Grant Thornton

Navigating the changes to International Financial Reporting Standards: a briefing for Chief Financial Officers

December 2010

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Introduction

Overview

This publication provides a summary of recent changes to International Financial Reporting Standards – it covers new Standards and Interpretations that have been issued and amendments made to existing ones – that will affect companies' future financial reporting. It is designed to give Chief Financial Officers a high-level awareness of the requirements of changes that were finalised by 30 November 2010, giving brief descriptions of each.

Contents

The table of contents on the next page lists all the changes covered in the publication, their effective dates, and the page in the publication on which the appropriate summary can be found.

How to use the publication

Identifying the changes that will affect you

The table of contents has been colour coded to help entities planning for a specific financial reporting year end identify:

- changes mandatorily effective for the first time
- changes not yet effective
- changes already in effect.

The publication does this for 30 June 2010, 30 September 2010, 31 December 2010, 31 March 2011 and 30 June 2011 financial year ends.

Where a change is not yet mandatorily effective for a particular year end, it may still be possible for an entity to adopt it early (depending on local legislation and the requirements of the particular change in concern).

Where a change has been made but an entity is yet to apply it, certain disclosures are required to be made under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Disclosures required include the fact that the new or amended Standard or Interpretation is in issue but has not yet been applied, and known or reasonably estimable information relevant to assessing its possible impact on the financial statements in the period of initial application.

Identifying the commercial significance of the changes in the publication

For each change covered in the publication, we have included a box on its commercial implications. These sections focus on two questions:

- how many entities will be affected?
- what will be the impact on affected entities?

A traffic light system indicates our assessment of the answers to these questions.

Other Grant Thornton International publications

Where appropriate, references have been made to other Grant Thornton International publications that provide more detailed information. These publications can be obtained from your local IFRS contact.

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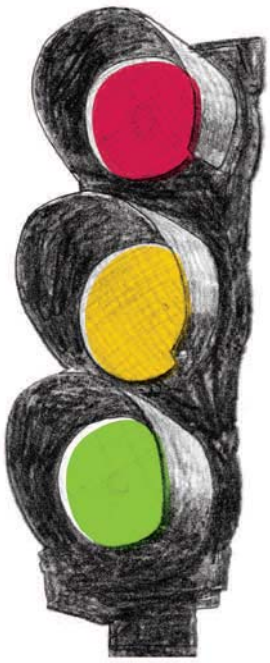


Effective dates of new Standards

(based on Standards issued at 30 November 2010)

Standard	Title of Standard or Interpretation	Effective for accounting periods beginning on or after	Page ref	30 Jun 2010 year end	30 Sep 2010 year end	31 Dec 2010 year end	31 Mar 2011 year end	30 Jun 2011 year end
IFRS 8	Operating Segments	1 January 2009	3	effective for the first time	effective for the first time	already in mandatory effect	already in mandatory effect	already in mandatory effect
Various	Annual Improvements 2008	1 January 2009 unless otherwise stated (one amendment is effective from 1 July 2009)	4					
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009	7					
IAS 23	Amendments to IAS 23 Borrowing Costs	1 January 2009	8					
IAS 1	Presentation of Financial Statements	1 January 2009	9					
IFRS 2	Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations	1 January 2009	11					
IFRS 7	Amendments to IFRS 7 Financial Instruments Disclosures: Improving Disclosures about Financial Instruments	1 January 2009	12					
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: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009	14					
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	15					
IFRIC 18	Transfers of Assets from Customers	Transfers of assets on or after 1 July 2009	17					
IFRS 3	Business Combinations (Revised 2008)	1 July 2009	18			effective for the first time	effective for the first time	
IAS 27	Consolidated and Separate Financial Statements	1 July 2009	20					
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009	21					
IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items	1 July 2009	22					
IFRS 1	First-time Adoption of International Financial Reporting Standards (Revised 2008)	1 July 2009	23					
IFRS 2	Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2010	24	not yet effective	not yet effective			effective for the first time
IFRS 1	Additional Exemptions for First-time Adopters (Amendments to IFRS 1)	1 January 2010	25					
Various	Annual Improvements 2009	1 January 2010 unless otherwise stated (some are effective from 1 July 2009)	26					
IAS 32	Classification of Rights Issues (Amendment to IAS 32)	1 February 2010	28			not yet effective	not yet effective	
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	29					
IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment to IFRS 1)	1 July 2010	30					
IAS 24	Related Party Disclosures	1 January 2011	31					not yet effective
IFRIC 14	Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14	1 January 2011	32					
Various	Annual Improvements 2010	1 January 2011 unless otherwise stated (some are effective from 1 July 2010)	33					
IFRS 7	Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)	1 July 2011	35					
IFRS 9	Financial Instruments	1 January 2013	36					

The colour coding gives an indication of when the changes covered in the publication become effective in relation to the specific financial reporting year ends set out in the table. It should be noted however that some of the amendments contained in Annual Improvements 2008 and 2009 are effective from 1 July 2009. Similarly some of the amendments contained in Annual Improvements 2010 are effective from 1 July 2010.

Key: Change already in mandatory effect Change effective for the first time Change not yet effective

IFRS 8 Operating Segments

IFRS 8 'Operating Segments' replaces IAS 14 'Segment Reporting' for accounting periods beginning on or after 1 January 2009.

IFRS 8 requires an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. To achieve this objective, it requires entities to adopt a 'management approach' to reporting on their operating segments.

The segment results disclosed in annual financial statements are to be based on the reports used by management to evaluate segment performance and to allocate resources to operating segments. These internal reports will typically use different accounting conventions to those required in the IFRS primary financial statements. As a result, IFRS 8 requires greater disclosure of how operating segments are determined and more extensive reconciliations from the segmental measures to those used in the primary financial statements.

IFRS 8 requires entities to adopt a 'management approach' to reporting on their operating segments

The management approach contrasts starkly with the approach taken under IAS 14. Under IAS 14, the segments to be reported in the financial statements were defined, and the results and net assets of those segments were reported under IFRS measurement principles. IFRS 8 does however retain the general scope of IAS 14, applying to entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets.

Commercial significance

Number of entities affected: Most

The changes will affect all companies whose equity or debt securities are publicly traded or which are in the process of issuing equity or debt securities in public securities markets.

Impact on affected entities: High

IFRS 8's 'management approach' to disclosing segmental information is radically different to that of IAS 14 and has the potential to highlight sensitive information to competitors as well as other users of financial statements. Management need to understand the requirements of IFRS 8 and think carefully about what the required disclosures say about the way that they manage the business. There is no exemption from the disclosures on the grounds that management may consider the segment information sensitive or that its disclosure may cause 'competitive harm'.

For more information on this Standard, please refer to our publication 'Operating Segments – Applying IFRS 8 in Practice' which can be obtained from your local IFRS contact.

Annual Improvements 2008

The IASB's 'Improvements to IFRSs' (2008 Improvements) makes minor amendments to fifteen IFRSs. The publication was the first output from a new approach to making non-urgent, but necessary, minor amendments to IFRSs.

The 2008 Improvements are divided into two parts. The first part includes amendments that result in accounting changes for presentation, recognition or measurement purposes while the second part deals with amendments that are terminology or editorial changes only, and which are expected to have no or minimal effect on accounting. A summary of the issues addressed in the first (more important) part is given in the box below.

Annual Improvements 2008

Standard affected	Issue	Summary of change
IFRS 5: Non-current Assets Held for Sale and Discontinued Operations	Plan to sell the controlling interest in a subsidiary	Clarifies that all the assets and liabilities of a subsidiary should be classified as held for sale if the entity is committed to a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale.
IAS 1: Presentation of Financial Statements	Current/non-current classification	Amends examples in IAS 1 to clarify that financial instruments classified as held for trading in accordance with IAS 39 are not necessarily required to be presented as current assets/current liabilities. Instead IAS 1's normal classification principles should be applied.
IAS 16 Property, Plant and Equipment	Recoverable amount	Replaces the term 'net selling price' with 'fair value less cost to sell' in the definition of recoverable amount so as to achieve consistency with the terminology used in IFRS 5.
	Sale of assets held for rental	Clarifies that an entity which, in the course of ordinary activities, sells property, plant and equipment that was held for rental to others, transfers the PP&E assets to inventories at carrying amount when they cease to be rented and are held for sale. The proceeds from sale are to be recognised as revenue in accordance with IAS 18. IFRS 5 does not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.
IAS 19 Employee Benefits	Curtailments and negative past service cost	Clarifies that negative past service cost arises when benefits are changed as a result of a plan amendment so that the present value of the defined benefit obligation decreases.
	Plan administration costs	Changes the definition of return on plan assets to require the deduction of plan administration costs only to the extent they are not included in actuarial assumptions used to measure defined benefit obligation.
	Replacement of term 'fall due'	Amends the definition of short-term employee benefits and other long-term employee benefits to replace the term 'fall due wholly' with the term 'due to be settled'. This may affect classification and require some benefit plans to be split between short- and long-term.
	Guidance on contingent liabilities	Removes the reference to 'recognition' in relation to contingent liabilities, in order to be consistent with IAS 37 (which prohibits recognition of a contingent liability).

Annual Improvements 2008

Standard affected	Issue	Summary of change
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	Government loans with a below-market rate of interest	Requires that the benefit of a government loan with a below-market rate of interest is treated as a government grant. The benefit is measured as the difference between the proceeds received and the initial carrying value of the loan determined in accordance with IAS 39.
IAS 23 Borrowing Costs	Components of borrowing costs	Alters IAS 23 to clarify that interest determined using the effective intrest rate method of IAS 39 is included in borrowing costs.
IAS 27 Consolidated and Separate Financial Statements	Measurement of subsidiary held for sale in separate financial statements	Requires that when an entity prepares separate financial statements and accounts for investments in subsidiaries, jointly controlled entities and associates in accordance with IAS 39 (rather than at cost), such investments continue to be measured using IAS 39 even if classified as held for sale in accordance with IFRS 5. Investments measured at cost will continue to be re-measured in accordance with IFRS 5 when classified as held for sale.
IAS 28 Investments in Associates	Required disclosures when investments in associates are accounted for at fair value through profit or loss	Clarifies disclosures for investments in associates accounted for at fair value in accordance with IAS 39.
	Impairment of investment in associate	Clarifies that an investment in an associate is treated as a single asset for impairment testing. The amendment explains that an impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of such an impairment loss should be recognised to the extent that the recoverable amount of the investment subsequently increases.
IAS 31 Interests in Joint Ventures	Required disclosures when interests in jointly controlled entities are accounted for at fair value	Clarifies disclosures for interests in jointly controlled entities accounted for at fair value in accordance with IAS 39.
IAS 29 Financial Reporting in Hyperinflationary Economies	Description of measurement basis in financial statements	Clarifies that a number of assets and liabilities may or must be measured on the basis of a current value rather than historical value.
IAS 36 Impairment of Assets	Disclosure of estimates used to determine recoverable amount	Requires additional disclosures when fair value less costs to sell is determined using discounted cash flows.
IAS 38 Intangible Assets	Advertising and promotional activities	Clarifies when an entity can recognise a prepayment asset for advertising or promotional expenditure. In the case of supply of goods, the entity recognises such expenditure as an expense when it has a right to access the goods. For services, an expense is recognised on receiving the services. Some entities will need to 'expense' costs for promotional catalogues and similar items sooner.
	Units of production method of amortisation	Removes the prohibition of amortisation methods that result in lower amortisation in earlier periods than the straight line method.

Standard affected	Issue	Summary of change
IAS 39 Financial Instruments: Recognition and Measurement	Reclassification of derivatives into or out of the classification of at fair value through profit or loss	IAS 39 prohibits reclassification of financial instruments into or out of fair value through profit or loss after initial recognition (note IAS 39 was subsequently amended by the 'Reclassification of Financial Assets' amendment issued in October 2008). The amendments clarify that derivatives which cease to qualify as hedging instruments, derivatives designated as such and financial assets that are reclassified when an insurance company changes its accounting policies in accordance with IFRS 4.45 do not represent reclassifications.
	Designating and documenting hedges at the segment level	References to the designation of hedging instruments at the segmental reporting level have been removed.
	Applicable effective interest rate (EIR) on cessation of fair value hedge accounting	Clarifies that the revised effective interest rate (calculated on cessation of fair value hedge accounting) should be applied when estimates of cash flows change for instruments that were previously hedged items.
IAS 40 Investment Property	Investment property under construction or development	Amendment to bring property that is being constructed or developed for future use as an investment property within the scope of IAS 40 (meaning the IAS 40 fair value model may therefore be applied). Previously IAS 16 applied to such property until completion.
IAS 41 Agriculture	Additional biological transformation	Removes the prohibition on taking increases in value from additional biological transformation into consideration when calculating the fair value of biological assets using estimated cash flows.

Effective date

With the exception of the amendment made to IFRS 5 (which is effective for accounting periods beginning on or after 1 July 2009), the amendments made are effective for accounting periods beginning on or after 1 January 2009.

Commercial significance

Number of entities affected: Few

The Amendments make changes to relatively narrow areas within IFRS. As a result, few entities will be affected.

Impact on affected entities: Medium

Although the majority of the Improvements address non-urgent but necessary minor amendments to IFRS, one change that may have a material impact on some companies is the one on accounting for advertising and promotional activities. An entity incurring costs on promotional goods such as catalogues will need to expense these costs when it has a 'right to access' the goods. Companies that previously recognised catalogues and brochures as assets will therefore need to review their accounting policies in the light of the Improvements.

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 15 'Agreements for the Construction of Real Estate' was published in order to standardise accounting practice among real estate developers for 'off plan' sales of apartments or houses (sales before the construction of the apartments or houses is complete).

Before its publication, there had been significant differences in the way real estate developers accounted for such sales, with some recording revenue only when the completed unit is handed over to the buyer in accordance with IAS 18 'Revenue', and others recognising revenue as construction progresses in accordance with IAS 11 'Construction Contracts'.

IFRIC 15 may delay the point of revenue recognition for some property developers and house-builders.

IFRIC 15 states that IAS 11 will be applied where an agreement for the construction of real estate meets the definition of a construction contract ('a contract specifically negotiated for the construction of an asset or a combination of assets'). IFRIC 15 explains that this definition will be met when the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (this is irrespective of whether the entity exercises that ability or not). IFRIC 15 will make it more difficult to argue that off plan sales fall within the scope of IAS 11 (as a result, it may delay the point of revenue recognition for some property developers and house-builders).

For agreements that are required to be treated as agreements for the sale of goods, IFRIC 15 also introduces the notion of the continuous transfer of work in progress to the customer for some contracts. The effect of this approach produces similar results to percentage of completion accounting in accordance with IAS 11. Determining whether a contract qualifies for continuous transfer accounting can be a complex and judgemental matter.

Commercial significance

Number of entities affected: Few

The Interpretation will only affect real estate companies who make sales before the construction of the apartment or building in concern is complete.

Impact on affected entities: High

IFRIC 15 will cause some entities to recognise revenue at a later stage.

Amendments to IAS 23 Borrowing Costs

The revised version of IAS 23 'Borrowing Costs' makes the following major changes to the accounting for borrowing costs:

- eliminates the previous benchmark treatment of recognising borrowing costs as an expense
- requires borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (generally speaking assets that take a substantial period of time to get ready for intended use or sale) to be capitalised as part of the cost of that asset
- requires all other borrowing costs to be expensed as incurred.

If an entity identifies eligible borrowing costs that are directly attributable to qualifying assets, it begins to capitalise borrowing costs only if:

- it incurs expenditures for the asset
- it incurs borrowing costs
- it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Entities whose previous accounting policy was to expense all borrowing costs are required to apply the revised Standard prospectively to new qualifying assets for which development commenced after the Standard's effective date (reporting periods beginning on or after 1 January 2009). However, an entity is permitted to designate any date before 1 January 2009 and apply the standard to borrowing costs relating to all qualifying assets for which the commencement date (the date that all three of the conditions listed above are met) is on or after that designated date.

Commercial significance

Number of entities affected: Some

Many companies incur borrowing costs in order to acquire, construct or produce assets that take a substantial period of time to get ready for use or sale.

Impact on affected entities: Medium

The new Standard will represent a change in accounting policy for entities that previously applied the benchmark treatment of expensing borrowing costs on assets that take a substantial period of time to get ready for use or sale. Those entities will now need to develop procedures to calculate the amount of borrowing costs to be capitalised.

For more information on this Standard, please refer to our publication 'Capitalisation of borrowing costs – From theory to practice' which can be obtained from your local IFRS contact.

IAS 1 Presentation of Financial Statements

A revised version of IAS 1 'Presentation of Financial Statements' (IAS 1R) was published in 2007 and is effective for accounting periods beginning on or after 1 January 2009.

The revised version is intended to make the information presented in a set of financial statements more useful to the user. It makes a number of significant changes which are summarised in the table below:

IAS 1 Presentation of Financial Statements

Subject	Major changes
Terminology changes	• IAS 1R amends the titles of the primary financial statements as follows: – 'statement of financial position' instead of 'balance sheet'; – 'statement of cash flows' instead of 'cash flow statement'; and – 'statement of comprehensive income' instead of 'statement of recognised income and expenditure' • use of the new titles is not mandatory however
Statement of comprehensive income	• all items of income and expense are required to be presented in a single 'statement of comprehensive income' or in two statements: a 'separate income statement' and a 'statement of (other) comprehensive income' • changes in equity arising from transactions with owners are excluded from the statement of comprehensive income
Additional (3rd) statement of financial position	• An additional statement of financial position 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 in a set of financial statements
Statement of changes in equity	• a 'statement of changes in equity' is required to be presented as a primary statement in all circumstances. The contents of this compulsory statement are restricted to changes in equity arising from owners in their capacity as owners (eg dividends, new share issues) • any non-owner changes in equity (eg revaluations) are detailed in the statement of comprehensive income and are shown in the statement of changes in equity
Reclassification adjustments and related tax effects	• entities are required to disclose 'reclassification adjustments' (amounts reclassified or recycled to profit or loss in the current period that were recognised in other comprehensive income in previous periods) • entities are required to disclose income tax relating to each component of other comprehensive income, as these components often have tax rates different from those applied to profit or loss
Presentation of dividends	• IAS 1R requires dividends and related amounts per share to be presented in the statement of changes in equity or in the notes to the financial statements

Commercial significance

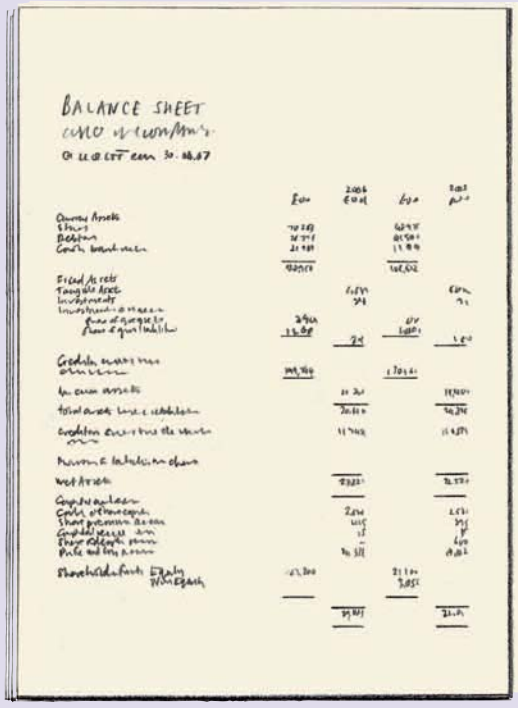
Number of entities affected: Most

The changes can be expected to affect all companies' financial statements.

Impact on affected entities: Medium

Although the changes relate to presentation rather than recognition or measurement, they make significant changes to the financial statements. Companies will in particular need to be aware of the requirement to present a third statement of financial position in certain circumstances.

For more information on this Standard, please refer to our publication 'Example Consolidated Financial Statements – International Financial Reporting Standards' which can be obtained from your local IFRS contact.



Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations

The IASB's Amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations' makes two changes to IFRS 2. Firstly, the definition of vesting conditions is restricted to service conditions and performance conditions by the amendment. Secondly, it introduces the term 'non-vesting conditions'.

Non-vesting conditions are requirements that are not service or performance conditions, but which have to be met in order for the counterparty (eg the employee) to receive the share-based payment. Examples of non-vesting conditions include:

- share-based payment arrangements in which an employee has to provide funding during the vesting period, which is then used to exercise the options
- scenarios in which the entity can discontinue the share-based payment plan at its own discretion.

Such conditions must be taken into account in measuring the grant date fair value of the equity instruments granted.

The amendment also requires that when either the entity or a counterparty can choose whether a non-vesting condition is met, failure to meet that non-vesting condition is to be treated as a cancellation (the original version of IFRS 2 only dealt with cancellations of share-based payments by the entity). IFRS 2 requires that a cancellation is accounted for as an acceleration of vesting – the amount that would have been spread over the remainder of the vesting period is expensed immediately. The amendment will therefore have a significant impact on some companies' results.

A common example of a non-vesting condition is an employee share option scheme under which the employee has to make regular contributions into a savings account during the vesting period. These funds are then used to exercise the options. Consequently, any such schemes (sometimes known as Save As You Earn or SAYE schemes) should be reviewed carefully for the impact of this amendment.

Commercial significance

Number of entities affected: Few

The amendment will only have an effect on certain types of share-based payment scheme offered by companies, leaving the majority of companies unaffected by the change.

Impact on affected entities: High

For companies with share option schemes under which the employee has to make regular contributions into a savings account during the vesting period, the effect of the amendment on reported earnings may be significant.

An employee's decision to stop saving will be treated as a cancellation of the share-based payment, leading to an acceleration of the charge to profit or loss. Accounting systems may need to be amended to track the savings' records of all employees in the scheme to ensure cancellations are identified and accounted for in accordance with the new requirement.

Amendments to IFRS 7 Financial Instruments Disclosures: Improving Disclosures about Financial Instruments

'Improving Disclosures about Financial Instruments (Amendments to IFRS 7)' was issued as part of the IASB's response to the financial crisis. The amendments to IFRS 7 are intended to:

- explain more clearly how entities determine the fair value of their financial instruments
- improve the disclosure of liquidity risk.

Fair value measurement disclosures: the three-level fair value hierarchy

The lack of transparency over the calculation of fair values attracted considerable criticism during the financial crisis. In order to address this, the amendments to IFRS 7 introduced a fair value hierarchy which is similar (but not identical) to that which is required under US GAAP.

The fair value hierarchy is intended to indicate the 'observability' of companies' financial instrument fair values and consists of the following three levels:

- level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices)
- level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Assessing whether a particular input to the fair value measurement is significant may require judgement. The amendments to IFRS 7 make clear that when the fair value of an instrument is measured using some observable inputs, but these inputs require significant adjustment based on unobservable inputs, that fair value measurement should be categorised in level 3 of the hierarchy.

A fair value hierarchy indicates the 'observability' of companies' financial instrument fair values

As well as the level in the hierarchy, companies are required to disclose significant transfers between level 1 and level 2 and, for level 3 measurements, a reconciliation between the opening and closing balances.

Liquidity risk disclosures

The second part of the amendments to IFRS 7 improves liquidity risk disclosures by requiring an entity to disclose:

a) a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities
b) a maturity analysis for derivative financial liabilities. The maturity analysis is to include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows
(c) a description of how the liquidity risk inherent in (a) and (b) is managed.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The most important change compared to the previous IFRS 7 liquidity risk disclosures relates to derivative financial liabilities. Under the previous version of IFRS 7, entities were required to disclose a quantitative maturity analysis for all derivative financial liabilities according to their remaining contractual maturities. The change is a response to comments that the requirement to provide disclosures based on the remaining contractual maturities was difficult to apply for some derivative financial liabilities and did not always result in information that reflects how many entities manage liquidity risk for such instruments. As a result, the amendments to IFRS 7 retain the requirement to disclose the remaining contractual maturities of derivative financial liabilities only where the information is essential for an understanding of the timing of the cash flows.

Transitional relief

Relief is given from providing comparative information in respect of the amended disclosures in the first year of their application.

Commercial significance

Number of entities affected: Few

Although the disclosures apply to all financial instruments and will therefore affect the majority of companies, the changes are primarily focussed on improving the disclosures of a more narrow sub-set of companies that hold financial instruments that are difficult to value and/or hold derivative financial liabilities.

Impact on affected entities: Medium

For those companies holding derivative financial liabilities or financial assets for which quoted prices do not exist, the amendments to IFRS 7 will require thought and attention. While the changes do not affect recognition, investors will be interested in the additional information required, and it is therefore worth investing time in implementing the new disclosure requirements.

For more information on this Standard, please refer to our publication 'Financial Instruments on Display – Illustrative Disclosures and Guidance on IFRS 7' which can be obtained from your local IFRS contact.

Amendments to IFRS 1 and IAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The IASB's amendments to IFRS 1 and IAS 27 relate to the measurement of the cost of an investment in a subsidiary, jointly controlled entity or associate, and are designed to encourage greater use of IFRS in separate financial statements.

The changes affect only the separate financial statements of a parent entity or investor. In some jurisdictions, parent entities apply IFRS in their consolidated financial statements but continue to use local GAAP in their separate (or 'company-only') financial statements. The changes aim to remove one of the problems which have discouraged the use of IFRS in separate financial statements.

The main changes are:

- the introduction of a 'deemed cost' exemption into IFRS 1 for first-time adopters of IFRS when measuring the cost of an investment in a subsidiary, jointly controlled entity or associate
- the removal of IAS 27's requirement to deduct dividends received from pre-acquisition profits from the cost of such an investment in the investor's separate financial statements.

Previously parent entities recognised income from investments in subsidiaries only to the extent that dividends were paid out of post-acquisition accumulated profits; distributions received out of pre-acquisition profits were regarded as a recovery of the investment and were deducted from its cost. In future, dividends receivable will be recorded as income.

The changes remove a practical problem related to pre-acquisition dividends which has discouraged some entities from using IFRS in their separate financial statements

IAS 36 'Impairment of Assets' has been amended as a result to include the following as specific indicators that the investment may be impaired:

- the carrying amount of an investment in a subsidiary, jointly controlled entity or associate in the separate financial statements of the investor exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill
- a dividend receivable or received exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period the dividend is declared.

The changes also include new requirements on accounting by a parent that reorganises its group by forming a new parent entity without affecting the interests of shareholders. In such a situation, the new parent measures cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.

Commercial significance

Number of entities affected: Few

The amendments are only relevant to a sub-set of companies adopting IFRS for the first-time.

Impact on affected entities: High

For those entities to which it is relevant, the amendments remove an obstacle to using IFRS in their separate financial statements. The previous requirement to treat dividends paid out of pre-acquisition profits as a reduction of the cost of investment in a subsidiary, joint venture or associate created practical problems for many companies and no doubt was a factor behind some of them continuing to use local GAAP rather than IFRS in their separate financial statements. Those companies will welcome its removal.

Amendments to IAS 32 and IAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation

The effect of the amendments to IAS 32 is to change the classification of limited types of financial instruments from liabilities to equity. The two specific types of instruments addressed are:

- instruments that the holder is entitled to redeem (referred to as 'puttable instruments')
- instruments that impose on the entity an obligation to deliver a pro rata share of the net assets of the entity only on liquidation.

The effect of the amendments will be to change the classification of some types of financial instruments from liabilities to equity.

Common examples of puttable instruments include interests in a partnership, shares in a co-operative organisation and units issued by collective investment vehicles. Prior to the amendments, IAS 32 required any financial instruments that the holder could require the issuer to redeem to be classified as a liability. That principle worked well in most situations. Some entities however, such as partnerships and co-operatives, typically issue only puttable instruments. These instruments may be redeemed for a proportionate share of the entity's net assets and are often subordinated to other claims on the entity's assets. Economically, these seem equity-like and the amendments aim to reflect this. Equity classification is however subject to the following strict criteria, each of which must be met:

- the instrument entitles the holder to a pro rata share of the entity's net assets on liquidation
- the instrument is part of a class of instruments that is subordinate to all other classes of instruments
- all financial instruments in this most subordinate class have identical features
- apart from the put feature, the instrument must not include any other contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under conditions that are potentially unfavourable
- the total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument itself)
- the issuer must have no other financial instrument or contract that has (a) total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity (excluding any effects of such instrument or contract) and (b) the effect of substantially restricting or fixing the residual return to the puttable instrument holders.

The amendments also address instruments that impose on the entity an obligation to deliver a pro-rata share of the net assets of the entity only on its liquidation. IAS 32 does not normally require an instrument to be classified as a liability solely on the grounds that it is repayable on liquidation. However, if liquidation is certain to occur and outside the control of the entity (for example, a limited life entity) or is uncertain but is at the option of the holder, IAS 32 would require liability classification but for the amendments.

Similar to the exception for puttable shares, the ability to achieve equity classification depends on certain strict criteria being met. In brief, all of the following conditions must be met:

- the instrument entitles the holder to a pro rata share of the entity's net assets on liquidation
- the instrument is part of a class of instruments that is subordinate to all other classes of instruments
- all financial instruments in this most subordinate class have identical features
- the issuer must have no other financial instrument or contract that has (a) total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity (excluding any effects of such instrument or contract) and (b) the effect of substantially restricting or fixing the residual return to the instrument holders.

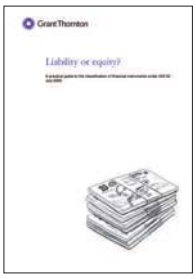
Commercial significance

Number of entities affected: Few

The amendments change the classification from liabilities to equity of very limited types of financial instruments.

Impact on affected entities: High

For those entities with financial instruments affected by the amendments, the impact of the amendments can be dramatic. For example, without the Amendments, some types of partnerships and co-operative organisations would show no equity.



For more information on this Standard, please refer to our publication 'Liability or equity? A practical guide to the classification of financial instruments under IAS 32' which can be obtained from your local IFRS contact.

IFRIC 18 Transfers of Assets from Customers

IFRIC 18 'Transfers of Assets from Customers' (IFRIC 18) applies to the recipient of a transfer of property, plant and equipment from a customer where the item received must be used to connect the customer to a network and/or provide ongoing access to a supply of goods or services.

Typically the recipients of such transfers tend to be companies in the utilities industry. For example, where a property developer constructs a water supply system for a new housing development and 'donates' the resulting asset to the water supply company (or pays the water supplier to undertake the construction) which in turn connects the houses to its network. It also applies to agreements in which an entity receives cash that must be used only to construct or acquire property, plant and equipment that must be used for those purposes. It does not however apply to transfers that fall within the scope of IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' or IFRIC 12 'Service Concession Arrangements'.

Two main issues are addressed by IFRIC 18:

1 Whether an asset should be recognised by the recipient (and, if so, the amount to be recognised).

IFRIC 18 requires that the recipient recognises an asset in respect of the transferred item if that item meets the definition of an asset. The key consideration in applying that definition is whether the recipient controls the item in question. Where an asset is recognised, it is recorded at fair value on initial recognition.

2 Whether these transactions result in revenue for the recipient and, if so, the period over which revenue is recorded.

IFRIC 18 considers that transfers within its scope that give rise to a recognised asset for the recipient are revenue generating transactions. In summary, the appropriate pattern of revenue recognition depends on the service or services that the recipient has agreed to provide to the customer. These might be:

- a connection service – recognise revenue when the connection is delivered
- ongoing access to a supply of goods and services – recognise revenue over the term specified in the agreement (or the useful life of the transferred asset if the agreement does not specify a term)
- both services – allocate revenue between the two service components then apply the revenue recognition criteria to each component.

Commercial significance

Number of entities affected: Few

The type of transfer within the scope of IFRIC 18 is usually only seen in the utilities industry, although it is possible that some outsourcing services will also feature such arrangements.

Impact on affected entities: Medium

IFRIC 18 is likely to result in a number of companies in the utilities sector changing their accounting policies.

IFRS 3 Business Combinations (Revised 2008)

The revised Standard for Business Combinations (IFRS 3R), together with the amended version of IAS 27 that was published at the same time (see separate section), introduces important changes to the accounting requirements for mergers and acquisitions.

A summary of the major changes and their implications is given in the table below:

IFRS 3 Business Combinations (Revised 2008)

Subject	Major changes	Implications
Goodwill	• goodwill is measured only at the acquisition date – it is determined as the consideration transferred, plus the fair value of any previously held investment, plus the amount of any non-controlling interest less the fair values* of the identifiable assets and liabilities acquired (*a few exceptions exist)	• the previous 'business combination achieved in stages' approach no longer applies • some business combinations may result in gains or losses being recognised in the income statement as any previous stake held is re-measured to fair value at the date of acquisition
Non-controlling interests	• minority interests are termed 'non-controlling interests' and may be measured either at: – fair value; or – the proportionate interest in the identifiable net assets • if fair value is used, the effect is that 100% of the goodwill of the acquiree is recognised even if the parent's interest in the acquiree is less than 100% (sometimes referred to as the 'full goodwill' method)	• where fair value is selected, there will be a change to the amount recognised for goodwill which will have an ongoing effect on the mechanics of the consolidation process • where entities continue to account for non-controlling interests at their proportionate interest in the identifiable net assets of the subsidiary, there will be little change other than to terminology
Contingent consideration	• contingent consideration is measured at fair value at the acquisition date • there is no requirement for payments to be probable before recognition occurs • if the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are recorded in the income statement	• increases the importance of the initial assessment of fair values • the immediate effect of contingent consideration on the statement of financial position and the potential impact on profit or loss should be considered when negotiating any acquisition
Acquisition costs	• costs of the combination are recorded as an expense in the income statement	• negative impact on profit or loss should be considered in assessing the overall impact of the combination

IFRS 3 Business Combinations (Revised 2008)

Subject	Major changes	Implications
Purchase consideration	• additional guidance is given on determining what is part of the consideration for the business combination	• consideration arrangements will need to be analysed for payments that are not part of the consideration for the business combination, such as: – payments made for post-combination employee services – payments to settle a pre-existing business relationship • the structuring of the business combination will need to be carefully considered so as to avoid any undesired effects on earnings arising from the introduction of this additional guidance
Recognition of intangible assets	• greater clarity over the recognition criteria for intangible assets	• a greater number of intangible assets may need to be recognised. For example, leases which are not at market rates

IFRS 3R is also significant for being the first major new Standard to have been produced jointly with the US Financial Accounting Standards Board.

Effective date and transition

IFRS 3R is required to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Earlier application is permitted (subject to the requirements of local legislation). If IFRS 3R is applied before its effective date, IAS 27 'Consolidated and Separate Financial Statements (revised 2008)' (IAS 27R) must also be applied at the same time.

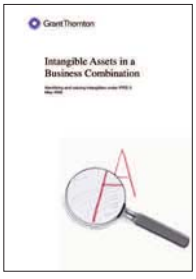
Commercial significance

Number of entities affected: Most

The changes can be expected to affect all companies that undertake business combinations.

Impact on affected entities: High

As outlined in the table above, the revised Standard makes fundamental changes to the way in which business combinations are accounted for. The changes to the accounting for non-controlling interests and the treatment of acquisition costs and contingent consideration are particularly notable.



For more information on this Standard, please refer to our publication 'Intangible Assets in a Business Combination – Identifying and valuing intangibles under IFRS 3' which can be obtained from your local IFRS contact.

IAS 27 Consolidated and Separate Financial Statements

A revised version of IAS 27 'Consolidated and Separate Financial Statements' (IAS 27R) was published at the same time as the revised version of IFRS 3 'Business Combinations' (IFRS 3R).

IAS 27R makes the following significant changes compared to the previous version of the Standard:

IAS 27 Consolidated and Separate Financial Statements (Revised 2008)

Subject	Major changes
Loss of control of a subsidiary	• on loss of control of a subsidiary, any retained investment is recognised at its fair value at the date control is lost. This fair value is included in the calculation of the gain or loss • any components of other comprehensive income related to the subsidiary are reclassified to profit or loss or transfered to retained earnings on the same basis that would be required if the parent had directly disposed of the related assets or liabilities
Attribution of losses to non-controlling interests	• IAS 27R requires companies to attribute total comprehensive income (or loss) to the owners of the parent and to the non-controlling interest even if this results in non-controlling interests having a deficit balance (under the previous version of IAS 27, excess losses were allocated to the owners of the parent, except to the extent that the non-controlling interest had a binding obligation and was able to make an additional investment to cover the losses)
Changes in ownership interests in subsidiaries	• transactions with non-controlling interests in which control is not gained or lost (eg part disposals of interests in a subsidiary and purchases of shares held by non-controlling interests) are accounted for as equity transactions • no income statement gain or loss is recorded and no adjustment is made to goodwill
Presentation of non-controlling interests	• IAS 27R is explicit in requiring non-controlling interests to be presented within equity in the statement of financial position, separate from the parent owners' equity

Transition

IFRS 3R and IAS 27R accompany each other, both being required to be applied for annual periods beginning on or after 1 July 2009. If IAS 27R is applied before its effective date, however, then IFRS 3R must also be applied at the same time. Some minor changes to IAS 27R apply retrospectively, however the most significant amendments are to be applied prospectively. Specifically, prospective application is required of:

- the amendment requiring attribution of total comprehensive income to the owners of the parent and to the non-controlling interest even if this results in non-controlling interests having a deficit balance
- the requirements on accounting for changes in ownership interests in a subsidiary after control is obtained
- the requirements on accounting for the loss of control of a subsidiary.

Commercial significance

Number of entities affected: Most

The changes can be expected to affect all companies that prepare consolidated financial statements at some stage.

Impact on affected entities: High

In conjunction with IFRS 3R, the revised Standard makes fundamental changes to the way in which business combinations and changes of ownership interests are subsequently accounted for.

IFRIC 17 Distributions of Non-cash Assets to Owners

IFRIC 17 'Distributions of Non-cash Assets to Owners' (IFRIC 17) was issued in response to requests for guidance on how to account for distributions of assets other than cash as dividends to owners. It applies both to distributions of non-cash assets and to distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

IFRIC 17 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. IFRIC 17 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
- 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.

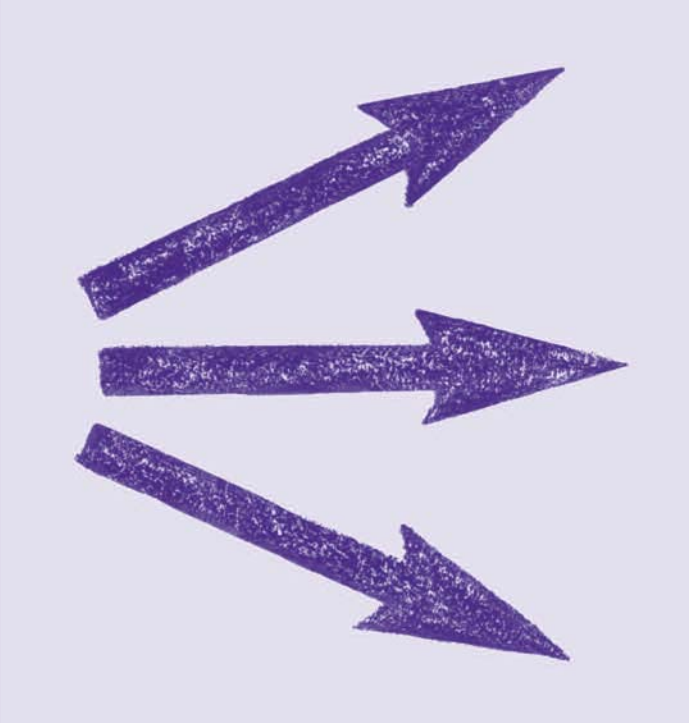
Commercial significance

Number of entities affected: Few

Distributions of non-cash assets to owners occur relatively rarely.

Impact on affected entities: Medium

Measuring a non-cash distribution at the fair value of the assets distributed will result in a change in accounting practice in many jurisdictions. Recognising any difference between this amount and the previous carrying amount of the assets distributed in profit or loss upon settlement of the dividend will impact upon reported earnings.



Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items

'Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement' (the amendment) aims to clarify the application of some of IAS 39's requirements on designation of a risk or a portion of cash flows for hedge accounting purposes. It addresses the following issues:

Designation of one-sided risks

The amendment clarifies that IAS 39 permits a designation based on a one-sided risk. For example, an entity with a highly probable commodity purchase is able to designate a cash flow hedge based on the risk of the commodity price increasing.

Designation of portions of cash flows of a financial instrument

The amendment clarifies that designation of a portion of the cash flows of a financial instrument is only permitted when the designated risks and portions are separately identifiable components of the instrument; and the changes in the cash flows or fair value of the entire instrument arising from those risks and portions are reliably measurable.

Hedge effectiveness when hedging a one-sided risk with a purchased option

The clarification on assessing effectiveness when hedging a one-sided risk with a purchased option is perhaps the most important of the changes. US GAAP permits designation of a purchased option in its entirety as the hedging instrument in a cash flow hedge of a highly probable forecast transaction in such a way that all changes in the fair value of the option (including changes in its time value) are effective. Some commentators have argued that this approach is permitted by IAS 39. The amendment confirms that it is not.

Commercial significance

Number of entities affected: Few

The amendment aims to clarify questions in relation to one-sided risks and inflation components. It is therefore very limited in scope and addresses relatively obscure issues.

Impact on affected entities: Low

The amendment is intended to be a clarification rather than to introduce substantive changes.

IFRS 1 First-time Adoption of International Financial Reporting Standards (Revised 2008)

In November 2008, the IASB published a revised version of IFRS 1 'First-time Adoption of International Financial Reporting Standards', containing an improved structure but no technical changes.

Since it was first issued in 2003, various amendments have been made to IFRS 1 to accommodate first-time adoption requirements resulting from new or amended IFRSs. As a result, its structure became increasingly convoluted.

The revised version of the Standard does not make technical changes to the Standard but restructures it to make it clearer to the reader. 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 allows the IASB to make future changes to the Standard more easily.

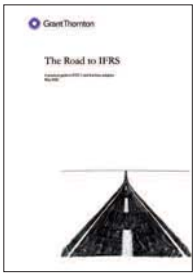
Commercial significance

Number of entities affected: Few

The revised Standard is relevant to all first-time adopters but is in substance no different from the previous version of the Standard.

Impact on affected entities: Low

The revised Standard has an improved structure but does not contain any technical changes.



For more information on this Standard, please refer to our publication 'The Road to IFRS – A practical guide to IFRS 1 and first-time adoption' which can be obtained from your local IFRS contact.

Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)

'Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)' amends IFRS 2 to clarify the scope of the Standard and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction.

The amendments to IFRS 2 clarify that an entity that receives goods or services from its suppliers (including employees) must apply IFRS 2 even where it itself has no obligation to make the required share-based cash payments. This will be the case where, for example, a subsidiary receives services but its parent company is obliged to settle the related share-based payment obligation.

The amendments also incorporate the requirements of IFRIC 8 'Scope of IFRS 2' and IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' into IFRS 2 itself (IFRIC 11 and IFRIC 8 have been withdrawn following the publication of the amendments to IFRS 2).

Commercial significance

Number of entities affected: Few

The amendments are only relevant to group situations where an entity receives goods or services but the related share-based cash payment is settled by another entity within the group. Such arrangements can be expected to be relatively rare.

Impact on affected entities: Low

The amendments to IFRS 2 remove a possible incentive to structure arrangements to be outside IFRS 2's scope by ensuring that group cash-settled share-based payment transactions are accounted for consistently with group equity-settled transactions.

Additional Exemptions for First-time Adopters (Amendments to IFRS 1)

'Additional Exemptions for First-time Adopters (Amendments to IFRS 1)' amends IFRS 1 to address potential challenges for jurisdictions adopting IFRS in the near future. The amendments offer relief from retrospective application of IFRSs in selected areas, to ensure that entities applying IFRSs will not face undue cost or effort in the transition period.

The amendments specifically relate to:

- the measurement of deemed cost for certain oil and gas assets, and decommissioning liabilities included in that deemed cost
- the timing of the determination of whether an arrangement contains a lease.

Deemed Cost

A first-time adopter, which has previously accounted for its exploration and development costs for oil and gas properties in cost centres that include all properties in a large geographical area, may elect to measure such assets on the date of transition on the following basis:

- exploration and evaluation assets at the amount determined under the entity's previous GAAP
- assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity shall allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date. If the entity uses this exemption, it discloses that fact and the basis on which carrying amounts determined under the previous GAAP were allocated.

At the date of transition, the entity tests exploration and evaluation assets in the development and production phases for impairment in accordance with IFRS 6 'Exploration for and Evaluation of Mineral Resources' or IAS 36 'Impairment of Assets' respectively and, if necessary, reduces the amount determined above.

Decommissioning liabilities

An entity which uses the deemed cost exemption relating to oil and gas assets, as discussed above:

- measures decommissioning, restoration and similar liabilities as of the transition date in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'
- recognises directly in retained earnings any difference between the amount measured under IAS 37 and the carrying amount of those liabilities under the entity's previous GAAP.

Leases

If a first-time adopter made the same determination of whether an arrangement contained a lease in accordance with its previous GAAP as that required by IFRIC 4 'Determining whether an Arrangement contains a Lease', but at a date other than that required by IFRIC 4, the entity need not reassess that determination on the date of transition to IFRS.

Commercial significance

Number of entities affected: Few

The amendments will only be relevant to companies adopting IFRS for the first time. Furthermore they will only impact a sub-section of those companies.

Impact on affected entities: Medium

For those entities eligible to use them, the amendments provide welcome relief from retrospective application of IFRSs in selected areas. They should help to ensure that entities applying IFRS for the first time will not face undue cost or effort in the transition period.

Annual Improvements 2009

Published in April 2009, the IASB's 'Improvements to IFRSs' makes minor amendments to twelve IFRSs. The publication was the second in a series of non-urgent, but necessary, minor amendments to IFRSs, made on an annual basis.

A summary of the issues addressed is given in the box below:

Annual Improvements 2009

Standard affected	Issue	Summary of change	Effective for periods beginning on or after*
IFRS 2 Share-based Payment	Scope of IFRS 2 and revised IFRS 3	Amends IFRS 2 to confirm that the contribution of a business on the formation of a joint venture and common control transactions are not within the scope of IFRS 2.	1 July 2009
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations	Clarifies that IFRS 5 and other IFRSs that specifically refer to non-current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations.	1 January 2010
IFRS 8 Operating Segments	Disclosure of information about segment assets	Clarifies that a measure of segment assets should be disclosed only if that amount is regularly provided to the chief operating decision maker.	1 January 2010
IAS 1 Presentation of Financial Statements	Current/non-current classification of convertible instruments	Clarifies the classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.	1 January 2010
IAS 7 Statement of Cash Flows	Classification of expenditures on unrecognised assets	Amends IAS 7 to state explicitly that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activities.	1 January 2010
IAS 17 Leases	Classification of leases of land and buildings	Amends IAS 17 to clarify that when a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately in accordance with the general guidance on lease classification in paragraphs 7-13 of IAS 17.	1 January 2010
IAS 18 Revenue	Determining whether an entity is acting as a principal or as an agent	Provides guidance on determining whether an entity is acting as a principal or as an agent.	None, amendment to non-mandatory Appendix

Standard affected	Issue	Summary of change	Effective for periods beginning on or after*
IAS 36 Impairment of Assets	Unit of accounting for goodwill impairment test	Clarifies that the largest unit permitted by IAS 36 for the purpose of allocating goodwill to cash-generating units is the operating segment level defined in IFRS 8 before aggregation as permitted in that Standard.	1 January 2010
IAS 38 Intangible Assets	Additional consequential amendments arising from revised IFRS 3	Aims to clarify the effect of IFRS 3 (Revised 2008) on the accounting for intangible assets acquired in a business combination.	1 July 2009
	Measuring the fair value of an intangible asset acquired in a business combination	Clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.	1 July 2009
IAS 39 Financial Instruments: Recognition and Measurement	Treating loan prepayment penalties as closely related embedded derivatives	Aims to clarify whether embedded prepayment options, in which the exercise price represents a penalty for early repayment of the loan, are considered closely related to the host debt contract.	1 January 2010
	Scope exemption for business combination contracts	Aims to clarify that the scope exemption in IAS 39.2(g) applies only to binding (forward) contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date.	1 January 2010
	Cash flow hedge accounting	Clarifies when gains and losses on hedging instruments should be reclassified from equity to profit and loss account as a reclassification adjustment.	1 January 2010
IFRIC 9 Reassessment of Embedded Derivatives	Scope of IFRIC 9 and revised IFRS 3	Clarifies that IFRIC 9 does not apply to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.	1 July 2009
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	Amendment to the restriction on the entity that can hold hedging instruments	Removes the restriction that the hedge of a net investment in a foreign operation cannot be held by the foreign operation that is itself being hedged.	1 July 2009

* for a proper understanding of the effective date and transition requirements, reference should be made to the 2009 Improvements themselves.

Commercial significance

Number of entities affected: Few

The Amendments make changes to relatively narrow areas within IFRS.

Impact on affected entities: Low

The IASB's Annual Improvements process addresses non-urgent, but necessary minor amendments to IFRSs. By nature then, their commercial significance can be expected to be low.

Classification of Rights Issues (Amendment to IAS 32)

'Classification of Rights Issues (Amendment to IAS 32)' is a narrow, targeted amendment to the requirements of IAS 32 'Financial Instruments: Presentation'.

The amendment alters IAS 32 'Financial Instruments: Presentation' so that rights issues, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers them pro rata to all of its existing shareholders.

Prior to the amendment, rights issues denominated in a foreign currency were considered not to result in the issuing entity receiving a fixed amount of cash for a fixed number of equity instruments due to the possibility of exchange rate fluctuations. They therefore failed the requirements for equity classification and were required to be accounted for as derivative liabilities, meaning that the profit or loss of the entity issuing the rights would be affected by changes in the company's share price and in exchange rates.

The amendment alters IAS 32 so that rights issues denominated in a fixed amount of foreign currency can achieve classification as equity instruments

The financial crisis of 2008/9 led many large companies with stock exchange listings in more than one country to raise finance via rights issues, making this a real problem. As a result, the IASB received a number of requests to revisit this accounting outcome.

The IASB agreed that classifying rights issues as derivative liabilities does not reflect their substance. Rights are issued only to existing shareholders on the basis of their existing shareholdings. The Board therefore decided that a pro rata issue of rights, options or warrants to all existing shareholders to buy additional shares is a transaction with an entity's owners in their capacity as owners and should be classified as equity.

Commercial significance

Number of entities affected: Few

Rights issues are relatively rare in occurrence. Rights issues that are denominated in a foreign currency are rarer still. Only a small number of companies are expected to be affected by the amendment to IAS 32.

Impact on affected entities: Medium

Rights issues that are denominated in a foreign currency tend to be issued by large multi-national companies. Without the amendment to IAS 32, these rights issues would have been accounted for as derivative liabilities. This would have resulted in the profit or loss of the entity issuing the rights issue being affected by changes in its share price and exchange rates. For those companies, the amendment is highly significant in terms of its commercial impact. As rights issues tend to be one-off events, however, the impact can be expected to be non-recurring.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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. IFRIC 19 is effective for accounting periods beginning on or after 1 July 2010, and can be applied early.

IFRIC 19 provides guidance on how to account for 'debt for equity' exchanges or swaps

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 IFRIC 19.

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.

Commercial significance

Number of entities affected: Few

Although so-called 'debt for equity' exchanges have happened with increased regularity during the financial crisis, they are still a rare occurrence for the majority of companies.

Impact on affected entities: Medium

IFRIC 19's preferred measurement basis (using the fair value of 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.

Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment to IFRS 1)

'Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment to IFRS 1)' enables first-time adopters to benefit from the same relief from comparatives available to those already using IFRSs when applying 'Improving Disclosures about Financial Instruments (Amendments to IFRS 7)' for the first time.

'Improving Disclosures about Financial Instruments (Amendments to IFRS 7)' was itself issued in 2009, with the aim of getting companies to explain more clearly how they determine the fair value of their financial instruments and improving the disclosure of their liquidity risk. The amendments to IFRS 7 provided that in the first year of their application, an entity did not need to provide comparative information for the disclosures required. A corresponding change was not made to IFRS 1 however. The IASB's amendment to IFRS 1 removes this anomaly.

Commercial significance

Number of entities affected: Few

The amendment to IFRS 1 is only relevant to those entities adopting IFRS for the first-time.

Impact on affected entities: Low

The amendment to IFRS 1 was issued to provide transitional relief for first-time adopters consistent with the transition provisions already available to existing IFRS preparers.

IAS 24 Related Party Disclosures

The main change in the revised version of IAS 24 'Related Party Disclosures' is the introduction of an exemption from IAS 24's disclosures for transactions with a) a government that has control, joint control or significant influence over the reporting entity and b) 'government-related entities' (entities controlled, jointly controlled or significantly influenced by that same government).

Background

Under the previous version of IAS 24, government-controlled entities that transact with other government-controlled entities were required to disclose the same level of information about those transactions, balances and relationships as for other related party transactions. In countries in which government-controlled entities are a major segment of the economy, such as the People's Republic of China, the amount of disclosure needed to comply with this requirement was regarded as excessive.

The revised version of IAS 24 provides relief from disclosing transactions with government-related entities

The 'government-related entities' exemption

Under the revised version of IAS 24, a reporting entity is exempted from providing IAS 24's normal disclosures for transactions with:

- a government that has control, joint control or significant influence over the entity
- other entities controlled, jointly controlled or significantly influenced by the same government.

If a reporting entity applies this exemption, it is required to disclose the name of the government in concern and the nature of its relationship with the reporting entity. It is also required to disclose information on the nature and amount of each individually significant transaction with the government or government-related entity. For other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent is required to be disclosed.

Commercial significance

Number of entities affected: Some

The revised version of IAS 24 will be significant in countries where government-controlled entities are common, and where those entities report under IFRS.

Impact on affected entities: Medium

For government-controlled entities, the revised version of IAS 24 provides welcome relief from what would otherwise be extensive disclosures.

Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14

'Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14)' addresses unintended consequences that can arise from the previous requirements of IFRIC 14 when an entity prepays future contributions into a defined benefit pension plan.

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 version of IFRIC 14 rather than a desired outcome, and the amendments rectify it.

Commercial significance

Number of entities affected: Few

Defined benefit plans are becoming less and less common. For the amendments to have an impact, the following circumstances would need to exist: a) a company would need to have a defined benefit pension plan for its employees b) the plan would need to be in surplus and c) the company would have had to have prepaid some of its future contributions into the plan. Such a scenario is not expected to occur very often.

Impact on affected entities: High

For those companies affected, the amendments provide relief from unintended consequences of the previous version of IFRIC 14 and will have a beneficial impact on reported results.

Annual Improvements 2010

Published in May 2010, the IASB's 'Improvements to IFRSs' makes minor amendments to nine IFRSs. The publication is the third in a series of non-urgent, but necessary, minor amendments to IFRSs made on an annual basis.

A summary of the issues addressed is given in the box below:

Annual Improvements 2010

Standard affected	Issue	Summary of change	Effective for periods beginning on or after*
IFRS 1 First-time Adoption of International Financial Reporting Standards	Accounting policy changes in the year of adoption	Clarifies that a first-time adopter of IFRS does not apply IAS 8 to changes in accounting policies that it makes when it first adopts IFRSs or changes to those policies made during the periods covered by its first IFRS financial statements. Requires a first-time adopter to disclose and explain any changes made in its accounting policies or its use of the IFRS 1 exemptions between its first IFRS interim financial report and its first IFRS financial statements.	1 January 2011
	Revaluation basis as deemed cost	Extends the scope for use of event-driven fair value. In its first IFRS financial statements, a first-time adopter may recognise an event-driven fair value measurement as deemed cost, with the revaluation adjustment recognised in retained earnings. This applies even when the event occurs after the date of transition, provided that this is during the periods covered by its first IFRS financial statements. IFRS 1's normal rules still apply at the transition date.	1 January 2011
	Use of deemed cost for operations subject to rate regulation	Permits entities with operations subject to rate regulation to use the carrying amount of the items of property, plant and equipment or intangible assets determined under the entity's previous GAAP as deemed cost at the date of transition to IFRS.	1 January 2011
IFRS 3 Business Combinations	Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS	Clarifies that contingent consideration balances arising from business combinations that occurred before an entity's date of adoption of IFRS 3 (Revised 2008) shall not be adjusted on the adoption date. Also provides guidance on the subsequent accounting for such balances.	1 July 2010

Standard affected	Issue	Summary of change	Effective for periods beginning on or after*
IFRS 3 Business Combinations	Measurement of non-controlling interests (NCI)	The choice of measuring NCI either at fair value or at the proportionate share in the recognised amounts of an acquiree's identifiable net assets, is now limited to NCI that are present ownership instruments and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Clarifies that all other components of NCI shall be measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs.	1 July 2010
	Un-replaced and voluntarily replaced share-based payment awards	Clarifies the guidance for the accounting of share-based payment transactions of the acquiree that were voluntarily replaced by the acquirer and acquiree awards that the acquirer chooses not to replace.	1 July 2010
IFRS 7 Financial Instruments: Disclosures	Clarification of disclosures	Clarifies the disclosure requirements of the Standard to remove inconsistencies, duplicative disclosure requirements and specific disclosures that may be misleading.	1 January 2011
IAS 1 Presentation of Financial Statements	Clarification of statement of changes in equity	Clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.	1 January 2011
IAS 21 The Effects of Changes in Foreign Exchange Rates; IAS 28 Investments in Associates; IAS 31 Investments in Joint Ventures	Transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements (Revised 2008)	Amends the transition requirements to apply certain consequential amendments arising from the 2008 IAS 27 amendments prospectively, to be consistent with the related IAS 27 transition requirements.	1 July 2010
IAS 34 Interim Financial Reporting	Significant events and transactions	Aims to improve interim financial reporting by clarifying disclosures required, including the interaction with recent improvements to the requirements of IFRS 7.	1 January 2011
IFRIC 13 Customer Loyalty Programmes	Fair value of award credits	Clarifies that when the fair value of award credits is measured on the basis of the value of the awards for which they could be redeemed, the fair value of the award credits should take account of expected forfeitures as well as discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.	1 January 2011

* for a proper understanding of the effective date and transition requirements, reference should be made to the 2010 Improvements themselves.

Commercial significance

Number of entities affected: Few

The Amendments make changes to relatively narrow areas within IFRS.

Impact on affected entities: Low

The IASB's Annual Improvements process addresses non-urgent, but necessary minor amendments to IFRSs. By nature then, their commercial significance can be expected to be low. The guidance on use of deemed cost for operations subject to rate regulation will be particularly welcome in Canada, however, where companies are in the process of transitioning to IFRS. Without this exemption, some companies in the rate regulated sector might otherwise have struggled to apply the normal IFRS requirements on a retrospective basis due to a lack of historic information and a lack of readily available fair value information for those assets.

Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)

'Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)' amends the disclosures required under IFRS 7, to help users of financial statements evaluate the risk exposures relating to more complex transfers of financial assets and the effect of those risks on an entity's financial position.

The intention behind the amendments is to improve IFRS 7's existing disclosure requirements and reduce the differences with US GAAP disclosure requirements. The additional disclosures required are designed to provide information that enables users:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, any continuing involvement of the reporting entity in financial assets that are derecognised in their entirety.

For example, where a reporting entity has derecognised financial assets in their entirety but has continuing involvement in them, it has to disclose the amount that best represents the entity's maximum exposure to loss from its continuing involvement and how that amount has been determined. Similarly where an entity has transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition, then it has to explain the nature of the risks and rewards and make certain quantitative disclosures.

IAS 39's actual derecognition requirements have not changed, as these were seen as having performed favourably during the financial crisis.

Transitional relief means that the disclosures required need not be provided for any period presented that begins before the date of initial application of the Amendments.

Commercial significance

Number of entities affected: Few

The additional disclosures introduced are aimed at addressing perceived weaknesses in the disclosure of more complex transfers of financial assets that were exposed during the financial crisis. Simple derecognition transactions should not be affected by the amendments, meaning most entities will be unaffected by them.

Impact on affected entities: Medium

Entities involved in complex transfers of financial assets (eg those involving securitisations of financial assets) will need to spend time in addressing the requirements of the new disclosures.

IFRS 9 Financial Instruments

IFRS 9 'Financial Instruments' (IFRS 9) was published in November 2009 in reaction to the financial crisis and will eventually replace IAS 39 'Financial Instruments: Recognition and Measurement' in its entirety.

Structure

In order to allow for the IASB's phased approach to the completion of the overall project, IFRS 9 is structured in terms of chapters.

When first published in November 2009, IFRS 9 addressed only the classification and measurement of financial assets. It was however subsequently changed in October 2010, to add requirements for classifying and measuring financial liabilities and derecognising financial assets and financial liabilities. The requirements relating to these areas are discussed below.

New chapters will be added on impairment methodology and hedge accounting before the Standard comes into mandatory effect on 1 January 2013. In the meantime, companies can (subject to local law) early adopt it in its current state.

Classification and measurement of financial assets

The classification and measurement of financial assets was one of the areas of IAS 39 that received the most criticism during the financial crisis. In publishing IFRS 9, the IASB therefore made a conscious effort to reduce the complexity in accounting for financial assets. The following table summarises some of the simplifications that have been made:

Simplifications compared to IAS 39

	IFRS 9 treatment	IAS 39 treatment
Measurement categories	• Two categories: – fair value – amortised cost	• Four categories: – fair value through profit or loss – held to maturity – amortised cost – available for sale
Impairment	• One impairment method	• Different impairment methods apply to: – financial assets carried at amortised cost – financial assets carried at cost – available for sale financial assets
Embedded derivatives	• For host contracts within the scope of IFRS 9, IFRS 9's application requirements are applied to the combined (hybrid) instrument in its entirety	• Complex rules determine whether the embedded derivative needs to be separated from the host contract

Classification and measurement of financial liabilities

In October 2010, the IASB amended IFRS 9 to incorporate requirements on the classification and measurement of financial liabilities. Most of IAS 39's requirements have been carried forward unchanged to IFRS 9. Changes have however been made to address issues related to own credit risk where an entity takes the option to measure financial liabilities at fair value.

Majority of requirements retained

Under IAS 39 most liabilities are measured at amortised cost or bifurcated into a host instrument measured at amortised cost, and an embedded derivative, measured at fair value. Liabilities that are held for trading (including all derivative liabilities) are measured at fair value. These requirements have been retained.

Own credit risk

The requirements related to the fair value option for financial liabilities have however been changed to address own credit risk. Where an entity chooses to measure its own debt at fair value, IFRS 9 now requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income. This change addresses the counter-intuitive way in which a company in financial trouble was previously able to recognise a gain based on its theoretical ability to buy back its own debt at a reduced cost.

The only exception to the new requirement is where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are to be presented in profit or loss.

Elimination of the exception from fair value measurement for certain derivative liabilities

The new version of IFRS 9 also eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument. Under IAS 39, if those derivatives were not reliably measurable, they were required to be measured at cost. IFRS 9 requires them to be measured at fair value.

Derecognition of financial assets and financial liabilities

In October 2010, the requirements in IAS 39 related to the derecognition of financial assets and financial liabilities were incorporated unchanged into IFRS 9.

The IASB had originally envisaged making changes to the derecognition requirements of IAS 39. In the summer of 2010, however, the IASB revised its strategy, having concluded that IAS 39's requirements in this area had performed reasonably during the financial crisis. IAS 39's derecognition requirements have therefore been incorporated into IFRS 9 unchanged, while new disclosure requirements were instead issued in October 2010 as an amendment to IFRS 7 'Financial Instruments: Disclosures'.

Advantages and disadvantages of early adoption of IFRS 9

Advantages

- reduced complexity in accounting for financial assets as a result of having only two measurement categories
- improved ability to align accounting with the company's business model for managing financial assets
- gives a (one-off) opportunity to reclassify financial assets on initial adoption (assuming all the criteria are met)
- only one set of impairment rules needs to be considered, with no separate impairment assessment (or losses) for investment in equity instruments
- simplified accounting for and valuation of financial instruments containing embedded derivatives
- avoids counter-intuitive results arising from changes in own credit risks where the option to measure financial liabilities at fair value has been taken
- greater flexibility on date of initial application for early-adopters.

Disadvantages

- need to re-evaluate the classification of all instruments within the scope of IAS 39, with limited time for entities to complete the assessment and implement system changes
- restricted ability to reclassify financial instruments on an ongoing basis
- inability to assess the overall impact of the IASB's overhaul until the remaining phases are complete
- the possibility of change to IFRS 9 as a result of convergence with US GAAP and decisions made in later phases
- the possibility of accounting mismatches where IFRS 9's requirements are incompatible with existing hedge accounting designations.

Commercial significance

Number of entities affected: Most

Because the definition of a financial instrument is so wide, most companies can expect to be affected. Even companies with relatively simple debtors and creditors will need to consider the changes.

Impact on affected entities: High

The new Standard, with its reduced number of measurement categories, should help to reduce the complexity in accounting for financial instruments. In the short-term however, it may lead to far reaching changes, with companies needing to re-evaluate the classification of all instruments within the scope of IAS 39. In addition to the impact on companies' financial position and reported results, changes to information systems may well need to be made.

Companies considering adopting the Standard should also be aware that there is a risk of increased application problems arising from the project being divided into various phases.

For more information on this Standard, please refer to our Special Edition of IFRS News 'IFRS 9 Financial Instruments' which can be obtained from your local IFRS contact.

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