## In this issue ...

<table>
<thead>
<tr>
<th>More work needed on revenue recognition</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS in Brazil — Spotlight on Brazil’s IFRS adoption – An interview with Ernst &amp; Young’s IFRS leaders in Brazil</td>
<td>6</td>
</tr>
<tr>
<td>IFRS project update</td>
<td>9</td>
</tr>
<tr>
<td>Resources</td>
<td>10</td>
</tr>
</tbody>
</table>

**More work needed on revenue recognition**

The IASB\(^1\) and FASB\(^2\) jointly issued a revised revenue recognition proposal in November 2011, which would significantly impact revenue recognition for many entities when it becomes effective. In our response to the Boards’ proposal, we reiterate our support for the Boards’ objective to develop a single converged standard for both IFRS and US GAAP reporters, but recommend that they reconsider aspects of the proposal and provide additional application guidance to promote consistent application. Read more about our views presented in our comment letter to the Boards.

**IFRS in Brazil — Spotlight on Brazil’s IFRS adoption – An Interview with EY’s IFRS Leaders in Brazil**

Read our interview with Idesio Coelho, Professional Practice Director, Ernst & Young, South America, and Paul Sutcliffe, Ernst & Young’s IFRS Leader, South America, and learn more about their experience, the challenges faced and lessons learnt on Brazil’s adoption of IFRS in 2010.

**IFRS project 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.

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\(^1\) International Accounting Standards Board.

\(^2\) US Financial Accounting Standards Board.

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We welcome your feedback on *IFRS Outlook*. Please contact us at ifrs@ey.com.

Ruth Picker
Global Leader of IFRS Services
More work needed on revenue recognition

The IASB and the FASB (collectively, the Boards) issued a revised exposure draft\(^{1}\) (ED) on their joint revenue recognition proposal in November 2011. The proposal would supersede virtually all existing revenue standards and interpretations in IFRS and US GAAP and could change the timing and amount of revenue to be recognised by entities reporting under either IFRS or US GAAP. Furthermore, the ED will increase the level of disclosure required.

In this article, we outline our most significant views on the proposal, as expressed in our comment letter to the Boards.\(^{2}\) Overall, we continue to support the Boards’ intentions to develop a converged revenue standard and agree with the core principle in the proposal. We believe the Boards have made progress addressing some of the concerns raised by constituents on the June 2010 ED. However, in our view, some aspects of the proposed standard need further consideration to promote consistent application. In addition, we believe it is critical that the Boards carefully evaluate feedback on all aspects of the proposal, and not limit their redeliberations to the specific questions raised in the ED. We also suggest that the Boards field-test their final standard to ensure that it is operational. Our specific concerns about the proposal are considered individually in this article.

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\(^{1}\) The original ED Revenue from Contracts with Customers was issued in June 2010.

The Boards’ revenue recognition proposal specifies the accounting for all revenue arising from contracts with customers (unless those contracts are in the scope of other authoritative guidance, such as leases). This would potentially affect all entities in all industries. The proposed requirements would also apply when recognising and measuring gains and losses on the sale of certain non-financial assets, such as property and equipment and intangible assets.

The core principle of the proposal is that an entity would recognise revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. This is achieved through the application of the following five steps:

1. Identify the contract(s) with a customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the separate performance obligations
5. Recognise revenue when (or as) the entity satisfies each performance obligation

For the proposed standard to be operational, the principles and application guidance must work effectively for all contracts that are in its scope. As revenue generating contracts can be complex, we believe the Boards should provide additional application guidance to facilitate consistent interpretation and application.

In our view, once the final standard is issued, it is important that the Boards form a working group – or a set of working groups for different industries – to address implementation issues as they arise, particularly during the transition phase. Applying the proposal would require significant judgement for many arrangements and we believe the Boards should play a role in ensuring that consistent interpretations develop in practice. If the Boards do not, there is a risk that ad hoc working groups may form within industries and jurisdictions and develop inconsistent application guidance. In our view, we believe that these efforts would be more effective if conducted under the auspices of the Boards.

**Performance obligations satisfied over time**

The proposal specifies that performance obligations are either satisfied at a point in time, or over time, depending on the pattern of transfer of control. We generally agree with this principle. However, we are concerned that an entity could conclude that the proposed criteria for recognising revenue over time are met, when control of a good actually transfers at a point in time. Moreover, we are concerned that the proposed criteria for recognising revenue over time may be applied too broadly. This may result in revenue being recognised over the period in which an entity performs activities for, rather than the transfer of control of the asset to, a customer. Consequently, in our view, it will be important for the Boards to emphasise that recognising revenue over time is based on the transfer of control and is not an activity-based approach.

For more details of the proposal in the ED and the potential impact, refer to our publication *Applying IFRS: Revenue from contracts with customers – the revised proposal* (January 2012).
Variable consideration

The proposal requires significant use of estimates, in particular, when determining the transaction price when the consideration is variable. The ED proposes that entities estimate the variable consideration by using an expected value approach or the most likely outcome approach. We believe that the Boards should provide more application guidance on the estimation of variable consideration as there is ambiguity on how the requirements should be applied. For example, assume a contract with the following possible outcomes:

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<tr>
<th>Likelihood</th>
<th>Outcome (CU)</th>
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<tbody>
<tr>
<td>10%</td>
<td>100</td>
</tr>
<tr>
<td>30%</td>
<td>60</td>
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<tr>
<td>20%</td>
<td>40</td>
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<tr>
<td>40%</td>
<td>0</td>
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</tbody>
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It is unclear whether the most likely outcome in this example would be the individual outcome (40%) i.e. CU 0 or the amount that is more likely than not to occur, i.e. CU 40, because the entity has a 60% probability of receiving at least CU 40. We believe clarification from the Boards is necessary in order to minimise the diversity that would develop in practice.

We also believe that further clarification is needed in other areas such as incorporating the time-value of money (e.g., in countries with high interest rates a significant interest component could be present even for short term receivables), and measuring non-cash consideration (e.g., share-based payments received from a customer).

Constraining the cumulative amount of revenue recognised

The proposal requires that if the consideration that an entity will be entitled to is variable, the cumulative amount of revenue that the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. We believe that the constraint on the cumulative amount of revenue recognised is appropriate when there is uncertainty about the amounts to which the entity will be entitled; but further guidance in the final standard is needed.

In addition, we believe that the Boards should provide further guidance on recognising costs when revenue is constrained. The wording in the proposal suggests that, if revenue amounts are constrained, contract costs could not be deferred or capitalised even if the entity believes those costs are recoverable.

Onerous performance obligations

The proposal also includes the requirement for entities to recognise a liability (and a corresponding expense) for onerous performance obligations. We believe that the onerous test should not be included in this proposed standard. If the Boards include this test in the revenue standard, we believe this test should be conducted at the contract level, rather than the performance obligation level. The proposal fails to reflect the economics of many contracts and may result in the inappropriate recognition of losses when the overall contract is profitable. We believe recording a loss for a performance obligation in an otherwise profitable contract could confuse financial statement users.

Applying the model from the seller’s or buyer’s perspective

The proposal lacks consistency about when the accounting should be based on the seller’s perspective and when it should be based on the customer’s perspective. For example, in some jurisdictions, a customer obtains protective rights by law in a real estate transaction (e.g., the purchase of an apartment in a building). Such rights include substitution of the seller by a regulator in the
event of default/non-performance by the seller or legal restrictions that prevent the seller from redirecting the use of the apartment to another customer. These rights do not necessarily provide the customer with control of the apartment, but may be considered by some to be sufficient for the seller to lose control of the apartment. If assessed from the seller’s perspective, revenue could be recognised when the entity loses control (or the ability to direct the use) of the apartment. Conversely, if assessed from the customer’s perspective, revenue should not be recognised because the seller has not yet transferred control of the apartment to the customer.

To minimise diversity in practice, we believe it would be preferable to base the proposal on one perspective. Alternatively, the Boards could specify within each of the five steps of the proposal when the accounting should be evaluated from the seller’s perspective, the customer’s perspective, or both.

The proposal lacks consistency about when the accounting should be based on the seller’s perspective and when it should be based on the customer’s perspective. To minimise diversity in practice, we believe it would be preferable to base the proposal on one perspective.

Unit of account

The proposal raises important questions about the unit of account for revenue recognition. The proposal specifies that the unit of account is an individual contract with a customer, but certain steps in the proposal would be applied at a level lower or higher than an individual contract. For example, revenue would be recognised and onerous liabilities would be assessed on individual performance obligations whereas contract costs could potentially be amortised over multiple contracts. We are concerned that significant differences in the unit of account could lead to accounting results that do not reflect the economic substance of the arrangements. Consequently, we believe the Boards should limit, to the extent possible, significant differences in the unit of account.

Disclosures

We support the Boards’ objective in developing disclosures that help users understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. However, we are concerned that the Boards have developed the proposed disclosures without an overall disclosure framework. Creating disclosure requirements in this manner can result in excessive disclosure and overlap with disclosure requirements in other literature.

Next steps

While the comment period closed on 13 March 2012, the Boards have scheduled roundtable events following the comment letter period that will serve as a forum to gather additional feedback and will continue their targeted outreach efforts during the re-deliberation period. We encourage entities to assess the revised proposals and participate in outreach activities.

We expect the Boards to begin re-deliberation on the proposal shortly after the roundtables are held. As re-deliberations will continue through most of 2012, a final standard is only expected in 2013. The ED noted that a final standard would not be effective earlier than annual periods commencing on or after 1 January 2015.
Overview

In Brazil, listed companies and certain large financial institutions have been required to publish their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) since the end of the financial year 31 December 2010. All other Brazilian companies are required to prepare financial statements and/or maintain local accounting records using the new Brazilian accounting standards (Brazilian GAAP), which are substantially converged with IFRS. To find out more about the Brazilian experience of conversion to IFRS, the challenges faced and lessons learnt, we talk to Idesio Coelho, Professional Practice Director, Ernst & Young, South America, and Paul Sutcliffe, Ernst & Young’s IFRS Leader for South America.

Major challenges for companies, auditors and regulators

Although the use of financial statements for the purposes of management and analysis was already on the increase in Brazil, there was still a traditional view that financial statements were primarily driven by tax needs. “Transition to IFRS has helped to shift the focus of financial reporting to the financial statements user group. Managing this paradigm shift has underpinned several practical business challenges for corporates in Brazil,” says Paul Sutcliffe.

One important business challenge that continues to need to be met is the requirement for multi-GAAP reporting – not only must companies prepare financial statements under IFRS, but they also need to simultaneously continue preparing information based on Brazilian GAAP in order to meet taxation requirements. Paul expects this to be an on-going operational challenge until IFRS gains at least partial acceptance by the tax authorities. This is an additional pressure faced by accounting professionals in companies.

One of the offshoots of the multi-GAAP reporting challenge is the need for accurate and efficient management reporting. Ideally, statutory reporting must be aligned with management reporting, and executives have to understand the impact that IFRS has on performance management measures and key performance indicators. In the meantime, it is still rare for Brazilian companies to prepare budgets under IFRS.

Many companies initially approached the transition as a mere technical accounting exercise. Only subsequently did they realise that the exercise was much more complex and required the extensive involvement of senior management. However, the collateral effects on other business processes, such as IT, internal audit and human resources, were often not taken into consideration. “This led to many companies experiencing excessive information systems costs, incomplete revisions of policies and procedures and costly implementation due to a lack of advanced planning and preparation,” says Idesio Coelho.

Sutcliffe and Coelho mention the challenge that is caused by the lack of IFRS knowledge and expertise – it is fair to say that there was (and still is) a lack of experienced IFRS resources in Brazil, although a number of training initiatives have been launched to address this.

“This was not just an issue for the financial accounting professionals, but for other people as well,” explains Sutcliffe. “Many IFRS standards require the extensive involvement of non-accounting business units, for example, the valuation of forestry assets to comply with IAS 41 Biological Assets requires critical business inputs such as assumptions and judgements, which may not be readily available to accounting teams. In many instances, companies were finding that their business unit heads were not prepared for the operational changes that IFRS has brought. For many, this was also an issue at management, board and audit committee levels.”

“The transition to IFRS has been challenging not only for companies, but also for us – the auditors,” says Coelho. “IFRS provides a principles-based accounting framework and contains multiple instances where management is required to apply judgement and make accounting estimations. Moreover, IFRS offers several accounting policy alternatives. The review of management judgements, estimates and alternatives calls for extensive auditor involvement early on during the transition. Added to this, changes in internal controls, systems and business processes have had significant audit implications for many companies.”
Sutcliffe believes the introduction of IFRS in Brazil is an important step forward from the regulators' perspective. “Now that Brazil has globalised its accounting standards, it is equally important to ensure that the standards are being consistently applied. This is the challenge for the regulators – as well as the preparers and auditors – to ensure that their interpretation and application of IFRS is consistent both locally and globally,” says Sutcliffe.

“Transition to IFRS has helped to shift the focus of financial reporting to other financial statements user groups. Managing this paradigm shift underpinned several practical business challenges for corporates in Brazil.”

Paul Sutcliffe

Key GAAP differences and industry sectors that are significantly impacted

“Generally, the move to fair value accounting has been a big shift for business in Brazil,” says Sutcliffe, “IFRS requires the extensive use of fair value measurement. Familiarising ourselves with valuation techniques, engaging independent external appraisers (for preparers), auditing fair value measurements (for auditors) and understanding the implications of fair values reported (for analysts and other users) has been a big challenge. This results in financial reporting being a more time-consuming exercise than in the past.”

Sutcliffe reflects that there are numerous specific accounting differences between IFRS and the previous Brazilian GAAP. “One such area where there is a significant difference is the accounting for biological assets including forestry assets. Since IFRS requires such assets to be measured at fair value, companies with forestry assets face many fair valuation challenges – limited guidance, the geographical remoteness of these assets, the typical characteristics of many forests, lack of active markets, a lack of relevant global experience, to name a few. This difference has impacted several sectors where businesses commonly hold biological assets, including paper, pulp, sugar and ethanol,” says Sutcliffe.

Brazil has around 20-30 listed real estate companies. Under Brazilian GAAP, property developers usually recognised revenues from their property development activities progressively based on the stage of completion of the development project. “This practice reflected the way these developers commercially looked at their activities – apartments and houses were generally sold “off plan” when construction was incomplete, rather than when they were ready for occupation, and revenue was recognised using an activity-based model,” says Coelho. “IFRS raised a fundamental debate amongst accountants and property developers – whether developers are selling a product (completed apartments and houses) or rendering construction services. We believe that this debate will continue with the advent of a new revenue standard.”

Both Sutcliffe and Coelho highlight public concessions as another area where IFRS has had a major accounting impact. Privatisation in infrastructural sectors such as electricity, water and the highways has often taken the form of concession arrangements in Brazil.

“There have been some serious discussions on the accounting for service concessions. The issues discussed have ranged from whether arrangements are in the scope of IFRIC 12, to more advanced and complex topics such as the accounting for the various rights and obligations of operators,” says Sutcliffe.

In addition, there have been many other accounting issues for industries. Still within the power & utilities sector, the prohibition on the recording of regulatory assets and liabilities has attracted a great deal of comment. The accounting for financial instruments is another difficult area under IFRS and companies are gradually learning the nuances of various facets, such as the rules for hedge accounting. Coelho says “IFRS can lead to classification decisions between debt and equity that can appear counter-intuitive; this has created a lot of debate in the accounting community in Brazil.” He adds, “There are also areas which, on the surface, appear simple, for example, can a Brazilian treasury bond still be classified as a cash and cash equivalent and is it appropriate to continue the Brazilian tradition of gross presentation of deferred tax assets and liabilities under IFRS?”

Investor and analyst reactions to IFRS transition

Sutcliffe says that investor and analyst reactions have ranged from minimal to significant. Therefore, the question is: “Will the adjustments made as a result of IFRS impact the market price of a company?” Many companies had not anticipated that IFRS compliance would alter their investors’ opinions and beliefs, given that IFRS has no effect on their firm’s strategy or business performance.

IFRS requires disclosure of new information about a company, positive or negative, in the company’s financial statements. For example, under Brazilian GAAP, convertible bonds are not split into debt and equity, and agricultural assets are not fair valued. Such accounting changes often have a bearing on investors’ perception of the value of the company.
The extent of the market impact resulting from IFRS adjustments and the extensive disclosures therein depends on the nature of the particular adjustment/disclosure and how value-sensitive it is. “Due to the conservative nature of investors, a positive earnings adjustment generally signals opportunistic behaviour and, therefore, investors are reluctant to trade upon it. However, a negative adjustment is enough to trigger negative sentiment among investors. It is always a good strategy for companies to keep their investors and analysts informed by communicating adjustments and disclosures early,” says Coelho.

Lessons from the Brazilian experience
Coelho observes that, while many companies prepared themselves in some way for the changes, a majority still looked at IFRS as another requirement to comply with, perhaps showing less appreciation of the potential effects of the conversion on systems, processes, training requirements and business models, than they should have done. They also underestimated the potential benefits that high-quality, general-purpose financial reporting can bring to a company and to the Brazilian economy as a whole. “In today’s corporate world, where timely and accurate information is key, future transitioning companies and jurisdictions must do better in this regard. Otherwise, there is a real risk that any last-minute negative news to an investor who has not been prepared for it in advance may trigger an adverse reaction” says Coelho. “Companies need to be aware that analysts have access to comparable global data on their industry sectors against which they can benchmark their results, and they need to be prepared to react accordingly.”

“Adopting new reporting standards is never going to be easy and the challenges are as diverse as the countries that are looking to adopt IFRS in the near future. However, companies should not let their focus deviate from the benefits that harmonised reporting standards can bring to enhance transparency and comparability and improve the overall quality of financial reporting. Management needs to develop a global mindset!” warns Sutcliffe.

“Companies should not let their focus deviate from the benefits that harmonised reporting standards can bring to enhance transparency and comparability and improve the overall quality of financial reporting. Management needs to develop a global mindset!”

Paul Sutcliffe

About Idesio Coelho and Paul Sutcliffe
Idesio Coelho is Professional Practice Director, Ernst & Young, South America, advising engagement teams on complex accounting matters. Idesio was extensively involved in supporting the transition to IFRS in his role as technical director of the Institute of Brazilian auditors and through his participation as a member of the Brazilian Accounting Pronouncement Committee.

Paul Sutcliffe is Ernst & Young’s IFRS leader for South America and is based in São Paulo Brazil, where he has advised a number of major companies on conversion and transition. He is a member of Ernst & Young’s Global IFRS Policy Committee and takes an active role in assessing the impact of new standards across the region.
What’s new?

The following table shows new publications issued by the IASB.

<table>
<thead>
<tr>
<th>Projects</th>
<th>Publication</th>
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<tr>
<td>Revenue recognition</td>
<td>On 29 February 2012, staff from the IASB and the FASB held a one hour webcast to discuss some of the questions and concerns raised during the outreach on the revised exposure draft <em>Revenue from Contracts with Customers</em> (published November 2011). More information on the webcast can be accessed at <a href="http://www.ifrs.org/Alerts/ProjectUpdate/Rev+Rec+webcast+29+Feb+2012.htm">www.ifrs.org/Alerts/ProjectUpdate/Rev+Rec+webcast+29+Feb+2012.htm</a></td>
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<td><em>IFRS 1 First Time adoption of International Financial Reporting Standards (Amendment) Government Loans</em></td>
<td>The IASB issued amendments to <em>IFRS 1 First-time Adoption of International Financial Reporting Standards</em>. The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRS relief from full retrospective application of IFRS when accounting for these loans on transition. This is the same relief as was given to existing preparers of IFRS financial statements. The amendments are mandatory for annual periods beginning on or after 1 January 2013. Earlier application is permitted. More information about the amendment can be accessed at <a href="http://www.ifrs.org/Current+Projects/IASB+Projects/Additional+Exemptions+for+First-time+Adopters++Amendments+to+IFRS+1">www.ifrs.org/Current+Projects/IASB+Projects/Additional+Exemptions+for+First-time+Adopters++Amendments+to+IFRS+1</a></td>
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<td><em>IFRS for Small-Medium Enterprises</em></td>
<td>The IASB published February 2012 <em>IFRS for SMEs Update</em>. This update is a staff summary of news relating to <em>IFRS for SMEs</em> and can be accessed at <a href="http://www.ifrs.org/Alerts/SME/February+SMEs+Update.htm">www.ifrs.org/Alerts/SME/February+SMEs+Update.htm</a></td>
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Current discussions

The IASB has focused its recent discussions on key projects that are intended to result in the issue of exposure drafts for public consultation in the coming months. Tentative decisions were made regarding a number of projects, including leases, financial instruments, insurance contracts and annual improvements. The IASB also discussed the macro hedge accounting model. No decisions were made at these meetings. The IASB and the FASB are also discussing possible ways to reduce the number of differences in their respective classification and measurement models for financial instruments.

The IFRS Interpretations Committee met on 13 and 14 March 2012. The Committee continued discussions of the current agenda items, including; the use of IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* by analogy to levies; the accounting for put options written over non-controlling interests in the consolidated financial statements of the controlling shareholder; issues for consideration in the Annual Improvements project; acquisition of interests in a joint operation; the meaning of “continuous transfer of control” in real estate transactions; accounting for an investor’s share of other changes in equity of an associate; IFRIC 12 *Service Concessions Arrangements* – payments to operate, review of requests in relation to IAS 7 and accounting for the contribution of a subsidiary to a joint venture. The Committee also discussed new issues for initial consideration, including; accounting for the purchase of property, plant and equipment where the laws of the jurisdiction do not permit entities to own freehold title to land; separation of embedded derivatives; royalty payments presentation and accounting for market value uplifts to be introduced by new tax regimes.

Updates from Board meetings and the Interpretations Committee meetings can be found at www.ifrs.org/Updates.

IASB work plan

The IASB updated its work plan on 13 March 2012. This can be accessed at www.ifrs.org. The updated work plan now reflects recently issued amendments and exposure drafts, and the closing of comment periods. The projected publication of the leases revised ED has been moved from Q2 to Q3/Q4 2012. The work plan also indicates that the Board plans to develop its strategy for the three yearly agenda consultation during Q3/Q4 2012.
The publications below are all available at www.ey.com/ifrs.

**IFRS Developments**

**Issue 24: IFRS Foundation announces changes to its governance**
The IFRS Foundation published two reports on 9 February 2012 that include key decisions on the organisation's governance and strategy. This publication discusses the principal highlights of the reports, including a number of proposals made on the composition and structure of the IASB, Trustees and Monitoring Board of the IFRS Foundation.

**Issue 25: Boards weighing effects of putting leases on the balance sheet**
The IASB and the FASB remain committed to putting leases on the balance sheet. However, they continue to struggle with how to recognise related lease revenue and expense. This is likely to delay a new exposure draft. This publication summarises what you need to know about the status of the leases project.

**Applying IFRS**

**Applying IFRS: Revenue contracts with customers — the revised proposal**
The IASB and the FASB recently issued a second ED of their joint revenue proposal, which would converge revenue recognition guidance under IFRS and US GAAP in a single model and would replace essentially all the revenue recognition guidance. While the overall framework is the same as in the 2010 ED, key parts of the proposals have changed. Some changes would move the proposal closer to current IFRS requirements than the 2010 ED. Others would significantly change current practice for some companies. This publication provides a comprehensive analysis of the proposed model, highlighting key changes from current practice.

**Applying IFRS series on the revised revenue recognition proposal for various industries**
The re-exposed joint revenue recognition proposal could result in significant changes in practice for companies in across several industries. We have issued a series of Applying IFRS publications for the following industry sectors:

- Life sciences
- Telecommunications
- Retail and consumer products
- Metals and mining
- Oil and gas
- Oilfield services

In these publications, you will find an analysis of the impact of the Boards’ proposals and the key implications for entities in the above industry sectors.

**Applying IFRS in Insurance: Limited improvements to IFRS classification and measurement: The impact for insurers and next steps**
In November, the IASB made the unanimous tentative decision to consider making limited changes to the IFRS 9 Financial Instruments classification and measurement model. An important reason for the Board to start this project is the need to consider the interaction between the accounting for insurance contract liabilities (as developed in its insurance project (IFRS 4 Phase II)) and the accounting for financial assets backing insurance contracts.

**Surveying IFRS**

**Surveying IFRS for Real Estate: Current issues and financial statement survey 2010/2011**
This publication provides an overview of the accounting policies and disclosures of 38 property companies from Europe, Australia, the Middle East and Canada and focuses on the issues that are likely to be significant in a still challenging real estate market. It also looks ahead to the challenges of applying certain upcoming and expected changes in IFRS.
IFRS Practical Matters

IFRS Practical Matters: Impairment – assessing the impact of the new proposal
Our Global Financial Accounting Advisory Services Group released a new edition of the thought leadership series, *IFRS Practical Matters*. This edition complements our recent IFRS publication, *IFRS Developments Issue 21: Impairment – a major step forward in achieving convergence* (December 2011). It provides a summary of the currently proposed “three-bucket” credit impairment approach, as well as our views on the next steps for financial institutions.

IFRS Practical Matters: Revenue recognition project: Round 2 for the exposure draft
This publication highlights how the revised revenue recognition proposals may have a significant impact on many organisational functions, including: financial; tax; IT systems; and business processes.

Insurance publications

Facing the challenge: Business implications of IFRS 4, 9 and Solvency 11 for insurers
Insurers face a huge challenge in synchronising the implementation of IFRS 4 Phase II with IFRS 9 in the coming years. Managing the timelines and interdependencies between these frameworks, along with other new IFRS standards, Solvency II and other finance transformations and change programmes that may be underway will place many companies in a conflicting position. This heightens the need to assess overlapping requirements with other projects, and evaluate the risk and cost of making large investments against the risk and cost of deferring them with interim solutions. This publication takes a closer look at these proposals and provides a comprehensive analysis.

Insurance Accounting Alert: Boards debate premium allocation approach
The IASB and the FASB held Education Sessions in January to re-deliberate the tentative decisions in the IASB’s Exposure Draft *Insurance Contracts* and in the FASB’s Discussion Paper *Preliminary Views on Insurance Contracts*. The only topic discussed was the premium allocation method. The IASB considered whether to delay the mandatory effective date for its new standards on consolidations, joint arrangements and related disclosures.

Insurance Accounting Alert: Boards make decisions on the premium allocation approach
During February, the Boards held meetings to re-deliberate tentative decisions in the IASB’s Exposure Draft, *Insurance Contracts* and in the FASB’s Discussion Paper *Preliminary Views on Insurance Contracts*. The following topics were discussed:
- Eligibility for and certain mechanics of the premium allocation approach
- Measurement of liabilities for infrequent, high-severity events
- Onerous contracts
- Treatment of non-insurance goods and services

The IASB and FASB separately discussed whether financial instruments with discretionary participation features (i.e., contracts where the amount or timing of profit sharing is at the discretion of the issuer) should be within the scope of the insurance standard, or to treat those instruments under the financial instruments standard.
In line with Ernst & Young's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

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