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June 2009 – Quarterly edition

iGAAP Newsletter
Beyond the standards

Published for our clients and staff in the UK

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Upfront

The pressure on the standard setters, particular on the need to amend the requirements for financial instruments, has not let up. The International Accounting Standards Board (IASB) are still pressing ahead with work on the replacement of IAS 39 and in our usual update on accounting developments you will note that the project has been split into several parts. The exposure draft on proposals for classification and measurement are expected to be issued in the next quarter, with the impairment and hedging proposals later this year.

Despite the significant work on these urgent projects the IASB is still taking forward the many other projects on their agenda. One of these agenda projects is the long debated topic of leases. In this issue our topic of focus looks at the proposals issued in the discussion paper at the end of March. The pressure on IASB time to debate the subject may explain why the proposals deal only with the lessee accounting, and include only a brief discussion on lessor accounting. Although, we understand that despite the lack of specific proposals on lessor accounting, the IASB have not yet ruled out the possibility that the subsequent exposure draft will address both the lessee and lessor accounting.

Our interview this time is with a Deloitte partner from Copenhagen who is currently working as the Chairman of the Technical Expert Group advising the European Financial Reporting Advisory Group. At a time when we see accounting developments becoming more political it is interesting to hear from someone close to the European politics.

Cash flow and meeting borrowing obligations is of concern to many companies. Our practical issue this time deals with the accounting when financial liabilities are renegotiated. We set out the basic principles that will determine the accounting consequences.

Deloitte LLP
June 2009

Practical issue: Renegotiation of financial liabilities

If an entity renegotiates its debt does it always derecognise the old debt, recognise new debt at fair value and generate a gain or loss? Or might there be a different answer?

It's not surprising in the current economic environment that these have become common questions. There are a number of issues that entities are facing, including: problems in continuing to meet debt covenants; renegotiation to reduce gearing; difficulties in making interest payments; and, restructuring of operations, with withdrawal from some markets leading to early repayment of debt.

Entities will be dealing with these issues in different ways. Renegotiations may lead to the legal amendment of existing term sheets, or it may lead to the entity legally settling the old debt and entering into new debt. However, the legal means by which the changes are affected will not determine how they are reflected for accounting purposes.

Accounting treatment

The accounting treatment required by IAS 39 is driven by the assessment of whether the restructuring is considered to be substantial. The rationale behind this is that insignificant changes to debt should not result in the recognition of an immediate gain or loss in the income statement. So, where it is assessed that no substantial changes have been made to the debt there will be no change to the carrying amount of the debt. Rather, a revised effective interest rate is calculated based on the current carrying value and the revised cash flows.

Where it is concluded that there has been a substantial change to the debt the original liability will be derecognised, the new liability recognised at fair value and any resulting gain or loss recognised immediately.

Substantial changes

There are some 'qualitative' factors that if changed by the renegotiation will always lead to an assessment that the changes are substantial; a change in the currency of the debt, or a change in the counterparty are always substantial. Most frequently there are changes made to the timing and amounts of repayment of the debt. When this is the case a quantitative assessment, the '10 per cent test', needs to be applied to determine whether the changes are substantial. Under this test the net present value of the cash flows of the new or modified liability, is compared with the net present value of the remaining cash flows of the original liability, both discounted at the original effective interest rate of the original liability. If the difference between the two is more than 10% of the NPV of the remaining original cash flows the renegotiation is considered to be substantial.

Fees

Careful consideration needs to be given to any fees incurred in the renegotiations. There may be cases where the borrower pays amounts to the lender that are termed renegotiation fees, but in fact the substance is a compensation payment, for example, for reduced interest payments in future. Any payments identified as such would be factored into the revised cash flows for the purposes of assessing whether there is a substantial change in the debt.

Where the changes to debt are assessed as substantial, such that there is derecognition of the old debt, the fees relating to the renegotiation must be treated as wholly relating to the debt derecognised and therefore expensed.

Where the terms of the new or modified instrument are not substantially different, any costs or fees directly attributable to the renegotiation are treated as an adjustment to the carrying amount of the original liability. This is consistent with the rationale that no gain or loss should be reported where there has been no substantial change.

Example – Entity A borrowed £100 on 1 January 20X0 at a fixed rate of 10% per annum for three years, with interest payable annually in arrears. Issue costs of £5 were also incurred. An effective interest rate of 12.08% is derived from these figures.

During 20X0, because of a fall in interest rates and a deteriorating financial position, Entity A approached the lender to modify the terms of their debt. With effect from 1 January 20X1 the interest rate was reduced to 8% and the maturity date extended by one year. There were no renegotiation fees.

The carrying value of the original liability is calculated as follows:

	Opening balance (£)	Interest at 12.08% (£)	Payments (£)	Closing balance (£)
1 Jan 20X0	0	0	95	95
31 Dec 20X0	95	11	-10	**96**
31 Dec 20X1	96	12	-10	98
31 Dec 20X2	98	12	-110	0

The present value of the modified debt, discounting at the original effective interest rate is calculated as follows:

	Payments
31 Dec 20X1	8
31 Dec 20X2	8
31 Dec 20X3	108
Present value at 1 Jan 20X1 (discounted at 12.08%)	**90**

At 1 January 20X1, comparing the present value of the modified debt of £90 with the present value of the original liability of £96, the difference of £6 is less than 10% of £96 and so the modified terms are not substantially different. Hence, the carrying amount of the original liability is not altered or derecognised, and a revised effective interest rate is calculated such that the revised cash flows discount back to this carrying amount.

Debt for equity swaps

Where entities are struggling to repay their borrowings, some lenders see the best possibility of recovery of the original lending is to relieve the entity of the immediate debt burden in exchange for an equity interest which will give them a longer term stake in the potential recovery of the entity. In such a transaction there will be an extinguishment of the borrower's liability and a simultaneous issue of new shares. The consideration received for the issue of shares is relief of the debt burden and this will be measured at fair value. It is most likely that the fair value of the debt will be lower than the carrying amount, and hence the swap will lead to recognition of a gain in profit or loss.

The IASB issued an exposure draft on derecognition in April 2009, proposing amendments to IAS 39 and IFRS 7. Whilst more notable amendments are proposed around the derecognition of financial assets, the material on derecognition of financial liabilities is not fundamentally altered and the approach outlined above would remain.

Further guidance on renegotiations of financial liabilities and derecognition of financial liabilities can be found in the new Deloitte publication *iGAAP 2009 Financial Instruments: IAS 32, IAS 39 and IFRS 7 explained*.

A coffee with … Stig Enevoldsen

Deloitte Partner and Chairman of the Technical Expert Group (TEG), appointed by the European Financial Reporting Advisory Group (EFRAG)

How would you explain the role of TEG?
The Role of EFRAG is – in popular words – to be the accounting voice of Europe, if that is possible. It gives input to the IASB on its exposure drafts and endorsement advice to the European Commission on final IFRSs and final interpretations for the purpose of inserting them into the EU legislation. The Technical Experts Group (TEG) is appointed to do this for EFRAG.

So TEG deal with most of the detailed accounting technical issues, what else does EFRAG do?
In order to support the endorsement advice given to the European Commission EFRAG also now carries out studies, simple cost benefit analyses, on the IASB proposals to determine the possible effects in Europe.

Those in EFRAG also believe it has a role to support improvements to accounting, and part of that role is to challenge and – hopefully – to enhance the thinking of the IASB. In order to support the IASB and also its European constituents it initiated the European pro-active activity some five years ago. Several high quality proactive papers have been developed to influence the IASB in the early days of its development of new accounting rules, but the papers are also a means to support and enhance the discussions in Europe on accounting issues. In addition members give many presentations and meet with many different stakeholders in Europe to understand the issues and problems people have, and also to explain the IASB positions.

What is the most challenging part of your role?
When I was appointed I expected to become chairman of a technical group, but it seems that in Europe accounting includes quite a bit of politics as well, and I find that the most challenging – apart from being so much away from my family. I live in Copenhagen, Denmark and in a year I spend 100 days or more in Brussels plus 100 days somewhere else in Europe. I am quite often in London to meet the IASB and other important people including my colleagues in Deloitte. It is also very challenging to adjust our activities to the growth of EFRAG’s role and responsibilities.

Do you think we are likely to end up with European standards?
No. I don’t think so. There is a risk if the economic crisis deepens further and if the finance ministers in Europe decide they need accounting to support their task to improve the economy, however odd that sounds. There is another risk namely if the IASB does not listen carefully to the expectation of the European constituents including the European politicians. However, it is my sincere hope that we will not get to European standards. I would rather see Europe move towards global standards instead of regional standards. I think that the IASB listens carefully to Europe and I believe the IASB understands that Europe is important for IASB and for IFRS as global standards. I also believe it listens very carefully to what is said on the technical details. EFRAG gives a lot of technical input and works very hard to ensure it gives credible robust input to the IASB and I think that is appreciated by the IASB. TEG has a very good relationship with the IASB and they support each other on the technical level.

Do you think Europe's voice has been heeded enough by the IASB?
I believe that Europe has had enormous influence on the IASB/IASCF and in many different ways. The governance of the IASB/IASCF is completely different and so much better and transparent now compared to the early years (5-8 years ago), and the procedures of the board are now as transparent as one can reasonable expect or demand. All these improvements stem in reality from demands from Europe. Today, I think it is difficult in practice to criticise the IASB/IASCF procedures. If there are problems with the IASB or the IASCF it is rather the behaviour of the Trustees and the board members in the way they carry out their duties. I think it will be difficult for Europe to maintain such a high level of influence as we have had over the last eight years.

Apart from IAS 39 what do you think the pressure points will be in the next few years?
I think it is very difficult right now, while we are in the middle of this financial crisis, to think about any other issues than accounting for financial instruments. However, there may be other points and one could mention lease accounting and financial statement presentation, meaning the way we present financial statements. However, revenue recognition will most likely be a hot topic in the next year or two because it relates to many other issues such as insurance and liabilities, and also because it has been a big problem in practice even though not so visible. In addition, accounting for insurance may be heavily discussed when the standard is developed. I also believe that there will be a heated debate on the new exposure draft on Fair Value Measurement. The IASB claims that the ED is on how to measure, but I would be surprised if it doesn't create a big debate on measurement in general, including when to measure at fair value and what fair value to use. I think it is a pity that the IASB has never had a full scale debate on fair value, but rather ducked it for almost eight years and they still avoid the debate. I think the debate is needed to get full acceptance for the IFRS and to get to global standards in the end.

How is EFRAG funded?
EFRAG was funded in the early years among others by the pan European accounting, banking and analyst organisations In addition it received a lot of support from companies and in particular the accounting firms by way of voluntary contributions. From 2009 there have been more organised national funding mechanisms established. From 2010 the EU Commission will pay one € for every € the private sector contributes. It means that Europe will have the strength to have a significant accounting voice vis a vis the IASB, and as EFRAG works closely with the European National Standard Setters including the UK ASB we will jointly have resources to develop European thinking, and be able to challenge IASB thinking thereby helping it develop robust standards.

What is the most enjoyable part of your role?
Meeting people from all over Europe and facilitating co-operation. But I am also a kind of accounting freak, so there are many enjoyable parts. I have seen considerable improvements in European accounting over the last eight years, and that is very positive. When you are in this game things go up and down but the overall trend is improvement in accounting, and that makes me feel good.

Good, bad, or ugly?	
IFRS for SMEs?	Good, but long
A European standard setter?	Ugly
SEC Roadmap to adopt IFRS?	Good
Speed of EU endorsement process?	Bad, but better
Expanding the IASB board membership to 16?	Very good
G20 assessment of accounting in the current crisis?	Interesting
The potential threat to the IASB independence?	Bad
Issuance of ED's without proper time for due process?	Bad

Topic of focus: Leases

Reasons for revisiting lease accounting

Leases represent an important source of finance for business. The current accounting standard, IAS 17 *Leases*, distinguishes between those leases that convey 'substantially all the risks and rewards of ownership', known as finance leases, and other operating leases. This distinction is based on a number of potentially subjective indicators and may result in similar leases being classified differently based only on subtle differences. Whilst finance lease accounting results in the recognition of an asset and an associated liability, operating leases are treated as executory contracts and are 'off balance sheet' from the perspective of the lessee. It is this inconsistency in lease accounting and the resulting non-capture of valuable financial information about operating leases that has drawn criticism from users.

A simple lease model?

In an attempt to address these issues, and also to drive convergence between IFRS and US GAAP, a joint discussion paper (DP) has been produced by IASB and FASB. This proposes a new lease accounting model that would capture all leases on the balance sheet and eliminate the finance/operating lease distinction. A lease would give rise to recognition of a single 'right-of-use' asset and a single liability to pay rentals. The two boards consider that this meets the Framework definitions of assets and liabilities because the lessee controls the economic benefits arising from the leased asset during the lease term and cannot avoid the payment of lease rentals. However, many observers note that the liability recognised under the DP will often exceed the unavoidable obligation to pay "minimum lease payments" under the present standard.

The DP first considers a simple lease and then looks at more complex features such as rights to extend or cancel the lease, purchase options, residual value guarantees and other arrangements. The preliminary view is that rather than splitting such elements out they should be taken into account when recognising a single right-of-use asset and a single lease liability. This would capture the interdependence of different lease terms and avoid the difficulty in measuring them separately which would arise if the principles of IAS 39 *Financial Instruments Recognition and Measurement* were applied.

The scope

The DP focuses on the lessee accounting, otherwise proposing the same scope as in IAS 17, although the boards seek views on whether short term and non-core asset leases should be excluded from the scope of any final standard. The focus on lessee accounting is mainly due to time constraints and because it is lessee accounting for operating leases that causes the majority of concerns from users. There will be a need for guidance for those entities that both lease and sub-lease their assets but no preliminary views have yet been reached.

Measuring assets and liabilities – lessee perspective

The obligation to pay lease rentals would initially be measured at the present value of the lease payments discounted at the incremental borrowing rate of the lessee. The proposed discount rate is different from the current IAS 17 requirement to use the rate implicit in the lease and is intended to make application easier for the lessee. Subsequently the obligation would be measured using an amortised cost-based approach, similar to the treatment of debt under IAS 39. The boards have not yet decided whether to include an option to account for the lease liability at fair value.

The right-of use asset would be measured at cost. Initially the cost would equal the present value of the liability to pay lease rentals. Subsequently the asset would be measured on an amortised cost basis. The asset would be subject to impairment review but no guidance has yet been developed on how such a review would be conducted.

Subsequent accounting for changes in lessee's incremental borrowing rate and estimated cash flows

The lease liability is initially recognised based on estimated lease payments and the lessee's incremental borrowing rate at the date of inception. Both of these may change over the life of the lease. The IASB and the FASB agree that a change in the estimated lease payments should result in re-measurement of the lease liability to the present value of the revised estimated cash flows (a 'catch up' approach). However, they do not agree on the treatment of any change in the lessee's incremental borrowing rate over the term of the lease. The IASB suggests discounting using the revised incremental borrowing rate of the lessee reflecting new market conditions. This differs from the IAS 39 treatment of other liabilities, where the original effective interest rate is used. Additionally, the IASB has not yet decided whether to require reassessment of the lessee's incremental borrowing rate at each reporting date or just when there is a change in the future estimated cash flows. The FASB proposes using the original lessee incremental borrowing rate without re-assessment, being simpler and more in line with amortised cost. Whether the adjustment to lease liability from a change in estimated cash flows is recorded in the profit or loss or as an adjustment to the right-of-use asset depends on the reason for the change, as discussed below.

Accounting for lease options to extend, cancel or buy the asset

As mentioned earlier the DP proposes a single asset and single liability model. At the outset the lessee has to determine the most likely lease term and then re-assess it at each reporting date based on any change in facts and circumstances. The assessment would take into account contractual factors such as options to cancel, extend or buy the leased asset, but also non-contractual and business factors. The most likely lease term can be different from the minimum contractual term. If there are several lease options, the lessee again has to decide on the most likely outcome. If it is most likely that an option will be exercised, the lease obligation will reflect any option exercise price, in other words the most likely term of the lease is determined and the lease obligation will be consistent with that assessed term. The boards expect to provide factors that should be taken into account in assessing the lease term. The preliminary view is the these would reflect contractual and non-financial business factors such as industry practice but not lessee specific intentions and past business practice. The adjustment to the lease liability from a re-assessment of the lease term would result in the corresponding adjustment to the cost of the right-of-use asset.

This is a significant departure from the existing leasing standard. It could be argued that the options to extend the lease or buy the asset (however likely they are to be exercised) do not represent current obligations under the Framework definition. The DP argues that the 'purist' treatment of these options as derivatives would result in more complex accounting and difficulties of measurement. However under the DP approach an option to extend the lease on below-the-market terms would be buried in the measurement of the liability. This is a trade-off for the simplicity of the model. The DP proposes to address the issue via disclosures, the details of which have not yet been considered.

Contingent rentals and residual value guarantees

As the name suggests contingent rentals depend on the occurrence of some future event and contingencies usually do not meet the definition of a liability. Currently such rentals are treated as expenses as they occur. However, consistent with the proposed treatment of lease options the DP would require a lessee to reflect contingent rentals in the measurement of the lease liability. The argument is that a contingent rental obligation arises from the past event of entering into a lease agreement and the future events on which the rent is contingent influence only the timing and amount of the rental. Additionally, contingent rentals are often linked to asset performance and the DP approach would initially reflect this in the adjusted cost of the right-of-use asset.

To measure the lease obligation including contingent rentals the DP proposes two approaches: a probability-weighted estimate and a most likely outcome model. Tentatively the IASB would measure contingent rentals based on a probability-weighted estimate basis, while FASB would like to use the most likely outcome.

The IASB wants to reflect a subsequent change in the lease liability arising from a change in the estimated contingent rentals as an adjustment to the cost of the right-of-use asset, treating it as an adjustment of original cost estimate, similar to the treatment of decommissioning liabilities (IFRIC 1). The FASB would reflect these changes in profit or loss.

Proposed accounting for residual value guarantees flows would be the same as the treatment of contingent lease rentals.

Presentation

Unlike the FASB, the IASB does not propose separate presentation of the lease obligation in the statement of financial position, instead suggesting that it be included within an entity's borrowings. The right-of-use asset would be presented based on the nature of the underlying leased asset but distinguishing between leased and owned assets. The income statement treatment would follow the presentation in the statement of financial position. The interest on leases would be part of interest costs, the right-of-use asset, depending on the nature of the asset leased, will be either depreciated or amortised. There would no longer be a rental expense in the income statement as rental payments would be treated as a combination of interest and capital repayments. The DP does not address the treatment of rentals in the statement of cash flows.

What next?

Both the IASB and FASB recognise the need for a simple and comprehensive accounting model for both lessees and lessors. The DP has only briefly touched on the issues of lessor accounting and sale and leaseback transactions, treatment of initial direct costs, service arrangements and disclosure requirements all of which are on the joint project agenda and will require further consideration. The main issue is whether users agree with the simple single asset, single liability model or whether they would prefer to separate the various lease options consistent with the current accounting for other financial instruments. The discussion paper seeks comments by 17 July 2009.

Activities of the IASB

The following amendments can be downloaded from the IASB's website at: www.iasb.org

Deloitte (Global) has published special editions of the IAS Plus newsletter summarising each amendment. You can find them at www.iasplus.com

Amendments to IFRS 2: Group Cash-settled Share-based Payment Transactions
The IASB has issued amendments to IFRS 2 that clarify the accounting for group cash-settled share-based payment transactions.

The amendments clarify how an individual subsidiary in a group should account in its own financial statements for share-based payment arrangements under which the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group has the obligation to settle.

These amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8: *Scope of IFRS 2* and IFRIC 11: IFRS 2 *Group and Treasury Share Transactions*. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11.

These amendments to IFRS 2 apply retrospectively for annual periods beginning on or after 1 January 2010.

Improvements to 12 IFRSs
The IASB has issued Improvements to IFRSs (a collection of amendments to 12 International Financial Reporting Standards) as part of its programme of annual improvements to its standards. The latest amendments were included in exposure drafts of proposed amendments to IFRSs published in October 2007, August 2008 and January 2009.

The improvements include a significant change to the requirements on classification of leases of land and buildings, removing the assumption that leases of land will always be operating leases. The general guidance on determining whether a lease is finance or operating in nature may now lead to some leases of land being classified as finance leases.

Also included is additional guidance on determining whether an entity is acting as principal or agent in revenue transactions and changes to the definition of a closely related embedded derivative in respect of loan prepayment penalties.

Most of the amendments are effective for annual periods beginning on or after 1 January 2010, although entities are permitted to adopt them earlier.

Discussion Paper: Credit Risk in Liability Measurement
The IASB has published a discussion paper (DP) on the role of an entity's own credit risk in liability measurement. It notes that IFRSs require profit or loss resulting from changes in 'own credit' to be booked when debt is fair valued, but that some see the outcome as counter-intuitive (gains recognised in the face of deteriorating credit).

The DP addresses this concern and examines bases for liability measurement other than fair value. The issue of 'own credit risk' has relevance to a range of IASB projects, in particular in the accounting for financial instruments, insurance, fair value measurement and provisions and contingent liabilities.

Comments on the DP are due by 1 September 2009.

Free access to basic IFRSs
The International Accounting Standards Board has begun making available on its website, without charge, the versions of IFRSs (including interpretations) published in the most recent bound volume of IFRSs. This includes the application guidance that is an integral part of those standards, but not material which accompanies, but is not part of, the standards (for example, illustrative examples and bases for conclusion).

Free registration is required and the standards are available in English, French, German, Italian and Dutch.

Proposed amendment to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.*
As a result of the current version of IFRIC 14, entities are in some circumstances not permitted to recognise as an asset prepayments for minimum funding contributions. The ED proposes to correct this unintended consequence of the interpretation.

Comments on the ED are due by 27 July 2009.

Exposure Draft regarding fair value measurement

The IASB has published an exposure draft (ED) of proposed guidance on how fair value should be measured where it is required by existing standards. The ED does not propose to extend the use of fair value measurements in any way but would add disclosure requirements about how fair values were determined. If adopted, the proposals would replace fair value measurement guidance contained within individual IFRSs with a single, unified definition of fair value, as well as further authoritative guidance on the application of fair value measurement in inactive markets. The ED is largely consistent with the equivalent US standard, SFAS 157 Fair Value Measurements as amended.

Comments on the ED are due by 28 September 2009.

The proposals included in the ED may be summarised as follows:

- Fair Value definition. The IASB proposes an exit price definition of Fair Value, being “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”.

- Most advantageous market. Fair Value measurement of an asset or liability assumes sale or transfer in the most advantageous market for the asset or liability available to the entity.

- Measurement assumptions. Fair Value measurement of an asset or liability should use the assumptions that market participants would use in pricing the asset or liability.

- Highest and best use of an asset. Fair Value measurement of an asset assumes that the asset will be sold to a market participant who will use it at its highest and best use.

- Assume transfer of a liability. Fair Value measurement of a liability assumes that the liability is transferred to a market participant at the measurement date.

- Day one gains/losses. In four cases identified in the ED, Fair Value measurement at initial recognition might differ from the transaction price. An entity would recognise any resulting gain or loss unless the relevant IFRS for the asset or liability requires otherwise.

- Valuation techniques. The ED proposes guidance on valuation techniques, including specific guidance on markets that are no longer active. Valuation techniques must be consistent with with the ‘market approach’, ‘income approach’ or ‘cost approach’. An entity would choose the valuation technique most appropriate in the circumstances and for which sufficient data are available to measure fair value.

- Hierarchy of inputs to valuation. The ED proposes a fair value hierarchy that prioritises into three levels the inputs to valuation techniques used to measure fair value:

  – Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

  – Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

  – Level 3 inputs are inputs for the asset or liability that are not based on observable market data (unobservable inputs).

- Disclosures. The ED proposes various disclosures about how assets and liabilities are measured at Fair Value.

UK GAAP Round Up

FRS 30 Heritage Assets

The Accounting Standards Board has issued a new Financial Reporting Standard that will improve the reporting of assets held by museums and art galleries. FRS 30 *Heritage Assets* introduces significant new disclosure requirements for reporting the content and value of collections.

The standard covers heritage assets that are kept principally for their contribution to knowledge and culture, regardless of whether these assets are reported in the balance sheet. New disclosures will provide information about an entity's total holding of heritage assets and its stewardship of these assets.

FRS 30 retains the recognition and measurement requirements in FRS 15 *Tangible fixed assets*, which require heritage assets to be reported in the balance sheet where information is available on cost or value. To encourage a valuation approach in respect of Heritage Assets, FRS 30 allows entities to use internal valuations without the need for a full valuation every five years.

FRS 30 should be applied in respect of accounting periods beginning on or after 1 April 2010. Earlier application is encouraged.

Proposals for improvements to Financial Reporting Standards

The ASB has issued a Financial Reporting Exposure Draft (FRED) proposing amendments to the following standards and UITF abstracts:

- FRS 11 *Impairment of fixed assets and goodwill*
- FRS 20 (IFRS 2) *Share-based payment*
- FRS 26 (IAS 39) *Financial instruments: recognition and measurement*
- UITF abstract 42 (IFRIC 9) *Reassessment of embedded derivatives*
- UITF abstract 46 (IFRIC 16) *Hedges of a Net Investment in a Foreign Operation*

The proposed amendments to FRS 11 are similar in nature to the amendments made to IAS 36 *Impairment of assets* as part of the IASB's 2008 improvements programme and strengthen the disclosure requirements of FRS 11 in respect of the key assumptions used by management in conducting an impairment review.

The proposed amendments to other standards and abstracts mirror those made to the related international standards and interpretations as part of the Improvements to IFRSs published in April 2009.

The amendments to FRS 11 are proposed to apply for periods beginning on or after 1 January 2010. The consequential amendments to FRS20, FRS 26, UITF 42 and UITF 46 are proposed to take effect for the same periods as equivalent amendments in the related international standards and interpretations.

Comments on the FRED are due by 30 September 2009.

Amendment to FRS 29 – Improving Financial Instrument Disclosures

The ASB has issued an amendment to FRS 29 in order to maintain convergence with IFRS 7.

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

These amendments to FRS 29 apply for annual periods beginning on or after 1 January 2009. Comparative disclosures in the first year of application are not required

Financial Reporting Council (FRC) publishes Exposure Draft updating Going Concern Guidance for Directors

The FRC has issued an exposure draft (ED) 'Going concern and Liquidity Risk: Guidance for Directors of UK Companies'. It brings together the following three documents:

- 'Going concern: Guidance for directors of listed companies' issued in 1994;

- 'Going concern and financial reporting: An update for directors' issued in November 2008; and

- 'An Update for Directors of companies that adopt the Financial Reporting Standard for Smaller Entities (FRSSE): Going Concern and Financial Reporting' issued in March 2009.

The ED builds on all three of these documents and provides guidance on both the process to be adopted by directors and the disclosures required on going concern.

The exposure draft does not propose any significant changes from the current three documents but has recast these into the following four principles:

- Directors should make a formal and rigorous assessment of whether the company is a going concern when preparing financial statements intended to give a true and fair view.

- The procedures carried out by the directors should be proportionate in nature and depth depending upon the degree to which going concern is an issue for the company and the size and complexity of the company and its operations.

- Directors should consider all information about the future that they are aware of when concluding whether the company is a going concern at the date of approval of the financial statements. Directors should disclose if the period that they have reviewed is less than one year from the date of approval of annual, half-yearly and interim financial statements that give a true and fair view.

- Directors should make balanced, proportionate and understandable disclosures about going concern in order to give a true and fair view.

As the June 2009 half-yearly financial reporting season approaches, the FRC has clarified its belief that the period which should be considered when preparing a half-yearly financial report is no less than twelve months from the date of approval of the report.

The FRC's plan is to issue revised guidance, based on the exposure draft in November 2009, to apply to periods ending on or after 31 December 2009.

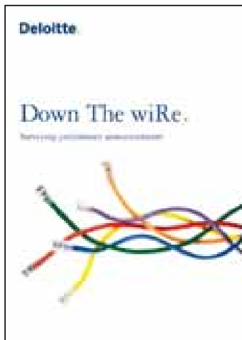
FRC publishes Discussion Paper on Reducing Complexity in Corporate Reporting

The FRS has issued a Discussion Paper (DP) entitled "Louder than Words: Principles and actions for making corporate reports less complex and more relevant."

The DP recommends what is intended to be a commonsense approach to reducing complexity based on principles for better communication in reports and for improving the quality and effectiveness of regulations. It recognises that there is no easy solution and that change will only happen if all of those involved in corporate reporting make a concerted effort.

Comments on the DP are due by 30 October 2009.

Publications



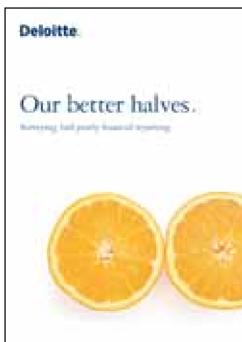
Down The wiRe – surveying preliminary announcements

The new Deloitte publication *Down The wiRe* is the latest in the Firm's financial reporting series, analysing the announcements of annual results made by 130 listed companies.

Down The wiRe reviews:

- compliance with the dissemination requirement of the Disclosure and Transparency Rules;
- the different forms of announcements used by listed companies; and
- what information companies choose to include in their preliminary announcements.

Down The wiRe is available at: http://www.deloitte.com/dtt/cda/doc/content/UK_Audit_Down_The_wiRe.pdf



Our better halves – surveying half-yearly financial reporting

The Deloitte publication *Our better halves* is also from the Firm's financial reporting series, analysing the half-yearly financial statements of 130 listed companies. *Our better halves* includes a review of:

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

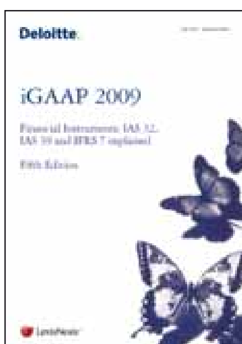
Our better halves is available at: http://www.iasplus.com/uk/0902ourbetterhalves.pdf

IFRSs in your Pocket 2009

This Deloitte publication is a 124-page guide that includes information about:

- IASB structure and contact details.
- IASB due process.
- Use of IFRSs around the world, including updates on Europe, Asia, USA, and Canada.
- Summaries of each IASB Standard and Interpretation, as well as the Framework and the Preface to IFRSs.
- Background and current status of all current IASB projects.
- IASC and IASB chronology.
- Update on IFRS-US GAAP convergence.
- Other useful IASB-related information.

IFRSs in your Pocket 2009 is available at: http://www.iasplus.com/dttpubs/pocket2009.pdf



iGAAP 2009 Financial Instruments: IAS 32, IAS 39 and IFRS 7 explained

iGAAP 2009 Financial instruments: IAS 32, IAS 39 and IFRS 7 explained (Fifth Edition) has been now published. The book remains the most comprehensive publication on financial instruments accounting under IFRSs and continues to include many practical examples, comparisons with US GAAP, an IFRS 7 disclosure checklist and model disclosures. The new edition covers Standards, Interpretations and relevant IASB activities up to 31 March 2009.

iGAAP 2009 Financial Instruments: IAS 32, IAS 39 and IFRS 7 explained is available from LexisNexis at http://www.lexisnexis.co.uk/deloitte/

IFRS issued but not yet effective or endorsed by EU

Title	Subject	Mandatory for accounting periods beginning on or after	Endorsed* or when endorsement expected (EFRAG 8 June 2009)
IAS/IFRS standards			
IFRS 3 (revised January 2008)	Business Combinations	1 July 2009	12 June 2009
IAS 27 (revised January 2008)	Consolidated and Separate Financial Statements	1 July 2009	12 June 2009
IFRS 1 (revised November 2008)	First-time Adoption of International Financial Reporting Standards	1 January 2009	To be confirmed
Amendments to IFRS 7 (March 2009)	Improving Disclosures about Financial Instruments	1 January 2009	To be confirmed
Amendment to IAS 39 (July 2008)	Eligible Hedged Items	1 July 2009	Q2 2009[1]
Amendment to IAS 39 (November 2008)	Reclassification of Financial Assets – Effective Date and Transition	1 July 2008	Q2 2009[1]
Amendments to IFRIC 9 and IAS 39 (March 2009)	Embedded Derivatives	Periods ending on or after 30 June 2009	To be confirmed
Improvements to IFRSs (April 2009)	Improvements to IFRSs 2009	1 July 2009 or 1 January 2010 (varies by standard)	To be confirmed
Amendments to IFRS 2 (June 2009)	Group Cash-settled Share-based Payment Transactions	1 January 2010	To be confirmed[1]
Interpretations			
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009	Q2 2009[1]
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009	To be confirmed[1]
IFRIC 18	Transfers of Assets from Customers	1 July 2009[2]	To be confirmed[1]

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

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

Note 2: applies prospectively to transfers of assets from customers received on or after 1 July 2009, or can be applied to earlier transfers provided the valuations and other information needed to apply to the Interpretation to past transfers were obtained at the time those transfers were made.

ASB and IASB timetables

ASB Current Projects

Convergence	• The ASB and UITF continually consider what consequential amendments will be needed to UK GAAP once the IASB and IFRIC finalise standards, amendments or interpretations.
Retirement benefits	• This project is led by the ASB as part of the PAAinE (Pro-Active Accounting in Europe) initiative – a partnership including EFRAG and European standard setters. • The ASB is currently considering responses to the discussion paper *The Financial Reporting of Pensions*.
Financial statement presentation	• The ASB, as part of the PAAinE (Pro-Active Accounting in Europe) initiative, has welcomed the discussion paper Performance Reporting prepared jointly by the staff of the Spanish standards-setter (ICAC) and of EFRAG, but does not necessarily agree with all of the views expressed in the paper.
Accounting for Income Tax	• The ASB and Accounting Standards Committee of Germany (DRSC) have a joint project to consider accounting for income tax from first principles.
Business combinations	• The ASB, as a result of the IASB issuing a revised IFRS 3 and IAS 27, is reconsidering what action is required to FRED 36, 37 and 39 as part of its overall convergence strategy.

IASB project timeline – Active projects

Annual Improvements to IFRSs – 2008-2009	• Final IFRS issued 16 April 2009.
Annual Improvements to IFRSs – 2009-2010	• ED expected first half of 2010.
Common Control Transactions	• Added to agenda December 2007. • Timing not yet determined.
Conceptual Framework Eight phases in all	• ED on objectives and qualitative characteristics was issued in May 2008. • Discussion paper (DP) on reporting entity was issued in May 2008. ED is expected in second half of 2009. • DP on measurement expected second half of 2009. • DP on elements and recognition expected in second half of 2010.
Consolidation, including SPEs*	• ED issued in December 2008. • Round tables held in June 2009. • Final IFRS expected by second half of 2009.
Convergence – Short-term issues, IFRSs and US GAAP*	**IAS 12 Income taxes** • ED issued 31 March 2009. • Final IFRS expected 2010. **Joint Arrangements – Reconsideration of IAS 31** • ED 9 Joint Arrangements issued September 2007. • Final IFRS expected second half of 2009. **Impairment** • Staff research has begun. • ED expected second half of 2009. **Government Grants** • Work deferred pending revenue recognition, related parties and emission trading scheme projects.
Derecognition*	• ED issued 31 March 2009. • Round tables held June 2009. • Final IFRS expected first half of 2010.
Discontinued operations amendment	• ED issued September 2008. • Amendment expected 2009.
Earnings per share amendment	• Exposure draft issued in August 2008. • Final IFRS expected second half of 2010.
Emissions Trading Schemes	• ED expected second half of 2009. • Final IFRS expected 2010.
Fair Value Measurement Guidance	• ED issued May 2009. • Final IFRS expected first half of 2010.
Financial Instruments with the Characteristics of Equity *	• DP issued February 2008. • ED expected second half of 2009. • Final IFRS expected 2011.
Financial Instruments (replacement of existing standards) *	• Classification and measurement ED expected third quarter and final IFRS fourth quarter of 2009. • Impairment and hedging EDs expected second half 2009, final IFRSs expected first half of 2010.

Financial Statement Presentation* Phase B: Presentation on the face of financial statements	• DP issued October 2008. • ED expected first half of 2010. • Final IFRS expected 2011.
IFRS 1 First-time Adoption of IFRSs – additional exemptions	• ED issued September 2008. • Final IFRS expected second half of 2009.
IFRS 2 Amendment – Group Cash-settled Share-based Payment Transactions	• ED issued December 2007. • Final amendment issued June 2009.
Insurance Contracts – Phase II	• DP issued May 2007. • ED expected second half of 2009. • Final IFRS expected 2011.
Leases*	• DP issued March 2009. • ED expected first half of 2010. • Final IFRS expected 2011.
Liabilities (IAS 37 amendments)	• ED issued June 2005. • Final IFRS expected second half 2009.
Management Commentary	• DP issued October 2005. • Output will be best practice guidance, not an IFRS. • ED issued June 2009. • Final guidance expected second half of 2010.
Post-employment Benefits (including Pensions)*	• DP issued March 2008. • ED expected second half of 2009. • Final IFRS expected 2011.
(IFRS for) Small and Medium-sized Entities	• ED issued February 2007. • Final IFRS expected 2009.
Rate-regulated Activities	• ED expected second half of 2009. • Final IFRS expected first half of 2010.
Related Party Disclosures (IAS 24)	• Revised ED issued December 2008. • Final IFRS expected second half of 2009.
Revenue Recognition*	• DP issued December 2008. • ED expected in 2010. • Final IFRS expected 2011.

IASB project timeline – Research agenda

Extractive activities	• Group of national standard setters conducting research. • DP expected 2009.
Intangible Assets*	• Decision in December 2007 not to add to agenda but continue as research project.
Credit risk	• The Board has not yet determined the steps in this project.

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

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

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Designed and produced by The Creative Studio at Deloitte, London. 31338

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