January 2012 – Quarterly edition

iGAAP Newsletter
Beyond the standards

Published for our clients and staff in the UK

Contents

Upfront

Those with December year-ends can be relieved that there are relatively few changes to accounting standards to contend with for 2011 year ends. The most notable IFRS changes which became effective are the revised IAS 24, which contains a revised definition of a related party, and the 2010 Improvements to IFRSs. But that is not to say that things have been quiet at the IASB as the projects on revenue, leasing, insurance and financial instruments are still ongoing.

It is the first of those projects which is our topic of focus in this quarter's newsletter. Following the publication of the revised exposure draft on revenue, we explore the IASB's amended proposals and assess what impact they might have in practice.

Impairment is a hot topic of the moment and one which is subject to much scrutiny by the Panel and users of financial statements. Our practical issue this quarter looks at issues highlighted by the Panel in relation to carrying out impairment reviews and impairment disclosures.

And to round off, with the IASB consulting formally on its agenda for the first time, in place of our interview this quarter, we bring you a flavour of the views Deloitte put forward in its response to the IASB on the projects we see as a priority.

Deloitte LLP
January 2012

Practical issue: IFRS impairment testing of non-financial assets

In its September 2011 annual report, the Financial Reporting Review Panel ('FRRP' or 'Panel') highlighted areas where in its review of annual financial statements it noted room for improvement in the quality of accounts. One of the areas highlighted was IAS 36 'Impairment of assets' where the FRRP noted some confusion among preparers regarding the application of and disclosures on impairment testing of cash generating units (CGUs) including goodwill. In particular it noted confusion in the different considerations which apply when determining fair value less costs to sell (FVLCTS) and value in use (ViU). This article considers both FVLCTS and ViU and how they differ, and the disclosures on which the FRRP are likely to focus.

Recoverable amount

Overall, impairment tests require the comparison of the carrying amount of an asset or CGU with its recoverable amount being the higher of FVLCTS and ViU. When either of these measures is higher than carrying amount, the asset is not impaired and a further assessment based on the alternative measure is not required.

Market values for CGUs and non-financial assets are commonly not readily available. Therefore, recoverable amounts in annual impairment tests, whether FVLCTS or ViU, are regularly assessed using discounted cash flow (DCF) valuation techniques. While both measures rely on similar concepts (discounting cash flow projections), there are differences in the calculations, with more specific and detailed requirements in IAS 36 for ViU calculations. These differences in the underlying assumptions may lead to a different amount being determined for a FVLCTS assessment, as compared to ViU. Hence care must be taken regarding which approach is being applied and disclosed in the financial statements.

Fair value less cost to sell (FVLCTS)

FVLCTS for the purpose of impairment testing under the current standard is defined as the amount obtainable from the sale of an asset (or CGU) in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

IAS 36 sets out a three step hierarchy for the best evidence of FVLCTS as:

a) a price in a binding sales agreement; or

b) if no such binding sales agreement exists, the current market price in an active market or the price of the most recent transaction; or

c) if neither of these sources of information is available, an assessment based on the best information available of the amount an entity could obtain from the disposal of the asset or CGU.

Whichever of the above methods is used, it should be adjusted for the costs to dispose of the asset or CGU.

In practice FVLCTS applied in impairment testing is commonly estimated using DCF techniques. Since fair values are driven by economic practice the standard describes fair value but it does not provide guidance (as compared to ViU calculations) on how it should be calculated. Consideration must be given to what a knowledgeable buyer would factor into a valuation. Hence, internal cash flow projections are adjusted to exclude any current owner or entity-specific effects that a market participant (hypothetical buyer) would not be able to realise. At the same time the cash flows will be adjusted for those factors that the market participant would consider.

Value in Use (ViU)

ViU is defined as the present value of future cash flows expected from the continuing use of an asset or CGU and, if applicable, its disposal at the end of its useful life. Cash flow projections should be based on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the asset's remaining useful life of the asset or CGU. The cash flows represent entity-specific cash flows and their present value is required to be determined using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Panel noted that it has had occasion to remind entities of the need for the discount rate to be the rate an investor would require today, and be specific to the particular assets or CGU. On this last point the Panel noted that it would not expect to see a single discount rate to be used for different CGUs with different activities.

Differences in DCF calculations for FVLCTS and ViU

A common difference in ViU as compared to FVLCTS calculations relates to restructurings to which the entity is not yet committed, or planned (performance enhancing) capital expenditures. These are excluded from ViU but might be incorporated in a FVLCTS calculation if all rational market participants would be expected to undertake those expenditures and would factor them into the acquisition price. This reflects the underlying rationale that a hypothetical buyer would factor in such expenditures and/or reorganisations in its purchase decision and, hence, these modifications in cash flows will be part of the acquisition price deliberations. Therefore, a planned restructuring scenario that has not yet been provided for in accordance with IAS 37's guidance on provisions but would be undertaken by any rational market participant to increase the value of the CGU, would tend to enhance the estimate of the CGU's FVLCTS but would not affect its ViU. The same might be the case for future value enhancing capital expenditures.

Conversely, entity-specific synergies would need to be eliminated from a FVLCTS. However, synergies that a hypothetical buyer could reasonably realise would remain in the FVLCS cash flow projections.

Another difference between the two valuation models relates to the treatment of financing or tax effects and the appropriate discount rate to be applied and to be disclosed. ViU explicitly requires calculations based on a pre-tax and pre-financing assumption, while FV calculations usually reflect post-tax cash flows and a post-tax discount rate. In practice, since post-tax discount rates are more readily available, entities often apply an iterative process to work back to a pre-tax rate. This is rarely a simple grossing – up exercise and the FRRP noted that it should only include adjustment for tax effects available to the market.

	DCF calculation of…	
	FV	**ViU**
Perspective	• Hypothetical buyer (market view, sale scenario).	• Continuing use of CGU (asset.
Cash flow forecasts	• Exclude entity-specific synergies if not available to the market participants, include only synergies that every rational market participant would factor in.	• Entity-specific synergies included.
	• Include CGU/asset improvements (investments, planned capital expenditures, working capital improvements) if all rational market participants would be expected to undertake those expenditures and would factor them into the acquisition price.	• CGU/asset enhancement to be excluded (maintenance expenses/"day to day service costs" to be considered).
	• All inclusive approach (i.e. may include cash flows related to financing and taxes).	• Pre-tax, pre-financing approach (standard requires assessment excluding cash flows due to entity-specific financing and tax).
	• Adjust all projections such that assumptions are consistent with those of market participants.	• continuing use of the asset, cash flows to be estimated for the asset/CGU in its *current* condition.
Discount rate	• Asset/CGU specific discount rate.	• Asset/CGU specific discount rate (i.e. *not* entity specific).
	• In practice commonly estimated using a peer group to reflect the market participant's cost of capital (hypothetical buyer).	• Pre tax.
Restructurings	• Include (potential) restructuring (and follow on) effects if all rational market participants would be expected to undertake those expenditures and would factor them into the acquisition price.	• Effects from uncommitted restructurings (IAS 37) need to be excluded from cash flow projections.

Disclosures under current IAS 36

Besides disclosures of material impairment losses incurred in the period, the current standard requires certain disclosures for each CGU that contains material amounts of goodwill or intangible assets with indefinite useful lives (immaterial impairments are disclosed in aggregate and with reduced disclosures).

When FVLCTS is not determined based on market assessment (such as a publicly-available market data or a purchase agreement) the standard has similar disclosure requirements to those for ViU. Although the disclosure requirements are almost identical, as we have identified, the underlying assumptions will differ and therefore the basis of the calculation should be clear in the disclosure.

Disclosure required where recoverable amount based on unobserved FVLCTS/ViU:

- the carrying amount of goodwill/ intangible assets with indefinite useful lives allocated to the CGU;
- the basis on which the CGU's recoverable amount has been determined (i.e. value in use or fair value less costs to sell); and
- if recoverable amount is based on discounted cash flow projections:
  - description of underlying key assumptions;
  - description of management's approach to determining the value(s) assigned to each key assumption, i.e. based on past experience or external sources, and, how and why they differ from past experience or external sources of information;
  - the period over which management has projected cash flows (for ViU, based on financial budgets/forecasts with justification when greater than five years);
  - the growth rate used to extrapolate cash flow projections (for ViU, beyond the period covered by the most recent budgets/forecasts and justification where greater than the long term average); and
  - the discount rate(s) applied to the cash flow projections.

IAS 36 has a specific requirement for disclosure of the sensitivity of the recoverable amount of CGUs to reasonably possible changes in a key assumption. This requirement goes slightly further than the general requirements on estimation uncertainty in IAS 1, in that it requires disclosure of the value assigned to the key assumption, a figure that was noted by the Panel as not always included. One final point that the Panel made on disclosures of goodwill impairment testing relates to the requirement in IAS 1 to disclose the judgements, apart from those involving estimations, that 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 statement. The Panel noted that testing of goodwill requires significant judgement which it would expect to be identified and disclosed in accordance with this particular requirement in IAS 1.

Deloitte response to IASB consultation

How has Deloitte responded to the IASB's consultation on its Agenda?

Since its inception in 2001, the landscape in which the IASB operates has changed significantly. Well over 100 countries now require or permit the use of IFRSs, including the majority of the G20. As the IFRS community has grown it has become more diverse and has lead to the identification of new financial accounting issues. Increasingly complex financial markets have also given rise to new issues. We have also seen the acceleration of projects in response to the financial crisis and recommendations of G20 countries. All this, in addition to the focus on US GAAP/IFRS convergence, means that users and preparers have a lot to deal with. The Consultation acknowledges this and takes these aspects into account in setting out the IASB's tentative strategic approach towards its future agenda.

This is the IASB's first formal public consultation on its agenda. This quarter, in place of our regular 'a coffee with...' piece, we bring you a flavour of the views Deloitte has expressed in its response to the IASB, together with a review of the status of IFRS at the beginning of 2012.

The requirement for a three-yearly agenda consultation was introduced by the Trustees in response to comments received during the second Constitution Review of the IFRS Foundation. Deloitte welcomes the Consultation and future agenda consultations by the IASB as a mode of enhanced interaction between the Board and the diverse constituencies to whom it is accountable. Regular agenda consultation should contribute to further respect for and acceptance of both the due process of the IASB and IFRSs themselves. As we comment, however, for this (and any future) agenda consultation to be an effective step in the IASB's due process, the IASB must, for its part, communicate effectively how it has used the input it receives from constituents as it sets its priorities and allocates resources.

In our view, the overall strategic priority of the IASB must continue to be the development of a comprehensive set of high-quality financial reporting standards based on clear principles. We agree with the IASB that the immediate priority must be completion of the remaining four convergence projects with the US Financial Accounting Standards Board (FASB): revenue from contracts with customers, leases, insurance contracts and financial instruments. In our view, "a realistic allocation of significant resources to other projects can only be made once these priority projects have been substantially completed." These four projects address areas that are complex, will have a pervasive effect requiring systems and reporting changes to be made by nearly all entities, and are likely to have profound and long-lasting impacts on both accounting and business practices. Thus, we encourage the IASB and its FASB colleagues to make every effort to achieve converged solutions on these projects and urge the IASB to take time to ensure that the standards in these four key areas are based on clear principles, understandable, operational, cost-effective to apply and able to provide investors and other financial statement users with better information.

Let's turn to what might or should feature on the Board's future Agenda, after completion of these key projects. In its Agenda Consultation document, the IASB identifies the five strategic areas which, in its view, drive its work. They fall into two main categories: the development of financial reporting and the maintenance of existing IFRSs, as follows.

Conceptual framework, including a presentation and disclosure framework	Developing financial reporting
Standards-level projects	
Researching strategic issues for financial reporting	
Post implementation reviews	Maintaining existing IFRSs
Responding to implementation needs	

We comment on the individual merits of individual potential projects in each of the five strategic areas below.

In priority, however, we comment that, over and above assessing the merits of individual projects, the IASB must ensure that its portfolio of projects in hand remains realistic, i.e. is balanced and manageable. Its work plan at any point in time should, in our view, comprise a mix of standard-level projects, narrow-scope amendments and research projects, with the overall number of projects restricted to ensure availability of adequate resources to complete projects properly and to deal with urgent issues as they arise. As we stress, the quality of IFRSs can only be achieved by devoting adequate time and resources to every stage of a project, including initial research to understand thoroughly the nature and scope of the issue and thorough impact assessments and reviews at each stage. In this regard, in recent months we have seen projects such as revenue and leasing being re-exposed as more issues with the initial proposals are uncovered resulting in lengthy periods of consultation and uncertainty for users and preparers. Furthermore, ensuring an effective 'fatal flaw' review is factored into the standard-setting process would give users, preparers and auditors the opportunity to identify any potential first-time adoption issues before a final standard is issued, rather than requiring amendments after it is issued.

Moreover, the pace of standard setting should take into account the fact that constituents also face resource constraints, both in respect of their ability to respond to due process documents and the cost, time and effort involved in implementing changes as a result of new or amended IFRSs. This has led to previous and continuing calls for a 'period of calm' from the issue of new standards. We express the view that standard-setting activities should continue, but encourage the IASB to soften the impacts of change by aligning effective dates and ensuring a balanced and manageable portfolio of projects is maintained.

In response to the two categories of developing financial reporting and maintaining existing IFRSs and the five strategic areas specifically, we make the following observations:

- Conceptual Framework for Financial Reporting. We agree with the continued development and refinement of the Framework to provide a clear set of principles to underpin individual standards, with the financial statement elements and performance being the priorities in our view. We note that, nonetheless, the Framework should be a 'living document' and continue to evolve as new standards are developed.

- Presentation and Disclosure Framework. We believe that presentation and disclosure are two distinct, significant issues to be addressed separately. Development of a Disclosure Framework is, in our view, critical and urgent, particularly in response to criticisms of financial statements' disclosures generated by the financial crisis. Presentation, however, is not a priority, as it cannot be addressed in a meaningful way until the conceptual basis for presentation of items within profit or loss or other comprehensive income has been established though the Conceptual Framework project.

- Criteria for selecting standards-level projects. We agree that the criteria – urgency, importance and prevalence – are appropriate but that they require further definition to ensure consistent application and transparency of the agenda-setting process. We suggest adapting the criteria so that a financial reporting issue is 'urgent and important' when it addresses (i) a topic for which there is no guidance or that needs significant additional guidance; (ii) a topic where the current standard is considered by some to need revising because there are inconsistencies either within the standards or between the standard and the Framework; or (iii) a topic where the current standard is considered not to produce a faithful representation.

- Research activities. A recurring theme in our letter is a suggestion that the IASB use more extensively the resources available to it through national and regional standard-setters. In particular, we suggest that the IASB coordinate a global research network of national and regional standard setters to be able to draw on research produced outside the IASB itself.

- Post-implementation reviews. These should focus on those issues identified as significant and/or contentious during development of guidance and include consideration of any unexpected costs of implementation or other implementation problems (and inconsistent application). We question, however, whether the IASB should perform post-implementation reviews on the basis that independent post-implementation reviews would strengthen its credibility and free up IASB resources to focus on its agenda. In addition, post-implementation reviews should go further by considering whether sufficient application and implementation guidance to support consistent application has been provided. Furthermore, post-implementation reviews should not take a significant amount of time if more robust fatal flaw reviews are performed.

What are the most pressing financial reporting needs?

Resource constraints, both of the IASB and its constituents, means that the IASB cannot address every topic submitted to it for consideration so projects need to be prioritised. We state in our letter that, in planning its work on the development of financial reporting, the IASB should prioritise work on developing the *Conceptual Framework for Financial Reporting (2010)* and beyond that should maintain a balanced portfolio of research, standard-level and narrow-scope projects.

Based on the IASB's criteria of urgency, importance and prevalence, as adapted by us (above), we consider the following projects to be priorities over the coming years. More detail around the reasoning behind our choices can be found in our letter to the IASB.

	Based on IASB criteria of urgency important and prevalence.	
	High priority	**Priority**
Framework-related projects		
The chapter of the Framework on 'elements of financial statements', in particular what is recognised as an asset, should be given high priority. Addressing this area would permit progress on contentious and globally pervasive issues such as the distinction between liabilities and equity and the effects of rate regulation.	✓	
The chapter on 'financial performance' is also critical: the Board needs to consider the fundamental question of 'what is performance?' Particularly, as there is no conceptual basis, or real consensus, on what items of income and expenses, gains and losses should be recognised in profit or loss or in other comprehensive income (OCI), why performance should be reported in OCI and not within profit or loss, and whether gains or losses on an item recognised in OCI can, or should, be recycled to profit or loss.	✓	
Combined financial statements – most securities regulators require the preparation of combined financial statements prepared in accordance with IFRSs, for example, at the time of an Initial Public Offering. The lack of guidance on how, or whether, this may be achieved makes work on the phase of the Framework dealing with the reporting entity concept and combined financial statements a priority.		✓
Common control transactions – the Board suggests common control transactions should be on its agenda. We agree that business combinations between entities under common control are an important and widespread issue for which there is an apparent lack of guidance. However, we do not consider the business combinations aspect of common control transactions to be of sufficient urgency to be addressed by an immediate and narrow scope project. Rather, we think the accounting concepts to be applied to transactions under common control generally should be explored first.		✓
Disclosure framework – financial statements' disclosures have been the subject of much criticism during the current financial crisis. Poor disclosures, or excessive, immaterial or boiler-plate disclosures, i.e. clutter, make it more difficult for users to assess an entity's performance as they can obscure relevant information. The Board suggests consolidating all disclosure guidance into a single IFRS. We don't agree with this approach. We think a Disclosure Framework should be developed, with new and existing disclosure requirements measured against this framework to identify those which could be either amended or eliminated. This is a high priority project, in our view, as a disclosure framework is needed if financial statements are to be clear and concise while of high quality, contain more meaningful information and less irrelevant detail, and thereby serving better the needs of users.	✓	
Standards-level projects		
Debt versus equity – the current requirements of IAS 32 *Financial Instruments: Presentation* on distinguishing between debt and equity instruments are highly complex, poorly understood and, when applied to instruments commonly issued in several jurisdictions, lead to classifications which are criticised for not reflecting the economic substance of the transaction. The nature of the instruments causing concern should be researched and the requirements of IAS 32 and Chapter 4 of the Framework reassessed in light of the research.	✓	
Contingent or variable consideration is a common feature of agreements to buy and sell a wide variety of assets in many jurisdictions. There is a lack of guidance (and, in some cases, inconsistent guidance) on this issue in the various standards dealing with assets (e.g. IAS 16, IAS 38 and IAS 2). In the absence of guidance, application of IAS 39 to the liability to make variable payments may not produce a faithful representation of the economic substance of the transaction.	✓	
Emissions trading schemes – there is a lack of guidance in IFRSs on dealing with these schemes. A narrow-scope project would help reduce the divergence which occurs in practice, as a consequence of the withdrawal of IFRIC 3.		✓
Government levies and similar charges – these 'tax-like' charges are often levied at an amount based on a component of the financial statements. A narrow-scope project to explore whether an amendment to IAS 12 may be appropriate is a priority.		✓

	Based on IASB criteria of urgency important and prevalence.	
Research projects	**High priority**	**Priority**
Intangible assets (including rate-regulated activities) – research in this area is important if the value drivers of contemporary businesses are to be identified, recognised and measured, and will enable the Board to reconsider the boundaries of which sources of value are recognised in an entity's financial statements (and at what value) and those which are not.	✓	
Another topic worthy of research is the *equity method of accounting* as it continues to be an area of controversy and issues of application of IAS 28 arise daily. The fundamental conceptual divide continues to be between those who see equity accounting as a valuation technique and those who see it is a 'one-line consolidation.' We suggest that the Board undertake research to consider the role that the equity method plays, whether it should continue to be used and, if so, when and how (i.e., in consolidated financial statements, separate financial statements or both).		✓
Finally, the issues surrounding accounting for the effects of inflation and deflation (and not limited to hyperinflation) are complex, especially in relation to the notion of capital maintenance. This is a topic the IASB should place on its Research agenda and ask national standard-setters and academic circles to research so it is in a strong position to develop IFRSs in a future agenda cycle.		✓
Post-implementation reviews		
We support the Board's commitment to undertake post-implementation reviews of IFRS 8 *Operating Segments* and IFRS 3 (2008) *Business Combinations* together with the related amendments to IAS 27 *Consolidated Financial Statements*. We also think a post implementation review of IAS 41: *Agriculture* is required, particularly in respect of bearer assets.		✓
Clarity project – a review of existing IFRSs to determine whether further implementation guidance is required.		✓

Which projects could be deferred or removed from the IASB's Agenda?

There are many projects on the Board's agenda which we don't see as a priority and we suggest their removal or deferral.

Topic	Reason why it is not a priority at the current time
Liabilities – amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets	We are not convinced that current practice is flawed and we do not consider that the Board's proposals to date would improve financial reporting.
Country-by-country reporting	While this could be addressed as part of the post-implementation review of IFRS 8 *Operating Segments*, we see country-by-country reporting to be more of a regulatory issue rather than a financial reporting one.
Derecognition	Pending work on the chapter of the Framework on the elements of financial statements (which would likely define what qualifies for recognition), we think that developing an IFRS on derecognition would be premature at this time.
Discount rate	With the issue of IFRS 13 Fair Value Measurement, we do not think that this issue is sufficiently important to be seen as a priority at this time.
Earnings per share	On balance, the reporting requirements for earnings per share in IFRSs, in particular for basic earnings per share, are operational at present. We do not see amending IAS 33 as a priority at this time.
Extractive activities	We think that the issues highlighted in the Discussion Paper issued in April 2010 should be treated as inputs to the proposed research project on Intangible Assets (see above).
Financial statement presentation	We do not see the replacement of IAS 1 Presentation of Financial Statements and IAS 7 Statement of Cash Flows (as proposed in the IASB's Discussion Paper of October 2008) as a priority at this time. Rather, we recommend that the fundamental Framework concepts relating to the elements of the financial statements and performance are addressed as priorities (see above).
Foreign currency translation	We do not see this issue to be pervasive. On the whole, IAS 21 is operating satisfactorily at present and amending it is not a priority, in our view.
Government grants	We do not see amending IAS 20 and IAS 41 (as it relates to government grants) as a priority at this time. On balance, the accounting for government grants in IFRSs is operational at present.
Income Taxes	Although IAS 12 is a complicated standard in practice and implementation issues arise on a regular basis, we do think that the standard is operational at present.
Interim reporting	In our view, the standard is operational at present.

Topic	Reason why it is not a priority at the current time
Islamic (Shariah-compliant) transactions and instruments	We recognise that Shariah-compliant transactions and instruments are growing in importance for financial markets generally. However, we are not aware of particular difficulties of interpretation or application related to Shariah-compliant transactions and instruments in the financial statements of financial institutions reporting in accordance with IFRSs.
Post-employment benefits	Although IAS 19 is a complicated standard in practice, and many implementation issues have been identified as new types of post-employment benefits are identified or developed, we do think that the standard is operational at present.
Share-based payment	Although IFRS 2 is a complicated standard in practice, and implementation issues arise on a regular basis, we do think that the standard is operational at present.

The agenda consultation can be found at http://www.ifrs.org/Current+Projects/IASB+Projects/IASB+agenda+consultation/IASB+agenda+consultation.htm and Deloitte's response to the IASB can be found at http://www.iasplus.com/dttletr/1111agenda.pdf

Top of focus: Revenue from contracts with customers

The IASB and FASB's first exposure draft on this subject, published in June 2010, provoked more than 950 comment letters. These came from a wide range of users and preparers of accounts, crossing a broad number of industries. The comments received have led the boards to make a number of substantial changes to the draft standard. And because revenue is a topic of importance to almost all companies, they decided to re-expose the updated draft.

The core principle of the exposure draft remains consistent with the previous draft. It is that an entity should recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this principle, an entity would apply the following steps:

1. Identify the contract with a customer

2. Identify the separate performance obligations in the contract

3. Determine the transaction price

4. Allocate the transaction price to the separate performance obligations in the contract

5. Recognise revenue when (or as) the entity satisfies a performance obligation

This article summarises the main changes from the original exposure draft and, in addition, highlights the matters on which the boards are specifically requesting comments. The boards are also asking for views on whether the proposals are clear and complete and, when applied, will reflect the economic substance of a company's contracts with customers. They will wish to hear of any unintended consequences arising from the exposure draft.

A summary of the original exposure draft was addressed as a topic of focus in the September 2010 iGAAP newsletter (which is available at www.deloitte.co.uk/auditpublications) and is therefore not discussed in detail here.

Changes on which specific questions are asked

Control – recognition of revenue over time (ED question 1)

Like the original exposure draft, the current exposure draft retains the concept of 'customer control' as a driver for when to recognise revenue relating to a performance obligation. The original exposure draft was criticised heavily for failing to explain clearly how to assess when control passes in respect of services. The current exposure draft provides more guidance in this area. As well as focusing on whether it is clear that the customer controls or has had the benefit of any work done to date, it introduces a new idea. Where the work done to date has no 'alternative use' (i.e. either practically or contractually, the seller would be unable to supply it to someone else), revenue will be recognised over time provided the customer cannot avoid paying at least for the work done to date.

> The boards have requested comments as to whether the criteria proposed to assess when an entity should recognise revenue over a period of time are appropriate. If not, what criteria would more appropriately identify when revenue should be recognised over a period of time.

Collectability (ED question 2)

Previously the IASB and FASB had proposed that the revenue line presented in the financial statements of an entity should be adjusted on initial recognition to reflect the extent to which that amount was judged not to be collectible, i.e. to the extent that bad debts were expected, this should be reflected in directly in revenue. Many respondents felt it important that transparency over the collectibility of revenue should be retained. Therefore, the current exposure draft instead proposes that the revenue line reflects the amount of consideration to which the company expects to be entitled. Any impairment losses relating to contracts with customers (which would continue to be measured and recorded in accordance with the financial instruments standards) should be presented as an adjacent line item, to provide greater transparency to a reader of the accounts of the relationship between revenue and customer credit risk.

> The boards have requested comments as to whether this proposed approach to reflecting customer credit risk in the financial statements of an entity is appropriate. If not, what would be a more reasonable approach?

Constraint on Recognition of Variable Revenue (ED question 3)

The original exposure draft proposed to restrict the transaction price, determined at step 3, to amounts that could be reliably estimated. The new proposals instead require the expected transaction price to be determined at step 3 but with a subsequent additional constraint on the cumulative amount of revenue recognised where there is variable consideration, stating that this should be limited to the amount to which the seller is reasonably assured to be entitled. This judgement will take account of the entity's previous experience with similar transactions and other evidence, but only where experience or evidence is predictive of the amount of consideration to which the entity will be entitled. Where a contract for services includes a contingent amount, these proposals may have the effect, compared to current practice, of recognising revenue at a faster rate until the 'reasonably assured' cap is reached, and then no further revenue until the contingency is resolved.

> The boards have requested comments as to whether the amount of revenue should be constrained in this manner. If not, what manner would be more appropriate?

Onerous test (ED question 4)

Many respondents to the original exposure draft were concerned with the proposals to recognise a liability for an onerous performance obligation rather than an onerous contract. In particular, they argued that it would typically not reflect the economic substance of a contract to recognise a liability (and an initial loss) even though the contract as a whole was expected to be profitable. The boards have retained the proposal to recognise a liability at the performance obligation level, but have limited this to those performance obligations satisfied over time (i.e. services) for which the entity expects, at contract inception, the period of delivery to be longer than a year.

> The boards have requested comments as to whether the scope of the onerous test is appropriate. If not, what alternative scoping should be used?

Interim financial reporting – additional disclosures (ED question 5)

The exposure draft proposes that IAS 34 Interim Financial Reporting be amended in order that certain of the required year end disclosures will also be required in any interim financial reports prepared under IAS 34. The required disclosures would be:

- The disaggregation of revenue
- A reconciliation of movements in the aggregate balance of contract assets and contract liabilities during the reporting period
- Analysis of the entity's remaining performance obligations
- Information in respect of onerous performance obligations and a reconciliation of movements in any corresponding onerous liabilities during the reporting period
- A reconciliation of movements of assets recognised from costs to obtain or fulfil a contract with a customer.

The boards have requested comments as to whether these disclosures should be required in an interim financial report, including respondents' thoughts on whether the benefit of including such disclosures outweighs the costs of preparing and auditing that information.

One final question (ED question 6)

The boards are also asking whether respondents agree that the proposed control and measurement requirements also be applied to the transfer of non-financial assets (e.g. property, plant and equipment) which are not an output of the entity's ordinary activities. If respondents do not agree, they are asked to recommend an alternative for such transfers.

Other matters

Identifying separate performance obligations in a contract

The criteria in the original exposure draft to determine when a company should account for separate performance obligations within one contract were thought by many respondents to be too wide. They would sometimes result in entities recognising many separate performance obligations, which would not necessarily reflect the economics of the contract. This was particularly identified as an issue for the construction industry. The new exposure draft restricts the circumstances in which performance obligations will be accounted for separately. It specifies that where goods or services are highly interrelated and the entity must provide a significant service of integrating the goods or services, and the bundle of goods or services is significantly modified or customised to fulfil the contract, that bundle of goods or services should be accounted for as one performance obligation. This may change the approach currently adopted by some entities, e.g. some providers of software solutions.

Variability of transaction price

A majority of respondents were uncomfortable with the proposal in the original exposure draft to require a probability weighted estimate of a transaction price to be calculated in situations where the transaction price is subject to variability. In response, the IASB and FASB have modified the proposals and entities would now have the choice to use either the method specified in the original exposure draft, or the most likely amount (management's best estimate), whichever is judged more predictive of the consideration to be received. Whichever method is chosen, it must be applied consistently throughout a contract.

Time value of money

The current exposure draft retains the proposal that the determination of the transaction price should incorporate the time value of money where there is a financing component which is significant to the contract. However, as a practical expedient, the current exposure draft states that this is only required in circumstances where, at contract inception, the period between the transfer of goods or services and payment is expected to be greater than one year (whether payment is in advance or arrears). Factors to help entities assess whether the financing component is significant to the contract have been included within the exposure draft.

Product warranties

Almost all respondents disagreed with the proposals in the original exposure draft to distinguish between warranties which cover latent defects in a product at a point of sale and warranties which covered faults arising within a specific period after the point of sale. The current exposure draft eliminates the distinction between the two types of warranty and instead proposes that a warranty be accounted for as a separate performance obligation if either the customer could purchase the warranty separately from the company, or if the warranty provides a service additional to the assurance that the company's past performance was as specified in the contract (e.g. goods were not faulty).

Modifications

The original proposals would have resulted in different accounting for modifications to a contract depending on whether the prices of the modification and the existing contract were interdependent. Many respondents noted that this would often not reflect the substance of modifications; for example, it could result in large debits or credits in the accounting period when the modification is made, even though the modification relates only to goods or services not yet supplied. The boards have refined the proposals in light of the comments received, with the overall effect that many modifications will be accounted for prospectively (i.e. the changes to the contract will be applied from that point in time). The main exceptions arise for incomplete performance obligations, and where the only change to the contract is pricing. In such cases, the boards have retained the original proposals to account for such a modification on a cumulative catch-up basis.

Retrospective application of proposals

The current exposure draft continues to propose retrospective application but, acknowledging that this may be problematic for some entities, the IASB and FASB have included some (relatively limited) transitional reliefs. Where these are used, additional disclosures will be required. The boards have also confirmed that the effective date will be determined so as to give entities adequate time to prepare the balances required in order to apply the standard retrospectively.

What happens next?

The comment deadline for the current exposure draft is 13 March 2012. The boards currently anticipate releasing a final IFRS on Revenue from Contracts with Customers in the second half of 2012, but this will depend on the responses to the current exposure draft. Compulsory adoption of the final Standard would be no earlier than for periods beginning on or after 1 January 2015 (and the Standard will have to be endorsed for use in Europe before it can be adopted in the UK).

Activities of the IASB

Deloitte in the UK has issued an iGAAP Alert covering the proposals in more detail. It is available at www.deloitte.co.uk/auditpublications

A Deloitte podcast is also available at http://www.iasplus.com/podcasts/podcasts.htm where Deloitte experts discuss the key changes that are proposed and provide insights into the likely effect they will have in practice.

IASB publishes a revised exposure draft on revenue recognition

The IASB has published a revised Exposure Draft: *Revenue from Contracts with Customers*. The underlying approach remains broadly consistent with the original ED, although the application of the model has changed in several respects. Further guidance has also been provided, including material on assessing the transfer of control, which drives the timing of revenue recognition for both goods and services. The core principle in the revised ED is that "an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services."

One significant change from the original ED is the introduction of a restriction on 'unbundling' performance obligations within a contract. When an entity provides a significant service of integrating goods or services of the contract into a combined item and the goods or services are significantly modified or customised, the contract is not unbundled.

The exposure draft is open for public comment until 13 March 2012. The press release can be found at http://www.ifrs.org/News/Press+Releases/rev+rec+reexpose+14+Nov+2011.htm

A Deloitte IFRS in Focus newsletter discussing the proposals is available at http://www.iasplus.com/iasplus/iasplus.htm

IASB proposes amendment to IFRS 1 for government loans

The IASB has published an exposure draft proposing an amendment to IFRS 1 addressing how a first-time adopter would, upon transition, account for a government loan with a below-market rate of interest. The amendment would mean that IAS 20's requirement to initially recognise such loans at fair value would only apply prospectively to those loans entered into on or after the date of transition to IFRS.

The exposure draft is open for public comment until 5 January 2012. The press release can be found at http://www.ifrs.org/News/Press+Releases/IFRS1+amendment+Oct+2011.htm

A Deloitte IFRS in Focus newsletter discussing IFRIC 20 is available at http://www.iasplus.com/iasplus/iasplus.htm

IASB publishes IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The IASB has issued IFRIC 20, which addresses the recognition and measurement of production stripping costs as assets. Where the costs from a stripping activity provide improved access to ore, subject to certain criteria being met, a non-current asset is initially recorded at cost and subsequently either carried at cost or a revalued amount, less depreciation, amortisation or impairment losses. If the benefit from the stripping is instead realised in the form of inventory produced, then the costs shall be accounted for in accordance with IAS 2 Inventories.

The IFRIC is effective for annual periods beginning on or after 1 January 2013, with EU endorsement expected in the second quarter of 2012.

The press release can be found at
http://www.ifrs.org/News/Press+Releases/surface+mine+interpretation+Oct+2011.htm

IASB defers mandatory effective date of IFRS 9 to 2015

The IASB has amended IFRS 9 to defer the mandatory effective date from 1 January 2013 to 1 January 2015. The aim is that all phases of the project could have the same mandatory effective date. It has also removed the requirement to restate comparative financial statements for the effect of applying IFRS 9 and replaced this with additional transition disclosures to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments.

The press release can be accessed at http://www.ifrs.org/Alerts/PressRelease/IFRS9+effective+date+Dec+2011.htm

A Deloitte *IFRS in Focus* newsletter discussing the IASB's announcement is available at http://www.iasplus.com/iasplus/iasplus.htm

A Deloitte podcast is also available at http://www.iasplus.com/podcasts/podcasts.htm where Deloitte experts discuss the impact of deferring the effective date.

IASB clarifies its requirements for offsetting financial instruments and amends disclosures

The IASB has issued amendments to IAS 32 *Financial Instruments: Presentation* to address inconsistencies in current practice when applying the offsetting criteria in IAS 32. The meaning of 'currently has a legally enforceable right of set-off' and the fact that some gross settlement systems may be considered equivalent to net settlement are clarified. The amendments, to be applied retrospectively, take effect for annual periods beginning on or after 1 January 2014.

IFRS 7 *Financial Instruments: Disclosures* has also been amended. The IASB and the US Standard Setter, the Financial Accounting Standards Board (FASB) have published converged disclosure requirements that are intended to overcome the differences in their respective offsetting requirements. The amended disclosure requirements of IFRS 7 are effective for periods beginning on or after 1 January 2013 with retrospective application required.

The press releases can be found at http://www.ifrs.org/Alerts/PressRelease/IAS+32+Dec+2011.htm and http://www.ifrs.org/Alerts/PressRelease/IFRS+7+Dec+2011.htm

A Deloitte *IFRS in Focus* newsletter discussing the IASB's clarification is available at http://www.iasplus.com/iasplus/iasplus.htm

A Deloitte podcast is also available at http://www.iasplus.com/podcasts/podcasts.htm where Deloitte experts discuss the recently issued amendments.

IASB issues proposals to clarify the transition guidance in IFRS 10

The IASB has published proposed amendments to IFRS 10 Consolidated Financial Statements which confirm when an entity needs to apply IFRS 10 retrospectively. The amendments are likely to be aligned with the effective date of IFRS 10.

The exposure draft is open for public comment until 21 March 2012. The press release can be found at http://www.ifrs.org/Alerts/PressRelease/IFRS+10+20+Dec+2011.htm

UK Reporting round up

Deloitte in the UK has issued a ukGAAP alert covering the proposals in more detail. This alert and previous alerts on this topic are available at www.deloitte.co.uk/auditpublications

Latest developments in the ASB's proposals for the future of UK financial reporting and a reduced disclosure framework for listed groups

In January 2012, the ASB published its revised proposals for the future of reporting in the UK and the Republic of Ireland in the form of three exposure drafts:

- draft FRS 100 – setting out the accounting framework;
- draft FRS 101 – proposing a reduced disclosure regime for members of a group preparing accounts under full IFRSs; and
- draft FRS 102 – a single Financial Reporting Standard applicable in the UK and Republic of Ireland to replace current UK accounting standards. It sets out a reduced disclosure framework for qualifying entities adopting FRS 102.

Based on feedback to its 2010 proposals, the ASB has proposed extensive amendments to the original FREDs 43 and 44 which consulted on a three tier reporting framework in the UK, and FRED 45 which focused on accounting for public benefit entities. The vision is a cost-effective replacement of current UK GAAP with a single standard, based on the International Accounting Standards Board's (IASB) IFRS for SME's, for those currently within its scope, plus reduced disclosure regimes for qualifying subsidiaries of parents that report under full IFRSs or UK GAAP. It results in a Financial Reporting Standard (FRS 102), which is closer to current UK GAAP than the 2010 proposals but, with improvements e.g. for financial instruments.

Key changes to the previous proposals:

- reference to 'public accountability' eliminated so that there is no mandatory extension in scope of full IFRSs. Financial institutions may continue to use UK GAAP but with enhanced disclosure of financial instruments;
- income tax simplified;
- principle for amending the IFRS for SMEs extended so that existing accounting treatments in FRSs, that are aligned with EU adopted IFRSs, are allowed, e.g. capitalisation of development costs and revaluation of property, plant and equipment;
- cross reference to EU-adopted IFRSs in areas relevant to entities quoted but not traded on a regulated market not addressed in draft FRS 102 e.g. EPS and segmental reporting;
- guidance for public benefit entities to be incorporated in the FRS and revised SORPs likely to be issued; and
- FRSSE to be retained.

The proposals are open for comment until 30 April 2012. The new regime is expected to apply for periods beginning on or after 1 January 2015 which would align it with the likely effective date of certain new IFRSs, including IFRS 9. Early adoption will be allowed.

Further details can be found at http://www.frc.org.uk/asb/technical/projects/project0072.html

Review Panel announces areas of focus

The FRRP has announced its areas of focus for 2012/13 which include the commercial property, retail and support services sectors. A reminder was also given that reports and accounts will be selected from across the full range of companies within the Panel's remit, including large private companies.

The Panel went on to say that it will pay particular attention to the reports and accounts of companies whose shareholders have raised concerns about governance or where there have been specific complaints and that it will continue to liaise with the FSA, particularly in relation to financial service companies including banks.

It emphasises that transparency of reporting is vital in the current environment. As such it will focus on disclosures around risk, including principal risks and uncertainties and risks arising from financial instruments. It will also look for appropriate disclosure of judgements, key assumptions underpinning estimates and associated sensitivities are also identified as areas the Panel will be paying close attention to, as is a continuing review of the application of IFRS 3 (Revised 2008).

The Panel's press release can be found at http://www.frc.org.uk/frrp/press/pub2670.html

Changes to the UK Corporate Governance Code

The FRC has announced changes to the UK Corporate Governance Code in relation to diversity. Listed companies will be required to publish their policy on diversity, including gender, in the boardroom, any measurable objectives set for implementing the policy and progress on achieving the objectives. The revisions also introduce a supporting principle that evaluation of the board should consider the balance of skills, experience, independence and knowledge of the company on the board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness.

These changes will be effective for financial years beginning on or after 1 October 2012, although the FRC is strongly encouraging voluntary application and reporting on the changes with immediate effect.

The press release can be obtained at http://www.frc.org.uk/press/pub2645.html

The October edition of the Deloitte UK publication 'Governance in brief' discusses the changes to the Code in more detail. It is available at http://www.deloitte.com/view/en_GB/uk/services/audit/corporate-governance/index.htm

FRC publishes guidance on potential impact of increased country and currency risk

The FRC has published 'An Update for Directors of Listed Companies: Responding to increased country and currency risk in financial reports'. Companies are operating in uncertain and volatile times and country and/or currency risks have seen significant change in the last year. The Update aims to support Directors in considering the impact of these risks on their annual and half-yearly reports and guide them in providing a balanced and understandable assessment of the company's position and prospects to stakeholders, who are likely to be paying particular attention to these risks and the company's response to them. Many financial institutions regulated by the Financial Services Authority are building on the enhanced disclosures in this area included at the June half-year.

The press release can be obtained at http://www.frc.org.uk/press/pub2694.html

Deloitte in the UK has issued an iGAAP alert covering the topic in more detail which can be found at www.deloitte.co.uk/auditpublications

Deloitte in the UK has issued an iGAAP Alert covering the proposed audit exemptions in more detail. It is available at www.deloitte.co.uk/auditpublications

The October edition of the Deloitte UK publication 'Governance in brief' also discusses the proposed exemption in more detail. It is available at http://www.deloitte.com/view/en_GB/uk/services/audit/corporate-governance/index.htm

BIS consults on extending audit exemption to more small companies and certain subsidiaries

The government has published proposals to exempt further small companies and certain subsidiaries of EEA companies, from audit, taking advantage of provisions in European law. Subsidiaries would be eligible for exemption from audit where the parent company is willing to guarantee the subsidiary's liabilities and the shareholders publicly agree to audit exemption. If the law is changed, it is proposed that the exemptions would be available for periods ending on or after 1 October 2012.

Further details can be found at http://www.bis.gov.uk/Consultations/audit-exemptions-and-accounting-framework

Consultations on FRC and FRRP future

A consultation has been launched by the Financial Reporting Council (FRC) and the Department for Business, Innovation and Skills (BIS), proposing refocusing and streamlining of the FRC. Stakeholders are invited to comment on whether the scope of the FRC's regulatory activities should be narrowed and on proposals to reinforce their independence and replace their existing seven operating bodies with two Board Committees – one focusing on Codes and Standards, the other on Conduct. Responses were due by 10 January 2012.

The FRRP has also launched a consultation on amendments to its operating procedures, although they do not involve any changes in substance to the manner in which the Review Panel will conduct its enquiries. Comments were due by 30 November 2011.

The papers can be found at:

http://www.frc.org.uk/press/pub2653.html

http://www.frc.org.uk/frrp/press/pub2641.html

EU passes micros exemption

The EU parliament has approved measures aimed at simplifying the accounting for the very smallest companies (referred to as 'micro entities') across Europe. Whilst the exact details are still unknown the practical effect in the UK is likely to be relatively limited, with full accounts potentially resembling those currently prepared as abbreviated accounts. The UK government is likely to be keen to implement this change in line with its deregulatory agenda but the very soonest it would be able to do this would be by 6 April 2012. The FRSSE would also likely need revision to maximise the benefits, although this would be contemplated as part of the broader debate on the future of UK GAAP and reporting for small entities. Further information will be provided in due course.

For more information please visit the European Commission's website http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/912&format=HTML&aged=0&language=EN&guiLanguage=en

EC Proposals to amend the Accounting and Transparency Directives

The European Commission have announced proposals to reform and combine the Fourth and Seventh Directives on accounting and to amend the Transparency Directive, the latter being the legislation from which the UK's Disclosure and Transparency Rules are derived. The most notable points within their proposals are as follows:

- the monetary thresholds defining small and medium-sized companies would increase by around 33% based on current exchange rates. The average number of employee thresholds would remain unchanged;
- the requirement for listed companies to prepare Interim Management Statements would be abolished;
- small companies would only need to prepare a balance sheet, profit and loss account and the notes required by the directive – this could require amendment to the FRSSE;
- the proposed Accounting Directive complements the existing proposals on micro entities; and
- large and/or listed companies in extractive industries (oil, gas and minerals) and logging of primary forests would publicly report on payments to governments (national, regional and local). This report would not need to be in the annual report and there would be no audit requirement.

Further details can be obtained at

http://ec.europa.eu/internal_market/securities/transparency/index_en.htm#proposal-modifying and
http://ec.europa.eu/internal_market/accounting/sme_accounting/review_directives_en.htm

New disclosures on auditors' remuneration

New statutory regulations have been published requiring auditors' remuneration for non-audit services to be analysed under eight revised headings (rather than the previous ten). The eight revised headings, including the audits of subsidiaries, are as set out in the attached document which provides a typical example of how the disclosure would appear in the notes to the accounts.

Whilst the amendments are only mandatorily effective for financial years beginning on or after 1 October 2012, early adoption is permitted. The revised analysis is more closely aligned with investor needs to distinguish between audit-related and other non-audit services and with the FRC Guidance for Audit Committees applicable from April 2011 and hence we recommend early adoption. The ICAEW guidance on disclosure of auditor remuneration TECH 06/06 *Disclosure of auditor remuneration* has been replaced with updated guidance TECH 04/11. TECH 06/06 continues to apply to companies that have not adopted the revised requirements. We also expect the APB to make a change to the relevant guidance for communicating to audit committees shortly.

TECH 04/11 can be accessed at http://www.icaew.com/en/about-icaew/what-we-do/technical-releases/financial-reporting

The FRC Guidance on Audit Committees can be found at http://www.frc.org.uk/corporate/auditcommittees.cfm

Sharman Panel recommends improvements to reporting of going concern

The Sharman Panel, established by the FRC, has published a preliminary report with recommendations on how to improve the reporting of going concern and liquidity risks. The recommendations, which will now be consulted on, include moving to a model where directors' report on going concern as an integral part of their discussion of strategy and business risks, rather than a model where companies only highlight going concern risks in the face of significant doubts over an entity's survival. The going concern assessment would also focus on solvency as well as liquidity risks, with stress-testing of both.

The proposals would also move auditors away from the three category model of reporting on going concern, to instead explicitly reporting whether, having considered the assessment process, they are satisfied that they have nothing to add to the directors' disclosures.

The press release can be found at http://www.frc.org.uk/press/pub2656.html

The November edition of the Deloitte UK publication 'Governance in brief' discusses the recommendations in more detail. It is available at http://www.deloitte.com/view/en_GB/uk/services/audit/corporate-governance/index.htm

FSA issues guidance on 'Forbearance and Impairment Provisions – Mortgages?'

The ASB has welcomed a guidance paper entitled 'Forbearance and Impairment Provisions – Mortgages' issued by the Financial Services Authority (FSA). The Paper sets out the FSA's findings during their prudential review of firms' mortgage forbearance and impairment provisions and actions they want firms to take. The review is primarily aimed at residential mortgage lenders or mortgage administrators. It is relevant to financial reporting disclosure from an IFRS 7 perspective and auditors of firms providing forbearance facilities for customers.

The press release can be found at http://www.frc.org.uk/asb/press/pub2643.html

ASB and EFRAG issue Discussion Paper on income tax

The ASB and European Financial Reporting Advisory Group (EFRAG) have published a Discusssion Paper: *Improving the Financial Reporting of Income Tax* to gather views on how the financial reporting of income tax under IAS 12 could be improved. The paper discusses ways in which the usefulness of information prepared in accordance with IAS 12 could be enhanced and also discusses alternative approaches that could form the basis for a new accounting standard that would replace IAS 12.

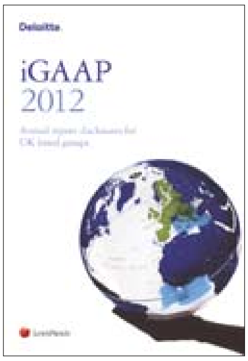
For more information go to www.frc.org.uk/asb/press/pub2685.html

Financial reporting lab publishes areas of focus

The FRC's newly formed financial reporting lab, which brings together companies and investors to identify practical solutions to today's reporting problems, has issued their first update. The update reports on the projects identified at the lab's first meeting, which will now be investigated in order to identify best practice as well as the development of new reporting formats to better meet investor needs. Most items identified were associated with the financial statements but narrative reporting and governance also featured.

For more information about the financial reporting lab visit http://www.frc.org.uk/about/financialreportinglab.cfm

Publications



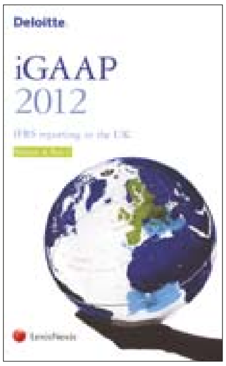
iGAAP 2012 – Annual report disclosures for UK listed groups

iGAAP 2012 – Annual report disclosures for UK listed groups offers far reaching guidance on the presentation and disclosure requirements for the annual report, including financial statements, for UK listed groups.

This edition illustrates the disclosure requirements of inter alia the new UK Corporate Governance Code and FRC Guidance on Audit Committees. New appendices illustrate the potential impact of IFRS 12 Disclosure of Interests in Other Entities and provide an overview of IFRS 13 Fair value measurement.

Beginning with a comprehensive explanation of the UK regulatory framework that forms the foundation of financial statements, this guide goes on to provide a practical model annual report. This in turn is complemented by a full and detailed commentary – highlighting the various disclosure requirements.

iGAAP 2012 – Annual report disclosures for UK listed groups may be ordered from LexisNexis at: www.lexisnexis.co.uk/deloitte

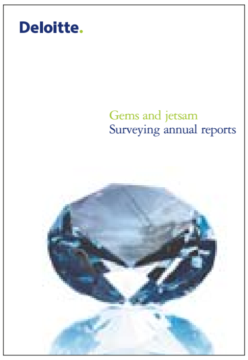


iGAAP 2012 – IFRS reporting in the UK

The sixth edition of this guide sets out comprehensive guidance for UK companies reporting under IFRSs. It has been updated not only to deal with new or amended requirements but also to reflect increased practical experience of dealing with IFRS issues and includes many more illustrative examples. It states the differences between the requirements of IFRSs and UK GAAP and also identifies UK specific requirements that apply to companies reporting under IFRSs.

In the UK, the guide comprises Volume A, IFRS Reporting in the UK (part 1 and part 2) and Volume C, Financial Instruments – IAS 39 and related Standards.

iGAAP 2012 – IFRS reporting in the UK may be ordered from LexisNexis at: www.lexisnexis.co.uk/deloitte



Gems and jetsam – Surveying annual reports

"Gems and jetsam" is the latest version of our annual reporting survey. The survey analyses both the financial statements and the front-end of 130 listed companies and includes a review of:

- how compliance with the disclosure requirements of the Companies Act 2006, the Listing Rules, the Disclosure and Transparency Rules and the Combined Code varied;
- the extent to which companies have adopted the FRC's revised guidance on going concern and liquidity;
- which critical judgements and key estimations directors consider to be the most significant when preparing their financial statements; and
- how compliance with disclosure requirements and the accounting policy choices made under IFRSs varied.

Gems and jetsam is available at: www.deloitte.co.uk/auditpublications

ukGAAP 2011 – Financial reporting for UK unlisted entities

The 2011 edition of our ukGAAP manual is now available on the Deloitte UK Financial Reporting Website. The publication deals comprehensively with the reporting an accounting requirements extant at 31 December 2010, including the updated guidance on distributable profits issued by the ICAEW and ICAS, relevant aspects of the revised SORP Accounting for Limited Liability Partnerships and new guidance on going concern issued by the Financial Reporting Council. The material addressing the complex accounting for financial instruments has been updated to reflect amendments made to the equivalent international standards since our last edition, such as the accounting for equity instruments issued in order to extinguish a financial liability. We have also taken the opportunity to provide additional examples and guidance on issues arising in practice.

Please contact your local Deloitte partner if you would like more information about how to access the UK Financial Reporting Website.

IFRS issued but not yet effective or endorsed by the EU

Title	Subject	Mandatory for accounting periods beginning on or after	Endorsed* or when endorsement expected (EFRAG 26 January 2012)
IAS/IFRS standards			
IFRS 9 (November 2009, revised October 2010)	Financial Instruments: Classification and Measurement	1 January 2015	To be confirmed
IFRS 10 (May 2011)	Consolidated Financial Statements	1 January 2013	Q4 2012
IFRS 11 (May 2011)	Joint Arrangements	1 January 2013	Q4 2012
IFRS 12 (May 2011)	Disclosures of Interests in Other Entities	1 January 2013	Q4 2012
IFRS 13 (May 2011)	Fair Value Measurement	1 January 2013	Q3 2012
IAS 27 (May 2011)	Separate Financial Statements	1 January 2013	Q4 2012
IAS 28 (May 2011)	Investments in Associates and Joint Ventures	1 January 2013	Q4 2012
Amendments to IAS 12 (December 2010)	Deferred tax: Recovery of Underlying Assets	1 January 2012	Q3 2012
Amendments to IFRS 1 (December 2010)	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters	1 July 2011	Q3 2012
Amendments to IAS 1 (June 2011)	Presentation of Items of Other Comprehensive Income	1 July 2012	Q1 2012
Amendments to IAS 19 (June 2011)	Employee Benefits	1 January 2013	Q1 2012
Amendments to IFRS 7 (December 2011)	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	Q4 2012
Amendments to IAS 32 (December 2011)	Offsetting Financial Assets and Financial Liabilities	1 January 2014	Q4 2012
IFRIC Interpretation 20 (October 2011)	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013	Q3 2012

* The critical date when considering endorsement is the date of approval of the financial statements

ASB and IASB timetables

ASB Current Projects

The Future of UK GAAP	• In October 2010, the ASB issued two Financial Reporting Exposure Drafts ('the FREDs') on the future of UK GAAP. • In March 2011 the ASB issued FRED 45 setting out proposals to be included in a Financial Reporting Standard for Public Benefit Entities (FRSPBE) to accompany the FRSME. • ASB received over 290 responses to the FREDs and considered its proposals in light of these responses. • In January 2012, the ASB published its revised proposals in the form of three exposure drafts: – draft FRS 100 – setting out the accounting framework; – draft IFRS 101 – proposing a reduced disclosure regime for members of a group preparing accounts under full IFRSs; and – draft FRS 102 – a single FRS applicable in the UK and Republic of Ireland to replace current UK accounting standards. It sets out a reduced disclosure framework for qualifying entities adopting FRS 102. • Comment period ends 30 April 2012. • Effective date 1 January 2015.
Convergence	• The ASB and the UITF continually consider what consequential amendments will be needed to UK GAAP once the IASB and IFRIC finalise standards, amendments and interpretations.

IASB Project Timeline – Active Projects

Agenda consultation	• Issued July 2011. Deadline for comments closed 30 November 2011. • Feedback statement expected first quarter 2012.
Annual Improvements to IFRSs 2009-2011	• ED issued June 2011, comments period closed October 2011. • Expected effective date 1 January 2013.
Annual Improvements to IFRSs 2010-2012	• ED expected first quarter 2012.
Annual Improvements to IFRSs 2011-2013	• ED expected third quarter 2012.
Amendment to IFRS 1 (prospective application of IAS 20)	• ED issued in October 2011. • Final amendment expected first quarter 2012.
Conceptual Framework Eight phases in all	• Final chapter on objectives and qualitative characteristics was issued in September 2010. • ED on reporting entity was issued in March 2010. The boards have considered the comments they received on the ED and have decided more time is needed to finalise than anticipated. • Consideration of remaining phases is expected to recommence when the IASB concludes on its future work plan.
Consolidation: Transition Guidance	• ED issued in December 2011. • Comment period ends 21 March 2012. • Effective date 1 January 2013.
Consolidation: Investment entities*	• ED issued in August 2011. • Comment period ended 5 January 2012.

Financial Instruments (replacement of existing standards) *	• Classification and measurement of financial assets, Final IFRS issued November 2009. • Classification and measurement of financial liabilities, Final IFRS issued October 2010. • Impairment ED issued November 2009, additional impairment ED issued January 2011 and re-exposure expected second quarter 2012. • Financial asset and liability offsetting, Final amendments to IAS 32 and IFRS issued December 2011. • General hedging ED issued December 2010 with review draft expected first quarter of 2012 and the Final IFRS expected second quarter of 2012. • ED on macro hedge accounting expected third quarter of 2012. • Deferral of mandatory effective date of IFRS 9 to 1 January 2015, amendment issued December 2011.
Insurance Contracts – Phase II	• Exposure draft released for comment July 2010. • Re-exposure or draft review expected second quarter of 2012. • The issue and effective dates are to be confirmed.
Leases*	• Re-exposure expected second quarter 2012. • The issue and effective dates are to be confirmed.
Revenue Recognition*	• Re-exposed November 2012. • Comment period ends 13 March 2012.
Post-implementation review – IFRS 8 *Operating Segments*	• Review initiated first quarter of 2011. • Target completion, 2012.
Post-implementation review – IFRS 3 *Business Combinations*	• Initiate review, 2012.

* 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.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London. 16767A

Member of Deloitte Touche Tohmatsu Limited