May 2012 – Quarterly edition

iGAAP Newsletter
Beyond the standards

Published for our clients and staff in the UK

Contents

Upfront

The first months of 2012 have seen the IASB continuing work on the convergence projects including roundtables on aspects of the leasing project and consideration of responses to the agenda consultation.

The ASB has moved forwards in its project on The Future of UK GAAP, releasing a second exposure draft of its proposals which addresses some of the concerns raised by the respondents around the original exposure draft. It is this project which forms our topic of focus in this quarter's newsletter, highlighting the areas which the ASB have reconsidered and setting out the current plans for the changes to UK GAAP reporting.

In advance of many companies half yearly reporting, our practical issue in this edition considers the reporting requirements for those companies who are required or choose to produce such reports. It includes some helpful pointers for those preparing half yearly reports and also summarises the limited new requirements which may need to be considered.

Bob Uhl is the National Director of Accounting Standards and Communications for Deloitte in the US. In our interview, he provides some thoughts on the convergence projects between the IASB and the FASB and the ongoing considerations of the SEC regarding IFRS adoption in the US.

Deloitte LLP
May 2012

Practical issue: Half-yearly financial reports

With the passing of the annual reporting season thoughts will be turning to the next set of financial statements to be prepared and for many this will be half-yearly financial reports, or, as they are commonly termed, interim accounts.

Who has to do half-yearly financial reports and what needs to be included?
Half-yearly financial reports are required by Disclosure and Transparency Rule (DTR) 4.2 for entities that have shares or retail debt listed on the London Stock Exchange.

DTR 4.2 requires the half-yearly financial report to include an interim management report, a responsibility statement and a condensed set of financial statements.

The interim management report is narrative in nature and includes, as a minimum:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed financial statements;
- a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- information on related party transactions.

Entities that are required to prepare consolidated accounts must present the condensed set of financial statements in accordance with IAS 34. Individual companies that are listed and prepare UK GAAP full-year financial statements will satisfy the requirement to confirm that the condensed set of financial statements give a true and fair view by confirming that they have been prepared in accordance with the Accounting Standards Board's statement 'Half-yearly financial reports'.

This article focuses on the practical issues arising when complying with the requirements of DTR 4.2 and IAS 34.

Are there any changes for 2012 half-yearly financial reports?
2012 is a relatively quiet year in terms of changes for preparers of half-yearly financial reports. The table below sets out the amendments to IFRSs that may need to be considered in the 2012 interims, depending on your entity's reporting period and when EU endorsement occurs. While we would have expected the second and third items in this list to be applicable for June 2012 interims, EU endorsement is still outstanding and not expected until Q3. So, unless endorsement occurs prior to sign off of the interims, these two amendments will not be reflected in June interims.

Name	Effective date (periods commencing on or after)	EU endorsed?
Amendments to IFRS 7 – Transfers of Financial Assets	1 July 2011	Yes
Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011	Expected Q3 2012
Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012	Expected Q3 2012
Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income	1 July 2012	Expected Q2 2012

The last two amendments above are, for most entities, more significant than the first two. Some entities with investment properties carried at fair value will already, for the purpose of providing deferred tax, have made an assumption that recovery will be via sale. The amendment to IAS 12 now makes it a rebuttable presumption that for the purposes of calculating deferred tax the carrying value will be recovered entirely through sale.

The amendments to IAS 1 which include consequential amendments to IAS 34, are not effective until periods beginning July 2012, so will not have to be reflected in June interims. When effective these will require items of other comprehensive income, and the associated tax, to be grouped into those items that will, and those that will not, be reclassified to profit or loss in due course. New terminology is also introduced in the form of a 'statement of profit or loss and other comprehensive income' and a 'statement of profit or loss', although their use is optional and entities may retain more familiar titles.

The IFRS 7 amendments address disclosures required in the full-year financial statements, with no consequential amendments having been made to IAS 34 for condensed financial statements. The amendments may however be relevant in considering IAS 34's requirement to disclose transactions and events that are significant to an understanding of the changes in financial position and performance. The IFRS 1 amendments around hyperinflation will also be of limited interest for most preparers.

Listed debt issuers

From 1 July 2012, the threshold for classifying debt as wholesale will increase from denominations of €50,000 to €100,000 or more, although transitional provisions will apply. Those entities who solely list wholesale debt are exempted from the requirements of DTR 4.2.

Does IAS 34 require the previous year-end estimates to be updated?

IAS 34 contains a principle that the measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable. It goes on to say that interims will generally require a greater use of estimation methods than annual financial reports.

Judgment will often be required in applying this principle. Appendix C to IAS 34 gives some examples illustrating its application, including the following:

- Provisions – Determination of the appropriate amount of a provision may be complex and often costly and time-consuming. Making estimates at interim dates often entails updating of the prior annual provision rather than the engaging of outside experts to do a new calculation;

- Pensions – IAS 19 *Employee Benefits* requires an entity to determine the present value of defined benefit obligations and the fair value of plan assets at the end of each reporting period and encourages an entity to involve a professionally qualified actuary in measurement of the obligation. For interim reporting purposes, reliable measurement is often obtainable by extrapolation of the latest actuarial valuation; and

- Intercompany reconciliations – In preparing consolidated financial statements intercompany reconciliations at an interim date might be less detailed than at the year-end.

The first two points here on provisions and pensions are indicative of the general approach to valuation of items for which at the financial year end the entity may engage external experts. At the interim the approach is normally to consider whether there is any indication that the valuations might have moved significantly. For example, consideration will be given to whether there have been changes in interest rates, or events that would cause a movement in value. For pensions it may well be the case that if there have been no significant changes in interest rates or other factors that would indicate movement in the defined benefit obligation, that will continue to be measured as it was at the previous financial year end, but there will be an update of the fair value of assets, in particular for those traded in an active market.

It is useful to note that even where the pension figures are updated at the interim date, IAS 19R clarifies that the service cost for the subsequent interim and full financial year end continues to be based on the prior financial year end figures.

This approach to updating valuations can be contrasted with the requirement in respect of financial instruments that are carried at fair value. Such items should be remeasured at the interim date using the same methodology as at the year-end.

How is tax treated under IAS 34?

The interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, i.e. the estimated average annual effective tax rate applied to the pre-tax income of the interim period. This requires tax benefits to be anticipated in respect of items such as deductions for research and development. However, the standard notes that if a special tax rate applies to a particular type of income, or a tax benefit relates to a one-off event then the effect of these should not be blended into a single annual tax rate, but should be recognised in the the interim period in which the event is recognised. Judgement will sometimes be required to determine whether the tax effect of a particular expenditure falls into the category of a one-off event or should be reflected in the estimated annual effective tax rate.

The measurement of current and deferred tax should be based on tax rates that have been enacted or substantively enacted by the end of the interim reporting period, although consideration should also be given to disclosure of any material non-adjusting events after the reporting period, for example the substantive enactment of a new tax rate where the impact is material.

The reduction in the main rate of UK corporation tax to 24% from 1 April 2012 was substantively enacted on 26 March 2012, under the Provisional Collection of Taxes Act 1968, and should be reflected in the measurement of tax for interim periods ending on or after 26 March. The reduction in the main rate to 23% from 1 April 2013, announced in the 2012 budget, should only be reflected in the measurement of tax for periods ending subsequent to the Finance Bill 2012's passage through the House of Commons, at which point this change of rate will be deemed to be substantively enacted. At the time of writing this had not yet occurred, but the latest status can be checked at http://services.parliament.uk/bills. Next year, the Finance Bill 2013 will introduce legislation to reduce the main rate to 22% from 1 April 2014.

Where the change in tax rate affects a deferred tax balance carried forward or arising during the interim which is not expected to reverse until the next financial year it is not clear whether this should be reflected in the estimated annual effective tax rate, or be recognised in full in the period in which the change in tax rate occurs. It appears acceptable for either treatment to be adopted as an accounting policy choice.

What disclosures need to be in condensed financial statements?

IAS 34 requires an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of an entity since the end of the last annual reporting period, which updates the relevant information presented in the most recent annual report. The standard goes on to provide a non-exhaustive list of events and transactions for which disclosures would be required if they were significant, but does not specify the level of detail to be given. In general, the level of detail in interim note disclosures will be less than in annual note disclosures. For example, IAS 36 requires disclosure of impairment losses for each class of assets, but in interim note disclosures this would generally be made at the entity-wide level, except when a particular impairment is deemed significant to an understanding of the changes.

What are common pitfalls and areas of focus to look out for in 2012?

Aside from those items already identified above, including the changes to IFRSs in 2012, the disclosures around principal risks and uncertainties and going concern are areas preparers should consider carefully.

The disclosure in the interim management report of the principal risks and uncertainties for the remaining six months of the financial year was highlighted in the Financial Reporting Review Panel's 2011 annual report, wherein it was noted that a bullet point list of risks is not acceptable. Even where the risks are deemed to be consistent with those disclosed in the previous annual report entities should:

- state that the principal risks and uncertainties have not changed;
- provide a summary of those principal risks and uncertainties; and
- include a cross-reference to where a detailed explanation of the principal risks and uncertainties can be found in the annual report.

Where risks and uncertainties have changed since the annual report, a full description of the new ones should be given. In a recent Deloitte survey of listed companies' half-yearly financial reports fewer than half were seen to provide adequate disclosure in this area.

The UK Corporate Governance Code requires listed companies to report on going concern in their half-yearly financial report, and in the current economic environment this remains an area of focus for stakeholders. The FRC guidance on going concern recommends disclosing an explanation of any new events and circumstances arising subsequent to approval of the previous annual report or, where no new issues have arisen, a short statement confirming the use of the going concern basis.

Does the auditor need to be involved?

Although companies are increasingly engaging their auditors to review their condensed set of financial statements this is not a statutory requirement. In Deloitte's recent survey of main market listed companies' half-yearly financial reports (see the further guidance described below) 68% were opting to engage their auditors. Whilst a review is substantially less in scope than an audit, stakeholders may still find some comfort in companies obtaining an auditor's review report.

Where can I find further guidance?

Deloitte's recent publication, *Split and polish – Surveying half-yearly financial reporting,* provides guidance on the regulatory requirements for half-yearly financial reports of UK listed companies and an insight into how companies are meeting these requirements in practice. A disclosure checklist and an illustrative report are also included.
The publication can be accessed at www.deloitte.co.uk/auditpublications.

A coffee with … Bob Uhl

Bob Uhl is a partner in Deloitte's US practice, where he leads the IFRS Centre of Excellence and is the National Director of Accounting Standards and Communication for both IFRSs and US GAAP reporting. He is also a member of Deloitte's Global IFRS Leadership Team.

Outside Deloitte, Bob contributes to US standard setting as a member of the Financial Accounting Standards Board (FASB)'s Emerging Issues Task Force and International Accounting Standards Board's Financial Instruments Working Group. He has previously served as a Professional Accounting Fellow in the Office of Chief Accountant of the US Securities and Exchange Commission (SEC) and as a member of the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AICPA).

What is the current status on a possible IFRS adoption in the US?

It's still in the SEC's court. The SEC staff is expected to issue a final paper on their findings from their activities under the workplan very soon and then a recommendation regarding incorporation of IFRS to the Commissioners for their consideration. Whether the Commissioners vote on the recommendation this year or not is a good question with all the items Congress has placed on the SEC agenda and with this being an election year in the US. Also, in a recent speech, Paul Beswick (Deputy Chief Accountant) indicated that he thought Congress should get involved, and if they did that would add more time to the process.

So no one is really certain as to timing. As to next step, my guess is that once the Commissioners consider the staff recommendation as to IFRS incorporation, before they issue any final rules they would want to expose their decisions to solicit further comments.

What do you think the main stumbling blocks are for the US in incorporating IFRSs into the US accounting framework?

That is a hard one. We have used US GAAP for many years and, while not perfect, US companies, auditors, and users are very comfortable with it. Also, it is very hard to convince some companies to change from a set of standards that are working well when they do not see a direct benefit to them. Consider all the thousands of private and public companies that do not have international operations. They don't necessarily see how moving to IFRSs is in their best interest. Thus, there is a significant section of the country that is not pushing the SEC for a quick decision.

What standards do you think US Companies will be applying in 10 years?

I believe that in 5 years, 10 years, 20 years, US companies will be applying US GAAP. I think the key is how much IFRS will we in the US have endorsed and incorporated into US GAAP by then. That is, will US GAAP become the same as IFRSs?

I can see a scenario in which investors and more international preparers will demand that US GAAP becomes the same as IFRSs. However, these forces sometimes move slowly and it could possibly take a very long time before US Companies following US GAAP can also say they are also compliant with IFRSs.

Do you think there are differences in the way FASB and IASB approach the development of accounting standards?

I think there are more similarities, but there certainly are differences. I keep hearing the view that the IASB uses a principles-based approach and the FASB follows a rules-based approach. I don't believe that is a fair characterization. I think IFRSs contain rules and FASB standards have principles. I think what is true is that FASB looks to provide more details within its guidance than the IASB. This is probably due to differences in cultures. The view in the US is to severely narrow diversity whereas more judgement and diversity is acceptable outside the US.

What are your thoughts on how IFRIC works and how it could be improved?

A lot of my thoughts stem from my membership on the FASB's Emerging Issues Task Force. I would like to see the IFRS Interpretations Committee taking on more issues and be empowered to directly make amendments to IFRSs, like the EITF in the US, subject to IASB ratification and due process of course.

One issue I have been raising is how will we deal with interpretations of converged standards? Should the IFRS Interpretations Committee and EITF address it together, address the issue at the same time, or let one take the lead, or not coordinate at all? I expect these issues are coming.

We understand that you take a particular interest in accounting for financial instruments. Are you hopeful that the IASB will arrive at a standard which is a recognised improvement on IAS 39?
I am an optimist, so I am hopeful, but I think they still have much work ahead of them. I am most concerned about the impairment and hedging phases. It seems the boards are working together and may come to a converged principle on classification and measurement. On impairment, they have been through several different models but have recently focused on what they call the three bucket approach. I am concerned about whether the model will have sufficient underlying concepts and be operational. On hedging, we are all waiting to see the staff draft with specific guidance.

Thinking about IFRS more generally, do you see areas where IFRS needs more guidance or where the current standards need to change?
First, I think the IASB needs to finish the convergence standards. I believe that revenue recognition and insurance are areas in IFRSs where sufficient guidance is needed. I would also like to see the IASB address the conceptual framework. I think this will help resolve in the future some of the more perplexing issues such as the delineation between liabilities and equities and which intangibles are assets. Personally, I would also like to see the IASB take on cross cutting issues like contingent consideration. We deal with this issue in revenue recognition, business combinations, leases, financial instruments, and a number of other areas but not always in the same way.

What do you enjoy most about your current role?
I like dealing with issues and considering different perspectives. In my career I have been an auditor, preparer, regulator, and standard setter. Fulfilling these various roles has taught me that there can be several different ways to view an issue. I also really enjoy the discussions we have debating these accounting issues.

The issues I usually enjoy the most are the standard setting issues. I like seeing how all the aspects of the accounting fit together. I also like the creative part of standard setting such as how to create models or guidance that will improve financial reporting. There is a sense of accomplishment when you develop a model that best reflects the economics of what you are trying to account for.

Who do you think is going to win the World Series?
The Yankees of course. I was born in New York and lived there most of my life so I am a supporter of all New York sports teams but especially the Yankees in baseball and the Giants in American football.

Marmite?
Horrible stuff.

British sports
I am a big sports fan. I like all the major sports in the US. I have been trying to broaden my horizons though. Of course I like English football. I am still trying to get my head around rugby and cricket.

Topic of focus: The future of financial reporting in the United Kingdom and the Republic of Ireland

Further discussion is included in a ukGAAP alert which is available at www.deloitte.co.uk/audit publications. The FREDs are available from the ASB's website at www.frc.org.uk/asb/press/pub2702.html.

The ASB's revised proposals

The replacement of current UK GAAP is close to becoming a reality. The Accounting Standards Board (ASB) has issued a set of three new financial reporting exposure drafts (FREDs) with a proposed effective date of 2015:

- draft FRS 100 (FRED 46) – setting out the accounting framework;
- draft FRS 101 (FRED 47) – proposing a reduced disclosure regime for qualifying members of a group preparing accounts under full IFRSs; and
- draft FRS 102 (FRED 48) – a single Financial Reporting Standard applicable in the UK and Republic of Ireland to replace current UK accounting standards.

What's changed from the previous proposals?

Those familiar with the ASB's previous proposals may be relieved to note that the confusing definition of public accountability has been removed. This represents a significant change as, under the new proposals, only those companies which are currently required to apply full IFRSs will continue to be required to do so. This means that the revised main standard, which will replace current UK GAAP, has a much wider scope than the previously proposed replacement.

The ASB decided to make this change following feedback from a number of entities (for example, credit unions and friendly societies) which would have met the definition of 'publicly accountable' and would therefore have been required to apply full IFRSs. The view commonly expressed was that the cost of application of full IFRSs would be disproportionate to the additional value provided to users of their accounts. The ASB noted these concerns and decided that such entities should be within the scope of draft FRS 102. Some additional disclosure requirements have, however, been introduced for financial institutions to ensure that sufficient information is provided to users.

Other significant differences are as follows:

- draft FRS 101 and 102 have been amended to align with the Companies Act – for example, the primary statements will use the formats laid out in the Accounting Regulations;
- the scope of draft FRS 102 has been extended to incorporate accounting for more types of entity including financial institutions and public benefit entities;
- there is a new section in the main standard on accounting for income tax (see section below); and
- the principle for amending the IFRS for SMEs has been extended to reinstate a number of options which are permissible under current FRSs and EU adopted IFRSs, including:
  - revaluation of property, plant and equipment;
  - capitalisation of development costs;
  - capitalisation of borrowing costs; and
  - merger accounting for group reconstructions.

So who will do what now?

It is envisaged that the reporting framework will be as follows:

Type of entity	Minimum required reporting framework	'IAS' or 'Companies Act' accounts?
Listed groups currently applying IFRSs	Full IFRSs as adopted by the EU	IAS
Individual accounts of qualifying entities of groups applying IFRSs	FRS 101: Full IFRSs with reduced disclosure requirements	Companies Act
Groups and entities currently applying UK GAAP	FRS 102	Companies Act
Individual accounts of qualifying entities currently applying UK GAAP	FRS 102 with reduced disclosure requirements	Companies Act
Small unlisted groups and entities	FRSSE	Companies Act

It continues to be the case that only full EU-adopted IFRS accounts constitute 'IAS accounts' as defined in the Companies Act. All other accounts, including those applying IFRSs but with reduced disclosure (draft FRS 101), constitute 'Companies Act accounts' and are subject to the 4th and 7th EU Directives as enacted in UK law. As such, any accounts which constitute 'Companies Act accounts' must still comply with the requirements laid out therein in respect of, for example, primary statement formats and terminology used.

More on reduced disclosures for qualifying entities

The reduced disclosure regime was introduced in the 2010 proposals and has been retained in draft FRS 101 (for groups applying IFRSs) and draft FRS 102 (for groups applying draft FRS 102). Qualifying entities may prepare individual financial statements using the same measurement and recognition bases as those applied in the consolidated financial statements (be that full IFRSs or draft FRS 102) but in their individual financial statements may take exemptions from a number of disclosure requirements.

Qualifying entity

A qualifying entity is a member of a group that prepares publicly available financial statements which give a true and fair view and in which that entity is included.

Under the new proposals, a qualifying entity need not be a subsidiary; a parent company preparing individual financial statements (which may be presented alongside the consolidated financial statements) may also be eligible for the reduced disclosure in respect of those individual financial statements.

Exemptions available for qualifying entities adopting draft FRS 101
Presentation of a cash flow statement
Detailed disclosures on the valuation and effect of share-based payment schemes
Disclosures on contractual commitments in respect of tangible fixed assets and intangibles
Disclosure of the compensation of key management personnel
Financial instrument disclosures under IFRS 7
Detailed disclosures on defined benefit schemes
Detailed disclosures on business combinations (other than the fair value of consideration paid and assets and liabilities acquired)
Analysis of net income or expense and net cash flows from discontinued operations
Comparative information on movements in tangible fixed assets, intangibles and investment property
Disclosures on management of the company's capital
IFRSs issued but not yet effective
Some assumptions and sensitivities significant for an impairment review

The exemptions from presentation of a cashflow statement and from disclosing information on financial instruments, share-based payments, contractual commitments for tangible fixed assets and intangible assets and key management personnel compensation are also available to qualifying entities adopting draft FRS 102. The other disclosures noted above are not required by FRS 102 and therefore additional exemptions are unnecessary.

Exemption from disclosures on share-based payments, business combinations, discontinued operations, financial instruments and impairment reviews would only be available where equivalent disclosures are included in the consolidated financial statements. There is, however, no requirement for those consolidated financial statements to be prepared under IFRSs or FRS 102. Accordingly, many of these exemptions may be available for subsidiaries of companies producing consolidated financial statements under other frameworks such as, for example, US GAAP.

Reduced disclosures – choosing between draft FRS 101 and draft FRS 102

The majority of individual financial statements in the UK and Ireland are, for one reason or another, still prepared under UK GAAP. Nonetheless, feedback from previous consultations suggests that the ability to apply IFRS group accounting policies with reduced disclosure – the option offered by draft FRS 101 – could prove popular.

Qualifying entities within a group that currently prepare individual financial statements under UK GAAP can choose to adopt either draft FRS 101 or take the reduced disclosure options within draft FRS 102. As financial statements prepared under either draft FRS constitute 'Companies Act accounts', there is no legal restriction to prevent transition.

However, qualifying entities which prepare individual financial statements in accordance with full IFRSs as endorsed by the EU are currently restricted by UK company law from transitioning to either draft FRS 101 or draft FRS 102, since companies which prepare 'IAS accounts' may not move to preparing 'Companies Act accounts' unless there is a 'relevant change in circumstance'. The Department for Business, Innovation and Skills (BIS) is currently considering responses to its consultation on amending the Act such that companies currently using full IFRSs and wishing adopt draft FRS 101 and FRS 102 would be able to do so.

Under the Companies Act 2006, subsidiaries within a group should adopt the same accounting framework (i.e. either Companies Act or IAS individual accounts, but not a mixture of the two) unless the directors consider that there is good reason for not doing so. Since accounts prepared in accordance with either draft FRS 101 or draft FRS 102 both constitute Companies Act accounts, it appears that some subsidiaries within a group may adopt FRS 101 while others may apply FRS 102, without falling foul of this requirement.

The effect of the 4th and 7th Directives on draft FRS 101

As noted above, accounts prepared using draft FRS 101 will be considered 'Companies Act Accounts' and, as such, will be subject to the requirements of the 4th and 7th EU Directives. Although these accounts will follow full IFRS measurement and recognition criteria but with reduced disclosure, this will necessitate certain departures from the requirements of IFRSs as applied in 'IFRS Accounts' (which are not within the scope of those Directives).

These departures include:

- a gain on a bargain purchase would be recognised as 'negative goodwill' and then released to profit or loss over the period in which related non-monetary assets are recovered, rather than being recognised as a one-off gain at the date of the business combination;
- the analysis of continuing and discontinued operations must be presented on the face of the statement of comprehensive income rather than in the notes to the financial statements;
- the netting of a government grant against the carrying amount of an asset to which it relates is not permitted; and
- it will be possible to reverse impairment losses on goodwill, but only if the reasons for the impairment loss cease to apply.

As can be seen from this list, departures from the requirements of IFRSs are likely to be necessary only in relatively rare circumstances.

What about tax?

The tax section within the 2010 proposals simply reproduced the current text of IAS 12, with no simplifications or reductions in disclosures. This did not prove popular with respondents and the current proposals have amended this section to permit a simplified calculation of deferred tax, based on timing differences with additional recognition requirements for business combinations. The solution is fundamentally close to current UK GAAP but the ASB predicts that it should give a similar answer to IFRSs in most straightforward cases.

With all these changes, what does this mean for convergence of UK GAAP with IFRSs?

During previous consultations, feedback received by the ASB suggested that while convergence is clearly important for larger listed companies and groups, particularly those that interact substantially with other countries, for companies with less cross-border activity it is more important to ensure that national accounting standards are appropriate for their activities within the UK and Ireland. The ASB has therefore aimed to produce a standard which is fundamentally underpinned by the IFRS framework, yet retaining applicability and relevance for the companies that will be applying it.

Transitioning to the new standards

The ASB initially proposed that the new regime should apply to periods beginning on or after 1 January 2012. This has slipped several times and the anticipated effective date is now accounting periods beginning on or after 1 January 2015 (comparatives beginning on or after 1 January 2014), with early adoption permitted.

Further consultation is expected on the alignment of the financial instruments requirements of draft FRS 102 with IFRS 9 when that standard is finalised. In due course there will also be a further consultation on the FRSSE to align it with EC proposals to reduce reporting requirements for small companies.

Activities of the IASB

Deferral of IFRSs 10-12 suggested by EFRAG and Deloitte

EFRAG, the body that advises the European Commission on endorsement of IFRSs, has submitted its endorsement advice letter on the IASB's 'package of five' on consolidation, namely IFRSs 10, 11 and 12, IAS 27 (2011) and IAS 28 (2011). Based on field-testing they have undertaken, EFRAG is recommending that the mandatory effective date be pushed back a year to 1 January 2014 to give reporters adequate implementation time, whilst still permitting early adoption. Indications from the Commission suggest that they will follow this approach.

Deloitte has also submitted its response to the IASB's Exposure Draft *Transition Guidance – Proposed amendments to IFRS 10*. The response agrees with the clarifications the amendments provide but requests additional guidance in a number of areas. It also recommends that the IASB reconsider the mandatory effective date of the 'package of five', noting that further standard setting activity would enable clarification of some requirements, particularly in respect of IFRS 11.

The EFRAG response is available at www.efrag.org/Front/n1-929/EFRAG-s-Final-Endorsement-Advice-and-Effects-Study-Report-on-IFRS-10--IFRS-11--IFRS-12--IAS-27--2011--and-IAS-28--2011-.aspx. The Deloitte response is available at www.iasplus.com.

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

IASB issues amendments to IFRS 1

The IASB has issued amendments to IFRS 1 which address how a first-time adopter would on transition account for a government loan with a below-market rate of interest by allowing prospective application of IAS 39 or IFRS 9 and paragraph 10A of IAS 20 to such loans outstanding at the date of transition.

The amendments are mandatory for periods beginning on or after 1 January 2013 with EU endorsement expected in the last quarter of 2012. The press release can be found at www.ifrs.org/Alerts/PressRelease/IFRS+1+amendment+March+2012.htm.

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

IASB issues Improvements to IFRSs: 2009-2011 cycle

In May 2012, the IASB issued its most recent improvements which include amendments to five IFRSs.

In summary the changes are:

IFRS	Subject of amendment
IFRS 1 First-time Adoption of IFRSs	• Repeated application of IFRS 1. • Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the date of transition to IFRSs.
IAS 1 Presentation of Financial Statements	Clarification of requirements for comparative information.
IAS 16 Property, Plant and Equipment	Classification of servicing equipment.
IAS 32 Financial Instruments: Presentation	Presentation of income tax consequences of distributions to holders of an equity instrument and of transaction costs of an equity transaction.
IAS 34 Interim Financial Reporting	Interim financial reporting and segment information for total assets and liabilities.

The amendments are effective for annual periods beginning on or after 1 January 2013 although they have not yet been endorsed for use in the EU.

The amendments are available at http://www.iasplus.com/en/publications/ifrs-in-focus/2012/ifrs-in-focus-2014-iasb-issues-improvements-to-ifrss-2009-2011-cycle

IASB issues exposure draft on Improvements to IFRSs: 2010-2012 cycle

The IASB has issued an exposure draft proposing amendments to eleven IFRSs as part of its programme of annual improvements to its standards.

The changes proposed are, in summary:

IFRS	Subject of amendment
IFRS 2 Share-based Payment	Clarification of the definition of 'vesting conditions'.
IFRS 3 Business Combinations	Clarification of the requirements when accounting for contingent consideration in a business combination.
IFRS 8 Operating Segments	• Disclosures requirements when operating segments have been aggregated • Clarification of when reconciliation of total reportable segments' assets to the entity's assets is required.
IFRS 13 Fair value measurement	Clarification that, where effect of discounting is immaterial, it is not required for short-term receivables and payables which do not have a stated interest rate.
IAS 1 Presentation of Financial Statements	Clarification of when a liability should be classified as non-current.
IAS 7 Statement of Cash Flows	Clarification of the classification of interest paid within the cash flow statement.
IAS 12 Income Taxes	Clarification of when it is appropriate to recognise deferred tax assets for unrealised losses.
IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets	Clarification of method used to restate accumulated depreciation when the revaluation method is used.
IAS 24 Related Party Disclosures	Clarification and requirement for additional disclosures when key management personnel services are performed by a management entity which is not otherwise related to the reporting entity.
IAS 36 Impairment of Assets	Clarification that disclosures required for the value in use model are also applicable to the fair value less costs of disposal model.

The proposed amendments, if finalised, would be effective for annual periods beginning on or after 1 January 2014, with the exception of the amendments to IFRS 3 and IFRS 9 which would be effective for annual periods beginning on or after 1 January 2015.

The exposure draft is available at http://www.iasplus.com/en/publications/ifrs-in-focus/2012/ifrs-in-focus-2014-iasb-issues-exposure-draft-on-improvements-to-ifrss-2010-2012-cycle

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

IFRIC publishes proposed guidance on accounting for levies

The proposals have been developed in response to a request to clarify when a liability should be recognised for levies (which are not within the scope of IAS 12 Income Taxes) that are conditional on an entity participating in an activity on a specified date. They include:

- clarification that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy as identified by relevant legislation;
- neither economic compulsion nor the going concern principle would create, or imply, a constructive obligation to pay a levy; and
- a liability and the related expenses would be recognised progressively only if the obligating event occurs over a period of time.

The comment period ends on 5 September 2012 and the proposals are available at http://www.ifrs.org/Alerts/PressRelease/Draft+interpretation+Levies+May+2012.htm

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

IFRIC publishes proposed guidance on put options written on non-controlling interests

The proposals clarify that a put option written over a subsidiary's equity shares results in a financial liability in the parent's consolidated financial statements and this should subsequently be remeasured through profit or loss.

The comment period ends on 1 October 2012 and the proposals are available at http://www.ifrs.org/Alerts/PressRelease/Draft+interpretations+put+options+May+2012.htm

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

UK Reporting round up

Deloitte in the UK issued a ukGAAP alert covering these new proposals in more detail. This is 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) has published three Exposure Drafts (FREDS 46, 47 and 48) on its revised proposals for the future of UK GAAP:

- The draft FRS 100 sets out the proposed accounting framework, explaining which set of accounting standards entities will be required to follow i.e. EU-adopted IFRSs, the replacement UK accounting standard (FRS 102) or the FRSSE. The original proposal requiring entities with 'public accountability' to follow EU-adopted IFRSs has been removed;

- The draft FRS 101 goes on to set out a reduced disclosure framework available to subsidiaries of EU-adopted IFRS preparers of consolidated financial statements; and

- The draft FRS 102 provides a single Financial Reporting Standard to replace current UK accounting standards and a reduced disclosure framework for qualifying entities adopting FRS 102. The previously proposed name of the 'Financial Reporting Standard for medium-sized entities' (FRSME) has been replaced by 'the Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102).

Accounting options reinstated in the revised proposals include the capitalisation of borrowing and development costs, revaluation of PP&E and intangible assets and merger accounting for group reconstructions.

The new regime is expected to come into force by 2015, but early adoption should be possible in 2013. The comment period for the proposals closed on 30 April 2012.

Further detail can be found in the Topic of Focus article on page 8 of this edition of iGAAP quarterly. A summary of the ASB's deliberations on the future of UK reporting can be found at www.frc.org.uk/asb/technical/projects/dev_month_2011.cfm.

Financial Reporting Council publish update on country and currency risk

The FRC has published an update for directors of listed companies, providing guidance on matters that directors and auditors of all entities (i.e. not only listed companies) should be considering in relation to increased currency and country risks. There are no new requirements contained in the guidance. Instead it provides reminders of governance responsibilities and disclosure of risks in annual and interim reports. These reminders are also consistent with the FSA's encouragement for disclosures by financial institutions in this area.

The update can be found at www.frc.org.uk/images/uploaded/documents/Update%20for%20Directors%20Jan%2012%20FINAL.pdf

Financial Reporting Review Panel publishes revised operating procedures

The FRRP has published revised operating procedures which will enable it to share voluntary information it has received with the AIU. The Panel will also reserve the right to make an announcement where, following its intervention, a company makes a significant change, whether corrective or for clarification, to its financial or corporate reporting. Additionally, the Panel will be able to release its own press announcement if the fact of a Panel enquiry has become public other than as a result of a Panel press notice.

The revised operating procedures apply to all cases where the Panel's initial letter is sent to the company on or after 1 April 2012 and can be found at www.frc.org.uk/frrp/press/pub2734.html

Financial Reporting Council publishes paper on 'comply or explain' approach to Corporate Governance

The FRC have published a paper to promote a better understanding of explanations under its 'comply or explain' approach to Corporate Governance. The paper is based on discussions between senior company and investor representatives and is intended to clarify what practitioners expect to see in those explanations required when Corporate Governance Code provisions have not been complied with.

The paper can be found at www.frc.org.uk/press/pub2709.html.

The February edition of *Governance in Brief* includes a more detailed discussion of this paper and is available at http://www.deloitte.com/view/en_GB/uk/services/audit/corporate-governance/

Consultation on directors' remuneration and shareholder voting rights

In March BIS published a consultation paper on shareholder voting rights on executive pay in quoted companies, including proposals such as an annual binding vote on future remuneration policy, with a proposed effective date of financial years ending 1 October 2013. The consultation period ended on 27 April 2012.

The consultation paper is available at www.bis.gov.uk/assets/biscore/business-law/docs/e/12-639-executive-pay-shareholder-voting-rights-consultation.pdf.

The March edition of *Governance in Brief* includes a more detailed discussion of this paper and is available at www.deloitte.com/view/en_GB/uk/services/audit/corporate-governance/

Government publishes response to consultation on narrative reporting

The Government has published the responses to its consultation on narrative reporting, which, amongst other items, proposed to allow quoted companies to retain headline information in their annual reports in a 'strategic Report', whilst providing other required disclosures in an 'Annual Directors' Statement' that could be made available on their websites. Most of the proposals gained support meaning that draft regulations and a full impact assessment will be published later in the year, the intention being that the changes will come into force in April 2013.

As part of the proposals, the FRC's Financial Reporting Lab has also agreed to undertake a short-term project to get the views of the investment community on how a 'single figure' for directors' remuneration might be measured and presented.

The Government response is available at www.bis.gov.uk/Consultations/future-of-narrative-reporting-further-consultation.

The first of April's editions of *Governance in Brief* includes a more detailed discussion and a summary of the next steps under these proposals is available at www.deloitte.com/view/en_GB/uk/services/audit/corporate-governance/

The Deloitte publication *iGAAP 2012 Annual report disclosures for UK listed groups* provides illustrative voluntary disclosures based on guidance issued by DEFRA.

Government misses deadline to introduce mandatory carbon reporting

The Government has announced that it has missed the deadline introduced under the Climate Change Act 2008 to introduce mandatory regulations for carbon reporting by UK companies. A report has been published explaining why no regulations have been introduced, with Ministers stating that additional time is needed to consider evidence gathered over the last couple of years.

The report can be found at www.defra.gov.uk/publications/2012/03/27/pb13718-company-reporting-ghg-emissions.

The second of April's editions of *Governance in Brief* includes more detail on the consultation paper and is available at www.deloitte.com/view/en_GB/uk/services/audit/corporate-governance/

Consultation on UK Corporate Governance Code amendments launched

Following on from their Effective Company Stewardship reports, the FRC has published a consultation paper proposing changes to the UK Corporate Governance Code, the Guidance on Audit Committees, the Stewardship Code and auditing standards. The proposals include a requirement for directors to explain in the annual report the basis on which they consider it to be fair, balanced and understandable as well as tendering of FTSE 350 audits at least every ten years, although transitional provisions would apply. The comment period closes on 13 July 2012.

Future work and structure of FRC takes shape

Following the consultation on its reform the FRC has, together with BIS, published a response on the next steps to be undertaken. The existing seven operating bodies will be replaced with two Board Committees – one dealing with conduct and the other with codes and standards. Legislative changes enabling the restructuring are due to come into effect on 2 July 2012.

The response is available at http://www.frc.org.uk/press/pub2744.html.

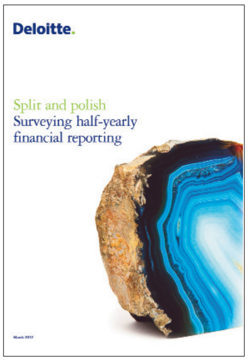
Publications

New and improved IAS Plus site

Deloitte's IAS Plus website www.iasplus.com has been completely redeveloped. As well as improved navigation and easy access to related news and publications, visitors have the ability to personalise the content to their topics of interest by registering on the site and setting up "My IAS Plus" topics.

Additionally, the site is now able to deliver news directly on smartphones and to display on tablet devices. Visitors can also keep up to date with the latest News by following @iasplus on Twitter.

Split and polish – Surveying half-yearly financial reporting



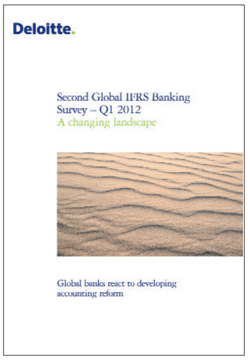
"Split and polish" is the latest version of our interim reporting survey. The survey analyses the reporting of 130 listed companies, split into two categories, being investment and other companies. It includes a review of:

- compliance with the Disclosure and Transparency Rules and IAS 34;
- how companies dealt with developments in IFRSs; and
- what information companies choose to include in their Interim Management Report (the narrative part of the half-yearly financial report).

It also includes model half-yearly financial statements and a disclosure checklist, as well as various "good practice" examples.

Split and polish is available at: www.deloitte.co.uk/auditpublications

Deloitte's Second Global IFRS Banking Survey



Deloitte has issued its Second Global IFRS Banking Survey – Q1 2012 A changing landscape. The survey highlights the view of 56 major banking groups on accounting change, including the implementation challenges of IFRS 9, the IASB's consolidation 'package of five' and IFRS 13 on fair value measurement. The publication also looks at the wider commercial implications of IFRS 9, including matters such as regulatory capital and loan pricing.

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 6 June 2012)
IAS/IFRS standards			
IFRS 9 (November 2009, revised October 2010)	Financial Instruments: Classification and Measurement	1 January 2015	To be confirmed
IFRS 10 (May 2011)	Consolidated Financial Statements	1 January 2013	Q4 2012
IFRS 11 (May 2011)	Joint Arrangements	1 January 2013	Q4 2012
IFRS 12 (May 2011)	Disclosures of Interests in Other Entities	1 January 2013	Q4 2012
IFRS 13 (May 2011)	Fair Value Measurement	1 January 2013	Q4 2012
IAS 27 (May 2011)	Separate Financial Statements	1 January 2013	Q4 2012
IAS 28 (May 2011)	Investments in Associates and Joint Ventures	1 January 2013	Q4 2012
Amendments to IAS 12 (December 2010)	Deferred tax: Recovery of Underlying Assets	1 January 2012	Q4 2012
Amendments to IFRS 1 (December 2010)	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters	1 July 2011	Q4 2012
Amendments to IAS 1 (June 2011)	Presentation of Items of Other Comprehensive Income	1 July 2012	Q2 2012
Amendments to IAS 19 (June 2011)	Employee Benefits	1 January 2013	Q2 2012
Amendments to IFRS 7 (December 2011)	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	Q4 2012
Amendments to IAS 32 (December 2011)	Offsetting Financial Assets and Financial Liabilities	1 January 2014	Q4 2012
Amendments to IFRS 1 (March 2012)	Government Loans	1 January 2013	Q1 2013
IFRIC Interpretation 20 (October 2011)	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013	Q4 2012
Improvements to IFRSs (2009-2011)	Various	1 January 2013	Q1 2013

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

ASB and IASB timetables

ASB Current Projects

The Future of UK GAAP	• In October 2010, the ASB issued two Financial Reporting Exposure Drafts ('the FREDs') on the future of UK GAAP. • In March 2011 the ASB issued FRED 45 setting out proposals to be included in a Financial Reporting Standard for Public Benefit Entities (FRSPBE) to accompany the FRSME. • ASB received over 290 responses to the FREDs. • In January 2012, the ASB issued revised proposals for the Future of UK GAAP (article on p.8 provides more information). Comment period closed 30 April 2012.
Convergence	• The ASB and the UITF continually consider what consequential amendments will be needed to UK GAAP once the IASB and IFRIC finalise standards, amendments and interpretations.

IASB Project Timeline – Active Projects

Agenda consultation	• Issued July 2011. Comments period closed November 2011. • Feedback statement expected second quarter 2012.
Annual Improvements to IFRSs 2010-2012	• Issued May 2012. Comment period closes 5 September 2012.
Annual Improvements to IFRSs 2011-2013	• ED expected third quarter 2012.
Conceptual Framework Eight phases in all	• Final chapter on objectives and qualitative characteristics was issued in September 2010. • ED on reporting entity was issued in March 2010. The boards have considered the comments they received on the ED and have decided more time is needed to finalise than anticipated. • Consideration of remaining phases is expected to recommence when the IASB concludes on its future work plan.
Consolidation: Transition Guidance	• ED issued in December 2011. • Effective date 1 January 2013. • Final amendment expected second quarter 2012.
Consolidation: Investment entities*	• ED issued in August 2011. Comments period closed January 2012.
Financial Instruments (replacement of existing standards)*	• Classification and measurement of financial assets, Final IFRS issued November 2009. • Classification and measurement of financial liabilities, Final IFRS issued October 2010. • Impairment ED issued November 2009, additional impairment ED issued January 2011 and re-exposure expected second half 2012. • Financial asset and liability offsetting, Final amendments to IAS 32 and IFRS issued December 2011. • General hedging ED issued December 2010 with review draft expected second quarter of 2012 and the final IFRS expected second half 2012. • Discussion paper or ED on macro hedge accounting expected second half 2012. • Deferral of mandatory effective date of IFRS 9 to 1 January 2015, Amendment issued December 2011.
Insurance Contracts – Phase II	• Exposure draft released for comment July 2010. • Re-exposure or review draft expected second half 2012. • The issue and effective dates are to be confirmed.
Leases*	• Re-exposure expected second half 2012. • The issue and effective dates are to be confirmed.
Revenue Recognition*	• Re-exposed November 2011. Comments period closed March 2012. • Final IFRS expected second half 2012.

Post-implementation review – IFRS 8 *Operating Segments*	• Review initiated first quarter of 2012.
Post-implementation review – IFRS 3 *Business Combinations*	• Initiate review, 2012.

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

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

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Designed and produced by The Creative Studio at Deloitte, London. 19292A

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