporting entity's interests in other entities on its financial position, financial performance and cash flows.</li> <li>▶ The nature of, and the risks associated with, the reporting entity's interest in other entities.</li> </ul> <b>Transition:</b> Effective for annual periods beginning on or after 1 January 2013, with early application permitted.</p> </p>	<p><b>Joint priority projects</b></p> <p><i>Consolidation cont'd</i></p> <p><b>Consolidation – disclosures</b> (IFRS 12 issued Q2 2011)</p>
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Other projects	Key developments to date	Implications
<p><b>Effective dates and transition (joint Boards)</b></p>	<p><b>Update:</b> The IASB have concluded this project.</p> <p><b>Scope:</b> The Boards issued consultation documents in October 2010 (IASB Request for Views and FASB Discussion Paper), asking constituents for input on when the new standards, expected to be issued in 2011, should become effective.</p> <p><b>Key features:</b> The Boards commenced discussions on this project in March 2011. The IASB tentatively decided the following:</p> <ul style="list-style-type: none"> <li>▶ The effective dates for the leases, revenue recognition and insurance contracts projects should take into account the significance of the accounting changes required and the methods of transition and allow users sufficient time to implement the required changes.</li> <li>▶ The effective dates and transition methods for the financial instruments project would be determined as each project phase is completed.</li> <li>▶ IFRS 10, IFRS 11, IFRS 12, along with the 2011 amendments to IAS 27 and IAS 28 have an effective date of 1 January 2013.</li> <li>▶ IFRS 13 and the amendments to IAS 19 also have an effective date of 1 January 2013.</li> <li>▶ The amendments to IAS 1 for presentation of items of OCI have an effective date of 1 July 2012.</li> </ul>	<ul style="list-style-type: none"> <li>▶ The new standards that are due to be issued in 2011 and 2012 will cover major areas of financial reporting and will impact virtually every entity applying IFRS. Although a majority of respondents favoured a single-date approach, the Board has chosen to consider a number of the projects separately, which will result in different effective dates. Entities will need to consider the final effective dates once the standards are issued and plan their transition accordingly.</li> </ul>

Joint priority projects	Key developments to date	Implications
<p><b>Consolidation – investment entities</b> (ED expected Q3 2011)</p>	<p><b>Scope:</b> Investment entities (to be defined as part of the project)</p> <p><b>Key features:</b> An investment entity would not consolidate investments in entities that it controls, and could not account for joint ventures or associates using the equity method. Instead, an investment entity would measure those investments at fair value.</p> <p><b>Transition:</b> This ED would amend IFRS 10 and would be applied to all controlled investments held by a reporting entity that meet the definition of an investment entity. An adjustment to opening retained earnings would be made for the difference between the previous carrying amount of the net assets of the controlled investee and the fair value of the investee as of the date of first applying the amendment.</p>	<ul style="list-style-type: none"> <li>▶ This would be a significant change for investment entities, which are currently required to consolidate investees that they control.</li> <li>▶ If a parent of an investment entity is not itself also an investment entity, the parent would be required to consolidate entities that are controlled by any subsidiary investment entities in its consolidated financial statements. In essence, the parent may not retain the fair value accounting in respect of controlled entities.</li> <li>▶ Entities that do not meet the criteria to be an investment entity would be <i>prohibited</i> from measuring investments in joint ventures and associates at fair value (this is currently permitted, but not required, for certain entities, such as investment-linked insurance funds).</li> </ul>

<p><b>Implications</b></p> <ul style="list-style-type: none"> <li>▶ For entities currently using the corridor approach, full recognition of the benefits obligation and plan assets will impact balance sheet ratios and increase balance sheet volatility.</li> <li>▶ Interest income is calculated on plan assets using bond yields, thereby removing the connection between the assets held by a pension fund and the return on assets in earnings.</li> <li>▶ Earnings for some entities may also be impacted by the requirements to record pension remeasurements through OCI. Entities will need to carefully consider and explain these changes to investors.</li> <li>▶ Classification of short-term and long-term benefit plans may change.</li> </ul>	<p><b>Key developments to date</b></p> <p><b>Scope:</b> No substantive change in scope from IAS 19.</p> <p><b>Key features:</b></p> <ul style="list-style-type: none"> <li>▶ Entities recognise changes in the value of plan assets and changes in the post-employment benefit obligations in the period in which they occur.</li> <li>▶ Similarly, entities will recognise past service costs in the period of the related plan amendment. Hence, the 'corridor method' would be removed.</li> <li>▶ Entities will present service cost and net interest income (expense) in profit or loss, whilst the effect of remeasurements is recorded in OCI. Net interest income (expense) is based on the net asset or liability rather than gross.</li> <li>▶ The characteristics, risks arising and amounts recognised in the financial statements from defined benefit plans will be disclosed. There are also improved disclosure requirements for participation in multi-employer plans.</li> <li>▶ The distinction between long-term and short-term benefits is based on when an employee is expected to receive the benefit rather than when the employee becomes entitled to it.</li> </ul>	<p><b>Other projects</b></p> <p><b>Post employment benefits – defined benefit plans</b> (IFRS issued Q2 2011)</p>
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<p><b>Implications</b></p> <ul style="list-style-type: none"> <li>▶ 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.</li> <li>▶ The requirements on how to measure fair value may change the amount recognised by entities. This could impact key performance indicators, financial ratios, future loan covenant compliance, remuneration structures, and analyst expectations.</li> </ul> <p><i>Ernst &amp; Young supports the issuance of common requirements for how to measure fair value and disclose information about fair value measurements under IFRS and US GAAP. We believe this will enhance the consistency of global financial reporting. However, Ernst &amp; Young believes it is also important to converge on 'when' to measure at fair value.</i></p> <p><i>Ernst &amp; Young supports the Boards' decision to defer final decisions on the proposed 'measurement uncertainty' disclosure requirements, because we agree that additional outreach is needed.</i></p>	<p><b>Key developments to date</b></p> <p><b>Update:</b> The IASB issued IFRS 13 <i>Fair Value Measurement</i> in May 2011.</p> <p><b>Scope:</b></p> <ul style="list-style-type: none"> <li>▶ IFRS 13 describes how to measure fair value in IFRS where fair value is required or permitted by IFRS.</li> <li>▶ 'Fair value' as used in IFRS 2 <i>Share-based Payments</i> and IAS 17 <i>Leases</i> is excluded from the scope of the IFRS 13.</li> <li>▶ Quantitative sensitivity analysis ('measurement uncertainty disclosures') for non-financial assets and liabilities (as previously proposed) are not required at this time. Instead, the IASB will perform additional outreach prior to adding any additional disclosure requirements. In the interim, quantitative sensitivity disclosures previously required under IFRS 7 <i>Financial Instruments: Disclosures</i> continue to be required and qualitative sensitivity disclosures are required for non-financial assets and liabilities.</li> </ul>	<p><b>Joint priority projects</b></p> <p><b>Fair value measurement</b> (IFRS 13 issued Q2 2011)</p>
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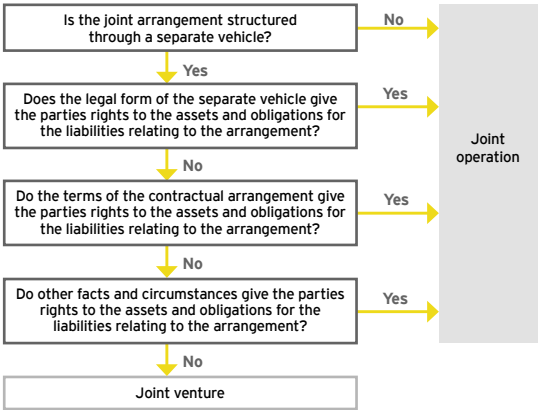
Other projects	Key developments to date	Implications
<b>Post-employment benefits (including pensions) – overview</b>	<p><b>Update:</b> The IASB issued amendments to the accounting for termination benefits, together with limited scope amendments to post-employment benefits in June 2011.</p> <p><b>Transition:</b> The amendments to IAS 19 are applied retrospectively, with few exceptions, to annual periods beginning on or after 1 January 2013.</p>	<p><i>Overall, Ernst &amp; Young agrees that short-term improvements to IAS 19 can provide users of financial statements with better information about long-term employee benefits. To achieve this objective, we support the removal of the 'corridor' and the reappraisal of disclosures.</i></p> <p><i>However, this project is an interim step to be followed by a comprehensive review of the accounting for long-term employee benefits.</i></p>
<b>Termination benefits (IFRS issued Q2 2011)</b>	<p><b>Scope:</b> The definition of termination benefits no longer includes benefits provided in exchange for future employee service.</p> <p><b>Key features:</b> An entity recognises termination benefits when it no longer has the ability to withdraw an offer of those benefits. This is in contrast to current IAS 19, which specifies that an entity recognises termination benefits when it is demonstrably committed to providing those benefits.</p>	<ul style="list-style-type: none"> <li>▶ Entities need to assess the impact of the amendments when developing their restructuring or cost reduction plans.</li> </ul>

Joint priority projects	Key developments to date	Implications
<b>Fair value measurement <i>cont'd</i></b>	<p><b>Key features:</b></p> <ul style="list-style-type: none"> <li>▶ IFRS 13 does not affect when fair value is used, only describes how to measure fair value.</li> <li>▶ Fair value 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., 'exit price').</li> <li>▶ Concepts of 'highest and best use' and 'valuation premise' are relevant only for non-financial assets and liabilities.</li> <li>▶ 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.</li> <li>▶ The impact of blockage discounts is prohibited in all fair value measurements.</li> <li>▶ IFRS 13 describes how to measure fair value when a market becomes less active.</li> <li>▶ New disclosures related to fair value measurements are 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.</li> </ul> <p><b>Transition:</b> Effective prospectively for periods beginning on or after 1 January 2013, with early application permitted.</p>	

<p><b>Other projects</b></p>	<p><b>Key developments to date</b></p>	<p><i>Joint arrangements cont'd</i></p>
<p><b>Implications</b></p>	<p>► The structure of the joint arrangement will no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture.</p> <p>► For joint operations (including former jointly controlled operations, jointly controlled assets, and, potentially, some former jointly controlled entities), an entity will recognise its assets, liabilities, revenues and expenses, and/or its relative share of those items, if any.</p> <p>► The option to account for joint ventures (as newly defined) using proportionate consolidation has been removed. Equity accounting will be required.</p> <p><b>Transition:</b></p> <p>► Generally retrospective with some simplifications. For example, for jointly controlled entities under current IAS 31 that will be classified as joint ventures under IFRS 11, venturers 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.</p> <p>► IFRS 11 is effective for annual periods beginning 1 January 2013. Early application 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.</p>	

<p><b>Joint priority projects</b></p>	<p><b>Key developments to date</b></p>	<p><b>Financial Instruments (IAS 39 replacement) – overview</b></p>
<p><b>Implications</b></p> <p>► The FASB and IASB have divergent views on several areas, particularly on the extent of use of fair value.</p>	<p>► The IASB separated the replacement of IAS 39 project into several phases.</p> <p>► IFRS 9 for financial assets was first published in November 2009 and updated in October 2010 for financial liabilities. IFRS 9 is effective for annual periods beginning on or after 1 January 2013. Refer to <i>IFRS Update for financial year ending 30 June 2011</i> for details of the new requirements of IFRS 9.</p> <p>► Work on the other phases of IFRS 9, specifically hedge accounting, impairment and balance sheet offsetting, is ongoing.</p>	

## Other projects

Other projects	Key developments to date	Implications
<p><b>Joint arrangements</b> (IFRS 11 issued Q2 2011)</p>	<p><b>Update:</b> IFRS 11 replaces IAS 31 <i>Interests in Joint Ventures</i> and SIC-13 <i>Jointly-controlled Entities – Non-monetary Contributions by Venturers</i>.</p> <p><b>Scope:</b> Applies to all parties to a joint arrangement (where there is joint control).</p> <p><b>Key features:</b></p> <ul style="list-style-type: none"> <li>Joint arrangements are classified as either joint operations or joint ventures based on the following considerations:</li> </ul> 	<ul style="list-style-type: none"> <li>IFRS 11 represents a significant change for venturers currently accounting for interests in jointly controlled entities using proportionate consolidation, if such entities are classified as joint ventures under IFRS 11.</li> <li>The scope of arrangements that are considered joint arrangements could change, because the definition of control is changed as a result of the issuance of IFRS 10.</li> <li>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, but the impact in this case is not expected to be significant.</li> </ul>

Joint priority projects	Key developments to date	Implications
<p><b>Financial instruments – asset and liability offsetting</b> (IFRS expected Q3 2011)</p>	<p><b>Update:</b></p> <ul style="list-style-type: none"> <li>The Boards jointly issued an ED in January 2011 that would amend and converge the requirements for balance sheet offsetting of financial instruments under both IFRS and US GAAP. The comment letter period for the ED closed on 28 April 2011.</li> <li>Following their joint re-deliberations, the Boards have tentatively decided to pursue separate approaches for balance sheet offsetting, but to develop common disclosure requirements. The IASB will discuss their next steps at the July 2011 meetings.</li> </ul> <p><b>Scope:</b> The proposals would be applicable to offsetting financial assets, financial liabilities and all derivative assets and liabilities (both financial and non-financial).</p> <p><b>Key features:</b></p> <ul style="list-style-type: none"> <li>Offsetting of financial assets and financial liabilities would be required when an entity has both the unconditional, legally enforceable right to set off and intends to settle either on a net basis or simultaneously. However, the Board is considering certain exceptions relating to transactions settled through clearing houses and variation margins on exchange traded transactions.</li> </ul> <p><b>Transition:</b> Would be applied retrospectively.</p>	<ul style="list-style-type: none"> <li>Although a fully converged framework for balance sheet offsetting does not seem likely in the near-term, the Boards are still committed to developing common disclosure requirements that will enable a reconciliation of the effect of the GAAP difference.</li> </ul>

<p><b>Implications</b></p>	<p><b>Key developments to date</b></p>	<p><b>Joint priority projects</b> <i>Insurance contracts cont'd</i></p>
	<p>► The discount rate used to measure insurance contracts would be a current rate updated at the end of each reporting period (i.e., the discount rate would not be 'locked in' at inception of the contract). However, the standard would not prescribe a particular method for determining the discount rate, but would use the principle that the rate should reflect the characteristics of the liability.</p> <p>► The measurement of the insurance contract would include the direct acquisition costs that the insurer incurs when acquiring the contracts in a portfolio, without making a distinction between successful and unsuccessful efforts.</p> <p>► The boundary of an existing contract would be based on the right to re-price a particular contract or, in some cases, a portfolio of contracts.</p> <p>► Initial recognition of insurance contracts would ordinarily be the date coverage becomes effective.</p> <p>► Reinsurance would substantially follow the overall concepts proposed with a few modifications to reflect the nature of reinsurance arrangements.</p> <p><b>Transition:</b> A limited retrospective approach is proposed in the ED. The Board has not concluded on the effective date and transition method.</p>	

<p><b>Implications</b></p> <p><i>We are very supportive of the Boards' efforts to arrive at a converged solution to accounting for credit impairment under IFRS and US GAAP. However, we believe the final standard should be published after appropriate feedback has been obtained, and proper field testing has been conducted, on the final impairment model.</i></p>	<p><b>Key developments to date</b></p> <p>► The IASB issued an ED in November 2009 that proposed an expected cash flow model for impairment that would apply to all financial assets recorded at amortised cost under IFRS 9. The FASB proposed a slightly different impairment model in its ED on financial instruments.</p> <p>► In response to constituents' requests to have a common approach for credit impairment, the Boards held discussions that led to the joint publication of the SD in January 2011. Based on feedback received on the SD, the Boards decided not to pursue the joint impairment approach proposed in the SD. Instead, the Boards will jointly develop a new approach based on variations of the previous proposals, taking into account the feedback on the Boards' EDs and the SD.</p>	<p><b>Joint priority projects</b> Financial instruments – Impairment (Re-exposure or Review draft expected second half 2011)</p>
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Joint priority projects	Key developments to date	Implications
<p><b>Insurance contracts</b> (Re-exposure or Review draft expected Q4 2011)</p>	<p><b>Update:</b> Although a number of tentative decisions have been made since redeliberations commenced in February 2011, the Board continues to actively discuss this project. There are a number of key areas still to be decided, including presentation of the statement of comprehensive income and transition.</p> <p><b>Scope:</b></p> <ul style="list-style-type: none"> <li>▶ Applies to all types of insurance contracts (life, non-life, direct insurance and reinsurance).</li> <li>▶ In recent redeliberations, the Board decided to retain the existing IFRS 4 <i>Insurance Contracts</i> exemption for financial guarantee insurance contracts.</li> <li>▶ The Board also agreed that a modified approach would be developed for insurance contracts that meet certain eligibility criteria.</li> </ul> <p><b>Key features:</b></p> <ul style="list-style-type: none"> <li>▶ The proposed approach for the measurement of insurance contracts is based on the following building blocks: expected present value of future cash flows; a risk adjustment; and a residual margin that eliminates any gain at inception of the contract, but will be adjusted subsequently for changes in estimates of cash flows.</li> </ul>	<ul style="list-style-type: none"> <li>▶ The Board's proposals are far-reaching and may have a significant impact on insurers in areas, such as estimating all future cash flows arising from the fulfilment of an insurance contract on a probability-weighted basis, and accounting for acquisition costs incurred by insurers to secure contracts with policyholders. This would have a knock-on impact on key processes and internal controls.</li> <li>▶ The proposed model would have a significant impact on a number of financial metrics and may also result in an increase in volatility of profit or loss.</li> <li>▶ The tentative decisions made by the Board differ from the FASB decisions in some important areas, for example, margins and acquisition costs. As a result, the risk exists that the Boards may not reach a converged answer.</li> </ul> <p><i>Ernst &amp; Young expressed significant concerns about some of the features of the measurement model proposed in the ED in its comment letter. We believe these must be resolved before a standard on insurance contracts can be finalised. In our comment letter, we proposed a number of changes to aspects of the model. We are closely monitoring the impact of the Board's recent decisions on our concerns and convergence with the FASB.</i></p>

Joint priority projects	Key developments to date	Implications
<p><b>Financial instruments – impairment</b> <i>cont'd</i></p>	<p><b>Scope:</b> Final standard would apply to all financial assets recorded at amortised cost.</p> <p><b>Key features:</b></p> <ul style="list-style-type: none"> <li>▶ Under the new approach, discussed at the Boards' 15 June 2011 meeting, loans and other financial assets would be split into three buckets based on their credit quality. Credit impairment would be calculated separately for assets in each of the buckets using historical, current and reasonable and supportable forward-looking information.</li> </ul> <p><b>Transition:</b> Has not yet been discussed.</p>	

<p><b>Implications</b></p>	<p><b>Key developments to date</b></p>	<p><b>Joint priority projects</b> <i>Revenue recognition cont'd</i></p>
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<p><b>Implications</b></p>	<p><b>Key developments to date</b></p>	<p><b>Joint priority projects</b> Financial instruments – hedge accounting (IFRS expected Q4 2011 on general hedge accounting)</p>
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Joint priority projects	Key developments to date	Implications
<b>Revenue recognition</b> (Re-exposure expected Q3 2011)	<p><b>Update:</b> The Boards elected to formally expose their joint revenue recognition proposals for a second time because they have made significant changes to the model they proposed in the ED.</p> <p><b>Scope:</b> Excludes financial instruments, insurance and leasing contracts as well as certain non-monetary exchanges.</p> <p><b>Key features:</b></p> <ul style="list-style-type: none"> <li>▶ Contracts with customers (written, verbal or implied), together with the performance obligations within the contract, would need to be identified. Contracts could be combined, but would not be required to be segmented.</li> <li>▶ Determining whether there are separate performance obligations would include considering if they are 'distinct' based on the following:               <ul style="list-style-type: none"> <li>▶ An entity's commitment to provide multiple goods and services as a single integrated item would be a single performance obligation</li> <li>▶ Otherwise, the determination would be based on whether the entity sells the good or service separately or the customer can use the delivered item on its own or with readily available resources</li> </ul> </li> <li>▶ Estimated transaction prices would then be allocated to identified performance obligations usually based on the stand-alone selling prices. However, the Boards have tentatively agreed that a residual technique could be used for performance obligations with highly variable prices (e.g., software licences).</li> </ul>	<ul style="list-style-type: none"> <li>▶ Accounting for multiple-element deliverables in a contract may impact the timing of revenue recognition.</li> <li>▶ The notion of 'transfer of control' would have a significant impact on revenue recognition, mainly in long-term contracts. Contracts, existing and forthcoming, would need to take this into consideration. No significant impact is expected for normal sales contracts.</li> <li>▶ Revenue and its related KPIs may change. Financial measures driven by revenue also could affect loan covenants, financing agreements, and regulatory requirements.</li> <li>▶ Among other changes, the proposal would require additional disaggregated disclosures of revenue, reconciliations of contract asset and liability account balances between periods, and disclosure of key estimates. These changes may require significant modifications to existing internal data gathering efforts and processes.</li> </ul> <p><i>Many of the changes will have a significant impact on entities and may require significant cost to implement. Accordingly, we strongly support the Boards' decision to give constituents a chance to formally comment on the revised proposal.</i></p>

Joint priority projects	Key developments to date	Implications
<b>Financial instruments – hedge accounting</b> <i>cont'd</i>	<ul style="list-style-type: none"> <li>▶ The Board tentatively decided that a hedge relationship would be rebalanced after inception when the hedge ratio is adjusted for risk management purposes, rather than being de-designated and re-designated as currently required under IAS 39.</li> <li>▶ One of the topics that banks have historically been interested in is portfolio or 'macro' fair value hedging. Given the complexities of this topic, and the tight timeline for the hedging project, the proposals relating to portfolio hedging will be issued as a separate ED.</li> </ul> <p><b>Transition:</b></p> <ul style="list-style-type: none"> <li>▶ The proposals would be applicable prospectively, with no restatement of comparative figures. For entities that already apply IFRS, it is expected that almost all of the previous hedge accounting relationships under IAS 39 would still qualify under the proposed model.</li> <li>▶ Application of the standard would be mandatory for annual periods beginning on or after 1 January 2013, with earlier application permitted. However, the Board will consider feedback from the ongoing consultation on effective dates for new standards before finalising. As with other phases of the standard, the new hedge accounting model could only be adopted together with all other IFRS 9 requirements that have been finalised earlier.</li> </ul>	<p><i>We fully support the Board's proposals to simplify hedge accounting, although there are significant application issues that need to be addressed for the proposals to be operational. For example, we believe the Board should articulate better the link between risk management and hedge accounting, and whether and how these are allowed to differ.</i></p> <p><i>We also believe application guidance is necessary to explain how entities should apply the requirement to rebalance hedge relationships.</i></p>

<p><b>Implications</b></p> <p>Entities would need to focus on separating services and executory payments from existing operating leases. These costs were not previously split out as the accounting treatment for such payments was often the same as operating lease payments under existing IFRS.</p>	<p><b>Key developments to date</b></p> <p>Lessor: The ED proposed two models for lessors based on whether the lessor retains the significant risks or benefits of the underlying asset. However, the Boards have discussed a single approach to lessor accounting but have not yet reached any decisions.</p> <p>In a change from the ED, the Boards have tentatively decided to allow lessees and lessors to apply current operating lease accounting to short-term leases (leases with a maximum term of 12 months).</p> <p><b>Transition:</b> The ED proposed that existing lease arrangements would not be grandfathered. Accordingly, an assessment of all existing leases and the application of a simplified retrospective approach would be required upon transition. The Boards have not concluded on the effective date and transition method.</p>	<p><b>Joint priority projects</b></p> <p><i>Leases cont'd</i></p>
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<p><b>Implications</b></p> <p>This would be a significant change from the existing model. The classification of leases as either finance or operating would cease and be replaced with a right of use approach.</p> <p>Due to the Board's redeliberations, it is not possible to provide a complete picture of the potential impact to the financial statements. However the following may be impacted:</p> <ul style="list-style-type: none"> <li>▶ Ratios (e.g., gearing, EBITDA and interest coverage)</li> <li>▶ Bank covenants</li> <li>▶ Cash flow statement presentation as operating or financing activities</li> <li>▶ Initial and ongoing estimation would require new processes and changes to information systems to capture information required by the standard (e.g., lease term, lease and non-lease components).</li> <li>▶ The way that leases are structured could change substantially. For example:             <ul style="list-style-type: none"> <li>▶ Shorter terms for leases without renewals would generally result in lower gross up of the balance sheet for lessees</li> <li>▶ Some lessees may reassess lease-versus-buy decisions</li> </ul> </li> </ul>	<p><b>Key developments to date</b></p> <p><b>Update:</b></p> <ul style="list-style-type: none"> <li>▶ Based on feedback from constituents on the ED (issued in August 2010), the Boards identified a number of issues for redeliberation. The Boards have yet to redeliberate lessor accounting, presentation and disclosure, transition and effective date.</li> <li><b>Scope:</b> Generally, leases of property, plant and equipment and investment property measured at cost.</li> </ul> <p><b>Key features:</b></p> <table border="1" data-bbox="762 1541 1104 1818"> <tr> <td rowspan="2">Lessee</td> <td>▶ Right-of-use asset</td> <td rowspan="2">Balance sheet</td> </tr> <tr> <td>▶ Lease liability</td> </tr> <tr> <td rowspan="2">Profit or loss</td> <td>▶ Amortisation expense</td> <td rowspan="2">Profit or loss</td> </tr> <tr> <td>▶ Interest expense</td> </tr> </table> <p>Lessee: As currently proposed, lessees would recognise an asset for the right to use the leased item and a corresponding obligation to pay rentals. Periodic reassessment of the lease term and payments, including residual value guarantees, would be required.</p>	Lessee	▶ Right-of-use asset	Balance sheet	▶ Lease liability	Profit or loss	▶ Amortisation expense	Profit or loss	▶ Interest expense	<p><b>Leases</b></p> <p>(Re-exposure or Review draft expected Q3 2011)</p> <p><b>Joint priority projects</b></p>
Lessee	▶ Right-of-use asset		Balance sheet							
	▶ Lease liability									
Profit or loss	▶ Amortisation expense	Profit or loss								
	▶ Interest expense									