



IFRS News

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 2010 considers some immediate challenges that will be faced by companies preparing their financial statements for the year ended 31 December 2009. It then goes on to look at the publication of IFRS 9 and the continuing development of the IASB's project to replace IAS 39, as well as other new pronouncements.

We then turn our attention to IFRS-related news at Grant Thornton, as well as a more general round up of activities affecting the IASB. We end with an overview of the proposals that the IASB currently has out for comment and the implementation dates of newer Standards that are not yet mandatory.



Questions to consider when adopting IFRS 8 'Operating Segments' for the first time

One of the challenges that many companies will be faced with in preparing their 31 December 2009 accounts is the IASB's revised Standard on segmental information.

IFRS 8 'Operating Segments' is effective for annual periods beginning on or after 1 January 2009, and takes a radically different approach from the previous Standard dealing with this subject (IAS 14 'Segment Reporting').

Under IFRS 8, financial information is generally required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. The logic behind this is that it allows users of the financial statements to review an entity's operations from the same perspective as its management (the 'management approach').

IFRS 8's 'management approach' to segmental reporting is radically different to that of IAS 14

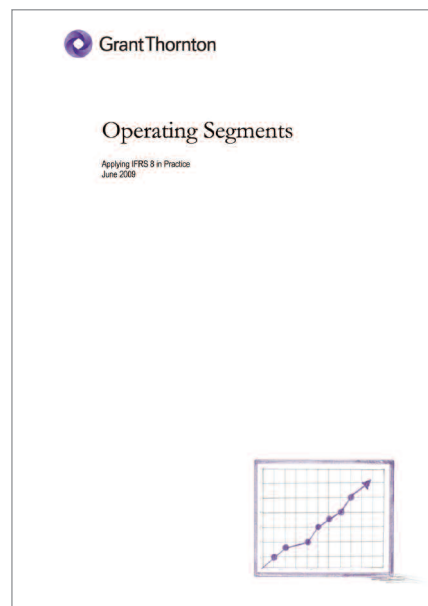
A review conducted by the UK's Financial Reporting Review Panel has highlighted concerns about how companies are reporting the performance of their business under IFRS 8. Although the review looked solely at UK companies, the questions raised are likely to be relevant to all companies applying IFRS 8 for the first time.

Questions to consider when applying IFRS 8 for the first time

- what are the key operating decisions made in running the business?
- who makes these key operating decisions?
- who are the segment managers (as defined in the Standard) and who do they report to?
- how are the group's activities reported in the information used by management to review performance and make resource allocation decisions between segments?
- is any proposed aggregation of operating segments into one reportable segment supported by the aggregation criteria in the Standard, including consistency with the core principle?
- is the information about reportable segments based on IFRS measures or on an alternative basis?
- have the reported segment amounts been reconciled to the IFRS aggregate amounts?
- do the financial statements describe the factors used to identify the reportable segments including the basis on which the company is organised?
- whether the reported segments appear consistent with the company's internal reporting and, if not, why not?

The Financial Reporting Review Panel reviewed a sample of 2009 interim accounts and 2008 annual accounts (in which companies had adopted the Standard early). The report notes that a number of companies were asked to provide explanations regarding their application of the Standard where:

- only one operating segment was reported, but the group appeared to be diverse, with different businesses or with significant operations in different countries



- the operating analysis set out in the narrative report differed from the operating segments in the financial statements
- the titles and responsibilities of the directors or executive management team implied an organisational structure which was not reflected in the operating segments selected
- the commentary in the narrative report focused on non-IFRS measures whereas the segmental disclosures are based on IFRS amounts.

To avoid questions being raised over a company's segmental information, the report suggests a number of questions (see box) that can be used to test whether the presentation of segmental information achieves the 'management approach' required by IFRS 8.

For further help on how to apply IFRS 8, please refer to Grant Thornton International's guide 'Operating Segments – Applying IFRS 8 in Practice'.

Reminder – the need for an additional (3rd) statement of financial position under IAS 1 Revised

With the requirements of IAS 1 (Revised) mandatory for accounting periods ending on or after 1 January 2009, now is a good time to be reminded of the Standard's requirements for an additional (3rd) statement of financial position.

An additional statement of financial position (or 'balance sheet' as it was more traditionally known) is required when an entity:

- applies an accounting policy retrospectively
- makes a retrospective restatement of items in its financial statements
- reclassifies items in its financial statements.

In such circumstances, the entity is required to present, as a minimum, three statements of financial position, two of each of the other primary statements, and related notes. The extra statement of financial position covers the beginning of the earliest comparative period (for example, 1 January 2008 in a set of typical financial statements drawn up to 31 December 2009).

Triggers for an additional statement of financial position

Examples of retrospective changes in accounting policy that will trigger a need for an additional statement of financial position include:

- a voluntary change in accounting policy such as a switch from proportionate consolidation to equity accounting for investments in jointly controlled entities
- a change in an accounting policy on adopting a new IFRS (including amendments to an IFRS or a new IFRIC Interpretation) unless the new pronouncement requires prospective application.

Many companies will be dealing with IAS 1 (Revised)'s requirements for the first time in preparing financial statements for the year ended 31 December 2009. Given the number of new and amended IFRSs that have come into effect recently, it is likely that many will need to present an additional statement of financial position in those financial statements. Having an awareness at an early stage of when an additional statement of financial position is needed should mitigate the effects of complying with the new requirement, in terms of both time and cost.

The term 'accounting policies' for instance is broadly defined under IFRS, covering the preparation and presentation of financial statements as a whole as opposed to being restricted to the recognition and measurement of amounts in the primary statements as some might think.

IASB issues IFRS 9 ‘Financial Instruments’

New Standard marks completion of the first phase of the project to replace IAS 39

The overhaul of the IASB’s existing standards on financial instruments reported in previous editions of IFRS News, has progressed in the last quarter with the publication of the first chapters of IFRS 9 ‘Financial Instruments’.

IFRS 9 is intended to eventually replace IAS 39 ‘Financial Instruments: Recognition and Measurement’ in its entirety. At the moment, however, it only addresses the classification and measurement of financial assets. This is in line with the IASB’s approach to the project, which is to divide it into three phases, the first of which is now complete. (The IASB’s proposals for Phase 2 of the project have been set out in an Exposure Draft entitled ‘Financial Instruments: Amortised Cost and Impairment’ which is discussed in a separate article in this newsletter).

IFRS 9 aims to reduce the complexity in accounting for financial instruments by having fewer categories of financial assets and a principle-based approach to their classification. Under the new Standard, entities are required to classify financial assets at either amortised cost or fair value on the basis of:

- a) the entity’s business model for managing the financial assets; and
- b) the contractual cash flow characteristics of the financial asset (unless it chooses to designate the financial asset at fair value through profit or loss).

Having just amortised cost and fair value as measurement categories means that only one impairment model is necessary under the new Standard, further reducing complexity. A summary of the main requirements of IFRS 9 is set out in the box opposite.

Financial instruments	
Scope and structure	<ul style="list-style-type: none"> will eventually replace IAS 39 in its entirety broken down into chapters. At this stage, only chapters on classification and measurement of financial assets are included chapters relating to Phases 2 and 3 of the project, as well as requirements for financial liabilities and derecognition, will be added in due course.
Fewer measurement categories	<ul style="list-style-type: none"> reduces the number of categories of financial assets; all financial assets must be measured at either amortised cost or fair value IAS 39’s measurement category terminology (held to maturity, loans and receivables, available for sale) is largely eliminated.
Conditions for amortised cost measurement	<ul style="list-style-type: none"> the objective of the entity’s business model is to hold the financial asset to collect the contractual cash flows the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.
Fair value for other financial assets	<ul style="list-style-type: none"> financial assets that do not meet the conditions for amortised cost are measured at fair value at initial recognition, entities may also designate a financial asset to be measured at fair value through profit or loss if the designation eliminates or significantly reduces an ‘accounting mismatch’ gains and losses on financial assets measured at fair value (excluding hedging relationships) are presented in profit or loss with one exception (see box on page 6).

Grant Thornton International comment

We welcome the IASB's efforts to reduce the complexity in accounting for financial instruments and believe that IFRS 9, with its reduced number of measurement categories, will help towards that goal.

There is a risk however of increased application problems arising from the project being divided into various phases, and companies should be aware of this when considering whether to adopt IFRS 9 early. We will be urging the IASB to keep this in mind as it develops the other parts of its new Standard, so as to keep the possibility of further future amendments to a minimum.

IFRS 9 is designed to eventually replace IAS 39. At the moment, however, it only addresses the classification and measurement of financial assets.

The IASB has felt compelled to issue IFRS 9 quickly in response to the widespread criticism that IAS 39 received during the financial crisis, and (subject to local law) it is available to companies to early adopt in their December 2009 year ends. Companies not wishing to adopt it early, however, are only required to apply it from 1 January 2013.

Financial instruments

Election to present gains and losses on equity investments in other comprehensive income

- irrevocable election on initial recognition to present gains and losses on an investment in an equity instrument in other comprehensive income
- dividends receivable are however recognised in profit or loss
- not available for equity instruments held for trading.

Impairment

- only one impairment method (in contrast to numerous methods required in IAS 39)
- the surviving impairment method is that currently required for assets measured at amortised cost in accordance with IAS 39
- for the time being, impairment requirements continue to be part of IAS 39. These requirements have been amended to remove those aspects that are no longer applicable (primarily the requirements on impairment of available for sale assets and those held at cost).

Reclassification

- financial assets are reclassified if, and only if, the entity changes its business model for managing its financial assets
- Application Guidance makes it clear such changes are expected to be very infrequent.

Effective date and transition

- effective for annual periods beginning on or after 1 January 2013
- earlier application permitted
- mainly retrospective application. However, comparatives do not need to be restated if adopted for a reporting period beginning before 1 January 2012.

IFRIC issues guidance on ‘debt for equity’ exchanges

The International Financial Reporting Interpretations Committee (IFRIC) has published IFRIC 19 ‘Extinguishing Financial Liabilities with Equity Instruments’. IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as ‘debt for equity’ exchanges or swaps, and have happened with increased regularity during the financial crisis.

Prior to the publication of IFRIC 19, there was significant diversity in practice in the accounting for these types of transaction. The new Interpretation is effective for accounting periods beginning on or after 1 July 2010, and can be applied early.

IFRIC 19 only addresses the accounting by the debtor in such exchanges. It does not apply where the creditor is also a direct or indirect shareholder and is acting in its capacity as such, or where the creditor and the entity are controlled by the same party or parties before and after the transaction and the substance of the transaction includes an equity distribution by, or contribution to, the entity. Financial liabilities that are extinguished by the issue of equity shares in accordance with the original terms of the financial liability are also outside the scope of the Interpretation.



IFRIC 19 requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is consideration paid in accordance with paragraph 41 of IAS 39
- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured
- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used
- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognised in profit or loss.

Grant Thornton International comment

IFRIC 19's preferred measurement basis (using the fair value of the equity instruments to measure the equity instruments issued to extinguish the liability rather than the book value or fair value of the liability) significantly reduces the scope for an ‘accounting choice’ over how the equity instruments issued should be measured. It should therefore result in more consistent application for these types of transaction. We also believe that where equity instruments are issued as consideration, it is appropriate that the consideration should be measured on the fair value of what is being paid, ie the equity instruments issued. We therefore welcome the publication of IFRIC 19.

IASB issues revised version of IAS 24 'Related Party Disclosures'

As anticipated in last quarter's edition of IFRS News, the IASB has now published a revised version of IAS 24 'Related Party Disclosures'. The main change compared to the previous version of IAS 24 is the introduction of an exemption from IAS 24's disclosures for transactions with:

- a government that has control, joint control or significant influence over the reporting entity
- 'government-related entities' (entities controlled, jointly controlled or significantly influenced by that same government).

For a fuller description of the changes, please refer to the previous edition of IFRS News.



Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14)

Amendments address unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan

The International Financial Reporting Interpretations Committee has published 'Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14)'. IFRIC 14 sets out guidance on when an entity recognises an asset in relation to an IAS 19 surplus for defined benefit plans that are subject to a Minimum Funding Requirement (MFR).

Prior to the issue of the amendments, IFRIC 14 had the effect that a voluntary prepayment of an MFR contribution was recognised as an expense in some cases. This was an unintended consequence from the drafting of the original Interpretation rather than a desired outcome, and IFRIC has therefore issued the amendments to rectify the situation.



Convergence

Japan to permit domestic use of IFRSs for current financial year

Listed companies meeting particular criteria have the option to use IFRSs for fiscal years ending on or after 31 March 2010

The Japanese Financial Services Agency has announced changes which give listed companies that meet particular criteria the option to use IFRSs for fiscal years ending on or after 31 March 2010.

The changes follow the roadmap for the 'Application of International Financial Reporting Standards' in Japan published in June of last year, and are an important step towards the adoption of IFRSs in Japan. Japan's roadmap proposed allowing an early adoption of IFRSs followed by mandatory adoption from 2015 or 2016, with a final decision on the mandatory requirements being taken around 2012.

India reiterates commitment to IFRS

India has reiterated its commitment to converge with IFRS by 2011. India's Ministry of Corporate Affairs is leading the initiatives on transition to IFRS and has set up a core group supported by two sub-groups which are assisting it in identifying changes required in various laws, regulations, accounting standards and ascertaining the preparedness of stakeholders. A roadmap for convergence with IFRS is due to be issued in the near future and is expected to recommend a phased implementation of IFRS in the country.

China aims for full IFRS by 2012

The Ministry of Finance of the People's Republic of China has issued an exposure draft of a 'Roadmap for Continuing and Full Convergence of the Chinese Accounting Standards for Business Enterprises with the International Financial Reporting Standards (IFRSs)'.

The Chinese roadmap targets 2011 as the year for completion of its convergence programme. Once completed, all large and medium-sized enterprises in China will be required to use the revised standards from 2012.

IASB and FASB reaffirm their commitment to convergence of IFRS and US GAAP

In November, the IASB and the US Financial Accounting Standards Board (FASB) issued a joint statement reaffirming their commitment to the Memorandum of Understanding that was signed in 2006 and updated in 2008.

The joint statement describes the plans and milestone targets of the two Boards for completing the major Memorandum of Understanding projects in 2011. As part of their commitment to convergence, the Boards have also committed to reporting quarterly on their progress on the convergence projects.

During their joint meeting, the IASB and the FASB discussed timelines and developed strategies to ensure the timely completion of the following major joint projects:

- Financial Instruments
- Consolidations
- Derecognition
- Fair Value Measurement
- Revenue Recognition
- Leases
- Financial Instruments with the Characteristics of Equity
- Financial Statement Presentation.

IASB publishes proposals to amend IAS 37 ‘Provisions, Contingent Liabilities, and Contingent Assets’

The IASB has re-exposed one section of its previous proposals to replace IAS 37 ‘Provisions, Contingent Liabilities, and Contingent Assets’. The latest Exposure Draft contains revised proposals for measuring liabilities within the scope of IAS 37 such as liabilities to decommission assets and liabilities arising from legal disputes.

The proposals aim to add guidance specifying more precisely what entities should be aiming to measure, and how they should achieve that aim.

Main points in the Exposure Draft:

- overall measurement objective – to measure the amount that the entity would rationally pay at the end of the reporting period to be relieved of the obligation
 - this would normally be the present value of the resources required to fulfil the obligation
 - in some circumstances (expected to be rare), there might be evidence that the entity could cancel the liability or transfer it to a third party for a lower amount. If so, the liability would be measured at this lower amount
- where outflows of resources required to fulfil the obligation are uncertain, the entity would estimate their expected value
 - this would be the probability-weighted average of the outflows for the range of possible outcomes
 - the expected value is unlikely to be the amount that an entity ultimately pays to fulfil the liability.

Accounting for the impairment of financial assets

Exposure Draft issued as the second part of the IASB's project to replace IAS 39 takes shape

The IASB has published an Exposure Draft on impairment of financial assets. The proposals, entitled 'Financial Instruments: Amortised Cost and Impairment' form the second part of the three-part project to replace IAS 39. If adopted, the requirements would be integrated into IFRS 9 (see our separate article).

Currently IFRS uses an incurred loss model for the impairment of financial assets. This model, which assumes that all loans will be repaid until evidence to the contrary (a loss or trigger event) is identified, has been widely criticised in the wake of the financial crisis. The main criticism is that the incurred loss approach results in excessive income recognition prior to receipt of objective evidence that the debtor might default. At that point large adjustments can be required, some of which might have been expected (in a statistical sense) from the outset.

EFrag publishes paper to assist in understanding the IASB Exposure Draft

The European Financial Reporting Advisory Group (EFRAG) has published an educational paper to assist interested parties in understanding the IASB's Exposure Draft on the amortised cost measurement and impairment of financial assets.

The paper, entitled 'Impairment of Financial Assets: The Expected Loss Model' raises a number of interesting practical points in relation to the Exposure Draft.

Among these points are the following:

- the expected loss model is more subjective in nature compared to the incurred loss model due to its reliance on cash flow estimates prepared by the reporting entity itself
- operational challenges will be posed by:
 - the need for historical data which not all companies will have
 - the requirement to collect data for the whole portfolio of financial assets measured at amortised cost (historical loss data is required for all financial assets held at amortised cost as opposed to just data for impaired financial assets)
- in practice, the model inputs would require a prior development of the specific model tailored to the specific circumstances of each reporting entity
- estimating expected losses on large individual financial assets based on a probability-weighted approach will be less accurate than estimating losses in large portfolios of homogeneous financial assets
- non-financial institutions are likely to encounter operational problems – as many do not manage their trade receivables on a portfolio basis, it may be difficult to accurately estimate future cash flows on an expected (probability-weighted) basis. (It should be noted that the Exposure Draft does itself envisage use of a provision matrix for trade receivables as a practical expedient to the problems that may be encountered in applying the model to them).

Under the proposals, expected losses would instead be recognised throughout the life of the loan (or other financial asset measured at amortised cost) by building up a provision over the life of the asset. It is argued that this would avoid the front-loading of interest revenue that currently occurs before a loss event is recognised, and would better reflect the lending business model. Extensive disclosures about the estimates made in making the provision and subsequent changes in estimates would be required.

Timetable for the replacement of IAS 39

	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Replacement of IAS 39					
Phase 1: Classification and measurement	IFRS issued				
Phase 2: Impairment	ED issued				IFRS expected
Phase 3: Hedge accounting		ED expected			IFRS expected
Related projects					
Derecognition					IFRS expected
Fair value measurement guidance			IFRS expected		
Consolidation			IFRS expected		

Key: ED Exposure Draft

IFRS News special edition on IFRS 9

To recognise the importance of IFRS 9 (see earlier article), we issued a special edition of IFRS News in December. The special edition informs you about the new Standard, and the benefits and challenges that adopting it will bring. To obtain a copy of the special edition of the newsletter, please get in touch with the IFRS contact in your local office.



IASB proposes Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters

In November, the IASB published a proposal to amend IFRS 1 'First-time Adoption of International Financial Reporting Standards'. The proposed amendment would provide first-time adopters with the same relief from comparatives available to those already applying IFRSs when 'Improving Disclosures about Financial Instruments (Amendments to IFRS Financial Instruments: Disclosures)' is first applied. The relief would apply only to first-time adopters whose first IFRS reporting period commences earlier than 1 January 2010.

Grant Thornton International comment

We agree with the Exposure Draft's proposal to provide transitional relief for first-time adopters consistent with the transition provisions available to existing IFRS preparers. We expect there to be a broad consensus on this issue, and for an amendment to be issued shortly.

New Grant Thornton International Example IFRS Financial Statements released

The Grant Thornton International IFRS team has published an updated version of its 'IFRS Example Consolidated Financial Statements'. The previous version has been reviewed and updated to reflect changes in IFRSs that are effective for the year ending 31 December 2009. In particular, the publication features the impact of the adoption of the following Standards and Interpretations that are effective for periods beginning on or after 1 January 2009.

- **IAS 23 Borrowing Costs (as revised in 2007)**

This Standard requires the capitalisation of borrowing costs, to the extent they are directly attributable to the acquisition, production or construction of qualifying assets that need a substantial period of time to get ready for their intended use or sale.

- **Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)**

The amendments require additional disclosures for financial instruments that are measured at fair value in the statement of financial position.

These fair value measurements are categorised into a three-level fair value hierarchy which reflects the extent to which these fair values are based on observable market data. Also, a separate quantitative maturity analysis must be presented for derivative financial liabilities that shows the remaining contractual maturities, where these are essential for an understanding of the timing of cash flows.

First-time adoption of IFRS: Example Consolidated Financial Statements 2009

In addition to our general IFRS Example Consolidated Financial Statements, the Grant Thornton International IFRS team has also released a version specifically designed for companies adopting IFRS for the first time.

To obtain a copy of 'First-time adoption of IFRS: Example Consolidated Financial Statements 2009', please get in touch with the IFRS contact in your local office.

- **IFRIC 13 Customer Loyalty Programmes**

This Interpretation clarifies that when goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values.

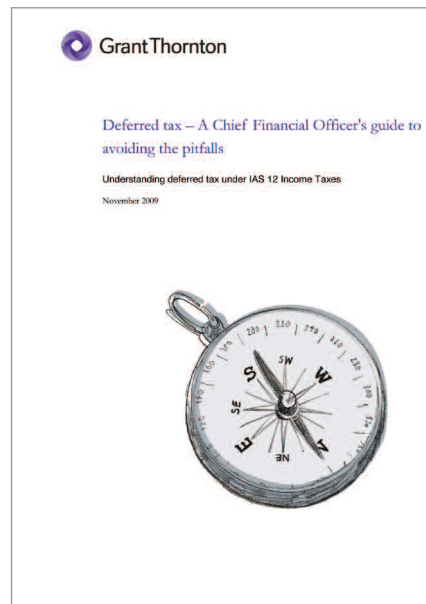
It should be noted that IAS 1 'Presentation of Financial Statements (as revised in 2007)' and IFRS 8 'Operating Segments' also become mandatorily effective for 31 December 2009 year ends. The disclosures for these Standards were however included in the previous edition of our publication in which it was assumed that they were adopted early. Because many entities will adopt these requirements for the first time in 2009, we have however included sample initial adoption disclosures in the Appendices to the latest publication.

To obtain a copy of the publication, please get in touch with the IFRS contact in your local office.

New Grant Thornton International guide on deferred tax released

The Grant Thornton International IFRS team has published a detailed new IFRS guide on how to account for deferred tax in accordance with IAS 12 'Income Taxes'.

IAS 12 is not new. However for many finance executives, the concepts underlying the computation of deferred tax are not intuitive. IAS 12 takes a mechanistic approach to the computation but also requires significant judgement in some areas. Also, applying the concepts of IAS 12 requires a thorough knowledge of the relevant tax laws. For all these reasons, many Chief Financial Officers (CFOs) find the calculation of a deferred tax provision causes significant practical difficulties.



'Deferred tax – A Chief Financial Officer's guide to avoiding the pitfalls (understanding deferred tax under IAS 12 Income Taxes)' is aimed at CFOs of businesses that prepare financial statements under IFRS. It illustrates IAS 12's approach to the calculation of deferred tax balances but is not intended to explain every aspect of the standard in detail. Rather, it summarises the approach to calculating the deferred tax provision in order to help CFOs prioritise and identify key issues. To assist CFOs with these application issues, the guide also includes interpretational guidance in certain problematic areas of the deferred tax calculation.

To obtain a copy of the publication, please get in touch with the IFRS contact in your local office.

Appointments

United States

Gary Illiano, National Partner in Charge of Domestic and International Accounting at our US firm, has been appointed to the American Institute of Certified Public Accountants' (AICPA) newly created IFRS Staff Advisory Group.

The main objective of the IFRS Staff Advisory Group (SAG) is to advise the AICPA on the development of publications and training that will assist financial preparers in the transition to IFRS. As such, members of the SAG will assist the AICPA in vetting its proposed IFRS products and services strategy, and will advise on product-specific prospectuses.

Canada

Karen Parsons, Partner, Assurance Services with Grant Thornton LLP, one of our Canadian member firms, has been appointed to the Ontario Securities Commission's (OSC) Financial Reporting Advisory Committee.

The Financial Reporting Advisory Committee's mandate is to provide input on relevant policy initiatives that relate to financial reporting requirements prescribed by the Ontario Securities Act, Regulations and Rules. The key initial priorities are to address issues arising from Canada's changeover to IFRS in 2011 and to discuss financial reporting trends and interpretations to facilitate consistent application of financial reporting requirements.

The Committee is comprised of a member from each of the Ontario, Quebec, Alberta, and British Columbia Securities Commissions, the Canadian Assurance Standards Board, the Canadian Accounting Standards Board, and the major 6 accounting firms. Members are subject to confidentiality agreements covering the discussions.

New Zealand

Simon Carey, partner in the Christchurch office of our New Zealand member firm, has been appointed to the New Zealand Accounting Standards Review Board (ASRB). Simon is the first Grant Thornton representative to be appointed to the ASRB; his appointment means the firm will be able to help shape the future of New Zealand's accounting standards.



Other Grant Thornton news

Grant Thornton strengthens its position in China

Grant Thornton International has appointed a new member firm in mainland China, further strengthening its existing position in the region. Jingdu Tianhua Certified Public Accountants is headquartered in Beijing and will practise as Grant Thornton. It offers a full range of assurance, tax and advisory services to a range of public companies, state owned enterprises, private companies and foreign investment enterprises.

At the same time, the new firm has merged with three of the existing Grant Thornton representative firms in China. The merger creates a firm with 60 partners and around 1,500 staff with branch offices in Shanghai, Guangzhou, Nanjing, Wuhan, Chengdu, Taiyuan and Changchun.

With mainland China committed to moving to IFRS (see the convergence section of this newsletter), the addition comes at a timely moment.

Grant Thornton's International IFRS Interpretation Group meets

Grant Thornton's International IFRS Interpretation Group (IIG) met in Paris in November.

The IIG consists of a representative from each of our member firms in the United States, Canada, Singapore, Australia, South Africa, India, Brazil, the United Kingdom, France and Germany as well as members of the Grant Thornton International IFRS team. It meets three times a year to discuss technical matters which are related to IFRS.

Canadian partner in IFRS webcasts for SMEs

Sophie Bureau, partner in accounting research at one of our Canadian member firms, Raymond Chabot Grant Thornton, took part in Canadian Institute of Chartered Accountants (CICA) webcasts on IFRS transition for small and mid-sized companies. Sophie presented the French language version of the webcasts, as well as contributing to the preparation of the English language version. The presentations can be viewed at: www.icca.ca/ifrs/droitaubut.

Grant Thornton assists German Institute with IFRS training

2009 saw Grant Thornton's offices in Germany continue to assist the German Institute of Accountants with carrying out IFRS training in Germany.

Since 2003, Grant Thornton in Germany has been helping the German Institute run a course for auditors who wish to sign an audit opinion on an IFRS set of financial statements. Reflecting the importance of the subject matter (auditors must be able to demonstrate they have received a proper IFRS education and that appropriate update training has been performed), the course runs over 16 days, being divided into 4 blocks of 4 days. Thomas Senger, a partner in Grant Thornton's Düsseldorf office, has been involved in teaching on this course since 2003, and was joined by Jens Brune (Düsseldorf office) and Cornelia von Oertzen (Hamburg office) in 2007. Together they now teach for 12 of the 16 days on the course.

Given that the German Institute is required to guarantee the quality of its presenters, Grant Thornton's involvement in this training is highly prestigious. The German Institute has also enlisted Grant Thornton's help in carrying out other IFRS courses it runs, including a 3 day course for people who are new to IFRS, and an IFRS-update course which summarises the requirements of new IFRS standards and considers potential future IFRS developments.

IFRS for SMEs

Around the world, standard-setters and governments have been considering the recently published International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs) and how it may affect the future direction of financial reporting in their countries:

UK and Ireland

The ASB, the accounting standard-setter for the UK and Ireland is seeking views from its constituents on the potential use of the IFRS for SMEs.

The consultation paper 'Policy Proposal: the future of UK GAAP', sets out proposals for the future reporting requirements for UK and Irish entities. It proposes a three-tier approach to developing UK GAAP converged with IFRS as follows:

- Tier 1 – publicly accountable entities would apply IFRS as adopted by the EU ('EU-adopted' IFRS)
- Tier 2 – all other UK entities other than those who can apply the ASB's Financial Reporting Standard for Smaller Entities (FRSSE*) could apply the IFRS for SMEs
- Tier 3 – small entities could choose to continue to apply the FRSSE.

Australia

The Australian standard-setter, the AASB, has issued a consultation paper 'Differential Financial Reporting – Reducing Disclosure Requirements'.

The paper proposes that Australian Accounting Standards would consist of the following two tiers of reporting requirements in the future:

- Tier 1: Full IFRSs as adopted in Australia
- Tier 2: The reduced disclosure regime, which would be able to be applied by for-profit entities that are not publicly accountable.

The proposals for the reduced disclosure regime draw on the disclosures in the IASB's IFRS for SMEs but the paper does not go so far as to suggest use of the IFRS for SMEs itself. Instead the reduced disclosure regime would be based on the recognition and measurement provisions of full IFRS. Grant Thornton Australia is opposed to this proposal on the grounds that it will impose unnecessary costs on many companies that would fall within its scope. Grant Thornton Australia strongly advocates use of the IFRS for SMEs instead, believing its simplified measurement and recognition requirements to be better suited to companies in the non-listed market.

Mauritius

Provisions within the government of Mauritius' Finance Bill for 2009 will amend the accounting requirements in Mauritius to permit the IFRS for SMEs as an option for small state-owned enterprises. The Bill currently awaits enactment by the Parliament of Mauritius.

The Philippines

The IFRS for SMEs will replace Philippine Accounting Standards 101 'Financial Reporting Standards for Non-publicly Accountable Entities'. The effective date of implementation in the Philippines is yet to be announced by the local standard setters.

Europe

The European Commission has published a consultation paper on the use of the IFRS for SMEs in Europe. Responses to the paper will assist the Directorate General for Internal Market and Services in its ongoing review of the Company Law Directives for accounting in Europe.

* The FRSSE is a stand-alone, simplified accounting standard which can be used by small organisations in the UK and Ireland.

Round-up

IASCF seeks nominations for next IASB Chairman

The Trustees of the International Accounting Standards Committee Foundation have launched a global search to identify a successor to Sir David Tweedie, who is due to retire as IASB Chairman on 30 June 2011. A decision on the appointment is expected in the second half of 2010.

IASB posts editorial corrections

The IASB has posted a number of editorial corrections to its standards on its website. The corrections can be viewed at <http://www.iasb.org/IFRSs/International+Accounting+Standards+Board+-+IASB+Editorial+Corrections.htm>

IASB requests input on application of measuring fair value in emerging and transition economies

Following an analysis of the responses to its Exposure Draft 'Fair Value Measurement' (covered in the July 2009 edition of IFRS News), the IASB has issued a request for people in emerging and transition economies to help in identifying issues that might require additional clarification in the final Standard.

The request follows comments from respondents to the Exposure Draft that entities in emerging and transition economies might find it difficult to apply its principles in practice.

CESR publishes latest Enforcement Decisions

The Committee of European Securities Regulators (CESR) has published its seventh batch of extracts from the database of enforcement decisions taken by member state enforcement bodies.

The publication of these enforcement decisions is designed to inform market participants about which accounting treatments EU National Enforcers may consider as complying with IFRS – ie whether the treatments are considered as being within the accepted range of those permitted by the standards or IFRIC interpretations. The publication of the enforcement decisions, together with the rationale behind these decisions, will contribute to a consistent application of IFRS in the European Union.

Round-up

PAAinE paper on Pensions

The Pro-active Accounting Activities in Europe partnership (PAAinE) has issued a report on 'The Financial Reporting of Pensions'.

PAAinE was established as a partnership between the European Financial Reporting Advisory Group and European standard-setters so that Europe as a whole can participate more effectively in the global accounting debate.

The development of the report has been led by the UK Accounting Standards Board (ASB) and sets out the ASB's recommendations on how a future accounting standard on pensions might be developed. The report also provides feedback on the ASB's redeliberations following a major consultation exercise on the discussion paper 'The Financial Reporting of Pensions' which was published in January 2008 as part of the Pro-Active Accounting in Europe (PAAinE) initiative.

EU announces new Internal Market Commissioner

Michel Barnier has been appointed as the new European Union Commissioner for Internal Market and Service. Mr Barnier will be in charge of an influential dossier which covers banking and financial services policy, as well as broader harmonisation issues including Europe's views on the development of accounting standards.

G20 issues progress report

The Finance Ministers and Central Bank Governors of the G20 nations met in Scotland in November to assess the progress towards meeting the commitment they have made during their summit meetings over the last year. Their progress report notes the actions the IASB has taken and continues to take in relation to the commitments taken by the G20 to improve accounting standards.



Round-up

CESR analyses compliance with IFRS disclosures for financial instruments

The Committee of European Securities Regulators (CESR) published in November an analysis of the compliance of European financial institutions with disclosure requirements related to financial instruments.

The CESR survey found that although there was a good level of compliance with IFRS 7's more basic disclosure requirements, a significant proportion of companies failed to comply with mandatory disclosure requirements in some areas.

US SEC to address IFRS roadmap early 2010

SEC Commissioner Elisse Walter has stated that the SEC is likely to consider further action sometime in early 2010 in relation to its roadmap which would allow US companies to use IFRS.

Ms Walter and four other commissioners are reviewing more than 200 letters the SEC received from the public on the proposed roadmap.

CEBS publishes revised financial reporting guidelines for supervised institutions

The Committee of European Banking Supervisors (CEBS) has published revised guidelines on financial reporting as part of its efforts to streamline the reporting requirements for institutions under its supervision. Agreed changes in IFRS have been incorporated into the revised guidelines. CEBS anticipates making further changes in 2010, in order to reflect expected changes in the IASB's own standards.

UK study into accounting for acquisitions

The UK's Financial Reporting Council, the independent regulator responsible for promoting confidence in corporate governance and reporting, has published a study on 'Accounting for acquisitions'.

The study suggests that improvements are needed in the accounting for acquisitions. In particular, it notes that companies had provided insufficient or inconsistent information about material acquisitions in their audited accounts when compared to the rationale for these acquisitions and supporting explanations given in their business reviews.

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
Exposure Draft	Management Commentary	1 March 2010
Exposure Draft	Measurement of Liabilities in IAS 37 – Proposed amendments to IAS 37	12 April 2010
Exposure Draft	Financial Instruments: Amortised Cost and Impairment	30 June 2010



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 July 2008. 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 July 2008

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IFRS 9	Financial Instruments	1 January 2013	Yes (extensive transitional rules apply)
IFRIC 14	Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14	1 January 2011	Yes
IAS 24	Related Party Disclosures	1 January 2011	Yes (either of the whole Standard or of the partial exemption for government-related entities)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	Yes
IAS 32	Classification of Rights Issues (Amendment to IAS 32)	1 February 2010	Yes
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities	Immediately subject to approval within the individual jurisdiction	N/A
IFRS 1	Additional Exemptions for First-time Adopters (Amendments to IFRS 1)	1 January 2010	Yes
IFRS 2	Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2010	Yes
IFRS 1	First-time Adoption of International Financial Reporting Standards (Revised 2008)	1 July 2009	Yes
IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items	1 July 2009	Yes

Effective dates of new standards and IFRIC interpretations

New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 July 2008

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
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)
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)
IFRIC 18	Transfers of Assets from Customers	Transfers of assets on or after 1 July 2009	Yes provided the valuations and other information needed to apply the Interpretation to past transfers were obtained at the time those transfers occurred
IAS 32 and IAS 1	Amendments to IAS 32 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 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

Effective dates of new standards and IFRIC interpretations

New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 July 2008

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IFRS 7	Amendments to IFRS 7 Financial Instruments Disclosures: Improving Disclosures about Financial Instruments	1 January 2009	Yes
IFRS 2	Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations	1 January 2009	Yes
IAS 1	Presentation of Financial Statements	1 January 2009	Yes
IAS 23	Amendments to IAS 23 Borrowing Costs	1 January 2009	Yes
IFRS 8	Operating Segments	1 January 2009	Yes
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009	Yes
Various	Annual Improvements to IFRSs 2008	1 January 2009 (unless otherwise stated)	Yes
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008	Yes
IAS 39 and IFRIC 9	Embedded Derivatives – Amendments to IFRIC 9 and IAS 39	Annual periods ending on or after 30 June 2009	Yes

Effective dates of new standards and IFRIC interpretations

New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 July 2008

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IAS 39 and IFRS 7	Reclassification of Financial Assets – 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 before 1 November 2008 can take effect from 1 July 2008 or a subsequent date)	No
IAS 39 and IFRS 7	Amendments to IAS 39 Reclassification of Financial assets: Effective Date and Transition	1 July 2008 (clarifies the transition rules mentioned above)	No
IFRIC 13	Customer Loyalty Programmes	1 July 2008	Yes

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