

iGAAP Newsletter
Beyond the standards



Contents

Upfront	1
Practical issue: Earnings per share	2
A coffee with ... Wayne Upton	6
Topic of focus: Ten years of EFRAG achievement	9
Activities of the IASB	11
UK GAAP Round Up	12
Publications	15
IFRS issued but not yet effective or endorsed by the EU	16
ASB and IASB timetables	17

Upfront

As the IASB approaches its tenth birthday, it is looking beyond completion of its current projects to assess its future strategic direction and which projects should occupy its time over the next three years. EFRAG is also celebrating its ten years of operation and in this quarter's Topic of Focus we take stock of the challenges that lie ahead while reflecting on all that has been achieved by EFRAG in the last decade.

One challenge that faces preparers of financial statements on a regular basis is the calculation of earnings per share – a task with which intuition and common sense provide limited assistance. Our Practical Issue this quarter addresses some of the issues and questions that often arise in navigating the requirement of IAS 33.

Our interviewee this quarter has just taken on one of the IASB's key positions. Wayne Upton was appointed to chair the IFRS Interpretations Committee (IFRIC) in July and spoke to us following his first meeting with the committee to give us an insight into what he views to be IFRIC's role and how he plans to implement that.

Deloitte LLP

September 2011

Practical issue: Earnings per share

For some investors, arguably the most important figure in annual reports that sums up the performance of the entity is earnings per share (EPS). Others would disagree, believing that it is impossible to capture the performance of an entity in a single figure. Those in this latter camp would happily remove the requirement to present EPS. However, it seems very likely that IAS 33 *Earnings per Share* is here to stay, although it is on the list of the IASB's possible agenda items.

The practical difficulties experienced in calculating either basic or diluted EPS possibly stem from a difficulty in identifying a clear principle in IAS 33 that determines how factors should impact the EPS figures. Instead, the standard specifies some specific mechanical treatments for various circumstances which in some respects appear to be at odds with a logical view of what the figure should portray. In this article we look at some of the definitions and points to watch out for when calculating EPS.

All companies with ordinary shares or potential ordinary shares (such as options or convertible debt) which are publicly traded must disclose EPS. In addition, companies applying for a listing must also disclose EPS in their prospectus. A listed parent company which prepares combined consolidated and separate financial statements may present EPS on a consolidated basis only.

Also, IAS 34 *Interim Financial Reporting* requires that interim reports contain EPS disclosures in the same form as required by IAS 33 for full financial statements, presented for the current and all comparative periods.

IAS 33 sets out two measures of EPS which must be disclosed on the face of the Income Statement – **Basic** and **Diluted EPS**. Companies may disclose other adjusted EPS measures, but these should not be given more prominence than the required measures. In addition, if an entity has any discontinued operations under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, **basic** and **diluted** EPS should be presented separately for both continuing and discontinued operations, as well as for the entity as a whole.

Key terms	
Basic EPS	A measure of the interest of each ordinary share in the performance of the issuer over the reporting period.
Diluted EPS	Basic EPS adjusted for the effect of all potential ordinary shares .
Ordinary shares	Equity instruments which have the lowest priority of participation in profit for the period. If an entity has multiple classes of share, it needs to determine which of these has the lowest priority – this will be the 'ordinary share' class for EPS purposes. If two or more classes of shares rank equally at the bottom of the priority list, EPS will need to be calculated for each of these, taking into account the relative rights.
Potential ordinary shares	Options, warrants, convertible debt, convertible preference shares – anything that could be turned into ordinary shares. Includes obligations under share-based payments, such as employee share schemes or contingent consideration arrangements for business acquisitions, even though these may still be partly contingent on future events.

How do I calculate basic EPS?

Basic EPS is calculated as:

$$\frac{\text{Profit/(loss) attributable to ordinary equity holders}}{\text{Weighted average number of ordinary shares outstanding}}$$

Profit/(loss) attributable to ordinary equity holders is profit after tax and amounts due to non-controlling interests, less any amounts due to holders of *preference shares* which are accounted for as equity. These will typically be preference dividends, but may also include any other earnings effects of such shares.

Weighted average number of ordinary shares outstanding is the number of shares outstanding at the beginning of the period, adjusted by the number of shares bought back or issued during the period on a time-weighted basis. Some other situations that may affect the denominator include:

Shares held by the entity	These are <i>not</i> treated as shares in issue, and are therefore deducted from the denominator. The same applies to shares held by an employee benefit trust sponsored by the entity.
Partly paid shares	These are treated as a fraction of a share <i>to the extent that they are entitled to participate in dividends</i> during the period.
Contingently issuable shares	These are not included in basic EPS, unless they are contingent <i>only</i> on the passage of time, with all other conditions having been satisfied – e.g. deferred shares. See below.
Bonus issues, share splits, share consolidations and any other transactions which change the number of shares in issue without changing the entity's resources	When a bonus issue or similar transaction takes place, the number of ordinary shares outstanding is adjusted as if the transaction had taken place at the start of the earliest period for which EPS is presented, to maintain comparability. This will result in a restatement of prior year EPS figures. Note that if a bonus issue takes place after the end of the period but before the financial statements are issued, EPS should be disclosed on a <i>post-bonus issue</i> basis.
Rights issues	A rights issue, where typically shares are issued to existing shareholders for less than the current market price, is accounted for by adjusting from the start of the earliest period for the 'bonus element' of the rights issue. The 'bonus element' arises because the transaction could be viewed as issuing some shares for market value and some for nothing. The bonus element is calculated using a 'theoretical ex-rights price' and comparing this to the market price prior to the rights issue.

Contingently issuable shares that are contingent only on the passage of time will be included in the calculation of basic EPS. Such instruments would include mandatorily convertible preference shares whether classified as partly debt and equity or wholly equity dependant on the specific terms on any coupon or dividend. The weighted average number of shares would be adjusted for such instruments from the initial date of issue of the convertible instrument. The profit or loss attributable to ordinary equity holders will be after any interest or preference dividend payable on the mandatorily convertible instrument. This may seem counter-intuitive since when conversion occurs such amounts will no longer be paid.

What about diluted EPS?

Diluted EPS is calculated by taking the numerator and denominator from the basic EPS calculation and adjusting each of them for the effects of dilutive potential ordinary shares. Potential ordinary shares are treated as dilutive if their conversion to ordinary shares would decrease EPS (or increase loss per share) *from continuing operations*. In some rare instances, this can lead to diluted EPS for all operations being greater than basic EPS, if there are potential shares which are dilutive for continuing operations but not overall.

Diluted EPS is calculated as:

$$\frac{\text{Earnings per basic EPS} + \text{adjustment for dilutive potential ordinary shares}}{\text{No. of shares per EPS} + \text{adjustment for dilutive potential ordinary shares}}$$

The effect on earnings is generally the actual charge to P&L that would be avoided by conversion. This will be interest costs less any associated tax deductions for liabilities held at amortised cost, or fair value movements taken to the P&L for liabilities held at fair value through the profit and loss.

To calculate the effect on the denominator, dilutive potential ordinary shares are deemed to be converted into shares at the later of the date of issue and the beginning of the reporting period. However, *the approach used to determine the numerical effect depends on the type of instrument*. For convertible debt, convertible preference shares or other similar convertible instruments, the denominator is increased by the number of shares that would be issued if the instrument were converted – this is referred to as the '**if-converted**' method. This can give slightly counter-intuitive answers, as conversion is assumed even if the conversion option is 'out of the money'.

Worked example – ‘If-converted’ method

An entity has 1,000,000 £1 ordinary shares and 1,000 £100 10% convertible bonds (for simplicity assumed to be issued at par), each convertible into 20 ordinary shares on demand, all of which have been in issue for the whole of the reporting period. The entity’s share price is £4.50 per share and earnings for the period are £500,000.

Basic EPS is therefore 50p per share (500,000/1,000,000). The dilutive effect of the convertible bonds is:

Earnings effect: No. of bonds x nominal value x interest cost, less tax deduction at 27%
 $1,000 \times 100 \times 10\% \times (1-27\%) = 7,300$

Share effect: Assume all bonds are converted to shares, even though this converts £100 worth of bonds into 20 shares worth only £90 and is therefore not economically rational. This gives $1000 \times 20 = 20,000$ additional shares

Dilutive effect of bonds: $\frac{7,300}{20,000} = £0.365$

Therefore the bonds are dilutive. Diluted EPS is $\frac{£500,000 + £7,300}{1,000,000 + 20,000} = 49.7\text{p per share}$

Options (and warrants) only have a dilutive effect if the exercise price is less than the average share price for the period. To calculate the impact, the average share price for the period is compared with the exercise price of the option, equating the exercise of the options with a situation where some shares are issued for full price and some for free. The number of shares which would have been issued for full value, and are deemed to have no effect on EPS, is calculated by dividing the total proceeds of the exercise of the option by the company’s average share price for the period. The number of ‘free’ shares, deemed to be dilutive, is the difference between this and the total number of options. This is referred to as the ‘**treasury stock**’ method and, unlike the if-converted method, does take into account if the option is ‘in the money’ or not. See the worked example for employee share options below for an example of the treasury stock method.

The dilutive effect of each class of potential shares is calculated as:

$$\frac{\text{Effect on EPS numerator}}{\text{Effect on EPS denominator}}$$

Once the dilutive effect of each class is known, they are ranked from most to least dilutive. Basic EPS is adjusted by each in order, until the dilutive effect of subsequent classes is greater than the current adjusted figure. This figure is then the diluted EPS.

Two common complexities with diluted EPS are discussed below. There are a number of further illustrative examples in the appendices to IAS 33, covering other situations.

Diluted EPS – contingently issuable shares/options

Contingently issuable shares are shares which may be issued in the future, depending on performance criteria. IAS 33 specifies that these should be included in the calculation of diluted EPS *based on the number of shares which would be issued if the end of the reporting period were the end of the contingency period*. Contingently issuable shares never have an earnings impact, so they will always be dilutive.

If the contingency is in the form of total earnings during a period (e.g. total PBT of £3m over the next three years), this assessment is straightforward e.g. if the £3m has been met at the end of the first year then the additional ordinary shares are taken into account in the calculation of diluted EPS. However, if it is expressed as average earnings (PBT of £1m per year for each of the next three years) this should be converted to the equivalent total earnings position (total PBT of £3m over the next three years) in order to make the assessment. So if the profits are £1.5m at the end of the first year, no additional shares are brought into the calculation. However, if profits are £5m at the end of the first year, the additional shares are included in the calculation of diluted EPS because, if the end of the first period were the end of the contingency period, the condition would have been achieved.

Diluted EPS – employee share options

Employee share option schemes may have a dilutive effect on EPS even prior to vesting. For unvested options which are contingent on performance measures, the entity will need to determine whether or not they are expected to vest, as described above for contingently issuable shares and options. If vesting depends purely on completion of a period of service, the calculation is done on the basis that *all* employees in employment at the end of the reporting period complete the period of service.

An earnings adjustment may be necessary for share option schemes which can be settled either in cash or in shares at the discretion of the employee. IFRS 2 assumes cash settlement but IAS 33 considers the position assuming equity settlement, and therefore any charge to the income statement which would not have been recognised for an equity-settled scheme should be reversed.

To calculate whether options which are expected to vest under a share option scheme are dilutive or not, the exercise price of the option *plus the remaining IFRS 2 charge relating to it* are compared to the average share price for the period.

Worked example – employee share options

ABC Plc has 50 employees, each of whom has 1,000 unvested share options in a share option scheme. The exercise price of the options is £5 and the fair value of services still to be rendered by each employee, calculated in accordance with IFRS 2, is £1,200. ABC Plc has 1,000,000 ordinary shares in issue and the average share price for the period was £10. Earnings for the period were £500,000.

Total exercise price of share options = nominal exercise price + remaining IFRS 2 charge per option

$$\begin{aligned} &= 5 + \frac{1,200}{1,000} \\ &= £6.20 \end{aligned}$$

Treasury stock' method calculation of dilutive effect

$$\begin{aligned} \text{Number of 'full price' shares} &= \frac{\text{Number of options} \times \text{exercise price}}{\text{Average price for the period}} &= \frac{50 \times 1,000 \times 6.2}{10} \\ & &= 31,000 \end{aligned}$$

$$\begin{aligned} \text{Number of 'free' shares} &= \text{number of options} - \text{number of 'full price' shares} &= 50,000 - 31,000 \\ & &= 19,000 \end{aligned}$$

$$\begin{aligned} \text{Diluted EPS} &= \frac{500,000}{1,000,000 + 19,000} \\ &= 49.1\text{p per share} \end{aligned}$$

Adjusted EPS

Entities wishing to disclose an adjusted EPS figure may choose any number as the numerator, provided they disclose a reconciliation from it to a number in the income statement. However, the denominator in such an adjusted EPS calculation (either basic or diluted) must be determined in accordance with IAS 33.

Looking to the future ...

In August 2008, the IASB issued an exposure draft on simplifying earnings per share. However, with the arrival of the financial crisis and the fallout from it taking centre stage, this project was put on hold. As part of the current consultation on the IASB's agenda, revisions to IAS 33 are once again under consideration, however it is unlikely that a new standard will be issued for several years.

A coffee with ... Wayne Upton



Wayne Upton is chairman of the IFRS Interpretations Committee and Director of International Activities at the IASB. The latter role involves assisting both major and transitional economies in making the transition to IFRSs and implementing IFRSs. Originally from the US, he spent 17 years at the US Financial Accounting Standards Board (FASB) before joining the IASB in 2001.

You have just been appointed chairman of the IFRS Interpretations Committee (IFRIC). What excites you most about taking on that role?

When I came to work here in 2001, I told David Tweedie that chairman of IFRIC was the only job that I wasn't interested in; but that was then and this is now. In the last three years or so my International Director role has been helping people get over implementation issues and problems that they have adopting IFRSs, and to keep the Board informed on these issues. I am going to continue to do that job and it nicely dovetails with the Interpretations Committee job. It's neat, its problem solving, it's helping people. This is plumbing, not rocket science. It's making sure the water flows through the pipes and gets out of the bottom. So I see this as an opportunity for us to maybe expand a little bit on what we are already doing in other areas.

The IFRS Interpretations Committee has perhaps been criticised in the past for being slow and perhaps too narrow in its remit?

I think there is an enormous desire among our constituents world-wide for more help with implementation. You can see that reflected in the Trustees strategic direction and in our agenda consultation. I think the Committee is favourably inclined to doing more and we're going to have to do some experimenting to see how we can turn that into a reality. The Committee is never going to be fast because while people want speed they want to make sure that it's consulted with the national standard-setters. That can take a month. They want to make sure that it is duly deliberated. That can take two months or more. This particular Committee is never going to be rapid response because it issues interpretations that have the same standing as a standard and people want to make sure those interpretations have appropriate due process.

Do you think the remit should be widened?

One of the concerns that the accounting firms and preparers have is that if we do any informal things like expand agenda rejections or try to provide some guidance on one of those agenda rejections it is not authoritative. We've got to work through some of the competing pressures and I don't want to go into this with pre-conceived ideas. When you get to be my age you realise how often those get proven wrong. We've clearly got the desire to do more, we have just got to get out there and see how to do that.

So how did your first meeting go?

Well I don't have any visible scars. It actually went better than I expected but you know any time you do something like that you go out for a walk at lunch time and say gosh I could have done this or that better. You self-reflect, but I think it went well. We have in our next meeting some controversial topics and I expect the next meeting to be more difficult than the first one was. IFRIC 15 agreements for the construction of real estate will be back on the agenda. I do have physical scars as a consequence of that. It is a big deal in Asia and South America.

The IASB, as you mentioned already, is consulting on its agenda. What do you think they should be focusing on?

Well, as a staff person, tragically I don't get to vote. Number one, we're a long way away from adding anything because looking at the calendar and considering how long we're going to take with insurance and financial instruments, leases etc. I doubt the Board is going to want to take on additional work until it finishes those. My personal preference, and I think it is somewhat consistent with what Hans Hoogervorst and Ian Mackintosh have said, is not to do all big or all smaller projects, we need a mix. There are some on that list that could be done fairly quickly, if you could keep the scope focused. Agriculture would be an example of a project that you could keep fairly focused and do quickly. In contrast one that I find personally quite fascinating is the Shariah based financing, but a project on that would be much more fundamental.

Do you think setting the agenda is going to be as difficult as some of the projects themselves?

Yes.

You used to work at the FASB. Are the challenges you faced there very different to the challenges the IASB face?

Well David Tweedie built a different culture here than the culture at the FASB and I have given up trying to decide whether one was better than the other, but they sure are different. At the FASB, much of the work is staff centred and that drives a lot of the thinking. David never wanted that here. He wanted Board members and the chairman to be much more the driver of things so he built a different culture here.

How do you see the role of National standard setters changing for countries using IFRS? Do they have more of a significant role to play in supporting the IASB?

Put it this way I haven't seen a single national standard setter that got smaller after they adopted IFRS. They have either stayed the same size or got bigger and there are a couple of reasons for that. One is that most of them still have some local role to play in something else, whether its governmental accounting, or not for profit, or small business or whatever, but more importantly, as players in our game they are absolutely critical. I wouldn't go to China to meet people without mentioning it to the Ministry of Finance, which is their standard setter, it's a courtesy. More importantly if I really wanted to meet with a whole bunch of people in Japan about hedge accounting I'd work with the ASBJ. They are also a natural way for us to find future Board members. If you look at our Board members, some of them came from national standard setters and I wager more will in the future.

In Europe some of the standard setters have been working with EFRAG to try to do research that is then fed into the IASB. Do you think you'll see more of that from more countries?

I think so. One of the directions that Hans and Ian want to take, and I applaud, is to have more of a research function. One of my great frustrations in standard setting is that we have always tended to judge ourselves by the number of standards we set and maybe there are times when just doing nothing would be a good plan. Or maybe you can take a project part way and then decide it isn't going to go any further in my lifetime or at least in my working career which is getting shorter all the time; but let's not lose the intellectual capital so let's publish something so that 10 years from now somebody can pick it up and say ok Upton had something interesting to say. So they're committed to doing more of that kind of research work and certainly some of the stuff that the national standard setters have produced has been pretty good and pretty thoughtful.

You are also Director of International Activities which has focused on emerging economies, what exactly has that involved?

Well David came into me a couple of years ago and said the Trustees want you to do this, so I said yes sir and then spent the best part of a year attempting to get it together. It became clear to me that we needed a venue to talk about issues from a purely emerging economy perspective. So, we formed the IASB Emerging Economies Group, which I chair and the secretariat is provided by the Chinese Ministry of Finance. When I set out on it I wanted to accomplish two things. One, I didn't want it to be another meeting with standard setters, we have enough of those. Two, I wanted to provide sufficient time to really get to the bottom of issues. If it took a whole day to discuss one issue, then so be it. In most of the meetings that we have the most that gets devoted to an issue is about an hour. A lot of the issues are too hard to do in an hour. The Chinese really have helped us on this one; they get the lion share of the credit for making this work because their idea was to involve both standard setters and subject matter experts. So our first meeting was in Beijing and we talked about IFRS 13 on fair value measurement.

The objective was to get something that would feed into the educational process and I think it was successful. China prepared the first draft and then all of the rest of the members pitched in. It was amazingly comprehensive. The next meeting is going to be in Delhi and is going to be on foreign exchange.

So you are dealing with the real practical issues for them on the ground of adopting IFRSs?

Yes. Members asked us to expand the meeting to a day and a half and use that half day to discuss two or three smaller problems. Perfect example, in Indonesia nobody can own land. The land is all owned by the state. And people acquire the rights from the state to use land. Is it a lease, is it intangible, is it the same as land but not quite? But going back to one of my earlier comments you have exactly the same situation in China in that the state owns all land. So the aim is to deal with it in the same way in Indonesia as it is dealt with in China. If you want global accounting standards, these are the types of issues that need consideration.

So you clearly do quite a lot of travelling then. Where would you say is your favourite destination?

Connecticut, where my family is. Second place would be Silver Springs where my granddaughters live. There are not many places that I've been to that I wouldn't be happy to go back to. We are doing a conference in Brazil, I'm going to Oman this year, Kuala Lumpur later this year and a couple of other places. I'm still travelling 50% of my time.

What three words would you use to describe working for the IASB?

Well that depends on the day! There are days when frustrating, irritating and maddening spring to mind. When you've been in this business 25 years it's easy to say you have seen it all and I have seen a lot of stuff that didn't work and you need to remember those experiences, but it stays fresh, it really does and my colleagues on the staff are absolutely top flight people. So maybe fresh, and occasionally entertaining.

Is there a worse standard do you think out of all the standards?

IAS 18 on revenue. It is the worst standard ever written, closely followed, or maybe a tie with IAS 20 on government grants.

What's your favourite standard or topic?

Over the years I have worked more on insurance issues than any others. But with my current responsibilities I haven't been as involved in our insurance project as I'd like to be. A growing area of importance is Shariah-compliant financial transactions, and that is an area that fascinates me.

Topic of focus: Ten years of EFRAG achievement

Robert Bruce, Deloitte's regular resident commentator, provides insight and background to financial reporting developments in the Bruce Column on IASplus (www.iasplus.com). This is the latest Bruce Column.

In mid-October EFRAG, the European Financial Reporting Advisory Group, celebrates its tenth anniversary. And Françoise Flores, its Chairman, is proud of its achievements and feels it has been an influential force for good, rallying the rest of the world behind the IFRS flag. In particular she sees it as having had a parallel life alongside the International Accounting Standards Board, (IASB). EFRAG, she says 'has accompanied the adoption of IFRS in Europe and has closely monitored and assessed the development of IFRS during these ten years. We have also devoted significant efforts with our national standard setter partners to start proactive activities and hence pool European resources and energies together'.

For her the most significant point was the decision which Europe took in 2002, and which came into force in 2005, mandating the use of IFRS by all listed companies across the EU. 'When IFRS were adopted in Europe EFRAG was put in a unique position', she says. 'There was nobody just like us. And from 2009 on we can see that EFRAG had created a group which has since been seen as the model for other regional bodies around the world, like AOSSG, the Asian-Oceanian Standard-Setters Group, for example. Organisations are uniting at a regional level so that they count in the financial reporting debate. We at EFRAG have created a model and it has been proved to be relevant to other areas around the world. It has been a remarkable ten years'. She sees EFRAG as very much a catalyst for bringing regional bodies together, following the example which she sees EFRAG as having set.

Looking ahead to the next ten years she sees the EFRAG role as maintaining the pressure and providing influence. But it is in the field of influence that she sees the most activity. 'I don't think the role of EFRAG is changing, or has changed', she says. 'EFRAG remains responsible for exercising influence on behalf of Europe in the development of IFRS and assisting the European Commission on accounting matters. The period has come though, when EFRAG has the opportunity and the means to serve its first and foremost objective, to stimulate debate on accounting matters in Europe so as to make a European view emerge and influence the financial reporting debate. That is what we do in our proactive activities'.

And that means expanding that part of its role and bringing about changes in behaviours. 'It is about bringing European constituents into the heart of the financial reporting debate. Our perspective is that standard-setters have the habit of presenting proposals without inviting people to participate in the analysis of whether the changes are needed. We must ensure that the analysis of whether, and if so how, things can be improved is carried out with European constituents' input before any proposal is put forward'.

And that means collaboration as well as change. 'We are very keen on having a process of discussion papers so that people don't feel defensive about the possibility of change', she says. 'And this should help the IASB tremendously. It would mean that ideas will be at least half sold in that people will already have understood what needs to be fixed. That would be a very positive development. We explain this process in our joint discussion paper on *Considering the Effects of Accounting Standards* with the UK ASB. This discussion paper has attracted very wide attention. We have been receiving responses from all around the world, from Japan, Singapore, Australia, Canada, IFAC and the international firms, for example. People have realised that at the regional level and from there at global level more can be achieved. Hence the debate can be richer and more intense'.

She is looking forward to the decision from the SEC on whether, or how, the US will move to IFRS. She sees the possibility of the US moving onto IFRS as being the final piece in the jigsaw, the piece which confirms the sense of the European decision back in 2002. 'If the US comes on board the European decision which chose IFRS so boldly in 2002 would be seen as 100% successful. That decision has brought a lot of benefits', she says. 'And these benefits remain even if the US does not join'.

'And in any case FASB is already participating. They joined us to work together on our respective projects to develop a disclosure framework which aims to create a consistent framework for both US and International GAAP. They are in the mood for sharing with others. They already consider themselves as participants. An SEC decision would make that complete'.

But there is always the possibility, increasingly an outside one, that the SEC would turn the idea down. And some old-school continental Europeans might push again for the old idea of setting up a European standard-setter. Flores rules that completely out of court. 'The SEC decision is in my view not really a question of whether, it is more a question of when', she points out. 'It is difficult to imagine that in the longer run the US wouldn't adopt IFRS in one way or another. IFRS is the only possible candidate as a single set of global financial reporting standards. The idea that Europe would set standards for itself has gone. It went with the adoption of IFRS. When they were adopted it was because Europe had proved completely unsuccessful at agreeing common standards. There are lots of benefits of adopting IFRS. And extending globally is another benefit. There will be no return to European standards'.

And the changes at the helm of the IASB, with Hans Hoogervorst succeeding Sir David Tweedie, will leave the central point of the global financial reporting revolution unchanged. 'After the successful chairmanship of Sir David Tweedie I expect that Hans Hoogervorst, their new Chairman, will develop the organisation towards further success. The IASB is facing different challenges and will probably deal with them in a different manner. But I don't expect it to make any change in the objective of making IFRS global. The IASB is at a particular juncture and any changes which do come will reflect the next steps rather than the organisation being turned upside down because there has been a change of Chairman. It has more to do with getting to a new IFRS era than just because the leadership has changed.'

She sees the IASB as having become a central global institution and one which fits well with EFRAG's objectives. 'The IASB is an institution which is robust enough to stand by itself and easily adjust to a change in leadership', she says. 'As for the future for EFRAG I think we will continue to enjoy a positive and constructive relationship with the IASB and that relationship may be even enhanced. I look forward to Hans and Ian leading the organisation'.

Meanwhile she welcomes the progress being made with the current IASB projects. 'EFRAG had called for a more reasonable pace in the development of standards and so we welcome re-exposure of the proposals on revenue recognition and leases', she says. 'And we welcome forthcoming efforts to bring IFRS9 and FASB latest decisions onto common ground. We believe that our recommendations have the potential of helping the IASB and FASB to reach this common ground and therefore are hoping that the next developments in the work on financial instruments will be positive. We hope the insurance project will be finalised on a reasonable basis without unnecessary delay. Europe needs such a standard. We have launched a series of field tests to be performed on the basis of the revised Revenue Recognition proposals. This is to help the IASB in the performance of such field tests that we have claimed for a long time should be carried out before any significant change to IFRS is finalised'.

As for the prolonged saga of the European endorsement of IFRS9 she is determined. 'The European Commission position is well known', she points out. 'The endorsement process is in their remit. It will be considered when IFRS9 is completed. Developments in IFRS9 will continue and I don't see any reason why it should take years. The IASB will sustain its efforts in the project and IFRS 9 will come as a natural candidate for endorsement. The European Commission position is very clear'.

And she is equally forthright on the endorsement of future IASB projects. 'In those decisions, or amendments, that the IASB has published there are significant changes', she says. 'The most significant is what we call "the consolidation package". So far we have issued two draft endorsement advice letters assessing changes to IAS 1 and IAS 19 and they are positive. In the case of IFRS 10, 11 and 12 our analysis is still in progress'.

As for the future she wants to see a greater emphasis on consistency rather than simple activity. 'In early August we issued our preliminary views on the IASB agenda consultation', she says. 'We believe that IASB's first priority is to ensure consistency in the application of IFRS globally. We are also promoting that idea that the revision of the conceptual framework be resumed and that a period of calm be observed so people can enjoy financial reporting on a consistent basis for a while. And that would also help the IASB devote the necessary efforts to achieving consistency of application. The main focus for the IASB in the years to come should be consistency of application. Having jurisdictions adopt IFRS is not easy. But the real challenge is to have a unique set of standards being applied'.

And she sees EFRAG and the IASB moving closer in the years to come. 'Over the years the IASB's interest in EFRAG's activities has grown', she says. 'It is very much because EFRAG and European standard setters work so closely together. We have enjoyed a positive and constructive arrangement with the IASB. So if it becomes more formal it is do no more than just describing what we have already put into practice'.

Activities of the IASB

IASB proposes to exempt investment entities from consolidation requirements

On 25 August 2011 the IASB published proposals to define investment entities as a separate type of entity that would be exempt from the consolidation requirements of IFRS 10 'Consolidated Financial Statements'.

IFRS 10 would require consolidation of an investment where an entity controls the entity it has invested in. However, as highlighted by comments received from investors during the development of IFRS 10 many believe this doesn't provide investors with the most meaningful information given the purpose of the entity. The IASB has therefore proposed that investment entities would be exempt from consolidating their investments, and instead would measure all investments (subsidiaries, joint arrangements and associates) at fair value through profit or loss. In order to qualify for this exemption, the entity would have to meet six strict criteria.

The proposals do not exempt consolidation of the investment entity and its subsidiaries in the financial statements of a group that may own the investment entity, unless the parent entity itself is also an investment entity.

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/ED+investment+entities+aug+2011.htm>

IASB proposes adjustment to effective date of IFRS 9

The IASB has published an exposure draft of proposals to adjust the mandatory effective date of IFRS 9 'Financial Instruments'. The proposals defer the effective date until 1 January 2015, from the previous effective date of 1 January 2013. This would enable alignment of all phases of the IFRS 9 project to the same effective date and increase the likelihood that there will be EU adoption of the standard before the mandatory effective date.

The press release can be found at <http://www.ifrs.org/News/Press+Releases/IFRS+9+effective+date+August+2011.htm>

IASB launches a public consultation on its future work programme

On 26 July 2011 the IASB launched a public consultation to seek input on its strategic direction and future work programme. In particular, as new jurisdictions adopt IFRS, views on the relevance of or importance of particular accounting issues changes. The IASB seeks feedback on how it should balance the development of financial reporting with the maintenance of IFRSs and those areas of financial reporting that should be given the highest priority for improvement.

The consultation closed on 30 November 2011. The press release can be found at <http://www.ifrs.org/News/Press+Releases/agenda+consultation+July+2011.htm>

IASB and FASB announce their intention to re-expose leasing proposals

The IASB and US-based Financial Accounting Standards Board (FASB) are to re-expose the proposals for a common leasing standard to enable interested parties to comment on revisions the boards have undertaken since the exposure of the draft in August 2010. The Boards noted that they have not yet completed all of their deliberations however their decisions to date were sufficiently different from those originally proposed to warrant re-exposure of the proposals.

The press release can be found at <http://www.ifrs.org/News/Press+Releases/Leases+21+July+2011.htm>

Wayne Upton to chair IFRS Interpretations Committee

On 28 July 2011 the Trustees of the IFRS Foundation announced that Wayne Upton would take over as Chair of the IFRS Interpretations Committee from Robert Garnett, effective immediately. See our interview with Wayne Upton following his first meeting.

The press release can be found at <http://www.ifrs.org/News/Press+Releases/IFRS+Interpretations+Committee+Chair+July+2011.htm>

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

Deloitte's UK Financial Services Industry Group has issued an IFRS 9 status update paper and an IFRS 9 Impairment Survey. They are available at <http://www.iasplus.com/dttpubs/1108ifrs9status.pdf> and <http://www.iasplus.com/dttpubs/1108bankingsurvey.pdf>

UK GAAP Round Up

Deloitte in the UK issued a ukGAAP alert covering the October 2010 proposals in more detail. In addition, this was a topic of focus in our December 2010 iGAAP newsletter. Both are available at www.deloitte.co.uk/auditpublications

Latest developments in the ASB's proposals for the future of UK GAAP

The Accounting Standards Board (ASB) received over 290 comment letters in response to its Financial Reporting Exposure Drafts (FREDs) on the Future of Financial Reporting in the UK and Republic of Ireland, published in October 2010. It is currently developing its proposals in light of these responses.

The original FREDs proposed a three-tier approach, which was developed and consulted on over the past six years. Companies with 'public accountability' would be in Tier 1 and be required to report under IFRSs as endorsed by the European Union in both consolidated and company only financial statements. Companies currently able to use the UK FRSSE would be Tier 3 and would continue to be able to follow the simplified version of UK standards. All companies in between (Tier 2) would report under the Financial Reporting Standard for Medium-sized Entities (FRSME) – a standard based on the IFRS for SMEs, modified to comply with UK and EU law and by replacing the tax section of the IFRS for SMEs with IAS 12 *Income Taxes*. In addition, a reduced disclosure framework would be available for qualifying subsidiaries of Tier 1 and Tier 2 entities such that subsidiary companies are given the option to adopt full IFRSs but would be given certain disclosure exemptions.

Following the significant response to these proposals, the board took the decision to remove the definition of public accountability and to amend the draft FRSME to include accounting options currently permitted in the UK and Republic of Ireland financial reporting standards. As a result of this, the Board has announced it will re-expose the FRED.

Since the scope of Tier 1 has been reduced such that the requirements to apply EU-adopted IFRS is not extended beyond that currently required by law, it was proposed that the scope of the FRSME would not address areas including segment reporting, earnings per share and interim reporting. In these areas reference will be made to follow EU-adopted IFRS. The FRSME will also refer to insurance entities, which will be required to adopt IFRS 4 *Insurance Contracts*.

Other tentative decisions to date include:

1. changing the principles for amending the IFRS for SMEs to permit or require accounting options that exist in current UK GAAP;
2. deferring the effective date to 1 January 2014;
3. retaining the company law formats for primary statements;
4. redrafting the tax section of the FRSME, with the aim of consistency with IAS 12 and using a timing differences approach with additional effects in certain circumstances;
5. requiring pension funds to provide disclosures in accordance with the principles of IFRS 7 'Financial Instruments: Disclosures';
6. developing a new section addressing financial instruments for entities meeting the definition of 'financial institution';
7. not permitting qualifying subsidiaries which are financial institutions to take the exemptions from IFRS 7;
8. extending application of the reduced disclosure framework to parent company individual financial statements; and
9. incorporating the guidance for public benefit entities in the FRSME.

A summary of the ASB's deliberations on the future of UK reporting can be found at http://www.frc.org.uk/asb/technical/projects/dev_month_2011.cfm

Amendments to FRS 29 (IFRS 7) 'Disclosures – Transfers of Financial Assets'

The ASB has published amendments to FRS 29 'Financial Instruments: Disclosures' requiring additional disclosures on transfers of financial assets. Specifically, the new disclosures enhance information on risk exposures and the impact on financial position arising from the transfer of financial assets.

These amendments are effective for accounting periods beginning on or after 1 July 2011.

The press release can be obtained at
<http://www.frc.org.uk/asb/press/pub2600.html>

BIS consults on a new, simpler narrative reporting framework and executive pay

The Department for Business, Innovation and Skills (BIS) has issued a consultation paper proposing a new narrative reporting framework. Under the proposals the annual report would include a Strategic Report, but cross-refer to a separate, more detailed Annual Directors' Statement. Following this consultation, the Government will publish draft regulatory and non-regulatory solutions with a view to these becoming effective for years beginning 1 October 2012. BIS has also issued a discussion paper looking at the issues around linking executive pay to performance.

The papers can be found at

<http://www.bis.gov.uk/Consultations/future-of-narrative-reporting-further-consultation>

<http://www.bis.gov.uk/Consultations/executive-remuneration-discussion-paper?cat=open>

FRC acts to increase transparency in corporate reporting

The FRC has published two reports proposing that companies should improve inter alia the way they report to investors on the key strategic risks facing their businesses. The first paper, 'Boards and Risk – A Summary of Discussions with Companies, Investors and Advisers', summarises various discussions the FRC have held over the last six months. The second paper, 'Effective Company Stewardship – Next Steps' outlines the responses received to the FRC's Effective Company Stewardship paper and the actions that the FRC intends to take.

The proposed actions include updating the 'Turnbull Guidance', increasing the information provided by audit committees and auditors about the work they have done and the judgments or decisions they have made, and considering updates to the UK Corporate Governance Code including a "comply or explain" point for companies to put their audits out to tender at least once in every ten years. These are all merely proposals at this stage.

The press release can be found at <http://www.frc.org.uk/press/pub2632.html>

Review Panel publishes annual report

The FRRP has published their annual report, based on the findings of the Panel for the year ended 31 March 2011. The report contains the results of the Panel's investigations during the year, including their targeted reviews on a variety of topics such as business reviews and capital management disclosures.

The Panel reviewed 301 accounts during this time and wrote letters to 141 companies - revenue recognition policies and practices prompted more questions than any other area of financial reporting. Generally the quality of corporate reporting was seen to be good, although concerns were raised over the accounts of smaller listed and AIM quoted companies. Disclosures around principal risks and uncertainties in particular were seen to have improved.

Common areas for improvement are listed in the report as are the characteristics of what makes a good annual report.

Further details can be found at <http://www.frc.org.uk/frpp/press/pub2637.html>

BIS and FRC consider reduction in financial reporting burdens for micro-entities

BIS and the FRC have issued a discussion paper entitled 'Simpler reporting for the smallest businesses', setting out ideas on reducing the amount of reporting micro-entities would be required to undertake and thus reducing their costs. The paper is set against a backdrop of similar consultations and debate occurring at a European Level regarding the existing law applicable to EU member states.

The paper proposes that micro-entities would file a simplified trading statement (instead of a profit and loss account), prepared on less than the full accruals basis, a simplified statement of position and a simplified annual return. The comment period closes on 30 October 2011.

Further details can be found at <http://www.frc.org.uk/press/pub2629.html>

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

Importance of true and fair view in both UK GAAP and IFRS reaffirmed by ASB and APB

The ASB and APB have issued a paper reaffirming the importance of the true and fair view. The paper concludes as follows:

It will be evident from the above that our Boards [the ASB and APB] expect preparers, those charged with governance and auditors:

- *Always to stand back and ensure that the accounts as a whole do give a true and fair view;*
- *To be prepared, albeit in extremely rare circumstances, to consider using the true and fair override; and*
- *To ensure that the consideration they give to these matters is evident in their deliberations and documentation.*

This will help ensure that accounts in the UK continue to demonstrate the high quality that users have come to expect.

The paper can be obtained at

<http://www.frc.org.uk/images/uploaded/documents/Paper%20True%20and%20Fair1.pdf>

Publications

Issuing fourth news: Surveying first halves' interim management statements

"Issuing fourth news" analyses the first-half Interim Management Statements (IMSs) of 130 listed companies, split into two categories, being investment trusts and other companies. It includes a review of:

- compliance with the Disclosure and Transparency Rules; and
- what information companies provided in their IMSs and how it was presented.

The publication covers current disclosure requirements and latest developments. It also includes an illustrative IMS and a disclosure checklist to illustrate best practice. "Issuing fourth news" is available at www.deloitte.co.uk/auditpublications



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 30 September 2011)
IAS/IFRS standards			
IFRS 9 (November 2009, revised October 2010)	Financial Instruments: Classification and Measurement	1 January 2013	To be confirmed
IFRS 10 (May 2011)	Consolidated Financial Statements	1 January 2013	Q3 2012
IFRS 11 (May 2011)	Joint Arrangements	1 January 2013	Q3 2012
IFRS 12 (May 2011)	Disclosures of Interests in Other Entities	1 January 2013	Q3 2012
IFRS 13 (May 2011)	Fair Value Measurement	1 January 2013	Q3 2012
IAS 27 (May 2011)	Separate Financial Statements	1 January 2013	Q3 2012
IAS 28 (May 2011)	Investments in Associates and Joint Ventures	1 January 2013	Q3 2012
Amendments to IFRS 7 (October 2010)	Transfers of financial assets	1 July 2011	Q4 2011
Amendments to IAS 12 (December 2010)	Deferred tax: recovery of underlying assets	1 January 2012	Q2 2012
Amendments to IFRS 1 (December 2010)	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters	1 July 2011	Q2 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

* 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	<ul style="list-style-type: none"> • 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 is considering its proposals in light of these responses. • To date the ASB has tentatively decided to: <ul style="list-style-type: none"> – re-expose the FREDs; – defer the effective date to 1 January 2014; – remove the requirement for publicly accountable entities to prepare accounts under EU adopted IFRSs such that only those entities currently required to adopt EU adopted IFRSs will fall in Tier 1; – cross refer to EU adopted IFRS for topics in full IFRS which were not included in the FRSME as they are applicable only to listed entities; – introduce accounting options that exist in current UK GAAP and align with EU adopted IFRS; – retain company law formats for primary statements; – qualifying subsidiaries which are financial institutions will not be permitted exemptions from IFRS 7; – extend application of the reduced disclosure framework to parent company individual financial statements; and – redraft the Taxation section.
Convergence	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Issued July 2011. Comments required by 30 November 2011.
Annual Improvements to IFRSs – 2011	<ul style="list-style-type: none"> • ED issued June 2011, comments due October 2011. • Expected effective date 1 January 2013.
Annual Improvements to IFRSs 2010-2012	<ul style="list-style-type: none"> • ED expected fourth quarter 2011.
Amendment to IFRS 1 (prospective application of IAS 20)	<ul style="list-style-type: none"> • ED expected fourth quarter 2011.
Conceptual Framework Eight phases in all	<ul style="list-style-type: none"> • 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 at the beginning of 2012.
Consolidation: Investment entities*	<ul style="list-style-type: none"> • ED issued in August 2011. • Comment period ends January 2012.
Financial Instruments (replacement of existing standards) *	<ul style="list-style-type: none"> • Classification and measurement of financial assets, Final IFRS issued November 2009. • Classification and measurement of financial liabilities ED issued May 2010, Final IFRS issued October 2010. • Impairment ED issued November 2009, additional impairment ED issued January 2011 and re-exposure or review draft expected fourth quarter 2011 or first half 2012. • ED on asset and liability offsetting issued January 2011 and Final IFRS expected fourth quarter of 2011. • General hedging ED issued December 2010 with review draft expected fourth quarter 2011 and the Final IFRS expected first half 2012. • ED on macro hedge accounting expected fourth quarter of 2011 or first half of 2012. • ED on deferral of mandatory effective date of IFRS issued August 2011.

Insurance Contracts – Phase II	<ul style="list-style-type: none"> • Exposure draft released for comment July 2010. • Re-exposure or draft review expected first half 2012. • The issue and effective dates are to be confirmed.
Leases*	<ul style="list-style-type: none"> • Re-exposure expected first half 2012. • Final IFRS expected second half 2012.
Revenue Recognition*	<ul style="list-style-type: none"> • Re-exposure expected fourth quarter of 2011. • Final IFRS expected second half 2012.
Stripping Costs in the Production Phase of a Surface Mine	<ul style="list-style-type: none"> • IFRIC 20 ratified third quarter 2011.

* 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

Notes

Notes

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2011 Deloitte LLP. All rights reserved.

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. 14486A

Member of Deloitte Touche Tohmatsu Limited