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IFRS in Focus
Critical issues in uncertain times

Special year-end edition

Contents

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In this special edition of IFRS in Focus we set out year-end financial reporting considerations with a particular focus on those related to the financial crisis in the Eurozone together with our annual closing out summary of pronouncements.

Financial reporting issues

Global Economic Environment

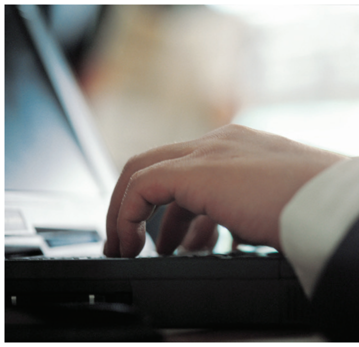
Prospects for the global economy continue to be challenging. Based on Deloitte's CFO surveys, a significant number of CFOs mention global economic conditions as their most worrisome risk. The Deloitte CFO Survey (UK) for Q3, 2012 notes that business confidence remains low and CFO priorities continue to be defensive rather than growth orientated.

The Organisation Economic Co-operation and Development (OECD), in its latest economic outlook, predicts that the global economy is expected to make a hesitant and uneven recovery over the coming two years. In major economies growth is expected to be sluggish over the coming year. As noted in Deloitte's *Global Economic Outlook Q3 2012* "we are seeing new policy responses in some markets, changing direction of interest rates and currencies, and a higher degree of uncertainty than at almost any time in recent memory". Emerging economies are moving towards more moderate growth than experienced in the past and advanced economies such as the EU, Japan and the USA continue to face prolonged periods of weakness.

Eurozone Conditions

Recent data from Europe indicates that the Eurozone has fallen back into recession for the first time in three years in the third quarter of 2012. The wider EU area recorded growth of just 0.1% for the third quarter of 2012. Within the EU there are significant divergences opening up in the economic performance of member states – particularly between the northern and southern Eurozone members. The European Commission notes: "conditional on the assumption that the policy measures agreed at the EU and Member-State levels will be implemented smoothly and that this will lead to a gradual restoration in confidence, GDP in the EU and the euro area is expected to start growing again after the turn of the year and progressively move toward a moderate expansion".

These uncertain and somewhat varied economic conditions set the backdrop for the preparation of financial statements for the current reporting period. In particular, against this backdrop it is important to exercise professional scepticism in making financial reporting judgements.



General considerations

Some of the key financial reporting considerations stemming from the current economic conditions are set out below. However, the unique circumstances and risk exposures for each reporting entity must be assessed comprehensively and reflected appropriately in the financial statements. It is important that the financial statements and management commentary convey all the material uncertainties which may necessitate additional disclosures. Such fuller disclosure, not specifically required by any IFRS, may be necessary to achieve a fair presentation of the financial position and performance of the entity.

Consistency of assumptions and estimates

A number of assumptions or estimates may be required for more than one purpose (for example, forecast revenue may be relevant to impairment, recognition of deferred tax assets and going concern assessments). Consistent assumptions should be used for all relevant assessments.

In addition, external events and circumstances should be considered in assessing whether updated assumptions and estimates from period to period are appropriate.

Going Concern

An entity's current circumstances may challenge the going concern basis of preparation. Assessing whether an entity is a 'going concern' typically requires the following factors, among others, to be considered:

- whether the forecast performance results in an adequate level of headroom to service the entity's debts and comply with relevant loan covenants; and
- the availability of sufficient committed borrowing facilities for the foreseeable future and whether there are any concerns about the ability and willingness of the lending counterparty to provide such funding.

IAS 1 *Presentation of Financial Statements* requires this assessment to take into account all available information about the future (covering a period of at least 12 months from the reporting date).

It is important to stress that disclosures about headroom and access to funding may also be relevant even where an entity prepares its financial statements on a going concern basis.

Impairment of non-financial assets

i. Impairment indicators and impairment write-downs

The European Securities and Markets Authority (ESMA) notes in its *European common enforcement priorities for 2012 financial statements* that: "particular attention should be paid to the valuation of goodwill and intangible assets with indefinite life whenever significant amounts are recognised in the financial statements. ESMA emphasises the need to use assumptions that represent realistic future expectations".

IAS 36 *Impairment of Assets* sets out a number of internal and external indicators that an entity needs to consider in assessing whether an asset may be impaired – although the indicators are not intended to be an exhaustive list. In the current economic environment the following indicators may signal an asset is impaired:

- deteriorating economic conditions exacerbated by a decrease in public spending in countries implementing austerity measures;
- decrease in market capitalisation of the entity;
- weakening commodity prices;
- fall in spending by the entity's customer base (for example, reduced capital expenditure rates for a business-to-business supplier or reduced consumer spending by a retailer);
- financial difficulties being experienced by clients threatens the ongoing existence of the entity's customer base;
- idle or significant under-utilisation of an entity's production facilities;
- a change in the entity's business model as a result of the economic environment;
- a high concentration of customers in countries with weak growth forecasts;
- a fall in asset prices as a consequence of poor demand; or
- increased cost of capital including borrowing with widening credit spreads resulting in higher discount rates.

ii. value-in-use calculations
In determining the recoverable amount of an asset, it is important to consider carefully value-in-use calculations.

Given the level of current market uncertainty, it is critical that impairment testing is carried out in a robust manner and the inputs and assumptions are supportable. The following factors are some of the considerations entities should take into account in undertaking impairment testing:

- cash flow projections should be based on the most recent financial budgets/forecasts approved by management at the appropriate level of authority, covering a maximum period of five years, unless a longer period can be justified. It is critical that budgets have been updated recently enough to reflect an entity's circumstances at the reporting date – that may necessitate an entity's management approving revised forecasts. In the current uncertain environment, it may be difficult to develop reliable cash flows much beyond the next reporting period, in which case a shorter forecast period is warranted;

- projections of cash flows beyond the period covered by the most recent budgets/forecasts should be estimated by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified based on objective information about patterns over a product or industry lifecycle. The growth rate should not be overly optimistic and should not exceed the long-term average growth rate for the products, industries or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified. In some cases, it may be appropriate for the growth rate to be negative or zero. Entities need to consider carefully whether their expected growth rates should be revised in light of current circumstances;

- the entity's weighted average cost of capital may be used as a starting-point for estimating a market discount rate, but this should then be adjusted to reflect the way that the market would assess specific risks associated with the asset or cash-generating unit's estimated cash flows unless that risk (or some elements of it) is already included in the estimated cash flows. IAS 36 specifically mentions country risk in this context and this may be particularly relevant for entities operating in countries currently experiencing financial difficulties. The impact of various risk premiums will most likely lead to a discount rate that is either similar to, or higher than, that used in the past;

- estimated cash flows and discount rates should be free from both bias and factors unrelated to the asset in question;

- estimated cash flows or discount rates should reflect a range of possible outcomes, rather than a single, most likely, minimum or maximum possible amount; and

- future cash flows shall be estimated for the asset in its current condition and should not include estimated future cash inflows or outflows expected to arise from improving or enhancing the asset's performance or future restructurings to which the entity is not yet committed.

iii. Consistency of measurement inputs and assumptions
Care should be taken as to the consistency of the data being prepared to avoid double-counting or omission of some data.

For instance, attention should be paid to how inflation has been reflected in the calculation – real cash flows need to be discounted using a real discount rate (i.e. exclusive of inflation), whereas nominal cash flows should be discounted using a nominal discount rate (i.e. inclusive of inflation). Similarly, care should be taken when comparing the carrying amount of a cash generating unit with its value-in-use to ensure that the latter is derived from the same assets and liabilities included in the cash-generating unit.

Impairment of Mineral Resources
The volatility and softening of commodity prices may indicate that mineral resources in development or production may be impaired. IFRS 6 *Exploration for and Evaluation of Mineral Resources* sets out alternative impairment indicators to those in IAS 36 for exploration and evaluation assets, but again, changes in commodity prices might be an indicator of impairment for such assets. Where the indicators under IFRS 6 are triggered, impairment testing and any resulting impairment loss is recognised in accordance with IAS 36. Any investment in an entity that applies IFRS 6 should be accounted for in accordance with the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 36.

Investments in Associates and Joint Arrangements
Where investments in others entities are accounted for using the equity method, it is necessary to test these for impairment – particularly where the investee is operating in, or exposed to, countries experiencing significant economic difficulties. IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures* require entities to apply IAS 39 to establish whether a net investment in an associate or joint venture is impaired.

Impairment disclosures

Information about asset impairments will be critical in helping investors and others understand the impact of the current economic conditions on an entity's financial performance and position.

At a time when markets are sluggish and sometimes contracting, it is critical for entities to explain in their financial statements how such events are expected to impact the recoverability of asset balances – particularly, goodwill. Accordingly, disclosure of the basis on which the recoverable amount has been measured, that is, value-in-use or fair value less costs of disposal, and the key assumptions used to determine that value must be provided in sufficient detail. For example, providing the specific assumptions for material cash generating units (CGU), rather than a range of assumptions across CGUs, makes it easier for a reader to assess recoverability. ESMA has emphasised the need for more granular disclosures around goodwill, in particular, to provide an understanding of the CGU to which goodwill is allocated by explaining the forecast period, the growth and discount rates applied, and the consistency of assumptions made with past experience.

In the case of goodwill and intangible assets with indefinite useful lives, if a reasonably possible change in a key assumption used in an impairment review (whether a change in discount rate or any other assumption) would result in the recognition of an impairment loss, additional disclosures are required of:

- the amount by which the recoverable amount exceeds the carrying amount;
- the value assigned to key assumptions; and
- the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the recoverable amount to be equal to the carrying amount.

Other specific non-financial assets

Inventory write-downs

IAS 2 *Inventories* requires inventory to be measured at the lower of its cost and net realisable value (NRV). Under difficult trading conditions, it is important to assess whether the cost of inventory will be recovered. Accordingly, NRV calculations may warrant additional challenge and scrutiny at the end of the reporting period to establish whether the amount likely to be realised falls below the cost of inventory and a write-down is necessary.

Deferred tax assets

Deferred tax assets need to be assessed for recoverability at the end of each reporting period and this will be particularly important where there is reduction in forecast performance stemming from the current economic environment. The assumptions used in assessing the probability of future taxable profit to support a deferred tax asset should not contradict assumptions made for the purposes of any impairment review.

Provisions

i. Restructuring

Given the continuing difficult trading conditions, entities may be considering or implementing restructuring plans such as the sale or closure of parts of their businesses or downsizing of continuing operations.

Such plans may require consideration of a number of issues, including whether:

- the entity has (i) a detailed formal plan for the restructuring and (ii) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. Only where both these conditions are met, should a restructuring provision be recognised (as detailed in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*); and
- any part of the business is available for immediate sale in its present condition and completion of such a sale within one year is highly probable. If so, the asset or disposal group to be sold should be classified as 'held for sale' and written down to its fair value less costs of disposal if this is lower than the carrying amount (as required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*). Where an entity experiences significant delays in selling assets that are classified as 'held for sale', the appropriateness of such classification should be questioned.

ii. Onerous contracts
Changing economic circumstances may result in contracts that were expected to be beneficial at inception becoming onerous. For example, leased floor space may no longer be required because of a part closure of a retail outlet, or due to falling sale prices a purchase contract for inventory may become onerous. IAS 37 requires the present obligation under the contract to be recognised and measured as a provision. In measuring the provision arising from an onerous contract, an entity is required to reflect the least net cost required to satisfy its obligation either by fulfilling it, or the compensation or penalties that arise from failing to do so. Entities may seek to re-negotiate such contracts; any provision for onerous contracts should reflect the legal terms of the obligation as at the balance sheet date – not any future renegotiated terms.

Defined benefit obligations
The current economic environment may impact the measurement of both plan assets and defined benefit obligations.

i. Returns on plan assets
The consideration of fair value of both financial assets and non-financial assets (for example, investment property) is also relevant to the measurement of plan assets under IAS 19 *Employee Benefits*. In particular, significant amounts of sovereign debt may be held by pension schemes.

Plans may also have holdings in hedge funds, structured products and other illiquid assets and it is important that they are valued appropriately.

Some pension schemes have participated in stock lending or have entered into derivative financial instruments to mitigate their funds' exposure to interest rate risk, inflation and equity market volatility. Where this is the case, directors need to consider counterparty risk (and actual default) when valuing their investments.

Estimated returns on plan assets may also need to be reassessed to take into account market expectations.

ii. Defined benefit obligations
Curtailment
In responding to economic conditions it is not uncommon for entities to restructure their workforce and this could give rise to events that constitute a curtailment and a potential settlement.

Discount rate
The discount rate used to value defined benefit obligations under IAS 19 should be set by reference to the yield available on high quality corporate bonds of an appropriate term (or where there is no deep market in such bonds, the market yields on government bonds). The IFRS Interpretations Committee (IFRS IC) is currently considering a request for guidance on the determination of the rate used to discount post-employment benefit obligations. Following the financial crisis, the number of corporate bonds rated "AAA" or "AA" has decreased in some jurisdictions. IAS 19 is silent on what credit rating is required to evidence a bond is 'high quality' although the IFRS IC noted that predominant past practice has been to consider bonds that have received one of the two highest ratings given by a recognised rating agency. Until there is more clarity from the IFRS IC and consistent with ESMA, the rates for AA and AAA-rated bonds should continue to be used where they have been previously.

ESMA, in its *European common enforcement priorities for 2012 financial statements* cautioned that "entities should wait for a clarification to come from the IFRS IC and should not change their approach to determining discount rates".

In recent years, it has been common to refer to the average yield on an index of corporate bonds. In an uncertain economic climate, it may be a challenge to apply such an index.

- A spread of yields for constituents of published indices may indicate that some corporate bonds within it are no longer considered by the market to be of 'high quality' even though their credit rating has yet to be adjusted. In these circumstances, the index should be adjusted to exclude yields on such bonds.

- An index may lack a sufficient number of bonds within it which have a term consistent with the term of the defined benefit obligation. In these circumstances, extrapolation of current market rates for bonds with a shorter term along a yield curve is required.

Both the requirement and methodology for any adjustment to the constituents of an index or extrapolation of yields should be carefully considered to ensure that the discount rate selected:

- reflects the time value of money but not actuarial risk, investment risk or credit risk specific to an entity;

- is unbiased (that is, neither overly optimistic or excessively conservative); and

- is compatible with other actuarial assumptions used in measuring the defined benefit obligation.

Once entities have chosen an approach for determining the discount rate, the approach should be applied consistently from one period to the next. It is appropriate, nonetheless, to consider the outcome of the chosen approach compared to others for establishing a discount rate as a means of establishing the reasonableness of the outcome. Furthermore, depending on the size of the obligation and sensitivity to changes in the discount rate, it is important to consider whether the disclosure of factors affecting the choice of the rate used is required as a critical judgement or key source of estimation uncertainty under IAS 1.

In the November 2012 *IFRIC Update*, the IFRS IC notes that:

- Any changes that an entity makes in its accounting policy for determining the discount rate should be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and the effects (nature and amount) of that change on the current period, the prior periods and future periods shall be explained and disclosed in accordance with IAS 8.29 (although the IFRS IC did not conclude on whether a change in determining the discount rate constituted a change in accounting policy or a change in estimate).
- An entity shall disclose the judgements management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

It is worth noting that IAS 19 (revised 2011) becomes effective on 1 January 2013. The main changes that flow from the amendment to the Standard include: the elimination of the corridor, changes in how interest revenue is determined on plan assets and the accounting for service costs. Further information can be found in Deloitte's *IFRS in Focus – IASB amends accounting for post-employment benefits*. IAS 8 requires disclosure of the impact of issued but not yet effective IFRSs. Accordingly, entities will need to assess the impact of the revised IAS 19 on their financial statements and provide appropriate disclosures.

Financial instrument issues

Exposures to Greek sovereign debt

As part of the terms of the Private Sector Involvement (PSI), Greek Government Bonds (GGBs) under Greek law were exchanged in March 2012 (and foreign law bonds in April 2012) for new GGBs, notes issued by the European Financial Stability Fund (EFSF) and a GDP-linked security.

The IFRS IC at its September 2012 meeting concluded the GGBs surrendered in March 2012 should be derecognised and new GGBs received as part of debt restructuring should be recognised as new assets.

IFRS IC also considered at its November 2012 and previous meetings whether IAS 39.AG5 could be applied when determining the effective interest rate on initial recognition of the new GGBs – that would mean that the effective interest rate on initial recognition is based on estimated cash flows that take into account incurred credit losses. The IFRS IC noted that whilst it was "rather unusual" for a debt instrument to have an incurred loss on origination it was possible and that it is a "factual matter and that assessment requires judgement".

The new GGBs issued in the PSI exchange need to be assessed for potential impairment at the end of the reporting period. At the time of writing, market yields for the new GGBs that were issued in March 2012 were at a level similar to the yield when they were issued.

Exposures to other Eurozone sovereign debt

At the time of writing, we do not consider the sovereign debt of other Eurozone countries including Portugal, Italy, Ireland and Spain to be impaired under IAS 39 (or IFRS 9 *Financial Instruments*).

Eurozone sovereign debt disclosures

Further to its reviews performed in 2012, ESMA encourages issuers to further enhance the transparency on:

- quality of the country-by-country disclosures, more specifically with respect to the granularity of information provided on significant sovereign debt exposures including, but not limited to, quantitative disclosures on gross and net exposures;
- non-sovereign exposures by type of disclosures (corporates, banks, municipalities, etc), including qualitative and quantitative information on credit risk; and
- impact of credit derivatives (for example, credit default swaps) used in managing the material exposures to financial instruments – such as distinguishing between additional exposures resulting from the sale of derivative instruments and the estimated level of protection resulting from the purchase of credit derivatives.

Fair Value – financial assets and financial liabilities

The continuing economic difficulties in Greece and other economies have led to a decrease in market activity for certain financial instruments. This may bring into focus again questions of how to establish the fair value of financial instruments in markets that are no longer active. There is extensive discussion of this topic in IAS 39, IFRS 13 *Fair Value Measurement* – which incorporates much of the guidance developed by the IASB's Expert Advisory Panel and the *IASB Staff Educational Guidance: Using judgement to measure the fair value of financial instruments when markets are no longer active*.

The IASB literature on this issue:

- provides guidance on identifying what is a 'forced' transaction (and which transactions are not deemed to be at fair value);
- addresses the inputs in a valuation technique and in particular the need to include the current market assessment of credit risk (both 'counterparty' and 'own credit risk') and liquidity risk, for both derivative and non-derivative instruments; and
- addresses the extent to which reliance can be placed on the use of data from brokers and independent pricing services in determining fair value. This is particularly the case where markets become inactive and trading data is thin.

This guidance is also relevant for fair value disclosures of financial instruments required by IFRS 7 *Financial Instruments: Disclosures*. Preparers will also need to consider whether derivative valuations adequately reflect counterparty credit risk given the possible impact of the Eurozone crisis.

The IASB is currently developing education material to support IFRS 13. It recently issued a draft of the first chapter "Measuring the fair value of unquoted equity instruments within the scope of IFRS 9 *Financial Instruments*". Whilst this educational material does not form part of the authoritative literature, it provides a useful explanation of the various valuation methodologies that can be used to estimate fair value.

Impairment of other financial assets

In addition to GGBs, other financial assets are required to be assessed for impairment with particular attention given to the impact of the current market uncertainty. Financial assets measured at amortised cost under either IAS 39 or IFRS 9 and available-for-sale (AFS) financial assets or cost under IAS 39 must be considered for impairment under those Standards. In particular, entities should consider the following:

- **AFS equity investments** may be impaired as a result of declines in equity markets. An AFS equity security is impaired, for instance, if it has suffered a significant or prolonged decline in its fair value below its cost. Although impairment is assessed individually for equity investment, the extent of the decline in some markets is an indicator that the underlying security is potentially impaired. Entities should have a defined accounting policy on what they regard as 'significant' and 'prolonged' and should apply it consistently from period to period – it is relevant to note that even where an entity has developed internal guidance, at the end of the reporting period an entity must consider the prevailing facts and circumstances and apply judgement. In determining an accounting policy for AFS equity investments, the IFRS IC has noted:

  i. the requirement in the Standard should not be read to require a decline in value to be both 'significant' and 'prolonged' – satisfying either condition necessitates the recognition of an impairment loss;

  ii. the base on which 'significant or prolonged' is applied is the original cost on initial recognition, any subsequent impairment recognised does not reset the point from which an assessment of impairment is made;

  iii. the fact that a decline in the value of an investment is in line with the overall level of decline in the relevant market is not sufficient for determining that there is no impairment;

  iv. the existence of a significant or prolonged decline cannot be overcome by forecasts of an expected recovery of market values, regardless of their expected timing; and

  v. 'significant or prolonged' should be determined in the entity's functional currency in the case of foreign currency denominated equity securities (this may be particularly important for holdings of Euro-denominated equity securities by investors outside of Europe given the relative weakness in the Euro relative to other currencies).

ESMA has highlighted this as an area where "European enforcers observed divergent practices in the application of the 'significant or prolonged' criteria" which underscores the importance of ensuring that judgements are well supported by clear disclosures.

If the fair value of an AFS equity instrument continues to fall after an impairment loss has been recognised in profit or loss, then these further declines should be recognised immediately in in profit or loss. Reversals of impairments of AFS equity securities through profit or loss are not permitted. As a result, any future increase in fair value must be recognised in other comprehensive income (OCI).

- **Debt securities** issued by, or loans to, companies affected by the global crisis may be subject to a greater risk of impairment. For instance, financial institutions may have extended loans or written credit facilities to Greek entities. Financial and non-financial institutions may have invested in debt securities issued by entities in the affected countries. In either case, the instruments may be classified in amortised cost categories (loan and receivables or held-to-maturity) or as AFS (with fair value changes recognised in OCI). In both cases, careful judgement will be required to establish whether events have occurred (such as a significant change in credit rating, negative news about the issuer of the debt instrument or delinquencies in payments) that are indicative of an impairment loss.

- **Trade receivables** from entities in troubled economies or entities with significant exposure to those economies may be subject to a greater risk of impairment. Particular attention should be given to recoverability where receivables are overdue, even if the entity has the right to charge interest for late payment. An impairment should be recognised if the full contractual amount is no longer expected to be received or if the contractual cash flows are expected to be received but later than when they were contractually due without receipt of compensating interest.

  One industry which is widely reported to have a large and growing balance of outstanding overdue receivables in the affected Eurozone countries is the pharmaceuticals sector with some receivables reported to be now over three years old. Whilst it is understood that has been the situation in Greece for over a decade, in the past, these amounts were considered 'recoverable' because they were backed by the Greek government. The current situation makes that presumption less tenable. These circumstances are also likely to be impacting other industries. In some jurisdictions, governments have taken steps to protect creditors for past due amounts due from public sector entities. Where this is the case, such measures should be taken into account in impairment assessments.

  This situation is not limited to Eurozone countries and similar issues are being experienced in other economies. For example, a recent survey[1] found defaults are on the rise in Asia-Pacific with on average 30 per cent of the total value of domestic and foreign B2B invoices issued remained unpaid at the due date. Furthermore, over 10 per cent of invoices that remained unpaid after being overdue for three months were defaulted on.

Liquidity issues

In responding to difficult market conditions, some entities will look to 'sales' of assets and other rights for liquidity purposes. This may be in the form of 'sale and leaseback' transactions, securitisations and other forms of unbundling the benefits of an asset. Where this occurs it is important to consider whether the derecognition criteria have been met and whether there is any continuing involvement such that the entity has not transferred substantially all the risks and rewards to the counterparty.

Impact on hedge accounting

The current market uncertainty could have a very significant effect on both (a) the ability of entities to apply hedge accounting and (b) the profit or loss impact of hedge accounting:

- Consideration should be given to whether hedged forecast transactions remain 'highly probable'. There could be changes in the entity's intention to undertake purchases, make sales or an intention and ability to rollover debt financing. Also, the ability of counterparties and customers to buy from or lend to the reporting entity may be affected. For instance, if an entity was relying on purchases from Greek customers or lending from Greek banks as the basis for highly probable sales or highly probable interest payments respectively, these hedging relationships should be carefully reviewed.

- Consideration should be given to the effect of any impairment loss on hedge effectiveness. For example, cash flows on a receivable or debt security hedged for interest or foreign currency risk should not be included in the hedge effectiveness assessment if not expected to be recovered.

- Careful consideration should be given to the impact of credit and liquidity risk on the assessment of hedge effectiveness as both can be a source of hedge ineffectiveness. This could be particularly acute for entities that have uncollateralised hedging instruments with weakened financial institutions but it may also be an issue for uncollateralised hedging instruments where the counterparties are banks in other Eurozone countries or other troubled economies (since the fair value of such instruments could be significantly affected by concerns over their credit risk).

1 http://www.atradius.co.uk/corporate/press-releases/ppb-asia-pac.html

Current and non-current classification of financial liabilities

Liabilities are classified as current if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Given the difficult trading conditions in a number of countries, there is an increasing risk of breaches of financial covenants (for example, failure to achieve a specified level of profits or interest cover). If such a breach occurs on or before the end of the reporting period with the effect that the lender has the right to demand repayment within 12 months of the end of the reporting period, the liability is classified as current. A waiver of such a right or renegotiation of the terms of the liability after the end of the reporting period does not affect the classification of the liability as current but it should be disclosed as a non-adjusting event after the reporting period.

Renegotiation of financial liabilities (and financial assets)

The increasing number of entities experiencing financial difficulty has led to a greater number of borrowings being renegotiated (for example, to extend maturity, modify how the debt is collateralised, reduce the coupon or relax the covenant terms). Accordingly, it is important to assess the impact of changes with the relationship with the creditor. An assessment is required of whether the renegotiation results in a modification or an extinguishment. Where it creates a substantially different instrument, it is accounted for as an extinguishment of the original liability and the recognition of a new liability, resulting in a profit or loss impact. In the case of debt-for-equity restructurings, where debt is exchanged for equity of the borrower, the guidance in IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* would apply.

Similar considerations apply to the renegotiation of financial assets. A key issue to consider is whether the renegotiation gives rise to terms that are substantially different in which case there may be a derecognition event and a new asset recognised.

ESMA emphasises that because transfers of financial instruments are typically complex transactions, improved disclosures should be provided in accordance with IFRS 7.42A-42H – those disclosure requirements are applicable for the first time in 2012.

Guarantees

In a more risky economic environment it may become more probable that a financial guarantee is called on. This may be particularly relevant in the separate financial statements of a parent which provides a financial guarantee to a lender for the obligations of a subsidiary. Where the probability of honouring a guarantee has changed it is necessary to reflect that in the measurement.

Financial instrument disclosures

IFRS 7 includes detailed requirements for disclosure of:

- credit risk;
- liquidity risk; and
- market risk.

In the current uncertain economic environment, particularly in troubled Eurozone countries or where there is an exposure to them, some or all of these risks may become more evident. Where this is the case, more extensive disclosures than before may be required. For example, to satisfy IFRS 7 requirements, entities need to consider what new information is being provided to key management personnel and consider the implications of this for satisfying IFRS 7 requirements. The Standard also requires more disclosures where risks have become material and also information about how risks are being managed.

Greater uncertainty of creditworthiness has led to increasing demands for entities to pledge or receive collateral. IFRS 7 has specific disclosures where assets continue to be recognised but are pledged as collateral. Showing the extent to which assets are pledged, or collateral is received and is returnable, is of increasing focus as regulators and other users assess the strength of an entity's balance sheet.

In respect of liquidity risk, IFRS 7 requires a description of how liquidity risk is managed.

ESMA notes "further to the financial crisis, transparency on information related to financial instruments provided to the market has become a top priority for investors, issuers and regulators. Providing disaggregated and expanded disclosures about material exposures to all financial instruments that become subject to risk (not limited to sovereign debt exposures) and explaining the nature and extent of that risk are essential elements."

In terms of market risk, IFRS 7 requires a sensitivity analysis based on the effect of 'reasonably possible changes in the relevant risk variable'. Entities should reassess what is 'reasonably possible' given the current market conditions. For example, given the effect of the crisis on Greek, Spanish and Italian equity markets, entities may need to assess whether the sensitivity analysis in relation to prices of AFS equity investments adequately reflects what is 'reasonably possible'. Price volatility in other markets such as currency and commodity markets may also lead to a reconsideration of how sensitivity analyses presented would adequately reflect what is reasonably possible.

IFRS 7 also requires disclosure of any defaults on loans payable or other breaches of loan agreement terms (for example, loan covenants) including whether the default or breach was remedied or the terms of the loan renegotiated before the date that the financial statements were authorised for issue.

In addition, the disclosure required by IAS 1 in respect of significant sources of estimation uncertainty and key judgements made in the process of applying the entity's accounting policies may include, for example, judgements about the identification and measure of impairments of financial assets.

The Financial Stability Board's Enhanced Disclosure Task Force (EDTF) recently issued its recommendations to improve the way in which banks report risks to their shareholders. Further information can be found in Deloitte's publications: *Promoting stability – Insights into new recommendations for banks' risk disclosures*.[2]

General disclosure considerations

Disclosures become more important in uncertain market conditions. Regulators, such as ESMA, have emphasised the importance of enhanced disclosures particularly around financial assets, impairment, pensions and provisions. Careful consideration should be given to general disclosure provisions such as the requirements of:

- IAS 1 to disclose information on the entity's objectives, policies and processes for managing capital. The requirements to disclose compliance with externally imposed capital requirements may make these disclosures particularly significant for financial institutions;
- IAS 1 to disclose information about assumptions made about significant sources of estimation uncertainty and judgements made in the process of applying the entity's accounting policies. These assumptions and judgements may become more significant in an uncertain economic environment, or, they may change if the entity's business model changes in response to that environment;
- IAS 10 *Events after the Reporting Date* to disclose material events occurring after the reporting period. In the current economic climate, non-adjusting events such as the commencement of a major restructuring programme, disposal of assets or large changes in asset prices may occur more frequently.

In addition to the requirements of IFRSs, many local laws or regulations (for example, SEC Regulation S-K and the EU Transparency Directive as implemented in each Member State) require disclosure of the risks facing the entity. In the current economic environment, entities should consider whether new risks have emerged or previously identified risks have become more significant.

Management Commentary

Economic uncertainty highlights the importance of entities explaining how they are impacted by it. To this end, it is important that management commentary is consistent with the events and conditions described in the financial statements and helps elucidate and explain the risks and other key factors affecting an entity's financial performance and position.

Deloitte recently issued a study of financial reporting in the United Kingdom *Joined up writing – Surveying annual reports*. In that study we noted that: "annual reports now require a serious level of content, cohesion and connected thought and information. The best of them, as the survey shows, create a platform which effortlessly explains the business model, performance and future strategic hopes of a company to its shareholders, stakeholders and other users".[3] The survey found that although financial reporting has improved markedly over the years there is still considerable scope for improving the linkages between the 'front-end' of the annual report and the financial statements to convey a clear and consistent story.

2 https://www.deloitte.com/assets/Dcom-Global/Local%20Content/Articles/Financial%20Services/uk_fsi_promotingstability-bank-ifrs_2012-10.pdf

3 http://www.deloitte.com/view/en_GB/uk/services/audit/0f5d074f3229a310VgnVCM1000003156f70aRCRD.htm

Overview of new and revised IFRSs

This section provides:

- an overview of new and revised IFRSs that are mandatorily effective for the year ended 31 December 2012; and
- an overview of new and revised IFRSs that are not yet mandatorily effective but allow early application for the year ended 31 December 2012. For this purpose, the discussion below reflects a cut-off date of **30 November 2012**. The potential impact of the application of any new and revised IFRSs issued by the IASB after 30 November 2012 but before the financial statements are issued should also be considered and disclosed. Consideration should always be given to the effect of any local endorsement or other regulatory or legal processes on an entity's ability to early adopt an IFRS.

All of the newsletters referred to in the tables below may be accessed at:
http://www.iasplus.com/en/tag-types/global-publications/ifrs-in-focus-newsletters

Amendments to IFRSs that are mandatorily effective for the year ended 31 December 2012

Amendments to IFRSs	Effective for annual periods beginning on or after	Application	IFRS in Focus Newsletter issued
Amendments to IFRS 1 *Severe Hyperinflation*	1 July 2011	Retrospective application.	January 2011
Amendments to IFRS 1 *Removal of Fixed Dates for First-time Adopters*	1 July 2011	Retrospective application.	January 2011
Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets*	1 July 2011	Entities need not provide the disclosures required by the amendments for any period presented that begins before the date of initial application of the amendments.	October 2010
Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets*	1 January 2012	Retrospective application.	January 2011

Amendments to IFRS 1 *Severe Hyperinflation*
(Effective for annual periods beginning on or after 1 July 2011)
The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.

Amendments to IFRS 1 *Removal of Fixed Dates for First-time Adopters*
(Effective for annual periods beginning on or after 1 July 2011)
The amendments regarding the removal of fixed dates provide relief to first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs.

Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets*
(Effective for annual periods beginning on or after 1 July 2011)
The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing involvement in the asset.

Amendments to IAS 12 *Deferred Tax – Recovery of Underlying Assets*
(Effective for annual periods beginning on or after 1 January 2012)

The amendments to IAS 12 provide an exception to the general principle set out in IAS 12 *Income Taxes* that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40 *Investment Property* will be recovered entirely through sale. The amendments were issued in response to concerns that application of IAS 12's general approach can be difficult or subjective for investment property measured at fair value because it may be that the entity intends to hold the asset for an indefinite or indeterminate period of time, during which it anticipates both rental income and capital appreciation.

Under the amendments, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset is required to reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. The 'sale' presumption is rebutted if the investment property is depreciable and the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Following the application of the amendments, entities holding investment property accounted for using the fair value model in accordance with IAS 40 in jurisdictions where tax is not imposed on sale of the investment property will no longer recognise deferred tax on any temporary differences arising from fair value gains or losses (unless the presumption is rebutted). This is because there would be no tax consequences expected to arise from recovering the carrying amount entirely through sale, regardless of whether the entity intends to use the property to generate rental income for a period of time prior to sale.

For depreciable investment property, the application of the amendments will result in a change in accounting policy. When the deferred tax associated with an investment property was previously determined based on expectations that the property would be recovered through use, the measurement basis will need to be changed unless the 'sale' presumption is rebutted. When the amendments result in a change to the basis of measurement and the effect is material, prior year amounts are required to be restated as the amendments require full retrospective application.

New and revised IFRSs that are available for early application

The following new and revised IFRSs are not mandatorily effective for the year ended 31 December 2012. However, they are available for early application. Paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires entities to consider and disclose the potential impact of new and revised IFRSs that have been issued but are not yet effective.

The list below reflects a cut-off date of **30 November 2012**. The potential impact of the application of any new and revised IFRSs issued by the IASB after 30 November 2012 but before the financial statements are issued should also be considered and disclosed.

New IFRS on financial instruments	Effective for annual periods beginning on or after	Application	IFRS in Focus Newsletter issued
IFRS 9 *Financial Instruments* (as revised in 2010)*	1 January 2015	Retrospective application, with specific transitional provisions.	November 2010
Amendments to IFRS 9 and IFRS 7 *Mandatory Effective Date of IFRS 9 and Transition Disclosures**	1 January 2015	Retrospective application, with specific transitional provisions.	December 2011

* IFRS 9 has not yet been endorsed for application in the European Union.

New and revised IFRSs on consolidation, joint arrangements, associates and disclosures	Effective for annual periods beginning on or after	Application	IFRS in Focus Newsletter issued
IFRS 10 *Consolidated Financial Statements*	1 January 2013	Retrospective application, with specific transitional provisions. Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011) are early applied at the same time.	May 2011
IFRS 11 *Joint Arrangements*	1 January 2013	Retrospective application, with specific transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011) are early applied at the same time.	May 2011
IFRS 12 *Disclosure of Interests in Other Entities*	1 January 2013	Retrospective application, with specific transitional provisions. Entities are *encouraged* to provide information required by IFRS 12 earlier than annual periods beginning on or after 1 January 2013.	May 2011
Amendments to IFRS 10, IFRS 11 and IFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*	1 January 2013	The amendments clarify certain transition guidance on the application of IFRS 10, IFRS 11 and IFRS 12 for the first time.	July 2012
IAS 27 *Separate Financial Statements* (as revised in 2011)	1 January 2013	Retrospective application. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) are early applied at the same time.	May 2011
IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)	1 January 2013	Retrospective application. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (as revised in 2011) are early applied at the same time.	May 2011
Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*	1 January 2014	Retrospective application, with specific transitional provisions.	November 2012

New IFRS on fair value measurement	Effective for annual periods beginning on or after	Application	IFRS in Focus Newsletter issued
IFRS 13 *Fair Value Measurement*	1 January 2013	Prospective application. The disclosure requirements of IFRS 13 need not be applied in comparative information provided for periods before initial application of IFRS 13.	May 2011

Revised IFRS on employee benefits	Effective for annual periods beginning on or after	Application	IFRS in Focus Newsletter issued
IAS 19 *Employee Benefits* (as revised in 2011)	1 January 2013	Retrospective application, with specific transitional provisions.	June 2011

Amendments to IFRSs	Effective for annual periods beginning on or after	Application	IFRS in Focus Newsletter issued
Amendments to IFRS 1 *Government Loans*	1 January 2013	Retrospective application.	March 2012
Amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*	1 January 2013	Retrospective application.	December 2011
Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*	1 July 2012	Retrospective application.	June 2011
Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*	1 January 2014	Retrospective application.	December 2011
Annual Improvements to IFRSs 2009-2011 Cycle	1 January 2013	Retrospective application.	May 2012

New Interpretation	Effective for annual periods beginning on or after	Application	IFRS in Focus Newsletter issued
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013	This Interpretation should be applied to production stripping costs incurred on or after the beginning of the earliest period presented, with specific transitional provisions.	October 2011

New IFRS on financial instruments

IFRS 9 *Financial Instruments* (as revised in 2010)

(Effective for annual periods beginning on or after 1 January 2015)*

IFRS 9 (as originally issued in 2009) introduces new requirements for the classification and measurement of financial assets.

Under IFRS 9, all recognised financial assets that are currently within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* will be subsequently measured at either amortised cost or fair value. A debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are generally measured at amortised cost. All other debt instruments must be measured at fair value through profit or loss (FVTPL). A fair value option is available (provided that certain specified conditions are met) as an alternative to amortised cost measurement.

All equity investments within the scope of IAS 39 are to be measured in the statement of financial position at fair value, with the gains and losses recognised in profit or loss. If an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at fair value through other comprehensive income (FVTOCI), with only dividend income generally recognised in profit or loss.

In 2010, a revised version of IFRS 9 was issued. The revised version of IFRS 9 mainly adds the requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in the fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

In December 2011, the IASB issued Amendments to IFRS 9 and IFRS 7. The amendments defer the mandatory effective date of IFRS 9 from 1 January 2013 to 1 January 2015, with early application permitted. The amendments also modify the transitional requirements from IAS 39 to IFRS 9.

Phases two and three of the financial instruments project, being the impairment of financial assets and hedge accounting phases respectively, are still a work in progress. The IASB is also considering limited improvements to IFRS 9 regarding the classification and measurement of financial instruments. Preparers of financial statements should be aware of the status of these phases in considering any potential early application of IFRS 9.

* IFRS 9 has not yet been endorsed for application in the European Union

New and revised IFRSs on consolidation, joint arrangements, associates and disclosures (Effective for annual periods beginning on or after 1 January 2013)

In 2011, the IASB issued a package of five standards on consolidation, joint arrangements, associates and disclosures, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Each of the five standards is effective for annual periods beginning on or after 1 January 2013, with early application permitted. In general, if an entity wishes early application, it should apply all of the five standards early at the same time.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces the part of IAS 27 *Consolidated and Separate Financial Statements* that deals with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*.

Headline changes brought about by IFRS 10 are as follows:

- Under IFRS 10, there is only one basis for consolidation for all entities, and that basis is control. This change removes the perceived inconsistency between the previous version of IAS 27 and SIC-12 – the former used control concept whilst the latter placed greater emphasis on risks and rewards.
- A more robust definition of control has been developed in IFRS 10 in order to address unintentional weaknesses of the definition of control as it was previously set out in IAS 27. The definition of control in IFRS 10 includes three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) ability to use its power over the investee to affect the amount of the investor's returns.
  - IFRS 10 requires an investor to focus on activities that significantly affect the returns of an investee ('relevant activities') in assessing whether it has control over the investee (not merely financial and operating policies).
  - IFRS 10 replaces the term 'benefits' with the term 'returns' so as to clarify that an investor's returns could potentially be positive, negative or both.
  - IFRS 10 makes it clear that there must be a linkage between 'power' and 'returns from the investee'.
  - IFRS 10 requires that, in assessing control, only substantive rights (i.e. rights that their holder has the practical ability to exercise) are considered. For a right to be substantive, the right needs to be currently exercisable at the time when decisions about the relevant activities need to be made.
- IFRS 10 adds application guidance to assist in assessing whether an investor controls an investee in complex scenarios, including:
  - Application guidance on when an investor that has less than 50 per cent of the voting rights of an investee has control over the investee (commonly referred to as 'de facto control').
  - Application guidance on whether a decision maker is acting as a principal or an agent for another party. A decision maker that has decision-making authority over the relevant activities of an investee does not have control over the investee when it is merely an agent.
  - Application guidance on when a particular set of assets and liabilities of an investee (i.e. a portion of an investee) can be deemed as a separate entity for the purposes of determining whether that portion is a subsidiary of the investor. IFRS 10 states that a portion of an investee is treated as a separate entity for consolidation purposes when that portion is economically 'ring-fenced' from the rest of the investee.

IFRS 10 does not contain 'bright lines' as to when an investor should or should not consolidate an investee.

Overall, the application of IFRS 10 requires significant judgement on a number of aspects.

IFRS 10 requires investors to reassess whether or not they have control over their investees on transition to IFRS 10. In general, IFRS 10 requires retrospective application, with certain limited transitional provisions.

Regarding the requirements for the preparation of consolidated financial statements, most of the requirements have been moved unchanged from the previous version of IAS 27 to IFRS 10.

IFRS 11 *Joint Arrangements*
IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*.

IFRS 11 deals with how a joint arrangement should be classified where two or more parties have *joint control*. There are two types of joint arrangements under IFRS 11: *joint operations and joint ventures*. These two types of joint arrangements are distinguished by parties' rights and obligations under the arrangements.

Type of joint arrangement	Features	Accounting under IFRS 11
Joint venture	Joint venturers have rights to the *net assets* of the arrangement.	Equity method of accounting – proportionate consolidation is not allowed.
Joint operation	Joint operators have rights to the assets and obligations for the liabilities of the arrangement.	Each joint operator recognises its share of the assets, liabilities, revenues and expenses.

Under IFRS 11, the existence of a separate vehicle is no longer a sufficient condition for a joint arrangement to be classified as a joint venture whereas, under IAS 31, the establishment of a separate legal vehicle is the key factor in determining the existence of a jointly controlled entity.

Therefore, upon application of IFRS 11, the following changes may occur:

- a jointly controlled entity accounted for using the equity method under IAS 31, is likely to be clasified as a joint operation under IFRS 11; and

- a jointly controlled entity accounted for using proportionate consolidation under IAS 31, is likely to be clasified as a joint venture under IFRS 11 and must be accounted for using the equity method.

IFRS 11 requires retrospective application with specific transitional provisions.

IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities.

IFRS 12 establishes disclosure objectives and specifies minimum disclosures that entities must provide to meet those objectives. The objective of IFRS 12 is that an entity should disclose information that helps users of financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements.

The disclosure requirements set out in IFRS 12 are more extensive than those in the current standards.

Amendments to IFRS 10, IFRS 11 and IFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*
The amendments clarify certain transitional guidance on the application of IFRS 10, IFRS 11 and IFRS 12 for the first time. The major clarifications are as follows:

- The amendments explain that the 'date of initial application' of IFRS 10 means the beginning of the annual reporting period in which IFRS 10 is applied for the first time.
- The amendments clarify how a reporting entity should adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application under IFRS 10 is different from that under IAS 27/SIC-12.
- When the control over an investee was lost during the comparative period (e.g. as a result of a disposal), the amendments confirm there is no need to adjust the comparative figures retrospectively (even though a different consolidation conclusion might have been reached under IAS 27/SIC-12 and IFRS 10).
- When a reporting entity concludes, on the basis of the requirements of IFRS 10, that it should consolidate an investee that was not previously consolidated, IFRS 10 requires the entity to apply acquisition accounting in accordance with IFRS 3 *Business Combinations* to measure assets, liabilities and non-controlling interests of the investee at the date when the entity obtained control of the investee (based on the requirements of IFRS 10). The amendments clarify which version of IFRS 3 should be used in different scenarios.

- The amendments provide additional transitional relief by limiting the requirement to present adjusted comparative information to the period immediately before the date of initial application. They also eliminate the requirements to present comparative information for disclosures related to unconsolidated structured entities for any period before the first annual period in which IFRS 12 is applied.

- The effective date of the amendments is the same as the effective date of IFRS 10, IFRS 11 and IFRS 12 (i.e. 1 January 2013 for calendar-year entities).

Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*

The amendments to IFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to IFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to IFRS 12 and IAS 27 (as revised in 2011) have been made to introduce new disclosure requirements for investment entities.

The amendments to IFRS 10, IFRS 12 and IAS 27 (as revised in 2011) are effective for annual periods beginning on or after 1 January 2014, with early application permitted.

New IFRS on fair value measurement
IFRS 13 *Fair Value Measurement*
(Effective for annual periods beginning on or after 1 January 2013)

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required by the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* are extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. IFRS 13 should be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of IFRS 13 need not be applied in comparative information provided for periods before initial application of the Standard.

IAS 19 *Employee Benefits* (as revised in 2011)
(Effective for annual periods beginning on or after 1 January 2013)

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

Another significant change to IAS 19 relates to the presentation of changes in defined benefit obligations and plan assets with changes being split into three components:

- Service cost – recognised in profit or loss and includes current and past service cost as well as gains or losses on settlements.
- Net interest – recognised in profit or loss and calculated by applying the discount rate at the beginning of the reporting period to the net defined benefit liability or asset at the beginning of each reporting period.
- Remeasurement – recognised in other comprehensive income and comprises actuarial gains and losses on the defined benefit obligation, the excess of the actual return on plan assets over the change in plan assets due to the passage of time and the changes, if any, due to the impact of the asset ceiling.

As a result, the profit or loss will no longer include an expected return on plan assets; instead, imputed finance income is calculated on the plan assets and is recognised as part of the net interest cost in profit or loss. Any actual return above or below the imputed finance income on plan assets is recognised as part of remeasurement in other comprehensive income.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions.

Amendments to other IFRSs

Amendments to IFRS 1 *Government Loans*
(Effective for annual periods beginning on or after 1 January 2013)
The amendments provide relief to first-time adopters of IFRSs by amending IFRS 1 to allow prospective application of IAS 39 or IFRS 9 and paragraph 10A of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to government loans outstanding at the date of transition to IFRSs.

Amendments to IAS 32 and IFRS 7 *Offsetting Financial Assets and Financial Liabilities* and the related disclosures
(Effective for annual periods beginning on or after 1 January 2014 and 1 January 2013 respectively)
The amendments to IAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014, with retrospective application required.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments to IFRS 7 are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods.

Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*
(Effective for annual periods beginning on or after 1 July 2012)
The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

Annual Improvements to IFRSs 2009-2011 Cycle
(Effective for annual periods beginning on or after 1 January 2013)

The Annual Improvements include amendments to five IFRSs which have been summarised below:

Standard	Subject of amendment	Details
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	Repeated application of IFRS 1	The amendments clarify that an entity may apply IFRS 1 if its most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs, even if the entity applied IFRS 1 in the past. An entity that does not elect to apply IFRS 1 must apply IFRSs retrospectively as if there was no interruption. An entity should disclose: a) the reason why it stopped applying IFRSs; b) the reason why it is resuming the application of IFRSs; and c) the reason why it has elected not to apply IFRS 1, if applicable.
	Borrowing costs	The amendments clarify that borrowing costs capitalised under previous GAAP before the date of transition to IFRSs may be carried forward without adjustment to the amount previously capitalised at the transition date. As for borrowing costs incurred on or after the date of transition to IFRSs that relate to qualifying assets under construction at the date of transition, the amendments clarify that they should be accounted for in accordance with IAS 23 *Borrowing Costs*. The amendments also state that a first-time adopter can choose to apply IAS 23 at a date earlier than the transition date.
IAS 1 *Presentation of Financial Statements*	Clarification of the requirements for comparative information	The amendments to IAS 1 clarify that an entity is required to present a statement of financial position as at the beginning of the preceding period (third statement of financial position) only when the retrospective application of an accounting policy, restatement or reclassification has a material effect on the information in the third statement of financial position and that the related notes are not required to accompany the third statement of financial position. The amendments also clarify that additional comparative information is not necessary for periods beyond the minimum comparative financial statement requirements of IAS 1. However, if additional comparative information is provided, the information should be presented in accordance with IFRSs, including related note disclosure of comparative information for any additional statements included beyond the minimum comparative financial statement requirements. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.
IAS 16 *Property, Plant and Equipment*	Classification of servicing equipment	The amendments clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.
IAS 32 *Financial Instruments: Presentation*	Tax effect of distribution to holders of equity instruments	The amendments clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with IAS 12.
IAS 34 *Interim Financial Reporting*	Interim financial reporting and segment information for total assets and liabilities	The amendments clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in interim financial reporting only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

New Interpretation
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
(Effective for annual periods beginning on or after 1 January 2013)

IFRIC 20 applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (‘production stripping costs’). Under the Interpretation, the costs from this waste removal activity (‘stripping’) which provide improved access to ore is recognised as a non-current asset (‘stripping activity asset’) when certain criteria are met, whereas the costs of normal ongoing operational stripping activities are accounted for in accordance with IAS 2 *Inventories*. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

The Interpretation is effective for annual periods beginning on or after 1 January 2013. An entity should apply this Interpretation to production stripping costs incurred on or after the beginning of the earliest period presented, with specific transitional provisions.

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