

# IFRS Outlook

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### **Effective dates – when will proposed new IFRS standards apply?**

The IASB and the US FASB continue to focus on a number of projects, including revenue recognition, financial instruments, leases and insurance contracts, with a view to issuing revised standards during the second half of 2011. With the new standards on the horizon, the Boards requested feedback on when and how the new standards should be applied. Read about our views on the effective dates of the new standards and the feedback the IASB received from other stakeholders.

### **What we think of the new proposed approach for impairment of financial assets**

The IASB and US FASB jointly proposed a new common approach for determining when credit losses should be recognised on certain financial assets. Find out what our views are on this proposed approach.

### **Our views on the hedge accounting proposals**

The IASB recently issued an ED that proposed a fundamental shift away from the way entities have conventionally applied hedge accounting under IFRS. Learn about our views on the proposals.

### **IFRS update**

Find out which projects the IASB and the IFRS Interpretations Committee are currently discussing.

### **Resources**

Look here for an up-to-date list of our recent publications, including *Good Construction Group (International) Limited 31 December 2010*, an illustrated set of consolidated financial statements of a fictitious group of construction companies, and *Joint Project Watch*, which provides a snapshot of the key developments on the various joint projects of the IASB and the US FASB.

We welcome your feedback on *IFRS Outlook*. Please contact us at [ifrs@ey.com](mailto:ifrs@ey.com).

Ruth Picker  
Global Leader of IFRS Services

# Effective dates – when will proposed new IFRS standards apply?



The IASB and the US FASB (collectively the Boards) are continuing to progress a number of projects, including revenue recognition, financial instruments, leases and insurance contracts, with a view to issuing revised standards during the second half of 2011. As we discussed in our article, “When should proposed new IFRS standards be applied?” in the November 2010 issue of *IFRS Outlook*, the Boards had issued requests for stakeholder input on how the pace and cost of these anticipated changes should be managed. The comment period for this consultation closed on 31 January 2011.

In this article, we give our views on the effective dates, outlined in our comment letter to the IASB, and consider the views the IASB received from other stakeholders. We also look at the discussions the Boards have had to date on the likely effective dates for the new standards.

## Our views

We fully support the IASB's decision to consult with constituents regarding the timing and method of adoption of the new standards expected to be issued by the end of 2011. The changes proposed in the new standards are significant and will impact fundamental areas of financial reporting. Therefore, we welcome the IASB's efforts to assist users and preparers of financial statements by reducing the burden of adopting new financial reporting standards, as well as helping other stakeholders to manage both the pace and cost of change.

The IASB's request for stakeholder input focused on the following key issues:

### **1. Preparing for transition – what will be involved, what are the likely costs?**

We believe the projects that will require the most time and cost to adapt to are those with the most significant changes that affect most entities, which include: revenue recognition; leases; consolidation and financial instruments.

There are a number of projects that are expected to result in significant changes for some entities (and the auditors serving those entities), but will have less impact on others, depending on the nature of the entity's business. Those projects are insurance contracts, fair value measurement and joint arrangements.

The projects that we believe will have the least impact are post-employment benefits – defined benefit plans and presentation of items of other comprehensive income.

“If a single-date approach is adopted, we have proposed that it should not be before 1 January 2015, to allow entities sufficient time to prepare.”

The feedback the IASB received from other stakeholders was generally consistent with our views. We explained, as did many other respondents, that the bulk of expected costs will be in the following areas:

- ▶ Training staff (for both financial statement preparers and auditors)
- ▶ Changing IT systems, internal controls and business processes
- ▶ Developing and maintaining financial models to make the extensive estimates and judgments required by the proposed standards (including financial instruments, insurance contracts, leases and revenue recognition)
- ▶ Increasing audit costs due to the need to audit the significant accounting estimates and judgments
- ▶ Reviewing and updating existing contracts and agreements (as well as evaluating the impact on transactions that are in progress)

Other costs identified by respondents include increased use of consultants or contractors, and additional time and effort to communicate changes to users and other key stakeholders.

Whether the changes will apply retrospectively will also impact the costs incurred. Retrospective application will require significantly more time to revisit past transactions and make adjustments, if needed. When prospective application is required, entities are likely to require less effort and cost to adopt, provided there is sufficient adoption lead time.

## **2. Transition methods – do you agree with the transition method proposed for each project?**

In general, we support the retrospective application for new standards as it will provide more useful information to financial statement users. However, there are a number of circumstances in which full retrospective application may not be appropriate because of significant costs and, in many cases (e.g., revenue and leases), it would require new estimates for historical transactions that may involve the use of hindsight.

We have suggested that the IASB explore practical approaches to adoption, for example, permitting prospective adoption from the first comparative period presented with remeasurement of outstanding arrangements at the beginning of the first period presented. In addition, this would have the advantage of reducing the cost of adapting to the new reporting requirements as the more practical approach is likely to require less extensive preparation.

The majority of other respondents also agreed that retrospective application should be the default approach unless it is too costly or impracticable. Many respondents raised similar concerns about the transition methods for individual projects where the use of retrospective application was considered too difficult and expensive.

## **3. Effective dates – should all the standards be adopted at the same time or across a number of years?**

On balance, we believe a single-date approach is preferable for users as it minimises confusion when trying to compare results for multiple periods. Of the responses the IASB received from other constituents, a majority favoured a single-date approach as it is easier to manage and control costs and would avoid the inconvenience and disruption of a prolonged transition period. A single-date approach allows entities to plan all changes as one project and may be a more effective way to educate both staff and investors on the changes resulting from the new standards.

However, a number of respondents also believe that the new standards could be grouped, with different effective dates applied to different groups. Many also favour permitting early adoption, which would, in effect, allow entities to adopt a staggered approach instead, if this were preferable to their circumstances.

If a single-date approach is adopted, we propose that it should not be before 1 January 2015, to allow entities sufficient time to prepare for the transition. Other respondents proposed an effective date that ranged from 1 January 2014 to 1 January 2017.

## **4. International convergence – should the IASB and the FASB have the same effective dates?**

Many of the projects listed in the Request for Views are joint projects with the US FASB. The requirement for the same effective dates under IFRS and US GAAP would enhance comparability and would minimise issues if the US converts to IFRS. However, we believe that the effective dates do not necessarily need to be the same. The IASB should permit early adoption of the standards (particularly to allow converting countries to consider the standards collectively at the same time). In addition, on some projects, the IASB and US FASB have different timetables and we do not believe publication of the IFRS standards should be delayed if they represent a significant improvement over the current requirements.

Many of the other respondents also requested that the IASB should focus on the consistent application of the standards under IFRS before considering consistency with US GAAP. However, many did encourage the IASB to align the effective dates and transition methods with the US FASB as much as possible to improve comparability.

# Effective dates – when will proposed new IFRS standards apply? *continued*

## 5. First-time adoption – should the IASB permit different adoption dates for first-time adopters?

We believe the IASB should allow first-time adopters to apply the new standards at their date of transition to IFRS, even if the effective date of the standards is later, so that first-time adopters can avoid having to adopt multiple sets of IFRS at differing times. This view has been supported by most of the other respondents.

### Recent IASB discussions

The IASB discussed a summary of responses at the Board meeting on 2 March 2011. Whilst the staff presented a summary of the feedback to the IASB that showed a majority of respondents favoured a single date approach, the IASB has tentatively decided to look at some of the projects on a stand-alone basis, which will result in a phased approach. At the time of writing, the IASB has made the following tentative decisions:

- ▶ The new standards on revenue recognition, leases and insurance contracts will be considered together as there are linkages between them and there are likely to be major changes for many entities. The staff has recommended that these three standards should not have a mandatory effective date before 1 January 2015, to allow preparers sufficient time to manage the changes. Although the IASB has not yet agreed on a specific date, many of the Board members were supportive of the staff position and acknowledged that a later effective date would allow entities adequate time to plan for and implement the changes.
- ▶ The effective dates and transition methods for the financial instruments project (IFRS 9) will be considered as each phase of the project is completed.
- ▶ The other standards expected to be issued by June 2011 will be considered on a standard-by-standard basis. The following tentative decisions have been reached:
  - ▶ IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests with Other*

*Entities*, along with related amendments to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* will have an effective date of 1 January 2013. These standards are expected to be issued in May 2011. Early adoption of these standards will be permitted, but only if all five are early-adopted together.

- ▶ The fair value measurement standard will have an effective date of 1 January 2013 and early adoption will be permitted. The IASB also expects to issue this standard in April 2011.
- ▶ Post-employment benefits – defined benefit plans will also have an effective date of 1 January 2013, with early adoption permitted.
- ▶ Presentation of items of other comprehensive income will have an effective date of 1 January 2012, in line with a tentative decision reached at the November 2010 IASB meeting.

In addition, in view of the limited number of responses received from users, the IASB recently published a survey document requesting feedback from investors regarding questions on the effective dates and the transition methods for the revenue recognition, financial instruments, leases and insurance contracts projects. The feedback period ends on 6 May 2011.

### Conclusion

The IASB has considered the responses received on the *Effective Dates and Transition Methods* request for views. Although a majority of respondents favoured a single-date approach, the IASB 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.

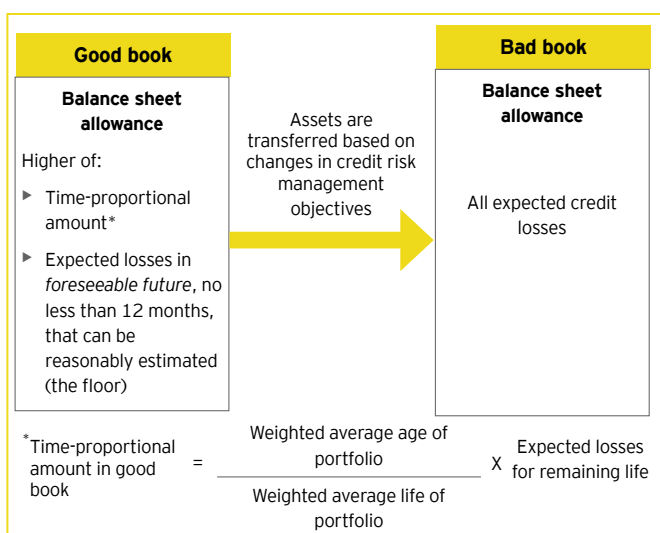
# What we think of the new proposed approach for impairment of financial assets

In January 2011, the IASB and US FASB jointly proposed a new common approach for determining when credit losses should be recognised for financial assets, such as loans, that are managed in open portfolios. The Boards sought input on this proposed approach through the publication of a joint supplementary document<sup>1</sup> (SD) on impairment.

## Snapshot of the proposed joint approach *continued*

- ▶ The allowance recorded for the good book at the reporting date is subject to a minimum amount (or floor), which would be the amount of losses that are expected to occur in the foreseeable future, which is defined as a period of no less than twelve months
- ▶ An asset in the good book would be transferred to the bad book when the entity's internal credit risk management objective for the asset changes from that of receiving regular payments to recovery of all or a portion of the financial asset
- ▶ The full amount of the expected losses would be recognised immediately for assets in the bad book
- ▶ To determine expected losses, entities would use all available information, including supportable forecasts of future events and economic conditions.

## Snapshot of the proposed joint approach



- ▶ Assets would be split into a "good book" and a "bad book"
- ▶ Gross interest income is "decoupled" and calculated separately from the allocation of expected losses
- ▶ For the good book, expected losses would be allocated systematically to the income statement on a "time-proportional" basis over the life of the portfolio of financial assets
- ▶ Changes to estimates of expected losses are recorded on a time-proportional basis (or partial 'catch-up' basis)

For more details of the proposals in the SD and the impact they are likely to have on businesses, refer to our publication *Supplement to IFRS outlook Issue 95: IASB and US FASB propose a joint approach to accounting for credit losses*. In this article, we summarise our views on the proposed approach, as expressed in our comment letter to the Boards.

## Converged solution

We strongly believe in the need for a converged solution to accounting for credit impairment under IFRS and US GAAP, and we are encouraged by the outline of the common approach published in the SD. The approach set out in the SD would generally result in earlier recognition of credit losses than the current incurred losses models under IFRS and US GAAP.

In addition, we believe the proposed approach addresses many of the concerns with the original separate proposals of the Boards. For the IASB, this includes decoupling the calculation of interest income and the allocation of credit losses, and the move to a proportional basis for the recording of 'catch-ups' when there is a change in the estimate of expected losses. This makes the approach more operational for open portfolios. With respect to the US FASB, the proposal addresses the concerns raised by some regarding the immediate 'upfront' recognition of lifetime expected credit losses and the prohibition on recognition of future economic events and conditions when estimating expected impairment losses.

<sup>1</sup> Supplement to the IASB Exposure Draft, *Financial Instruments: Amortised Cost and Impairment* and the FASB Exposure Draft, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

# What we think of the new proposed approach for impairment of financial assets *continued*

For more details of the original separate impairment proposals of the Boards, refer to our publications available at [www.ey.com/ifrs](http://www.ey.com/ifrs):

- ▶ *Supplement to IFRS Outlook Issue 61: New proposals for financial instruments at amortised cost*
- ▶ *IFRS Outlook (July 2010): Impairment of financial assets – where is it heading?*

## Conceptual compromise

In our view, the common approach is a conceptual compromise; it is not consistent with the separate and different objectives of the IASB and the US FASB as expressed in their exposure drafts (EDs). Rather, the common approach includes elements of each. On one hand, the application of a minimum amount (or floor) under the joint approach would result in some upfront recognition of losses in the reporting period in which a financial asset is originated or acquired. Therefore, it is not consistent with the IASB's objective to provide "information about the effective return" on an amortised cost asset. In addition, the incorporation of the bad book concept departs from the original objective to provide information about the effective return. On the other hand, the time-proportional allocation of losses in the joint approach differs from the US FASB's objective to more fully address the concern that impairment losses recorded are "too little, too late".

Notwithstanding the conceptual compromise, we support the Boards' efforts to arrive at an approach to impairment which is converged under IFRS and US GAAP. Nevertheless, there are a number of operational issues with the proposed approach that still have to be addressed. These include, amongst others, the difficulties of defining "foreseeable future" and determining when an asset should be transferred from the good book to the bad book, both of which are set out below.

## Foreseeable future

We are concerned that without a common view as to the foreseeable future periods for different classes of assets, there will be considerable diversity in practice across the globe.

The foreseeable future period is defined in the SD as the future time period for which the "best estimate of credit losses for the period for which specific projections of events and conditions are possible and the amount of credit losses can be reasonably estimated based on those specific projections". The SD then indicates that "development of the estimate relies heavily on an entity's ability to forecast events and conditions".

The wording of the SD implies that more sophisticated entities that are able to forecast further into the future would calculate higher losses for the floor. It is also our concern that, in the absence of further guidance, local regulators will seek to define the foreseeable future period, resulting in considerable differences from one jurisdiction to another. Furthermore, the foreseeable future period considered in developing expected loss estimates could decrease if there is greater uncertainty about future economic conditions. Therefore, such estimates could become less reliable during times of economic uncertainty. For these reasons, we are concerned that the foreseeable future period will differ from one entity to another, one country to another and one period to another.

In addition, we are concerned that the term "credit losses" is not clearly defined for the purpose of determining the level of the floor. Preparers could have different interpretations of when credit losses occur, e.g., when assets are transferred to the bad book, or when there is a credit event. The lack of clarity could result in significantly different amounts of credit losses being determined for the foreseeable future.

Consequently, we believe it is important for the Boards to define more clearly the concepts of "credit losses" and "foreseeable future". Also, the Boards should collaborate with regulators (or form an expert advisory panel that includes regulators) to develop guidelines for the determination of the foreseeable future periods for different classes of financial assets. For preparers and auditors, the determination of credit losses will already be a major challenge without the additional difficulty of determining the foreseeable future period.



### **Good book and bad book**

We believe that the criteria to be used to differentiate between the good book and the bad book will lead to varying views as to when an asset should be transferred from the good book to the bad book. More specifically, we have the following concerns:

- ▶ The SD does not provide guidance as to how financial assets that have been renegotiated or restructured, those to which a forbearance strategy is applied, or those on a “watchlist”, should be classified. This could lead to inconsistent classification of assets in the good book and the bad book.
- ▶ The risk management objectives in the SD of “receiving the regular payments” and “recovery of all or a portion of the financial asset” to distinguish between the good book and the bad book are at the extreme ends of the continuum of how financial assets are managed by entities. This does not provide guidance on how to classify a financial asset that is managed in accordance with an objective that is between the two extremes.

We believe these concerns could be addressed by providing examples in the final standard that are based on established industry practices for managing financial assets and how the standard should be applied to split these assets into the good book and the bad book.

### **Field testing and re-exposure**

The operational challenges of the proposed approach will benefit from robust field testing. To this end, it might be useful for the Boards to reconvene the Expert Advisory Panel (established to address the operational difficulties of the Boards’ original proposals) to assist in evaluating the implementation challenges inherent in the proposal.

In addition, although the Boards requested comments as to whether the proposed approach is suitable for closed portfolios and other instruments, in our view, it is difficult for constituents to make more than preliminary observations since the Boards have yet to provide their views as to how the approach should be applied in those circumstances. We believe appropriate due process would require re-exposure of any final impairment model (or models).

### **Concluding remarks**

The IASB plans to continue deliberating jointly with the US FASB over the next several months. The final standard is expected in the second half of 2011. We believe that by jointly proposing a common approach and by continuing to have joint discussions on this topic, the Boards are moving in the right direction on the credit impairment project. However, in our view, the final standard should only be published after the proposed model (or models) has been properly field tested by both preparers and auditors, and appropriate feedback received.

# Our views on the hedge accounting proposals

The IASB's recent ED *Hedge Accounting* proposes a fundamental shift from the way entities have conventionally applied hedge accounting under IFRS. We recently submitted a comment letter in response to the ED. In this article, we summarise the views that we expressed in our response and outline some of the key messages from other constituents.

## Snapshot of the proposed hedge accounting model

### OVERALL AIM: Align hedge accounting with risk management objectives

- ▶ Identify risk components that are eligible as hedged items
- ▶ Designate hedges with qualifying hedging instruments and hedged items
- ▶ Perform prospective hedge effectiveness assessment and rebalance where necessary
- ▶ De-designate when risk management objective changes; voluntary de-designation is not permitted
- ▶ Provide additional disclosures

### BOTTOM LINE: Measure ineffectiveness and recognise in profit or loss

Overall, we fully support the IASB's efforts to simplify hedge accounting as part of the project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. In particular, we welcome the Board's proposals to permit:

- ▶ Risk components of non-financial items to be designated as hedged items
- ▶ Derivatives to be designated as eligible hedged items in combination with other exposures
- ▶ Qualitative effectiveness testing
- ▶ The rebalancing of hedge relationships

However, in order for the proposals to be operational, we recommend that the Board must address certain significant application issues, as discussed below.

### Objective of hedge accounting and link to risk management

We support the proposals to align hedge accounting with an entity's risk management activities, although we believe the link needs to be better articulated. For instance, some of the limitations proposed by the ED mean that entities will not be able to fully reflect their risk management strategies for certain economic hedges (such as those involving the use of internal derivatives). A similar concern has been expressed by constituents. In order to address this concern, we believe the Board should permit the designated hedge relationship to differ from the approach taken to key risk management. However, the differences should only be to the extent the final standard places restrictions on the hedge relationship.

With regard to the key objective of hedge accounting, we, together with several other constituents, have urged the IASB to reconsider why hedge accounting is restricted only to risks that could affect profit or loss. A common risk management strategy would be for entities to hedge the foreign exchange (FX) exposure on foreign currency equity investments that may be designated at fair value through other comprehensive income (OCI) under IFRS 9. The fair value changes on such investments would never be recognised in profit or loss.



### **Hedge effectiveness assessment, rebalancing and discontinuation**

Almost all respondents, ourselves included, are pleased that the ED permits a qualitative effectiveness assessment and that it eliminates the 'bright lines' of 80-125% effectiveness currently included in IAS 39. Generally, respondents support the new concept of 'rebalancing' introduced by the ED, since this reflects what entities commonly do for the purpose of risk management. By permitting rebalancing, the Board has addressed a common issue under IAS 39, which required hedge relationships to be frequently de-designated and re-designated for changes in the hedged item or the effectiveness of the hedge.

Having said that, we have also expressed concerns about the new terminology in the ED that hedge relationships must be designated so that they produce an 'unbiased' result and 'minimise' ineffectiveness. While some respondents believe that the wording implies an unnecessary degree of precision (such that all bias needs to be eliminated at inception and on an ongoing basis), others believe the requirements are not stringent enough to prevent inappropriate hedges from qualifying. In order to mitigate these concerns, we have encouraged the Board to consider the US FASB's proposal that the hedge relationship must be "reasonably effective", since we believe it is a more succinct way of expressing the principle. The effectiveness assessment should, therefore, permit an entity to apply risk tolerance levels and ignore some minor sources of ineffectiveness.

We also have concerns about the requirement in the ED that hedge relationships must be mandatorily rebalanced. This might not be interpreted consistently and may potentially result in diversity in application. Many respondents support rebalancing on a proactive basis (i.e., it is permitted, but not required) and have requested that, if the Board retains the requirement, guidance must be provided on what would be considered as an event that requires rebalancing and what would not.

The ED proposes that hedge relationships must be discontinued on a prospective basis if the qualifying criteria are no longer met. While most constituents agree with this proposal, many disagree with the ED's proposal to preclude voluntary discontinuation. This is because entities may use voluntary discontinuation as a tool to achieve dynamic hedging strategies. In other circumstances, entities may wish to discontinue hedge relationships (even if qualifying criteria continue to be met) because of the administrative burden.

### **Designation of risk components**

Almost all respondents strongly support the proposal in the ED to extend the ability to hedge risk components of non-financial items. This allows risk management activities to be better reflected in the financial statements. However, constituents have urged the IASB to provide guidance on how risk components should be identified when they are not contractually specified.

Many respondents do not agree with the Board's proposal to preclude hedges of credit risk and non-contractually specified inflation risk. Further, respondents questioned why hedged risk components cannot be more than the whole (sometimes referred to as the sub-LIBOR issue).

### **Fair value hedge mechanics**

We share the view of many constituents in that we do not agree with the proposed changes to fair value hedge mechanics. We believe the proposals would be unnecessarily complex to implement. These proposals would clutter the primary financial statements and result in the separate recognition of assets and liabilities that would not comply with the *Conceptual Framework*. Whilst we agree that there is value in the information that would be provided, in our view, it would be better presented in a separate note to the financial statements.

# Our views on the hedge accounting proposals *continued*

## Macro or portfolio hedging

We generally agree with the ED's proposed criteria for groups of items to qualify as a hedged item, although we believe these provisions may have a relatively restricted application. A similar view has been expressed by many banks and financial institutions, possibly as many of the important issues relating to hedges of groups of items will need to be addressed in the macro hedging project (an exposure draft is expected in Q3 2011).

We believe the following are the key issues for the Board to consider in the macro hedging project:

- (i) The designation of the bottom layer in a portfolio of prepayable debt instruments
- (ii) Designation of gross positions, even though risk management is performed on a net fair value basis
- (iii) The eligibility of demand deposits in a fair value hedge

The Board has stated that it will consider the feedback received on the general hedge accounting model during its deliberations for the macro hedging project. Equally, the Board would also consider modifying the general hedge accounting model, as necessary, based on its work on the macro hedging model.

## Disclosures

In principle, we agree with the disclosures proposed in the ED. However, many respondents, including ourselves, doubt that some of the information required to be disclosed concerning an entity's exposures (such as forecast foreign currency denominated purchases or sales) is appropriate for inclusion in the financial statements. While it is possible for management to attest to, and auditors to opine on, forecast cash flows that are *highly probable*, the total forecast cash flows are too uncertain. Such disclosure requirements are considered excessive when compared to other reporting standards. Further, we question whether such information would be useful to users of financial statements.

## Concluding remarks

Overall, we welcome the IASB's move towards a more principles-based standard for financial instruments, in general, and hedge accounting, in particular. However, we believe there are application issues that need to be resolved before the standard is issued.

Also, we believe there is considerable similarity between the principles proposed by the IASB and the US FASB. Therefore, we urge the two Boards to work together to achieve a converged solution on hedge accounting. The comment period for the ED ended on 9 March 2011. The IASB expects to redeliberate the proposals and issue a standard in the second half of 2011.

For more details of the proposals in the ED and the impact they are likely to have on businesses, refer to our publications available at [www.ey.com/ifrs](http://www.ey.com/ifrs):

- ▶ *Supplement to IFRS outlook Issue 91: Hedge accounting under IFRS – all set for change*
- ▶ *Hedge accounting under IFRS 9 – A closer look at the changes and challenges*

# IFRS update

## What's new?

The following table shows new publications issued by the IASB.

Projects	Publication
<b>IFRS for Small and Medium-sized Entities (SMEs)</b>	<p>The SME Implementation Group has published further draft guidance on certain matters related to the implementation of IFRS for SMEs in the form of questions and answers (Q&amp;As). The Q&amp;As that are published cover the following topics:</p> <ul style="list-style-type: none"><li>▶ Captive insurance subsidiaries (open for comment until 15 June 2011)</li><li>▶ Interpretation of 'traded in a public market' (open for comment until 15 June 2011)</li><li>▶ Investment funds with only a few participants (open for comment until 15 June 2011)</li></ul> <p>The draft guidance can be accessed at <a href="http://www.ifrs.org">www.ifrs.org</a>.</p>
<b>IFRS Taxonomy</b>	<p>The IFRS Foundation has published the IFRS Taxonomy 2011. The IFRS Taxonomy is a translation of IFRS into XBRL (eXtensible Business Reporting Language). The 2011 taxonomy is consistent with IFRS as issued by the IASB at 1 January 2011, and it contains XBRL tags for all IFRS disclosure requirements.</p> <p>The taxonomy can be accessed at <a href="http://www.ifrs.org">www.ifrs.org</a>.</p>

## Current discussions

In recent months, the IASB has focused its discussions on key projects that are intended to result in the issue of standards in the second half of 2011.

Tentative decisions were made regarding a number of projects, including revenue recognition, leases, insurance contracts and impairment of financial assets. The IASB also began its redeliberations on the hedge accounting project following feedback received through comment letters and outreach activities.

The IFRS Interpretations Committee met on 10 and 11 March 2011. The Committee continued discussions of the current agenda items including accounting for stripping costs in the production phase of a surface mine, contingent pricing of property, plant and equipment and intangible assets and put options written over non-controlling interests.

Updates from Board meetings and the Interpretations Committee meetings can be found at [www.ifrs.org/Updates](http://www.ifrs.org/Updates).

## IASB work plan

The IASB work plan outlines all the projects the Board is currently working on, and includes projected publication dates.

The IASB recently amended the timing of several projects in this work plan. The updated work plan indicates that the IASB plans to complete the internal balloting (i.e., review and voting) process for new IFRSs on revenue recognition, financial instruments, leases and insurance contracts in June 2011, but will not issue the final standards until the second half of 2011.

However, in a more recent webcast, after evaluating the issues remaining on their revenue recognition, leases, financial instruments and insurance contracts projects, the chairmen of the IASB and the US FASB said the Boards have jointly decided to extend their timetables by a "few months". Although it is not clear how the IASB's work plan will change, the chairman of the IASB said he intends "to try to finish" the project by the end of 2011. The Boards are scheduled to issue updated work plans on their joint projects shortly.

Further details of all the ongoing IASB projects are available at [www.ifrs.org/current+projects](http://www.ifrs.org/current+projects).

# Resources

The publications below are all available at [www.ey.com/ifrs](http://www.ey.com/ifrs).

## Supplements to *IFRS Outlook* Issues 96 – 101

### **Issue 96: Lease term and variable lease payments simplified**

In response to criticisms that the lease accounting model under development was overly complex and potentially costly to implement, the IASB and the US FASB decided to make changes to their proposed model. They tentatively agreed to revise the proposed definition of the lease term and the treatment of variable lease payments, but they remain committed to requiring that all leases be recognised on the balance sheet. In this publication, we outline the proposed changes and their anticipated impact.

### **Issue 97: IFRS 7 *Financial Instruments: Disclosures* – Impending changes effective for 2011 and 2012**

*IFRS 7 Financial Instruments: Disclosures* is continually evolving in response to demands for more robust disclosures in respect of financial instruments. During 2010, several changes were made to IFRS 7 that are set to take effect in 2011 and 2012. Generally, these changes are intended to simplify the disclosures and reduce the amount of time needed to prepare an entity's financial statements. However, the new requirement to disclose the financial effect of collateral held as security is likely to be a systems challenge or a labour intensive exercise for many entities. This publication looks at some of the practical issues that may arise in implementing the changes in 2011 and 2012.

### **Issue 98: A clearer picture of leases on the balance sheet**

The IASB and the US FASB have continued to refine their proposed accounting for leases to address certain concerns raised by constituents. The Boards have tentatively agreed to make changes involving separating lease and non-lease components, accounting for purchase options included in lease, initial measurement of lease-related assets and liabilities and accounting for short-term leases. The Boards have also tentatively agreed to make significant changes to the criteria for sale-leaseback transactions. Here, we summarise what you need to know about these developments.

### **Issue 99: New revenue recognition model is taking shape**

The IASB and the US FASB are currently in the process of addressing the concerns raised by respondents about their June 2010 proposal for the new revenue recognition standard. Although the Boards still have a number of issues to redeliberate, in this publication, we consider the significant decisions that have already been made by the Boards in the first quarter of 2011. Due to the importance of revenue as a reported item in a set of financial statements, entities will need to consider the impact that the final standard will have on their financial statements. All entities affected will need to review the final standard carefully and take the necessary steps to prepare for its implementation.

### **Issue 100: Straightening out lease expense and other issues**

The IASB and the US FASB have continued to refine their proposed accounting for leases. They have completed their targeted outreach activities and have tentatively agreed to changes to the expense recognition pattern for lessees, accounting for variable lease payments and the guidance on the definition of a lease. They decided to introduce a distinction between different types of leases into their new accounting model and to require different expense recognition for leases that contain a significant financing component and those that do not. In this publication, we summarise what you need to know about these developments.

### **Issue 101: Another step towards a final revenue standard**

At their April 2011 meeting, the IASB and the US FASB redeliberated the remaining significant aspects of the revenue recognition exposure draft. This included estimating the transaction price when variable consideration exists, allocation of the transaction price, the accounting for licences and the rights to use intellectual property, put options on sale and repurchase agreements, and fulfilment costs. This publication summarises the key decisions from this meeting.



### **Joint Project Watch – March 2011**

Keeping up to date with the standard-setting activities of the IASB and US FASB on their many joint projects can be challenging. The Boards are actively redeliberating many of their projects and, as a result, they are making tentative decisions that may differ from earlier decisions and those in the exposure drafts. This publication is designed to give you a snapshot of the key developments in 2011 from an IFRS perspective each month, together with our observations on the potential implications for companies.

### **IASB Projects – A pocketbook guide**

This is the third edition of our quarterly guide that summarises the key features of the various IASB projects, many of which are joint projects with the US FASB as part of efforts to converge IFRS and US GAAP. This guide summarises the proposed standards based on the tentative decisions that are met and sets out some of the potential financial and business implications of these decisions, together with Ernst & Young's views on the projects through 31 December 2010.

### **The road to convergence: The revenue recognition proposal – Additional sector supplements**

Following the release of our 2010 publication, *Revenue from contracts with customers – the road to convergence: what the proposals mean in practice*, which summarised the revenue recognition model proposed by the IASB in its ED of June 2010, we have produced the following additional sector-specific supplements highlighting some of the more significant implications of the proposed revenue model.

- ▶ *The road to convergence: The revenue recognition proposal – Retail and consumer products* considers the following topics that are likely to be of interest to consumer products entities: normal product sales; rights of return; product warranties; sales incentives and allowances; and licences and rights of use.
- ▶ *Exploring IFRS: Revenue from contracts with customers – Impact on the oil and gas sector/oilfield services sector*. These two publications look at some of the more significant implications that the proposed model may have for the oil and gas and oilfield services sectors.
- ▶ *Refining IFRS: Revenue from contracts with customers – Impact on the mining sector* looks at some of the more significant implications that the proposed model may have for the mining industry.

### **Hedge accounting under IFRS 9 – A closer look at the changes and challenges**

The IASB issued an ED *Hedge Accounting* in December 2010, proposing a fundamental shift from the way entities have applied hedge accounting in the past. The highlights of the ED are contained in our *Supplement to IFRS Outlook* Issue 91. Here, we take a look at some of the potential benefits and challenges for entities in both the financial and non-financial services sectors.

### **Good Construction Group (International) Limited 31 December 2010**

This publication contains an illustrative set of consolidated financial statements of Good Construction Group (International) Limited, a large publicly listed construction company and its subsidiaries, for the year ended 31 December 2010. These illustrative financial statements have been prepared in accordance with IFRS in issue as at 31 August 2010.

### **IFRS for real estate: Current issues and financial statements survey**

This Ernst & Young survey provides an overview of the accounting policies and disclosures of 38 property companies from Europe, Australia and the Middle East. We focus on the issues that are likely to be significant in a still challenging real estate market, and look ahead to some of the upcoming accounting changes.

### **Accounting for the effects of natural disasters under IFRS – Japan**

While the effects of the recent tragedy in Japan continue to evolve, companies are raising a number of questions about the related financial reporting impacts. Our publication provides a reminder of existing accounting guidance that should be considered when accounting for the effects of natural disasters.

# Resources *continued*

## **IAS 36 impairment testing: practical issues**

The practical application of IAS 36 to test assets for impairment is challenging, which was evident during the recent economic crisis. In this publication, we discuss some of the main complexities for those who want to better understand the requirements of IAS 36 and its practical consequences. It includes guidance and illustrative examples on a range of application issues that have emerged as common problems across a broad range of entities and industries.

## **Continuing the debate: a digest of the letters commenting on the IASB's Exposure Draft *Insurance Contracts***

Interested parties have submitted exposure draft comment letters on the proposed accounting standard for insurance contracts. We surveyed a sample of the comment letters and, in this report, explore the topics with the greatest significance to the respondents.

## **Insurance Accounting Alerts – March and April 2011**

The IASB recently started the redeliberations on its accounting proposals on insurance contracts. The IASB was joined by the US FASB, which reaffirmed its commitment to work with the IASB on a single, high quality, converged accounting standard for insurance contracts. In these publications, we summarise the Boards' recent discussions on insurance contracts and their tentative decisions.

## **Archived IFRS webcast**

### **Tuesday 5 April 2011: Overview of the Insurance Contracts (ED) presentation model and disclosures**

The IASB is currently considering the comment letters received on its ED *Insurance Contracts* that will ultimately replace the existing IFRS 4 *Insurance Contracts*. The final standard seeks to enhance transparency by proposing a measurement model that is consistent across all types of insurance contracts.

This webcast provides an overview of the presentation model and specific disclosures proposed by the ED. It also highlights the main differences with the previous presentation requirements under IFRS 4 and considers some possible implementation issues.

Listen to our panel discuss specific topics including: presentation requirements compared with current practice; major required disclosures; concerns relating to the IASB proposal; and considerations when implementing the proposal.

To listen to this archived webcast, go to [www.ey.com/ifrs](http://www.ey.com/ifrs) and follow the links.



## Coming soon

### **Good First-time Adopter (International) Limited 31 December 2011**

This publication contains an illustrative set of consolidated financial statements of a fictitious entity and its subsidiaries for the year ended 31 December 2011. This entity is a first-time adopter of IFRS with a date of transition as of 1 January 2010. These illustrative financial statements have been prepared in accordance with IFRS as of 31 March 2011 that are effective for December 2011 year-ends.

### **IFRS Core Tools**

Our suite of *IFRS Core Tools* consists of a number of practical building blocks that can help you to keep up with the changing landscape of IFRS. They are updated twice each year (on 31 March and 30 September). The forthcoming edition of *IFRS Core Tools*, updated as of 31 March 2011, comprises the following:

#### **IFRS Update (March 2011)**

This publication provides an overview of the effective and upcoming changes in IFRS standards and interpretations, highlighting key aspects of these changes. It focuses on the June 2011 year-end, but also considers the effect of standards beyond this date.

#### **Good Group (International) Limited Illustrative interim financial statements 2011**

This edition of Good Group (International) Limited contains an illustrative set of interim condensed consolidated financial statements of Good Group (International) Limited and subsidiaries for the six months ending 30 June 2011.

#### **International GAAP® Disclosure Checklist (March 2011)**

Our International GAAP® Disclosure Checklist captures the full list of disclosure requirements to help you comply with IFRS in your interim year-end IFRS financial statements. This publication is applicable for entities with a year-end of 30 June 2011 or thereafter.

## Forthcoming IFRS webcasts

The following IFRS webcasts will be scheduled when the new standards are issued by the IASB:

- ▶ IFRS 10 *Consolidated Financial Statements*
- ▶ IFRS 11 *Joint Arrangements*
- ▶ IFRS 13 *Fair Value Measurement*

Registration details for these webcasts will be available on [www.ey.com/ifrs](http://www.ey.com/ifrs) once the standards are issued.

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#### **About Ernst & Young**

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EYG no. AU0829

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The move to International Financial Reporting Standards (IFRS) is the single most important initiative in the financial reporting world, the impact of which stretches far beyond accounting to affect every key decision you make, not just how you report it. We have developed the global resources – people and knowledge – to support our client teams. And we work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide. It's how Ernst & Young makes a difference.

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