

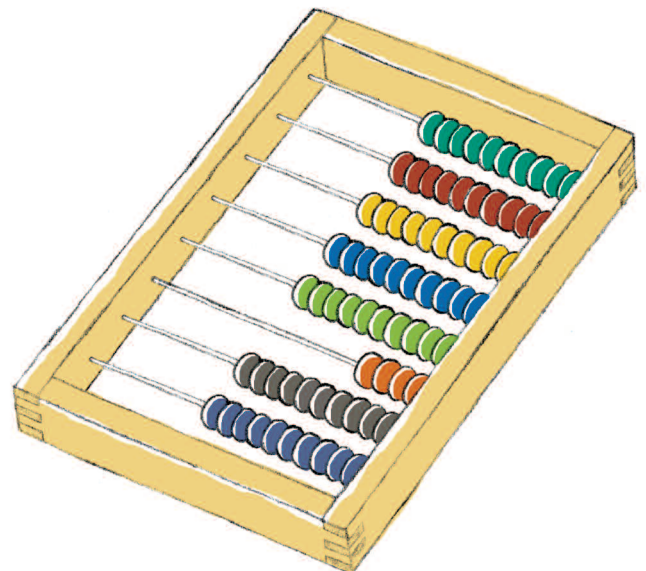
# IFRS News

January 2009

Welcome to IFRS News – a quarterly update from the Grant Thornton International IFRS team. IFRS News offers a summary of the more significant developments in International Financial Reporting Standards (IFRS) along with insights into topical issues and comments and views from the Grant Thornton International IFRS team.

Our first edition of the year concentrates on the effects of the credit crisis on financial reporting – both for the IASB and companies applying IFRSs. In our lead article we look at the IASB's amendment allowing the reclassification of financial instruments in certain circumstances. This amendment was unprecedented in terms of the speed of its development, with the IASB waiving its usual due process to rush the publication out.

We then go on to look at the various other elements of the IASB's response to the credit crisis before considering the more general changes and developments that have taken place in the last quarter. We end with a round up of the proposals that the IASB currently has out for comment and the implementation dates of Standards that are about to come into effect.



# IASB issues amendments permitting the reclassification of financial instruments

**IASB rushes out amendments allowing the reclassification of financial assets in order to head off the possibility of an EU 'carve-out' being introduced**

The collapse of Lehman Brothers in September 2008 provoked turmoil not just in financial markets but also in the world of International Financial Reporting Standards.

Against the background of falling asset prices and reduced credit availability, EU leaders and finance ministers became concerned that European companies were at a disadvantage compared to their competitors in the US. This was because of the ability of US companies to reclassify financial assets out of fair value through profit or loss in certain circumstances.

Amid rumours of a possible EU 'carve-out' to permit companies to freely reclassify financial instruments out of the fair value category, the IASB rushed out 'Reclassification of Financial Assets – Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures' (the Amendments).

**The whole process from initial development to publication took just one week!**

The Amendments permit the reclassification of financial instruments in limited situations, so removing the potential disadvantage that European companies faced. More specifically, they allow companies to:

- reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the company upon initial recognition) out of the fair value through profit or loss category in particular circumstances;
- transfer from the available for sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (had it not been designated as available for sale), if the company has the intention and ability to hold that financial asset for the foreseeable future.

Extra disclosure requirements have been added to IFRS 7 to provide information where financial assets are reclassified under the Amendments.

Because of the speed with which the Amendments were developed, the IASB was not able to go through its usual due process – the whole process from initial development to publication took just one week! Unsurprisingly in the circumstances, the Amendments are not entirely clear and have led to numerous application questions (see for example our article 'Amendments proposed to clarify the accounting for embedded derivatives'). Indeed, the IASB found it necessary to amend its Amendments to clarify the effective date.

## **Comment**

Despite some commentators' concerns that the Amendments were made in response to political pressure, they are surely a better outcome than an EU carve-out which could have damaged credibility and undermined convergence efforts. With pressures continuing on both sides of the Atlantic, however, the next few months may yet be critical to the convergence of IFRS and US GAAP.

The Amendments aim to align IFRS more closely with US GAAP, although it is questionable that a truly level playing field has or can be achieved. We expected (and saw) a number of banks making use of the new rules in Q3 2008, although a recent survey by the Committee of European Securities Regulators indicated that a majority of EU financial institutions did not. In normal market conditions we expect that such transfers will be infrequent.

# IASB response to the credit crisis

As noted on our front page, the last quarter of 2008 was dominated by the IASB's response to the credit crisis. Indeed so many pronouncements and proposals have been made by the IASB in the last three months that it can be hard to view them as a whole. This article provides an overview, with separate articles in our newsletter then looking at selective parts in greater detail.

October saw the IASB issue three separate documents in response to the credit crisis:

- an amendment to permit reclassifications of financial assets under certain circumstances;
- proposals to enhance disclosures of financial instruments; and
- publication of guidance for the application of fair value in illiquid markets.

This was followed by the establishment of a Financial Crisis Advisory Group (FCAG). The FCAG is a high-level advisory group set up by the IASB and the FASB to consider financial reporting issues arising from the global financial crisis. Its primary function will be to advise the boards about standard-setting implications of (1) the global financial crisis and (2) potential changes to the global regulatory environment. The group is expected to conclude its activities within approximately six months.

**The IASB has made so many pronouncements in response to the credit crisis in the last three months that it can be hard to view them as a whole.**

At around the same time, the IASB and FASB also announced a series of joint round-table meetings. These meetings provided the two boards with an opportunity to hear input from a wide range of stakeholders including users and preparers of financial statements, governments, regulators and others.

Then in December, the IASB published the following proposals (the last two of which were influenced by comments received during the round-table meetings):

- a proposed new standard on consolidations as part of a comprehensive review of off-balance sheet risk;
- proposed additional disclosures for investments in debt instruments; and
- proposed amendments to clarify the accounting for embedded derivatives.

It is likely that the IASB's response will not stop there. Further proposals on off balance sheet items, covering the derecognition of assets and liabilities, are expected in the first quarter of 2009. We also anticipate continued attention on the role of fair value accounting and the interaction between general purpose financial reporting and prudential supervision of financial institutions. 2009 promises to be an interesting year in financial reporting.

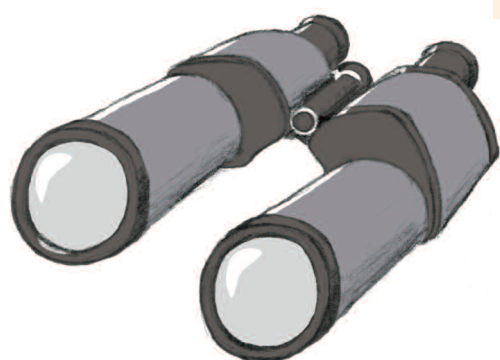


# Watch out for...

The credit crisis has adversely affected debt and equity markets and resulted in a general weakening of the economy in many parts of the world. The priority for businesses will be to survive through the downturn. Inevitably there will also be an impact on the preparation of many companies' annual financial statements. The following table lists some examples of IFRS-related accounting issues that may become more significant in the current economic environment and which may affect you.

The list is not exhaustive and is intended to illustrate the range and breadth of issues that may require increased attention.

| Topic                                                       | Potential accounting issues                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Selected IFRS references |
|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| Judgements and estimates                                    | Increased uncertainty may require additional disclosures about assumptions and other major sources of estimation uncertainty.                                                                                                                                                                                                                                                                                                                                                                                                                     | IAS 1.125-133            |
| Going concern disclosures                                   | Material uncertainties over going concern must be disclosed.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | IAS 1.25-26              |
| Covenant compliance and current vs. non-current distinction | Breaches of loan covenants might result in non-current liabilities becoming current. The classification as current at year-end is not reversed by a covenant waiver granted post-year-end.                                                                                                                                                                                                                                                                                                                                                        | IAS 1.74-75              |
| Deferred tax                                                | Reduced expectations of future profits may call into question the appropriateness of recognising deferred tax assets in respect of carry-forward tax losses and deductible temporary differences.                                                                                                                                                                                                                                                                                                                                                 | IAS 12.24-32 and 34-36   |
| Property, plant & equipment                                 | Residual values and useful lives of items of PP&E must be reviewed at least each year-end. Residual values are based on current values that could be obtained for the item in its end of useful life condition, and may therefore need to be adjusted downwards to reflect depressed market conditions.                                                                                                                                                                                                                                           | IAS 16.6 and 51          |
| Impairment of non-financial assets                          | The current economic conditions will have a widespread impact on impairment testing. Some specific factors to consider include: <ul style="list-style-type: none"> <li>• increased prevalence of objective evidence of impairment</li> <li>• cash flow estimates to incorporate in value-in-use calculations</li> <li>• discount rates to apply in estimating value-in-use,</li> <li>• the effects of reorganisations and restructuring on the allocation of goodwill to Cash Generating Units for the purposes of impairment testing.</li> </ul> | IAS 36 generally         |



| Topic                               | Potential accounting issues                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Selected IFRS references |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| Impairment of financial assets      | <p>IAS 39 requires an assessment of the existence of objective evidence of impairment for all financial assets other than those reported at fair value through profit or loss (including available-for-sale assets). It can be expected that there will be objective evidence of impairment in many more cases than in recent years. Specific points to consider include:</p> <ul style="list-style-type: none"> <li>• for investments in equities a significant or prolonged decline in fair value to below cost is one type of objective evidence of impairment.</li> <li>• for debt type assets, objective evidence of impairment includes financial difficulty of the debtor, breaches of the term of the instrument and it becoming probable that the debtor will enter bankruptcy or financial reorganisation.</li> </ul> | IAS 39.58-70             |
| Intangible assets                   | It may become inappropriate to recognise (or continue to recognise) an intangible asset for internally generated development activities as a result, for example, of reduced expectations of future economic benefits.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | IAS 38.57-62             |
| Financial instruments – disclosures | IFRS 7 includes extensive requirements on the disclosure of the accounting effects and risks associated with entities' use of financial instruments. Many of these disclosures are likely to be more significant in the current environment and will be of interest to users and regulators.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | IFRS 7 generally         |
| Post-employment benefits            | Issues arise in particular in relation to actuarial assumptions in measuring defined benefit plan expenses and obligations, including the applicable discount rate for measuring the benefit obligation and the expected return on plan assets.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | IAS 19                   |

# IASB proposes new consolidation standard

## Exposure Draft published as part of comprehensive review of off balance sheet risk

The IASB has published an Exposure Draft entitled 'Consolidated Financial Statements'.

The proposals are part of a comprehensive review of off balance sheet activities being conducted by the IASB. They are intended to address concerns raised by the G-20 (the Group of Twenty Finance Ministers and Central Bank Governors) over the use of special structures by reporting entities, particularly banks, in managing securitisations and other more complex financial arrangements.

The G20 and other commentators had questioned whether the current requirements in this area resulted in the right things being brought onto the balance sheet. In particular, there was concern that financial statements do not convey the extent to which reporting entities are exposed to risks from those types of structures.

## There was concern that the right things were not being brought onto the balance sheet

The proposals aim to address these concerns by presenting a new, principle-based, definition of control of an entity that would apply to a wide range of situations and be more difficult to evade by special structuring. They would introduce new or amended guidance in areas such as: control as the result of a dominant minority shareholding

(de facto control), the role of potential voting rights such as options and convertible bonds, and distinguishing control in an agency relationship. The proposals also include enhanced disclosure requirements that would enable an investor to assess the extent to which a reporting entity has been involved in setting up special structures and the risks to which these special structures expose the entity.

It is intended that the proposals would apply not only to the banking sector but to any entity that uses structured entities to manage its activities. Comments on the Exposure Draft are due by 20 March 2009.

It is also expected that the IASB will publish further proposals on off balance sheet items, covering the derecognition of assets and liabilities, in the first quarter of 2009.

## Comment

Consolidation is currently addressed by IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation – Special Purpose Entities'. There is a tension between the models used in these pronouncements, with IAS 27 focusing on whether one entity controls another while SIC-12 uses a mixture of tests of control and of risk and rewards. Inevitably the tension between these two models has led to inconsistent application and created structuring incentives.

A single IFRS on consolidation containing a principle-based definition of control which would remove these structuring incentives should therefore be an improvement. We will however be looking closely at the detail in the Exposure Draft before responding to the IASB.

# Guidance finalised on valuing financial instruments in markets that are no longer active

**The IASB has published educational guidance on the application of fair value measurement when markets become inactive.**

The educational guidance published by the IASB consists of a summary document prepared by IASB staff and the final report of the Expert Advisory Panel. This Panel was formed to consider how to deal with problems that were being encountered in valuing financial instruments in markets that had become inactive as a result of the global financial crisis.

The Expert Advisory Panel report finalises the draft guidance that was reported on in the October edition of IFRS News and is largely consistent with that draft. The summary document prepared by the IASB staff sets out the context of the Expert Advisory Panel's Report and highlights some of the important issues that arise when measuring the fair value of financial instruments in markets that are no longer active.

The reports look at the significance of transaction prices in less active markets in estimating fair values. The guidance points out that if a market is not 'active', a quoted market price is not necessarily the fair value. However, a transaction price in a market that is no longer active cannot just be ignored in determining fair value unless the transaction was under forced or distressed circumstances.



# Amendments proposed to improve information on fair value measurement and liquidity risk

The IASB has issued an Exposure Draft 'Improving Disclosures about Financial Instruments – Proposed Amendments to IFRS 7'. The proposals are part of the IASB's response to the credit crisis, and aim to improve the information that companies provide on how they measure the fair values of financial instruments and on liquidity risk.

**A three-level fair value hierarchy is proposed to indicate the reliability of the inputs that a company has used in estimating fair value.**

In relation to fair value measurement, the Exposure Draft proposes disclosure of a three-level fair value hierarchy. This is intended to indicate the reliability of the inputs that a company has used in estimating fair value measurement. This proposal would apply to financial instruments and would require disclosures about:

- the level of the fair value hierarchy into which fair value measurements are categorised in their entirety;
- the fair value measurements resulting from the use of significant unobservable inputs to valuation techniques (for these measurements, the disclosures include a reconciliation from the beginning balances to the end balances);
- the movements between different levels of the fair value hierarchy, and the reasons for those movements.
- require companies to provide quantitative disclosures based on how they manage liquidity risk for derivative financial liabilities;
- require companies to disclose the remaining expected maturities of non-derivative financial liabilities if they manage liquidity risk on the basis of expected maturities; and
- strengthen the relationship between qualitative and quantitative disclosures about liquidity risk.

In relation to liquidity risk, the Exposure Draft proposes amendments to IFRS 7 that would:

- clarify that liquidity risk disclosures are required only for financial liabilities that will result in the outflow of cash or another financial asset;

## Comment

We agree with the underlying concept of classifying and disclosing fair value measurements according to the 'quality' of the measurement (or inputs to the measurement technique). We therefore support use of the three-level fair value hierarchy.

In relation to liquidity risk, we agree with the majority of the proposals but note that the proposed maturity analysis for financial liabilities based on remaining expected maturities would be in addition to the existing contractual-maturity analysis. We have questioned whether requiring two maturity analyses in these circumstances is an unnecessary burden for companies.

# Additional disclosures proposed for investments in debt instruments

## Further proposed amendments to IFRS 7 follow IASB and FASB round-table discussions

Another by-product of the credit crisis and the IASB and FASB round-tables has been the publication of an Exposure Draft 'Investments in Debt Instruments'.

Suggestions had been made in the round-tables that disaggregated information about impairment losses on available-for-sale debt instruments would be useful.

Specifically, it was suggested that disaggregation of the impairment loss should identify the portion which represents the incurred loss – ie the loss amount that would be recognised under the impairment model for debt instruments measured at amortised cost.

The proposed amendments are additional to those that were already being proposed in relation to fair value measurement and liquidity risk.

As a result the IASB is proposing to amend IFRS 7 'Financial Instruments: Disclosures' to require entities to provide additional disclosures on all investments in debt instruments, other than those classified in the fair value through profit or loss category. These proposals are intended to make it easier to compare investments in debt instruments that are classified in different categories.

More specifically, the proposals would require companies to:

- state in tabular form the fair value, amortised cost and amount at which the investments are actually carried in the financial statements;

- disclose the effect on profit or loss and equity if all debt instruments had been accounted for at fair value or at amortised cost.

The IASB believes that the proposed disclosures would allow greater comparability between investments in debt instruments held with and by different entities, and so enhance investors' confidence in the financial markets. Similar proposals are being made by the US FASB.

### Comment

We believe there is a good case for requiring disclosures that enable users to better understand the nature of impairment losses recognised on available for sale debt assets. We are not convinced that this is an urgent matter however.

Should the IASB decide that fast track amendments are necessary we would prefer a more limited disclosure requirement that is tightly focused on this specific matter.

# Amendments proposed to clarify the accounting for embedded derivatives

The IASB has published an Exposure Draft 'Embedded Derivatives' in response to requests received during the recent round-table discussions organised by the IASB and the US FASB.

Under IAS 39, it is not necessary to separate an embedded derivative from a host instrument when the hybrid (combined) instrument is measured at fair value with changes in fair value recognised in profit or loss. Following the publication of 'Reclassification of Financial Assets - Amendments to IAS 39 Financial Instruments', an issue had arisen however as to whether it is necessary to reassess the separation of embedded derivatives following reclassification out of that class under the Amendments.

Following such a reclassification the combined instrument will no longer be accounted for at fair value with changes in fair value recognised in profit or loss. This contradicted the logic of not having to assess whether embedded derivatives in such instruments needed to be separated.

Under IFRIC 9, however, an entity is required to assess whether an embedded derivative needs to be separated only when the entity first becomes a party to the contract, with subsequent reassessment being prohibited. This appeared to offer support for a policy of not reassessing the separation of embedded derivatives upon reclassification. As a result, the IASB was requested to consider amending IFRSs to prevent a practice developing whereby embedded derivatives that should be separately accounted for are not.

The Exposure Draft therefore proposes that:

- all embedded derivatives are assessed on reclassification and, if necessary, separately accounted for in financial statements;
- the assessment to be made on the basis of the circumstances that existed when the entity first became a party to the contract.

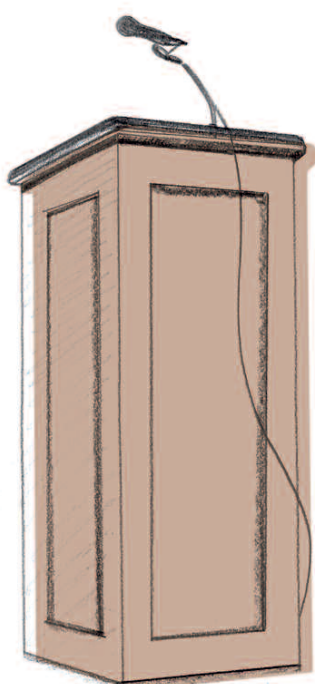
## Comment

We consider that reassessing the need to separate out any embedded derivatives following a reclassification of financial instruments is a superior method of accounting and recommend this approach. We therefore support the proposals in the Exposure Draft, which we expect to be fast-tracked by the IASB.

# Fair value – the debate continues

## Use of fair value accounting continues to attract comment from politicians

As briefly mentioned in the previous edition of our newsletter, some commentators have been getting increasingly vocal in their criticism of fair value accounting. The debate on the merits of fair value accounting continued in the last quarter of 2008 on both sides of the Atlantic.



In Europe, the European Commission wrote to the IASB at the end of October 2008, asking for several specific changes to be made to IAS 39, and asking for the role of fair value accounting to be comprehensively addressed in the context of ongoing IASB projects.

In the US meanwhile, the US Securities and Exchange Commission (SEC) has published the report it was required to conduct on the use of 'mark-to-market' accounting by the Emergency Economic Stabilization Act of 2008.

## The SEC report notes that fair value accounting did not appear to play a meaningful role in the bank failures of 2008, and recommends against its suspension.

Although the report is based on an examination of the effects of fair value accounting under US GAAP on US companies, it touches on fair value accounting under IFRS and the results will be of interest to the IASB.

The report notably recommends against the suspension of fair value accounting standards (the Emergency Economic Stabilization Act had given the SEC authority to suspend mark-to-market accounting if it determined that it was in the public interest).

It goes on to add that investors generally believe fair value accounting facilitates better investment decision-making and that it did not appear to play a meaningful role in the bank failures that occurred in 2008. It therefore recommends improvements to existing practice rather than suspending the current standards on fair value accounting.

Some of the report's recommendations to the US Financial Accounting Standards Board are already being considered by the IASB. Other recommendations, such as examining the impact of liquidity in the measurement of fair value, may influence the direction of the IASB's work in future months as it itself reviews the role of fair value accounting.

# SEC issues Proposed IFRS Roadmap

The SEC has finally published its long-awaited 'roadmap' to the potential mandatory implementation of IFRS in the United States.

The IFRS roadmap was originally announced in August 2008 (see the October edition of IFRS News) but was not actually published until 18 November 2008. The delay was caused by the worldwide financial crisis and the possibility that the European Union might impose an IAS 39 'carve-out' in response to it, which would have derailed the convergence of IFRS with UK GAAP.

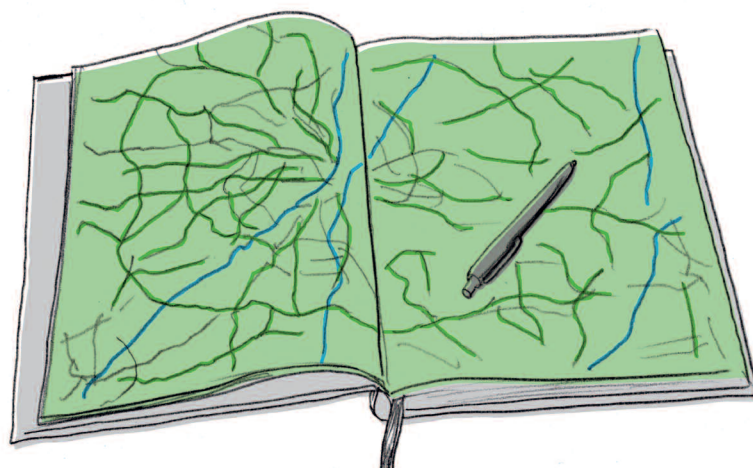
The roadmap outlines certain milestones that, if achieved, could lead to mandatory transition to IFRSs. The roadmap was published in the Federal Register on 21 November 2008 and is open for comment until 19 February 2009, meaning that its finalisation will require approval during the first months of the Obama administration in the United States. Early comments from Mary Schapiro, President-elect Barack Obama's nominee as SEC Chairman, have indicated that such approval is not necessarily certain however.

## The seven milestones

- 1 Improvements in accounting standards by the FASB and the IASB
- 2 Improved accountability and the establishment of independent funding for the International Accounting Standards Committee
- 3 Improvement in the ability to use eXtensible Business Reporting Language (a form of interactive data under which financial data is tagged so that it can be easily understood and processed by computers) for IFRS reporting
- 4 Education and training on IFRS in the United States
- 5 A limited option of early use by eligible entities
- 6 An anticipated date of 2011 for a decision on whether to require mandatory adoption of IFRS for all US issuers
- 7 A potential phased transition to IFRS by US companies, with mandatory application from 2014 to 2016 depending on size.

## Mexico to move to IFRS

In November 2008, the Mexican Securities and Exchange Commission (Comision Nacional Bancaria y de Valores, or CNBV) together with the Mexican Accounting Standards Board (CINIF), announced that all companies listed on the Mexican Stock Exchange will be required to use IFRSs from 2012. Early adoption for some listed companies will be permitted from 2008 subject to requirements that will be established by the CNBV.



# New structure makes IFRS 1 easier to read

**The IASB has published a revised version of IFRS 1 First-time Adoption of International Financial Reporting Standards. The revised version has an improved structure but does not contain any technical changes to the previous version**

Over the last few years, IFRS 1 has been amended many times to accommodate first-time adoption requirements resulting from new or amended IFRSs. As a result, its structure has become increasingly convoluted. The new version of IFRS 1 does not contain any technical changes but has been restructured to make it clearer and to better accommodate future changes.

The main change relates to the text dealing with the various exceptions and exemptions to the principle that an entity's opening IFRS statement of financial position shall comply with each IFRS. This text has been removed from the main body of the Standard and placed in the Appendices to the Standard. This change puts the principles of the Standard up-front and will allow the IASB to amend the Standard more easily in the future.

Separately, the IASB has issued an Exposure Draft proposing the addition of a few new IFRS 1 exemptions. Two of these are intended to ease the first-time adoption process for entities in the extractive and rate regulated sectors.

The restructured version replaces the previous version and is effective for entities applying IFRSs for the first time for periods beginning on or after 1 July 2009\*. Earlier application is permitted. The Exposure Draft is open for comment until 23 January.

\* The revised version of IFRS 1 was originally effective for periods beginning on or after 1 January 2009. As it referred to the revised versions of IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements' however, technically some of the guidance in it was not valid from 1 January to 1 July 2009. The IASB therefore replaced the first revised version of the Standard with another one in which the effective date was changed to periods beginning on or after 1 July 2009.

# IFRIC 17 Distributions of Non-cash Assets to Owners

The International Financial Reporting Interpretations Committee has published IFRIC 17 'Distributions of Non-cash Assets to Owners' in response to requests for guidance on how to account for distributions of assets other than cash as dividends to owners.

The IFRIC addresses the issues of when an entity should recognise a dividend payable in respect of a distribution of non-cash assets, and how that dividend should be measured. The IFRIC requires:

- a liability to pay a dividend to be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity;
- a liability to distribute non-cash assets as a dividend to be measured at the fair value of the assets to be distributed; and
- any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable upon its settlement to be recognised in profit or loss.

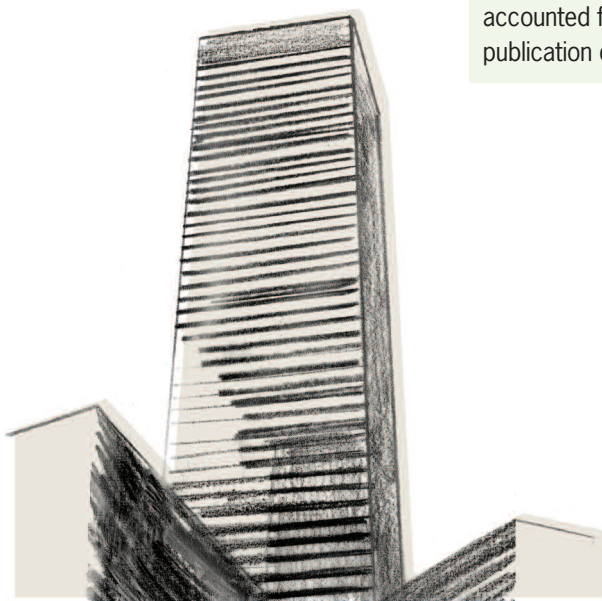
IFRIC 17 will affect distributions of items such as property, plant and equipment, businesses, and ownership interests in another entity.

It does not however apply to distributions of non-cash assets that are controlled by the same party before and after the distribution. It will not apply then to transfers of businesses within a group by way of dividends. Nor does it apply when an entity distributes some of its ownership interests in a subsidiary but retains control of the subsidiary.

## Comment

Overall we consider the requirements of IFRIC 17 on the fair value of non-cash distributions to be useful, not least from a stewardship perspective.

Whilst we expressed some concern when the IFRIC was in draft form over the inclusion of any difference between the distribution liability and the carrying amount of the non-cash asset in profit or loss upon settlement of the dividend, we believe that IFRIC 17's requirements will reduce diversity in how non-cash distributions are accounted for and improve financial reporting overall. We therefore welcome the publication of this guidance.



# 2009: The year of IFRS mini-conversion

## New year brings a host of new standards even for those who have already adopted IFRS

Companies in Europe, Australia, New Zealand and elsewhere that converted to IFRS around 2005 have faced relatively few new requirements since that initial conversion. 2009 is the year in which that changes.

This is because there are a number of major Standards that become effective for accounting periods beginning on or after 1 January 2009. The table below summarises some of the main changes. The implementation of recent IFRICs will also have a significant effect on some entities. The combined impact is sufficiently substantial to lead some commentators to refer to 2009 as a year of 'mini-conversion'.

And the changes will not stop there. Looking further ahead, the revised version of IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements' become effective for accounting periods beginning on or after 1 July 2009.

It is fair to say that IFRS conversion never really stops...

| Title                                                       | Summary of main changes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Effective for accounting periods beginning on or after       |
|-------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|
| IFRS 8 'Operating Segments'                                 | Requires operating segments to be identified based on internal reports used to allocate resources to the segment and assess performance.<br><br>Requires the amount of each operating segment item reported in the notes to the accounts to be the measure reported to the chief operating decision maker for the purposes of allocating resources and assessing performance.<br><br>Requires the amounts disclosed for reportable segments to be reconciled to the corresponding amounts in the primary financial statements.                                                                            | 1 Jan 2009                                                   |
| IAS 23 'Borrowing Costs (Revised 2007)'                     | Eliminates the option of recognising borrowing costs as an expense. Requires borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets to be capitalised as part of the cost of those assets.<br><br>For companies that have previously expensed borrowing costs, there are transitional provisions which should be examined carefully (see October 2008 IFRS News for further details).                                                                                                                                                         | 1 Jan 2009                                                   |
| IAS 1 'Presentation of Financial Statements (Revised 2007)' | Requires companies to present all items of income and expense recognised in the period in either a single "statement of comprehensive income" or in two separate statements (an "income statement" and a "statement of comprehensive income").<br><br>Introduces a requirement to present an additional (3rd) balance sheet (or statement of financial position) as at the beginning of the earliest comparative period when a company makes a retrospective change in accounting policy or restatement, or when it reclassifies items in its financial statements.<br><br>The changes are retrospective. | 1 Jan 2009                                                   |
| Annual Improvements to IFRSs 2008                           | Makes 36 small changes to 20 existing IFRSs. Some of these may be significant.<br><br>An example is the change in accounting for advertising and promotional activities. A company incurring costs on promotional goods may previously have recognised catalogues and brochures as assets. These costs will now need to be expensed when the company has a 'right to access' the goods.                                                                                                                                                                                                                   | 1 Jan 2009 (unless stated otherwise within the Improvements) |

# Joint IASB and FASB consultation on financial statements presentation

The IASB and the US Financial Accounting Standards Board (FASB) have published a discussion paper on financial statement presentation. The discussion paper contains an analysis of the current issues in financial statement presentation and presents the boards' initial thinking on how those issues could be addressed in a possible future format.

The discussion paper is a response to concerns that:

- IFRS and US GAAP provide only limited presentation guidance;
- presentation guidelines in US GAAP are dispersed across standards;
- information is not linked across the different statements; and that
- dissimilar items are in some cases aggregated in one number.

To address these issues the IASB and the FASB propose in the Discussion Paper to introduce cohesiveness, disaggregation, and liquidity and financial flexibility as the three main objectives for financial statement presentation.

To achieve these main objectives the boards have developed a principle-based format that is presented in the discussion paper. The practical consequences of the proposed model would include more line items on the face of the primary statements, mandatory use of the direct method for cash flow reporting and a detailed reconciliation between cash flows and comprehensive income.

## Cohesiveness

Cohesiveness would ensure that a reader of financial statements can follow the flow of information through the different statements of an entity.

## Disaggregation

Disaggregation would ensure that items that respond differently to economic events are shown separately.

## Liquidity and financial flexibility

Help users to assess i) an entity's ability to meet its financial commitments as they become due and ii) an entity's ability to invest in business opportunities and respond to unexpected needs.

The proposed presentation model requires an entity to present information about the way it creates value (its business activities) separately from information about the way it funds or finances those business activities (its financing activities).

For those wishing to influence the debate, the Discussion Paper Stage is the best one to make your views heard at.

The table below illustrates the proposed classification scheme for the financial statements. (The section names are in bold type; required categories within sections are indicated by bullet points.)

| Statement of financial position                                                                                                  | Statement of comprehensive income                                                                                           | Statement of cash flows                                                                                                  |
|----------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| <b>Business</b>                                                                                                                  | <b>Business</b>                                                                                                             | <b>Business</b>                                                                                                          |
| <ul style="list-style-type: none"> <li>• Operating assets and liabilities</li> <li>• Investing assets and liabilities</li> </ul> | <ul style="list-style-type: none"> <li>• Operating income and expenses</li> <li>• Investment income and expenses</li> </ul> | <ul style="list-style-type: none"> <li>• Operating cash flows</li> <li>• Investing cash flows</li> </ul>                 |
| <b>Financing</b>                                                                                                                 | <b>Financing</b>                                                                                                            | <b>Financing</b>                                                                                                         |
| <ul style="list-style-type: none"> <li>• Financing assets</li> <li>• Financing liabilities</li> </ul>                            | <ul style="list-style-type: none"> <li>• Financing asset income</li> <li>• Financing liability expenses</li> </ul>          | <ul style="list-style-type: none"> <li>• Financing asset cash flows</li> <li>• Financing liability cash flows</li> </ul> |
| <b>Income taxes</b>                                                                                                              | <b>Income taxes</b>                                                                                                         | <b>Income taxes</b>                                                                                                      |
|                                                                                                                                  | on continuing operations (business and financing)                                                                           |                                                                                                                          |
| <b>Discontinued operations</b>                                                                                                   | <b>Discontinued operations</b>                                                                                              | <b>Discontinued operations</b>                                                                                           |
|                                                                                                                                  | net of tax                                                                                                                  |                                                                                                                          |
|                                                                                                                                  | <b>Other comprehensive income</b> , net of tax                                                                              |                                                                                                                          |
| <b>Equity</b>                                                                                                                    |                                                                                                                             | <b>Equity</b>                                                                                                            |

# Relationships with the State

## **New Exposure Draft on Related Party Disclosures aims to eliminate unnecessary disclosures for state-controlled entities**

The IASB has published an Exposure Draft entitled 'Relationships with the State (proposed amendments to IAS 24)' which proposes to simplify the disclosure requirements that apply to state-controlled entities.

Under the current version of IAS 24, state-controlled entities that use IFRSs must disclose transactions with other state-controlled entities. In some countries such as China, however, state-controlled entities are such a major segment of the economy that the amount of disclosure needed to comply with this requirement is regarded as excessive.

The IASB had originally published an Exposure Draft in February 2007 which had proposed an exemption from the disclosure requirements in IAS 24 for entities controlled, jointly controlled or significantly influenced by a state. Respondents expressed concern however over the complexity of the proposals, caused in particular by a proposed requirement to assess whether state influence exists.

**Full details about transactions with other state-controlled entities and the state would not be required. Instead there would be general disclosure about the types of significant transactions and their extent.**

In the light of respondents' concerns, the IASB has decided to revise and simplify its proposed exemption for state-controlled entities.

Unlike the original proposal, the revised exemption would not require state-controlled entities to assess the extent of state influence. It would exempt such entities from providing full details about transactions with other state-controlled entities and the state. Instead, (unlike the 2007 exposure draft) it would require general disclosures about the types and extent of significant transactions.



# IASB and FASB propose joint approach for revenue recognition

The IASB and the US Financial Accounting Standards Board (FASB) have published a discussion paper 'Preliminary Views on Revenue Recognition in Contracts with Customers'.

Revenue recognition literature in US GAAP and IFRS is quite different, with both being considered in need of improvement. Under US GAAP, revenue recognition requirements are found in various standards, many of which are industry-specific. Some of these standards can produce conflicting results for transactions which are in fact economically similar. Whilst IFRS contains fewer standards on revenue recognition, the two main standards (IAS 18 'Revenue' and IAS 11 'Construction Contracts') have been criticised for being inconsistent and being difficult to apply beyond simple transactions.

The objective of the discussion paper is to improve the existing guidance under both IFRS and US GAAP by developing a single revenue model that can be applied consistently regardless of industry. Under the proposals, an entity would recognise revenue when it satisfies a performance obligation by transferring goods and services to a customer as contractually agreed.

**The two main IFRS standards on revenue recognition have been criticised for being inconsistent and difficult to apply beyond simple transactions.**

It is anticipated that for many contracts (particularly those for commonplace retail transactions), the proposed revenue recognition model would cause little, if any change. In some circumstances, however, applying the boards' proposed model would lead to changes from present practice. For example, entities that at present recognise revenue for construction-type contracts would recognise revenue during construction only if the customer controls the item as it is constructed.

The discussion paper does not seek to include all the guidance that would be included in a proposed standard but presents the basic model and its implications in order to seek views from respondents.



# Effective dates of new standards and IFRIC interpretations

The table below lists new IFRS standards and IFRIC Interpretations with an effective date on or after 1 March 2007. Companies are required to make certain disclosures in respect of new Standards and Interpretations under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

**New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 March 2007**

| Title             | Full title of Standard or Interpretation                                                                                                                                                   | Effective for accounting periods beginning on or after                                                                                                                                                                 | Early adoption permitted?                                                                                  |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| IFRIC 11          | IFRS 2 – Group and Treasury Share Transactions                                                                                                                                             | 1 March 2007                                                                                                                                                                                                           | Yes                                                                                                        |
| IFRIC 14          | IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction                                                                                          | 1 January 2008                                                                                                                                                                                                         | Yes                                                                                                        |
| IFRIC 12          | Service Concession Arrangements                                                                                                                                                            | 1 January 2008                                                                                                                                                                                                         | Yes                                                                                                        |
| IFRIC 13          | Customer Loyalty Programmes                                                                                                                                                                | 1 July 2008                                                                                                                                                                                                            | Yes                                                                                                        |
| IFRS 8            | Operating Segments                                                                                                                                                                         | 1 January 2009                                                                                                                                                                                                         | Yes                                                                                                        |
| IAS 23            | Amendments to IAS 23 Borrowing Costs                                                                                                                                                       | 1 January 2009                                                                                                                                                                                                         | Yes                                                                                                        |
| IAS 1             | Presentation of Financial Statements                                                                                                                                                       | 1 January 2009                                                                                                                                                                                                         | Yes                                                                                                        |
| IFRS 2            | Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations                                                                                                              | 1 January 2009                                                                                                                                                                                                         | Yes                                                                                                        |
| IAS 32 and IAS 1  | Amendments to Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation                    | 1 January 2009                                                                                                                                                                                                         | Yes (but must be applied in conjunction with related amendments to IAS 39, IFRS 7 and IFRIC 2)             |
| IFRS 3            | Business Combinations (Revised 2008)                                                                                                                                                       | 1 July 2009                                                                                                                                                                                                            | Yes (but only for periods beginning on or after 30 June 2007, and in conjunction with IAS 27 Revised 2008) |
| IAS 27            | Consolidated and Separate Financial Statements                                                                                                                                             | 1 July 2009                                                                                                                                                                                                            | Yes (but must be applied in conjunction with IFRS 3 Revised 2008)                                          |
| IFRS 1 and IAS 27 | Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements                                          | 1 January 2009                                                                                                                                                                                                         | Yes                                                                                                        |
| Various           | Annual Improvements to IFRSs 2008                                                                                                                                                          | 1 January 2009 (unless otherwise stated)                                                                                                                                                                               | Yes                                                                                                        |
| IFRIC 15          | Agreements for the Construction of Real Estate                                                                                                                                             | 1 January 2009                                                                                                                                                                                                         | Yes                                                                                                        |
| IFRIC 16          | Hedges of a Net Investment in a Foreign Operation                                                                                                                                          | 1 October 2008                                                                                                                                                                                                         | Yes                                                                                                        |
| IAS 39            | Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items                                                                                              | 1 July 2009                                                                                                                                                                                                            | Yes                                                                                                        |
| IFRS 1            | IFRS 1 First-time Adoption of International Financial Reporting Standards (Revised 2008)                                                                                                   | 1 July 2009                                                                                                                                                                                                            | Yes                                                                                                        |
| IFRIC 17          | Distributions of Non-cash Assets to Owners                                                                                                                                                 | 1 July 2009                                                                                                                                                                                                            | Yes (but must also apply IFRS 3 Revised 2008, IAS 27 Revised 2008) and IFRS 5 (as amended by IFRIC 17)     |
| IAS 39 and IFRS 7 | Reclassification of Financial Assets – Effective Date and Transition Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures | 1 July 2008 (any reclassification made on or after 1 November 2008 takes effect from the date of reclassification. Any reclassification before 1 November 2008 can take effect from 1 July 2008 or a subsequent date.) | No                                                                                                         |

# Open for comment

This table lists the documents that the IASB currently has out to comment and the comment deadline. Grant Thornton International aims to respond to each of these publications.

## Current IASB documents

| Document type       | Title                                                                                  | Comment deadline |
|---------------------|----------------------------------------------------------------------------------------|------------------|
| IASB Exposure Draft | Embedded Derivatives – Proposed Amendments to IFRIC 9 and IAS 39                       | 21 January 2009  |
| IASB Exposure Draft | Discontinued Operations (Proposed amendments to IFRS 5)                                | 23 January 2009  |
| IASB Exposure Draft | Additional Exemptions for First-time Adopters (Proposed amendments to IFRS 1)          | 23 January 2009  |
| IASB Exposure Draft | Relationships with the State (Proposed amendments to IAS 24)                           | 13 March 2009    |
| IASB Exposure Draft | ED 10 Consolidated Financial Statements                                                | 20 March 2009    |
| IASCF Paper         | IASC Foundation Review of the Constitution Identifying issues for Part 2 of the Review | 31 March 2009    |
| Discussion Paper    | Preliminary Views on Financial Statement Presentation                                  | 14 April 2009    |
| Discussion Paper    | Preliminary Views on Revenue Recognition in Contracts with Customers                   | 19 June 2009     |



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