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iGAAP Newsletter
Beyond the standards

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Upfront

No reminder is needed that the stress felt in the wider economy is being felt in the accounting standard setting arena. The column inches dedicated in the last quarter of last year to new proposals to amend accounting standards we hope will not be repeated. The first quarter of this year fortunately has been quieter, yet the underlying arguments from some for change and the pressures placed on the standard setters remain. We expect this to continue.

It is with relief, therefore, that our main focus in this newsletter goes back to basics. Our topic of focus is the IASB's discussion paper on revenue. This long awaited document is the start of what may be a protracted period of discussion and reflection on what will ultimately be a replacement for IAS 18 and IAS 11. In these hard times it is easy to focus on the bottom line and miss any changes to the top line. There is still some way to go with the detail on future proposals to change revenue recognition but the discussion paper sets out the principles of its control-based approach which, for some, could be a significant change. At times it can feel that life is too short to get engaged with a discussion paper that won't result in a new standard for some years to come, but past experience suggests that if you are affected, it pays to get your view in early.

We also look at share-based payments. With equity prices falling there are increasing demands to restructure existing share-based payment transactions to offer value to employees. Additionally cash flow restrictions may lead some entities to remove cash settlement alternatives. We provide examples which highlight some of the accounting consequences that may arise.

Along with our usual update on accounting developments and Deloitte publications we include an interview with Ian Wright, Director of Corporate Reporting at the Financial Reporting Council. Ian's insight is particularly timely given the FRC's recent publications on going concern, impairment and liquidity risk disclosures.

Deloitte LLP
March 2009

Topic of focus: Revenue

The IASB, working with the FASB, recently issued a discussion paper (DP) on revenue recognition. The DP, *Preliminary Views on Revenue Recognition in Contracts with Customers*, represents the first step towards a new converged standard on this subject.

Why change the existing standards?

Revenue is one of the most important numbers in a company's financial statements. And yet transparency and comparability of revenue across companies is highly problematic for the average user of accounts. Indeed, for preparers of accounts, determining when and how revenue should be recognised is tricky for all but the simplest of transactions.

The main cause of this is the quality of existing standards on revenue. Under IFRSs, the two main revenue standards, IAS 11 and IAS 18, have differing principles and neither standard is based directly on the Framework. They also offer virtually no guidance on key areas such as multi-element sales and distinguishing between goods and services. In the US, over 100 standards exist for revenue. Many are industry specific and some produce different results for economically similar transactions.

When put in those terms, the need for a single model that clarifies the principles for recognising revenue is apparent.

What is proposed?

The two boards, IASB and FASB, are proposing a model based on contracts with customers. The boards' definition of a contract is much wider than just formal written contracts. It covers any form of transaction that creates enforceable obligations between two or more parties, including straightforward retail transactions.

All contracts include rights, such as the right to be paid, and performance obligations, such as the obligation to perform a service or deliver an item. The boards propose that revenue is recognised when performance obligations are satisfied by the seller.

Sounds familiar … crucial difference

On the surface, this doesn't seem that far removed from what we currently have in IFRSs. In effect, IAS 18 requires revenue to be recognised from the sale of a good when a performance obligation is satisfied. However the crucial difference becomes obvious when we look at how satisfaction of a performance obligation is determined.

For the sale of goods, IAS 18 requires revenue to be recognised when the significant risks and rewards of ownership have passed to the buyer, usually at a single point in time. For the provision of services, IAS 18 refers to the stage of completion of the transaction – so revenue is recognised over time, as the service is provided, measured on a percentage of completion basis. Under the proposals in the DP, revenue would be recognised in both cases when *control* passes to the buyer and not when contract activities are undertaken. Using this approach, it is possible to move away from the goods/services distinction and the difficulties in practice of drawing that distinction.

Or is it?

Control versus goods and services

Conceptually, it is easy to envisage when control is passed for the sale of goods off the shelf. The DP suggests it is typically when the customer takes physical possession of the item. Take for instance a very simple retail transaction. The buyer takes control at the point he or she purchases the item and can leave the shop with it. No big news there.

For services, it is more of a challenge. When does the customer have 'control' of the service? The DP proposes that this is when the customer receives the promised service. In effect, the provision of some services is like the sale of assets, only the 'service assets' are sometimes consumed immediately as an expense. (Of course, the provision of services can sometimes enhance a customer's existing asset, and therefore be capitalised.)

This model works well for simple examples such as window cleaning services. As the windows are cleaned, the customer has control as their assets (windows), which they already control, are being enhanced. The bigger challenge comes when looking at more complex transactions. For example when providing data processing services, does control pass on a daily basis as data is worked upon, or at the end of the contract when a deliverable is produced? Contract activities might be well under way, but are any performance obligations being satisfied?

Take another example, the case of a bespoke software provider. For such long term contracts current practice would be to recognise revenue on a percentage of completion basis. Under the proposals, however, might this potentially shift to all the revenue being taken at the end of the contract when the software is complete? The contract activities might well be underway, but does the client *control* the software before it is completed and installed? Clearly, control is not just about physical possession, but the DP is a bit light on how the assessment might be made.

Robust?

A 'discussion paper' presents just that – a discussion of the boards' views and not a complete picture of all the details of a new standard. Perhaps one of the most unclear areas in the proposed contract-based model is the potential for manipulation.

Take, for example, a car manufacturer. At the moment, very few would argue that revenue should be recognised as the car is being manufactured. However, what if manufacturers changed their contracts to give customers the right to take possession of a car when it's still on the production line? The DP seems to suggest that this might indicate the customer has control. Of course, very few customers would want to take away a half-built car. But if such a clause really gave the customer *control*, under the DP suggestions it appears the manufacturer would recognise the revenue.

Many would see such a contract clause as lacking genuine economic significance, and they would be unhappy for it to drive revenue recognition. However, without more guidance to allow assessment of whether control has actually passed, it seems that this kind of approach might be possible.

What all of this suggests is that, for a control-based model to work in practice and lead to genuine comparability, there may need to be some careful and comprehensive guidance on how to assess when control passes.

Unbundling the sale

Unbundling a sale into separate components is not a new concept. However, under existing IFRSs, very limited guidance is given on how to do this.

The DP proposes that all sales transactions are unbundled into the different performance obligations the seller has promised. One example of how this would change current practice is in terms of warranties.

Say a company sells an item with a twelve month warranty attached. Under current IFRSs, the seller would often record the full amount of consideration received as revenue. Simultaneously it would create a warranty provision based typically on the history of warranty claims.

However, under the proposed model, the seller would first separate the transaction into a sale of an item and a sale of a warranty. This is a similar model to that now required for items sold with loyalty points. Revenue for each of these two performance obligations would be recognised as the underlying obligations are satisfied. Ultimately then, some of the consideration would be recognised over the twelve month period as the warranty service is provided.

Rights of return

The DP doesn't discuss how to account for rights of return, but it does hint at some of the issues that might arise. Is a promise to accept the return of a good a performance obligation? If it is, then under this proposed model, we should allocate some of the initial consideration to it. But how much? On the face of it, the value of an option to return a shirt, say, would be driven primarily by the difference between the consideration that would be returned and the value of the shirt. But is that the value to the customer or to the seller? They might be very different.
The boards plan to address this subject when they work on an exposure draft.

What next?

Much of what the DP proposes reflects current thinking and best practice. However, the real implications of many aspects are not yet clear, especially the focus on control.

Revenue recognition is clearly a crucial topic and there is a need for more comprehensive and robust guidance.
The analysis in the discussion paper provides a very good framework from which to move forward, but the decisions made at the next stage and development of the detail will be critical.

The discussion paper is available to download free of charge from the IASB website. It is open for comment until 19 June 2008.

We have published a special edition of the IAS Plus newsletter summarising the discussion paper. You can find it here: http://www.iasplus.com/iasplus/090/revenue.pdf

A coffee with… Ian Wright

Ian Wright is the FRC Director of Corporate Reporting and Deputy Chairman of the FRRP. Previously he was Senior Partner in the Global Corporate Reporting Group at PricewaterhouseCoopers

You joined the FRC in September 2007. Do you think that the move has given you a different perspective on issues facing entities?

Yes of course. I have had the opportunity to meet with many people with my new hat on and they share things with you differently as a regulator. But my fundamental concerns are undiminished – it's very complex out there in the accounting world and a major challenge to get everything right first time.

Do you see your role as political or technical?

I am not sure I see my role as either of those. One of the great things is that the objective of the FRC is about promoting confidence in corporate reporting. Our approach is very constructive and not combative which I think distinguishes the UK from say the US or some of our European counterparts. For example, since my FRRP role does not come with any power to sanction firms or individuals that enables us to have a dialogue predominately about improving future interim and annual financial statements.

One of the things that I am getting to understand is how the FRRP works when we confront a difficult issue. Often it is because we have not been able to fully understand a company's business and that leads us to question how their accounting policy decisions have been formulated. When this is really difficult we often ask the directors to meet us to help us out. We then reflect together on the requirements of the standards and often that enables us to suggest some disclosure improvements. In only a small number of cases, the discussions then turn to amending the numbers.

Has this approach changed with the move from UK GAAP to IFRS?

There has been some change because signing up to the CESR enforcement principles has meant that rather than reviewing accounts on a complaints basis, the panel reviews on a pro-active basis as well. However, restatements and press notices are still only sought for issues that are judged as really significant. What I think is really important is that the FRC and FRRP are trying to create an environment that supports continuous improvement and companies seem to respond very well to that.

Do you think this year there's going to be a lot more activity for the Review Panel?

We are likely to be much more active but also much more focussed. I think we will be looking at those areas which the FRC has identified, including impairments and liquidity risks, rather than look across the totality of sets of accounts. As we get past this period we'll be able to go back to ask some wider questions.

So the impetus in putting out the review of disclosures around impairment and liquidity, it is encouragement to entities to do better?

Very much so. Investors and lenders are trying to understand how business prospects might develop and the key threats to a company's business model. Some key pieces of the puzzle should show up clearly in their financial statements and so we set out to give the market a bit of a nudge.

Just after Christmas, we wrote to the 30 companies whose accounts we thought might be seen by others as market leaders because they have large goodwill numbers. Some of these will have significant impairment losses this year and for many the effect of a reasonable possible change in key assumptions could be to trigger a loss in future periods. What we hope is to stimulate a surge in better disclosures on these topics and for that to be spotted by others to improve standards across the whole market.

Stimulating best practice was also at the heart of the work that I did last year when a good deal of my time was spent on going concern. We looked again at the guidance for directors and produced an update that brought together all of the annual report requirements which are spread across IFRS, the Listing Rules and the FRC's own guidance. We had a stakeholders meeting in March and understand that this has had a positive impact.

Are you going to follow that up with issuing updated guidance on the process?
Yes, the plan is to do that towards the end of the year. We had some good feedback on the disclosure requirements in the guidance for directors but no comments at all about the process and procedures that directors might need to carry out. There is nothing like spending time with the guidance addressing a real live difficult example to find out which parts of the guidance work well and which parts need a little fine tuning. So over the next few months we will be asking people about their practical experiences to double check whether it is completely fit for the purpose.

The focus to date has been on guidance for listed entities, are you going to be thinking about unlisted entities?
Job done, I hope. We have just published a six page version offering some guidance for smaller companies that use the FRSSE. That piece of work has highlighted for me the fundamental difference in nature of smaller companies and the fact that we need to rethink the whole model for this end of the spectrum. It's been an interesting experience because we wrote the first draft which said directors will need to do a cash flow forecast, unless the answer is pretty obvious. Quite a lot of people have come back and said, you don't understand, it is very difficult to produce a set of accounts, let alone a cash flow forecast for some very small business. The result is that we have suggested some alternatives. But even directors of smaller companies need to do their thinking and to jot down the key points that support their conclusions.

It is not just a reporting issue is it, it's a business issue?
Quite right. The guidance we have issued has tried to make sure that we focus on the business challenge as getting that right leads to it being easier to write up the accounts disclosures. In the introduction of the smaller company update on going concern we talk about companies that are well managed with records to show that they plot their plan and know what they are doing. Those companies stand a better chance of persuading a bank to support them if they have recent accounts and well documented consideration of their business issue. In essence it is worthwhile doing this for real economic purposes – it is not just ticking a box.

The FRC also has a project on complexity and relevance in corporate reporting; what is the aim and outcome of that project? Deregulation is really topical isn't it! That creates some challenges. But we should not confuse making things simpler and clearer with the idea that this means that they are less rigorous.

So has that gone on the back burner? No, in fact you should see our report shortly after Easter when I hope that the world will have a little more time to do some strategic thinking.

The bigger challenge has been to focus on actions that can achieve change. There has been lots of reports on the complexity problem but rarely do we see how to tackle changing where we have got to. What you will see is a strategy for action, both from the perspective of how we should rethink setting standards and regulation in the future, and some key bottom up projects that are designed to address specific problems.

The IASB, in the past few months, has been forced to focus very much on financial instruments and disclosure. Do you think that's detracted from other projects that are very important?
No, I think that financial instruments deserves the attention it is getting. My wider concern is that they have far too many projects and keep adding to them. The world can't survive what they are trying to do and it will end in tears. I'd really like to see them take an axe to their agenda and chop 60 or 70% of the projects on their list; so that they can do real justice to the issues.

Which ones would you axe?
Lots. For example, I don't understand why at this moment they're bothering with lease accounting. We've had an imperfect standard on lease accounting for a long time but there is no evidence that there is a lack of information given the disclosures that IFRS requires. Save it for when there are less pressing problems and for when the conceptual framework has been sorted. I also cannot see a case for doing rate based regulation that has suddenly arrived on the agenda. Companies that have adopted IFRS have managed without creating an exception to IAS 38. It may not be the very best way to account for these businesses but it's a classic example of creating rules as exceptions to rules that constrain the principles in the framework.

Good, bad or ugly?

IFRS convergence with US GAAP.
Had its day… very successful, but we now need to focus on improving IFRS for its own sake.

Financial Stability Forum?
Will be very influential in the future.

Dynamic provisioning?
Some will be forced on the banks. Best it is through setting aside additional non-distributable reserves… rather than accounting profit.

Bank nationalisation?
I think we're there already.

IAS 39
It needs a radical rethink. Far too complex.

SEC
I think it's going to resort to being a very difficult and intrusive regulator.

Ken Wild's retirement in 2010?
I shall be disappointed to see him go… but I bet he turns up in another role shortly.

Practical issue: Changes to share-based payment arrangements

In hard times one of the focal points for management is preserving profitability as well as cash flow. This objective may be met through a combination of job cuts, reductions in bonuses and general tightening up on expenses. Management may also be considering whether share-based payment arrangements continue to provide valued employees with the appropriate level of motivation.

Should share-based payment arrangements no longer be an incentive to employees, management may look to modify their arrangements, settle arrangements with a cash payment (and cancellation of the arrangement), or cancel an existing arrangement and put in place a new arrangement on different terms. These responses may have different accounting implications, and could lead to significantly different impacts on profitability.

Where share-based payment arrangements have fallen out of the money, management may decide to reprice the share options to reinstate their value to the employee. The incremental increase in fair value for this kind of modification is measured as the difference between the fair value of the option before and after the repricing. If repricing happens during the vesting period, the incremental fair value should be spread over the remaining period to vesting. If repricing happens after vesting, the incremental fair value should be taken immediately to profit or loss. Where options are out of the money, a repricing can therefore result in a increased charge to profit or loss as illustrated by the following example.

Example – Entity A issued 100 share options to 100 employees conditional upon the employees working for the entity for the next three years. The fair value of each share option was £18 at grant date.

At the end of year 1, the entity's share price had fallen significantly such that the fair value of each option reduced to £5. At the end of year 1 Entity A consequently repriced the options, without modifying the vesting period. The fair value of the option immediately after modifying the exercise price was £15. The incremental increase in fair value is therefore £10 (£15-£5).

The amounts recognised in years 1-3 are as follows (assuming all employees remained in employment):

Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
1	10,000 options x £18 x 1/3 years	60,000	60,000
2	10,000 options x (£18 x 2/3 years + £10 x 1/2 years) – 60,000	110,000	170,000
3	10,000 options x (£18 x 3/3 years + £10 x 2/2 years) – 170,000	110,000	280,000

As we have seen, a modification doesn't change the original charge being recognised over the vesting period, but any increased value provided, measured at the date of modification, leads to an additional expense to recognise over the remaining vesting period. In contrast, the cancellation or settlement of a share-based payment arrangement is accounted for as an acceleration of vesting. Cancellation of an arrangement and issue of a new arrangement will either be treated as two separate items: a cancellation with accelerated vesting charge, and issue of a new scheme with its own cost, or, if the new scheme is considered a replacement scheme, as a linked item to which the modification rules apply. A careful assessment of the facts and circumstances surrounding the transactions will be required to determine whether the issue of a new award is a replacement of a cancelled arrangement. Although it will often be attractive to identify a new arrangement as a replacement because this avoids accelerating the expense recognised for the original arrangement, if the value of the original award has fallen significantly, such that it is now negligible, almost all the fair value of the replacement scheme will be identified as additional value to be recognised over the remaining vesting period as we have seen in the example above.

The requirement to complete a service condition is a vesting condition, failure of which leads to reversal of the charge. Current market conditions may lead to entities having to make employees redundant. This raises the question of whether failure to complete the specified period of service because of redundancy should be treated in the same way as a voluntary termination of employment by the employee.

The January 2008 amendments to IFRS 2 clarified that a cancellation, whether by an employee or the employer, should be accounted for in the same way. Building on this principle, it seems appropriate that the employer's decision to make an employee redundant should be treated in the same manner as a voluntary departure and consequently this may be accounted for as a forfeiture. This is illustrated by the following example.

Example – Entity B issued 100 share options to 100 employees conditional upon the employees working for the entity for the next three years. The fair value of the share options was £15 at grant date.

The entity estimated that ten employees would leave each year over the three year period and thereby forfeit their rights to the share options. Ten employees subsequently left in years one and two.

At the beginning of year three, Entity B made 40 of the remaining employees in the share-based payment arrangement redundant. No other employees resigned during the year.

Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
1	10,000 options x 70% x £15 x 1/3 years	35,000	35,000
2	10,000 options x 70% x £15 x 2/3 years – 35,000	35,000	70,000
3	10,000 options x 40% x £15 x 3/3 years – 70,000	(10,000)	60,000

Care should be taken where the severance of an employee's contract is accompanied by a compensation package at the time of termination. It will be necessary to carefully assess the severance package to establish whether part of it covers some form of settlement or modification of the original awards which might lead to a different treatment.

Another scenario that may be common in the current economic climate for entities with cash flow problems is the removal of a cash alternative from a share-based payment scheme. IFRS 2 is silent on how to account for such changes. The outcome of this kind of modification will therefore depend on the facts and circumstances of each scheme and how it was originally accounted for.

For example, if an entity issues share options and retains the choice to settle in shares or cash, but has a past practice of settling in cash, the entity would be viewed as having a present obligation to settle in cash and would account for the scheme as cash-settled. If the entity subsequently experiences cash-flow difficulties, it may decide that it will settle all share options that have not yet vested with shares rather than cash. In this case, the entity will continue to account for the scheme as cash-settled up to vesting. On exercise, if the entity does settle in shares, the existed liability will be transferred directly to equity as consideration for the instruments issued.

However, where the choice to receive shares or cash rights rests with the employee, the situation is more complicated. For example, an entity may enter into a share-based payment arrangement that gives the employees the choice of receiving share options or cash-settled share appreciation rights. The entity has issued a compound instrument and often the equity component will be nil. The IFRS 2 expense would result in a liability equal to the fair value of the compound instrument.

What if the arrangement is modified to remove the cash choice? In this case, the share-based payment arrangement has effectively been modified from cash-settled to equity-settled. IFRS 2 is silent on how to account for such a modification. Given the lack of guidance in IFRS 2, we might look to the specific guidance given in FAS123(r) on such modifications as the principles of IFRS 2 are generally consistent with FAS 123(r).

FAS123(r) requires that the cash-settled expense recognised in profit or loss up to the date of modification is not adjusted. The expense recognised from the date of modification over the remainder of the vesting period is determined based on the fair value of the equity award at the date of the modification. In other words, the modification is accounted for as if the cash-settled liability existing at the date of modification is effectively settled in exchange for an equity award with the same fair value. The example below illustrates this.

Example – Entity C issues 100 share options each to 100 employees conditional on remaining in employment for 3 years. The share options can be settled with equity instruments of Entity C or with cash to the value of those instruments at the choice of the employee. The fair value of each option is £10 at the end of year 1 and £6 at the end of year 2. All options are expected to vest. The value of the equity component is determined to be nil at grant date, hence a liability equal to the fair value of the instrument is recognised.

At the start of year 3, when the fair value of the options is £6, Entity C modifies the arrangement such that the options can now only be settled by issue of equity instruments.

The accounting entries are as follows:

Year	Calculation	Remuneration expense for period	Other entries
1	10,000 options x £10 x 1/3 years	33,333	Cr Liability 33,333
2	10,000 options x £6 x 2/3 years	40,000	Cr Liability 40,000
3	10,000 options x £6 x 1 year	60,000	Cr Equity 60,000 Dr Liability 73,333 Cr Equity 73,333

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These are only some of the scenarios that may be commonly encountered in the current climate. Further guidance on other scenarios that you may come across including:

- granting additional equity instruments;
- removing a market condition;
- removing a non-market condition; and
- replacement of a market condition with a non-market condition (and vice versa),

may be found in the Deloitte publication, *iGAAP 2009: IFRS Reporting in the UK.*

Activities of the IASB

The following amendments, discussion papers and exposure drafts can be downloaded from the IASB's website: www.iasb.org

Deloitte (Global) publishes special editions of the IAS Plus newsletter summarising each amendment, discussion paper and exposure draft.
You can find them at: http://www.iasplus.com/iasplus/iasplus.htm

Discussion Paper: Leases Preliminary Views

The IASB working jointly with the FASB has issued a discussion paper (DP) giving their preliminary views on lease accounting. The DP is a response to concerns raised by investors and other users of financial statements regarding the treatment of lease contracts under IFRS and US GAAP. In particular, concerns have been expressed over the vastly different accounting required for operating and finance leases, which often results in economically similar transactions being accounted for differently and has presented opportunities for entities to structure transactions to achieve a desired accounting effect.

In the DP, the boards have dealt only with accounting by lessees. They propose that lease accounting should be based on the principle that all leases give rise to liabilities for future rental payments and assets (the right to use the leased asset) that should be recognised in an entity's statement of financial position. Thus all leases are 'on-balance sheet'. This approach is aimed at ensuring that leases are accounted for consistently across sectors and industries.

The DP also includes the boards' preliminary views on how to account for more complex lease contracts, such as leases that contain options to renew or terminate the lease, options to purchase the leased item, contingent rental arrangements or residual value guarantees.

Comments on the DP are due by 17 July 2009, and it is expected that both boards will issue an exposure draft in the first half of 2010 and a final standard in 2011. The method of transition and the effective date will be discussed by the boards after comments are received and will be included in a future exposure draft of the proposed standard.

Improving disclosures about financial instruments – Amendments to IFRS 7

This final amendment improves the disclosure requirements of IFRS 7 regarding fair value measurements and liquidity risk. The amendment requires an analysis of financial instruments that are subsequently measured at fair value into one of three levels depending on observability of the fair value measurement. The amendment also requires a reconciliation of the opening and closing fair value for those financial instruments that are measured at fair value using a valuation technique based on unobservable inputs. In addition, the requirement to disclose a liquidity risk maturity analysis for derivative financial liabilities is amended to permit an analysis other than on a contractual maturity in some cases.

These amendments to IFRS 7 apply for annual periods beginning on or after 1 January 2009. Comparative disclosures in the first year of application are not required.

Amendments to IFRIC 9: *Reassessment of Embedded Derivatives* and IFRIC 16: *Hedges of a Net Investment in a Foreign Operation*

The proposed amendment to IFRIC 9 is a consequential amendment as a result of a changed definition of a business combination in IFRS 3 (2008). The amendment proposes excluding from the scope of IFRIC 9 embedded derivatives in contracts acquired in combinations of entities or business entities under common control and in the formation of joint ventures.

To eliminate an impediment for users the amendment to IFRIC 16 proposes to remove the restriction on the entity within the group that can hold hedging instruments.

Amendments to IAS 39 and IFRIC 9 to clarify the accounting for embedded derivatives

The amendments require an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category.

ED 10: Exposure Draft regarding Consolidation

The IASB's project on consolidation was accelerated in response to the global financial crisis. The ED aims to provide a single source of authoritative guidance on consolidation accounting, removing current inconsistencies in the determination of whether an entity should be consolidated depending on whether the assessment was in accordance with IAS 27: *Consolidated and Separate Financial* Statements (which has a control approach) or SIC 12: *Consolidation – Special Purpose Entities* (which has a risks and rewards approach).

The ED proposes the following definition of control:

"A reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity."

While similar to existing IAS 27 (which uses the word 'benefits' instead of 'returns'), the ED does contain further guidance that in some areas may differ to current practice:

- The presumption that holding more than half the voting rights in another entity results in control is retained.

- Control is not shared – only one party can control an entity within the meaning of the proposed standard, although other entities may have rights to protect their interests ('protective rights').

- Where there are potential voting rights (such as options or convertible instruments), IAS 27 requires these to be considered, when assessing control, where the rights are currently exercisable. ED 10 proposes a more general requirement to consider if potential rights, in conjunction with other facts and circumstances, give the reporting entity power to direct the activities of another entity.

- Having the power to direct the activities of another entity does not mean that the reporting entity must actively use that power. Passive investors may therefore have control regardless of whether they exercise their rights.

- Where an entity holds less than the majority of voting rights, and where structured entities are involved, there is additional guidance on factors to consider.

- Guidance is provided on determining control in agency situations.

The ED proposes extensive disclosures regarding interests the entity controls. In addition, the ED proposes that a reporting entity discloses the nature of, and risks associated with, its involvement with structured entities that it does not control.

The ED does not propose to change the existing requirements of IAS 27 on: consolidation procedures; the accounting treatment for changes in ownership interests; or which entities are required to prepare consolidated financial statements. These sections of the existing IAS 27 will carry over to a new consolidation standard unchanged. In addition, the requirements relating to separate financial statements will remain as in IAS 27.

Exposure Draft: Derecognition

The IASB has issued an exposure draft (ED) on derecognition of financial instruments and financial liabilities. The ED proposes amendments to IAS 39 and IFRS 7. The derecognition model that is proposed for financial assets is based on the concept of control and does not include a risk and rewards assessment as currently required in IAS 39.
The proposals, if finalised, will result in significant change for certain types of transactions, specifically repurchase agreements over liquid financial assets. Comments on the ED are requested by 31 July 2009.

Exposure Draft: Income Tax

The IASB has issued an exposure draft (ED) for a proposed new standard on the accounting for income tax to replace IAS 12. The ED retains the basic 'temporary difference' approach to accounting for income tax, but changes much of the detail bringing the standard more in line with US standards. Comments on the ED are requested by 31 July 2009.

IASB publishes revised proposal to eliminate unnecessary disclosures for state-controlled entities

In 2007 the IASB issued a proposal to exempt state-controlled entities from providing disclosures about transactions with other state-controlled entities where certain conditions were met. Respondents to the proposal were concerned with the complexity of the proposal, leading to this revised version.

The revised proposal to amend IAS 24 will no longer require state-controlled entities to assess the extent of state influence. It instead exempts such entities from providing full details about transactions with other state-controlled entities and the state. General disclosures about the types and extent of significant transactions will still be required.

Request for views on FASB proposals

The IASB has issued a request for views on the proposed FASB amendments on fair value measurement and impairment requirements for certain investments in debt and equity securities. Views are requested by 20 April 2009. The IASB will consider feedback received before deciding whether to publish formal proposals for public comment.

Withdrawal of proposed amendment to IFRS 7 on additional disclosures for investments in debt instruments

In December 2008 the IASB issued an exposure draft proposing additional disclosures for investments in debt instruments. Following feedback from constituents the IASB decided not to proceed with the amendment at this time. The issues addressed by the exposure draft will be included in IASB's broader project on improving accounting for financial instruments.

News from IFRIC

Deloitte (Global) has published a special edition of the IAS Plus newsletter summarising this interpretation. You can find it at: http://www.iasplus.com/iasplus/iasplus.htm

New interpretation: IFRIC 18 *Accounting for Transfers of Assets from Customers*

This interpretation addresses the scenario where an entity receives an item of property, plant and equipment (or cash to construct or acquire such an item) that it will then use either to connect the customer to a network, or to provide the customer with access to an ongoing supply of goods or services.

The interpretation concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 *Revenue*.

The interpretation does not address the accounting for the transfer by the customer.

UK GAAP round up

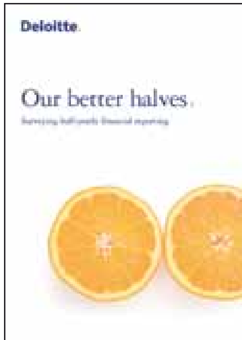
Proposed amendment to FRS 26 and UITF Abstract 42 to clarify the accounting for embedded derivatives

The ASB has issued a proposed amendment to FRS 26 and UITF Abstract 42 in order to maintain convergence with IAS 39. The amendment proposes to require an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category.

Financial Reporting Council (FRC) issues an update on going concern for directors of smaller companies

This publication provides guidance for directors of companies that qualify for the small companies regime in the Companies Act and choose to apply the Financial Reporting Standard for Smaller Entities (FRSSE). It covers requirements for smaller companies regarding going concern, procedures that may be used in assessing whether it is reasonable to use the going concern basis of accounting, and includes some example disclosures for financial reporting.

Publications



Our better halves – Surveying half-yearly financial reporting

The new Deloitte publication *Our better halves* is the latest in the firm's financial reporting series, analysing the half-yearly financial statements of 130 listed companies.

Our better halves includes a review of:

- compliance with the Disclosure and Transparency Rules and IAS 34;
- the different presentations adopted in half-yearly financial statements; and
- how companies complied with the requirements for their Interim Management Report, the narrative part of the half-yearly financial report.

Our better halves is available at: http://www.iasplus.com/uk/0902ourbetterhalves.pdf

Accounting considerations in 'turbulent times'

This accounting alert discusses the accounting issues and literature most likely to be relevant when assessing the accounting implications of today's financial environment. The alert does not introduce new accounting guidance. Rather, it highlights the provisions of current IFRSs that are most likely to be relevant when assessing the accounting in markets characterised by volatility, a credit crunch, and recession. The accounting considerations described apply to all entities – they are not unique to financial institutions.

Turbulent times: Key accounting considerations in today's volatile markets is available at: http://www.iasplus.com/dttpubs/0812turbulenttimes.pdf.

IFRS issued but not yet effective or endorsed by EU

Title	Subject	Mandatory for accounting periods starting on or after	Endorsed* or when endorsement expected (EFRAG 9/2/09)
IAS/IFRS standards			
IFRS 3 (revised Jan. 2008)	Business Combinations	1 July 2009	Q2 2009[2]
IFRS 1 (revised Nov. 2008)	First Time Adoption of IFRS	1 January 2009	To be confirmed[1]
Amendments to IAS 27 (Jan. 2008)	Consolidated and Separate Financial Statements	1 July 2009	Q2 2009[2]
Amendment to IAS 39 (July 2008)	Financial Instruments: Recognition and Measurement: Eligible Hedged Items	1 July 2009	Q2 2009[1]
Amendment to IAS 39 (Nov. 2008)	Reclassification of Financial Assets: Effective Date and Transition	1 July 2008	To be confirmed[1]
Interpretations			
IFRIC 12	Service Concession Arrangements	1 January 2008[3]	Endorsed 26 March 2009[3]
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009	Q2 2009[1]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008	Q2 2009[1]
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009	To be confirmed[2]
IFRIC 18	Transfers of Assets from Customers	1 July 2009[4]	To be confirmed[1]

* The critical date when considering endorsement is the date of signing the accounts/audit report.

Note 1: may be applied prior to endorsement, but transitional relief (i.e. prospective application) will be lost (if applicable).

Note 2: may not be applied prior to endorsement.

Note 3: the effective date of the endorsed standard is accounting periods beginning after 29 March 2009, with earlier adoption permitted.

Note 4: applies prospectively to transfers of assets from customers received on or after 1 July 2009, or can be applied to earlier transfers provided the valuations and other information needed to apply to the Interpretation to past transfers were obtained at the time those transfers were made.

ASB and IASB timetables

ASB Current Projects

Convergence	• The ASB and UITF continually consider what consequential amendments will be needed to UK GAAP once the IASB and IFRIC finalise standards, amendments or interpretations.
Retirement benefits	• This project is led by the ASB as part of the PAAinE (Pro-Active Accounting in Europe) initiative – a partnership including EFRAG and European standard setters. • The ASB is currently considering responses to the discussion paper *The Financial Reporting of Pensions*.
Accounting for Income Tax	• The ASB and Accounting Standards Committee of Germany (DRSC) have a joint project to consider accounting for income tax from first principles.
Business combinations	• The ASB, as a result of the IASB issuing a revised IFRS 3 and IAS 27, is reconsidering what action is required to FRED 36, 37 and 39 as part of its overall convergence strategy.
Heritage Assets	• The comment period for FRED 42 *Heritage Assets* closed in October 2008. The ASB is currently considering comments.

IASB project timeline – Active projects

Annual Improvements to IFRSs – 2008-2009	• ED issued 7 August 2008. • Final IFRS expected second quarter 2009.
Annual Improvements to IFRSs – 2009-2010	• ED expected second half of 2009.
Common Control Transactions	• Added to agenda December 2007. • Timing not yet determined.
Conceptual Framework Eight phases in all	• ED on objectives and qualitative characteristics was issued in May 2008. Final chapter expected in second quarter 2009. • Discussion paper (DP) on reporting entity was issued in May 2008. ED is expected in second half of 2009. • DP on measurement expected second half of 2009. • DP on elements and recognition expected in first half of 2010.
Consolidation, including SPEs*	• ED issued in December 2008. • Final IFRS expected by end of 2009.
Convergence – Short-term issues, IFRSs and US GAAP*	**IAS 12 Income taxes** • ED issued 31 March 2009. **Joint Arrangements – Reconsideration of IAS 31** • ED 9 Joint Arrangements issued 13 September 2007. • Final IFRS expected second half of 2009. **Impairment** • Staff research has begun. • Not included in latest IASB work plan. **Government Grants** • Work deferred pending IAS 37 amendments project.
Derecognition*	• ED issued 31 March 2009.
Discontinued operations amendment	• ED issued September 2008. • Amendment expected second quarter 2009.
Earnings per share amendment	• Exposure draft issued in August 2008. • Final IFRS expected second half of 2009.
Emissions Trading Schemes	• ED expected second half of 2009.
Fair Value Measurement Guidance	• DP issued 30 November 2006. • ED expected second quarter 2009.
Financial Instruments with the Characteristics of Equity *	• DP issued February 2008. • ED expected second half of 2009.
Financial Instruments (replacement of existing standards) *	• Advisory Group currently considering this issue. • Timing not yet determined.
Financial Statement Presentation* Phase B: Presentation on the face of financial statements	• DP issued October 2008. • ED expected in 2010.
IFRS 1 First-time Adoption of IFRSs – additional exemptions	• ED issued September 2008. • Final IFRS expected second half 2009.

IASB project timeline – Active projects (continued)

IFRS 2 Amendment – Group Cash-settled Share-based Payment Transactions	• ED issued December 2007. • Final amendment expected second quarter 2009.
Insurance Contracts – Phase II	• DP issued May 2007. • ED expected second half 2009.
Leases*	• DP issued 19 March 2009.
Liabilities (IAS 37 amendments)	• ED issued June 2005. • Final IFRS expected second half 2009.
Management Commentary	• DP issued October 2005. • Output will be best practice guidance, not an IFRS. • ED expected second quarter 2009.
Post-employment Benefits (including Pensions)*	• DP issued March 2008. • ED expected second half 2009.
(IFRS for) Private Entities (previously 'Accounting Standards for Small and Medium-Sized Entities')	• ED issued February 2007. • Final IFRS expected second quarter 2009.
Rate-regulated Activities	• ED expected second quarter 2009.
Related Party Disclosures (IAS 24)	• Revised ED issued on 11 December 2008. • Final IFRS expected second half 2009.
Revenue Recognition*	• DP issued on 19 December 2008. • ED expected in 2010.

IASB project timeline – Research agenda

Extractive activities	• Group of national standard setters conducting research. • DP expected in the first quarter of 2009.
Intangible Assets*	• Decision in December 2007 not to add to agenda but continue as research project.

* IASB projects with milestones agreed in the February 2006 IASB-FASB Memorandum of Understanding on convergence – download the MoU at www.iasplus.com/pressrel/0602roadmapmou.pdf.

This timetable is derived from the IASB's published timetable supplemented by decisions and comments made at recent meetings of the Board. You will find details on each project, including decision summaries from each Board meeting, at www.iasplus.com/agenda/agenda.htm.

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