

iGAAP Newsletter

Beyond the standards



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The future of financial reporting in the United Kingdom has been the subject of debate for some time. That debate has entered a key phase with the publication of the Accounting Standards Board's policy proposal 'The Future of UK GAAP'. These proposals highlight some issues to resolve, but it seems likely that they will result in many UK entities applying the 'IFRS for SMEs' in the not too distant future. Our topic of focus discusses these proposals and highlights some of the key differences between this simplified version of IFRS and current UK accounting.

The International Accounting Standards Board (IASB) moves on apace with its project on accounting for financial instruments with the release of a final standard covering the classification and measurement of financial assets and an exposure draft on the impairment of such assets. This area will continue to develop with the IASB due to issue proposals on financial liabilities, derecognition and hedge accounting in the coming months.

Although the EU had prepared itself for a swift endorsement of IFRS 9, this has subsequently met opposition and so IFRS 9 will not be available for EU entities to apply this year.

Of more immediate interest may be the changes to IFRS which will be effective for the first time for those preparing financial statements for the year to December 2009. These are discussed in this quarter's practical issue.

Our interview is with someone who, as a preparer of financial statements, is a key stakeholder in these developments. Mike McKeon has extensive experience of senior financial reporting roles in a variety of industries and has been finance director of Severn Trent plc since 2005.

Deloitte LLP
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As part of our Green Agenda, we will no longer be producing printed copies of our iGAAP Alerts on individual new standards and interpretations. Details of these newsletters and IAS Plus Update Newsletters are included in the Activities of the IASB section of this publication and they will continue to be available in electronic format at <http://www.deloitte.co.uk/audit> and <http://www.iasplus.com>

Practical issue: reporting on a December 2009 year end

As the reporting season for December year end companies approaches, it is important that preparers are alert to the accounting requirements which apply to them for the first time and the possible impact on their financial statements.

The end of the IASB's 'stable platform', a push for convergence with US GAAP and perceived deficiencies in certain aspects of IFRS have all contributed to a number of changes to IFRS requirements for periods beginning on or after 1 January 2009:

- four new or revised standards coming into effect;
- five significant changes to existing standards; and
- two new IFRIC interpretations.

In addition, 20 standards have been amended as part of the IASB's ongoing annual improvements project with these amendments effective for December 2009 year ends.

The changes effective for a December 2009 year-end are summarised below:

New or revised standards

Title	Subject	Mandatory for accounting periods starting on or after
IFRS 8	Operating segments	1 January 2009
IAS 1 (revised)	Presentation of financial statements	1 January 2009
IAS 23 (revised)	Borrowing costs	1 January 2009
IFRS 1 (revised)	First time adoption of IFRS	1 January 2009

Changes to existing standards

Title	Subject	Mandatory for accounting periods starting on or after
IFRIC 9/IAS 39	Embedded derivatives	Periods ending on or after 30 June 2009
IFRS 7	Improving disclosures on financial instruments	1 January 2009
IFRS 2	Vesting conditions and cancellations	1 January 2009
IAS 32/IAS 1	Puttable financial instruments	1 January 2009
IFRS 1/IAS 27	Cost of an investment in a subsidiary, JCE or associate	1 January 2009

IFRIC interpretations

Title	Subject	Mandatory for accounting periods starting on or after
IFRIC 15	Agreements for the construction of real estate	1 January 2009

Of course, few companies will be affected by all of these changes, but it is advisable to consider each of them as the effects of some are subtle and may apply more widely than is immediately obvious.

Some of the more significant changes are considered in more detail below.

IAS 1 (revised) Presentation of financial statements

The revised version of IAS 1 requires several changes to the presentation of financial statements, principally:

- inclusion of a statement of changes in equity as a primary statement;
- changes in the format of performance statements; and
- possible, but not mandatory changes to the names of primary.

The most significant new requirement may, however, be the requirement to present a statement of financial position at the beginning of the earliest comparative period (i.e. a third balance sheet) when an entity:

- applies an accounting policy retrospectively;
- makes a retrospective restatement of items in its financial statements; or
- reclassifies items in its financial statements.

Given the number of changes to accounting standards occurring each year and the fact that a third balance sheet may be required when there is a change to 'financial statements' (not just to the balance sheet) it seems likely that this presentation will become routine for many entities.

A question also arises as to what level of note disclosure is required for a third balance sheet. Although the Standard is not explicit, it appears that the notes required are those that may be described as supporting the statement of financial position, such as those disclosures required by paragraphs 77 to 80A of the revised standard which provide further subclassifications of the line items presented.

IFRS 8 Operating segments

As discussed in our September 2009 newsletter, IFRS 8 significantly changes the requirements for segmental reporting. This may result in changes to an entity's reportable segments as well as requiring certain additional disclosures, and may have a knock-on effect on impairment reviews.

IAS 23 (revised) Borrowing costs

In its previous form, IAS 23 gave entities an accounting policy choice either to capitalise borrowing costs incurred in the construction of qualifying assets or to expense all such costs immediately. The option to expense is no longer available.

This change gives a number of practical challenges to entities which previously expensed all borrowing costs, including:

- identification of qualifying assets, defined in the standard as 'assets that necessarily take a substantial time to get ready for their intended use or sale';
- identification of borrowing costs eligible for capitalisation (which may in some circumstances include foreign exchange movements);
- calculation of an appropriate capitalisation rate where assets are financed by an entity's general borrowings; and
- identification of the appropriate dates for commencement, suspension and cessation of capitalisation.

In addition, an increased asset cost due to inclusion of borrowing costs may require additional consideration of impairment.

The transitional provisions of the revised IAS 23 give some relief. An entity which previously expensed all borrowing costs is only required to capitalise costs in respect of assets for which construction commenced on or after the effective date of the revised standard (i.e. 1 January 2009 for a December year end entity).

IFRS 7 Amendment to improve disclosures on financial instruments

IFRS 7 was amended in March, partly in response to criticisms of financial instrument disclosures arising from the financial crisis.

The amendment requires additional disclosures on the measurement of assets and liabilities carried at fair value, separate liquidity risk disclosures for derivative and non-derivative liabilities and disclosures in respect of the 'hierarchy' of fair value measurement.

The hierarchy aims to differentiate items measured at fair value by how observable (and, perhaps, how reliable) their value is. Level 1 items are valued purely on quoted prices in active markets for identical assets or liabilities, whilst measurement of level 3 items includes inputs not based on any observable market data. As the values become less observable, so the disclosure requirements become more extensive.

Preparation, as it was on initial adoption of IFRS 7, is key. The additional disclosures may take time to pull together and to incorporate into the framework of a set of financial statements.

IFRS 2 Amendment in respect of vesting conditions and cancellations

This amendment introduces the concept of a 'non-vesting condition' that if present in a scheme would be factored into the fair value of a grant. It also requires that if a grant of equity instruments is cancelled by either party this should be accounted for as an acceleration of vesting.

In a UK context, this is most likely to be significant in respect of SAYE schemes. Previously, employees dropping out of such a scheme by ceasing to make contributions may have been dealt with by 'truing up' the cumulative expense. Under the revised standard, this is not acceptable – the probability of such cancellations must be factored into the grant date fair value and the recognition of the full expense accelerated when any cancellations occur.

Annual improvements to IFRSs

Many of the amendments made as part of the annual improvements process are minor, intended only to add clarity or consistency of terminology.

The amendments effective for December 2009 year ends do, however, include some substantive changes, for example:

- making clear that an intangible asset cannot be recognised in respect of advertising goods and services already received by the entity (e.g. mail order catalogues);
- requiring entities that routinely sell items of property, plant and equipment that have previously been held for rental, to transfer such assets to inventory at their carrying amount when they cease to be used for rental purposes and become held for sale; and
- requiring the benefit of a government loan and below-market interest to be treated as a government grant.

Further guidance on these and all other changes to IFRS effective for December 2009 year ends can be found in the Deloitte publication *iGAAP 2010: IFRS Reporting in the UK*.

A coffee with ... Mike McKeon

Mike has been Finance Director of Severn Trent plc since 2005. Prior to that, he was Finance Director of the buildings materials group Novar Plc. He worked for Rolls Royce Plc from 1997 to 2000 in various senior roles including Finance Director of the Aerospace Group.

He has extensive international business experience, having worked overseas for CarnaudMetalbox, Elf Atochem and Price Waterhouse. Mike is a Chartered Accountant and a Member of the Institute of Chartered Accountants of Scotland.



Overall, how do you think IFRS has performed to date?

IFRS has been a success and I believe we should build on that success. I think it is achieving its goal of harmonising standards and the understanding of financial statements around the world and that must be a good thing so I start from that premise; IFRS is a success.

You start with that premise, yet you recognise there are still some issues that need to be dealt with.

Yes there are some issues, but in addressing them I believe we should all, and I include the standard setters in this, have a number of points in the forefront of our minds.

The first is that standards should be simple to understand, easy to use and be relevant to the changing economic circumstances in which business finds itself now and in the future. I recognise this is difficult but we should try.

A second is I believe that experience has shown that standards that are excessively complex generally don't work over time. I think the standard setters recognise the issue but need to keep this in mind when making changes to current standards.

A third, and linked to the second, is to remind ourselves who we are setting standards for. I believe standards are addressing two broad constituencies. These are the preparers of accounts and the users of accounts. This covers a very broad range of people, companies and indeed investors, but standards have first and foremost to work for these two groups.

So what do you think are the issues and challenges – general and specific – facing IFRS in the coming years?

There is an old maxim – “if it isn't broken then don't fix it”.

In the main, as I said before, the standards work but there are some standards that clearly need to change – I would include IAS 39 amongst those. It is quite frankly far too complex to offer any real value to the groups mentioned above. IAS 19 on pensions is also somewhat perverse, not only in the way it is prepared, but also in the consequences it has led to.

There is need for simplification in both these standards – I know the IASB is looking at IAS 39, but I also think IAS 19 needs to be revised at some stage as well.

Another issue is there is a real risk that in addressing the needs of one sick patient there is a temptation to cause all of us to take the same curative medicine. I am talking about potential changes in standards to address the financial sector. There have been some very public issues around banks and other financial institutions in the last 12 to 18 months and accounting, or the interpretation of accounting standards, has undoubtedly made some contribution to these. There will therefore have to be some changes in how banks and other financial institutions account for their activities. But, that doesn't mean all companies have to do the same. Other sectors and companies are not all sick and don't therefore need the medicine. A selective approach would therefore be welcome.

There is an example as to how this may be done in what the Walker Review has recently recommended. This suggests changes to the Combined Code of Corporate Governance solely for the banking and other financial institutions sector. This is the area where the issue arose and so the remedy is addressed towards this sector. This is a balanced response to the issue in my view.

A final issue I would like to address is that I don't believe we need ever more "interpretations" of accounting standards. Quite frankly, I don't believe they are helpful. I am very much on the "principles not rules" side of the argument. I believe ever more interpretations of accounting standards actually prevent preparers and users from interpreting standards in the context of the economic circumstances which they face. Standard setters should accept that the dialogue between the preparers and users of accounts is one which is always made in the circumstances of the time and we have to ensure this dialogue is both constructive and relevant. It is my experience that where this dialogue is centred on interpretation of accounting standards the dialogue is at best a distraction and at worst does not take place at all. As economic conditions always change it follows that standard setters will more likely than not be interpreting a standard for the conditions that have just passed rather than the current or future ones. I would suggest the standard setters leave preparers of accounts to interpret the simple standards we all aspire to and then hold us to account for explaining fully and professionally our actions to the users of accounts.

Recently it seems the IASB has made a conscious effort to be more engaged with the preparers of financial statements (for example, the webcasts on financial instruments accounting). Do you think that is something that has worked?

I don't know if it has worked yet, we will have to wait and see what the outcome is going to be. But I certainly think it is very welcome. We should be more engaged with the standard setters; after all we have to deal with the results of their work.

Do you think it would be fair to say that some industries have had more influence on standard setters than others?

I think that is undoubtedly true. There is greater influence from the public accounting firms, for probably easy to understand reasons, as well as from the financial sector. I am not saying this is a bad thing, but it can lead to a generally more technical approach to standard setting. If this leads in turn to more complex standards resulting in accounts that are more difficult to prepare and to communicate, then we need to redress the balance in some way. It would be unfortunate if we were to achieve global harmonisation with IFRS, but with accounts that are so complex that only the technically trained understand them. We would then have missed the opportunity.

There are obviously many disclosure requirements in IFRS, are these something that you see as adding value?

There is a difficult question to answer. If you consider the professional investor in companies such as ours may well be looking at upwards of 50 companies in their portfolio, experience says they will generally not have time to look at all the information that is there. So I don't believe investors read all that we publish. However, it is available to be looked at as a reference so it should add some value.

It is in the end a difficult balancing act; one that I think probably lends itself to the expression "less is more". When I started in the profession, annual reports were probably a third of the size they are now. Were we better or worse informed in those days? I am not sure I know the answer to that, but I believe just having more and more information doesn't necessarily add value, in fact it can take it away. We need to take care not to believe that more disclosure always create more value.

Are the ASB's proposals on the future of UK GAAP – particularly, the possible introduction of IFRS for SMEs – something you support?

Frankly, I am of the view that if IFRS is the coming world standard I would move to IFRS as quickly as practicable and avoid having two sets of standards running in parallel. As a public company we prepare both IFRS and UK GAAP accounts. Life will be simpler when UK GAAP goes.

In your role, how difficult do you find it to focus on developments in accounting when you are all also trying to manage a business?

The answer is very difficult. I have a small team of very able people who focus on the full detail of accounting developments, while I focus on the key elements that I believe I need to address. My main concern is to interpret the accounting standards in a way that is consistent with our business and its objectives and sustainable over time. I therefore focus on the key changes that make a difference to our business.

I believe there is a real danger that the ever increasing technicality and complexity of accounting standards gets you further away from what is discussed around the board table. The accounting standards then become interesting for the audit committees and those people who deal in accounting theory but are of limited value to others.

On a similar theme, what would you say is the most enjoyable part of your role and where does financial reporting come on that list?

One of the most enjoyable parts of my role is explaining and communicating why our business should be a successful investment for our investors. The medium by which we do this is still largely the company's accounts. So the accounts remain a very important part of the communication to our investors. We spend a lot of time making sure that the combination of the numbers, their presentation and their explanation, presents a comprehensive story that our investors can understand and are able to interpret. In this way they have an opportunity to ensure they are making a good investment with their money. It follows therefore that accounting standards which are simple to understand, easy to use and relevant to the changing economic circumstances in which business finds itself help in this regard. I would like to think that simplicity still has value in accounting standards.

Good, bad, or ugly	
IFRS for SMEs	Good
IFRS 9	Probably good
Convergence with US GAAP – US GAAP to IFRS	Good
Industry specific accounting standards	Probably good
Political influence on accounting standards	Not sustainable over time

Topic of focus: IFRS for SMEs and the future of UK GAAP

The publication of IFRS for SMEs (International Financial Reporting Standard for Small and Medium-sized Entities) in July has given fresh impetus to the debate over the future of financial reporting in the United Kingdom.

It has previously been accepted that a UK specific framework of accounting standards is necessary as IFRS as adopted by the European Union ('full IFRS') was developed with listed groups in mind and would be onerous in the extreme for privately owned companies and indeed subsidiaries of listed entities. The IFRS for SMEs offers a framework based on IFRS principles, but intended to be suitable for use by a much broader spectrum of entities.

The significant reduction in complexity achieved in the IFRS for SMEs is illustrated below:

Full IFRS	IFRS for SMEs
Almost 3,000 pages Around 3,000 disclosure requirements Updated on an almost monthly basis	Under 300 pages About 300 disclosure requirements Updated once every two or three years

The availability of this simplified version of IFRS raises the question of whether UK GAAP in its current form has a future in the medium to long term, or whether it should be replaced by a framework which offers more consistency with financial reporting in other countries and between listed and privately owned companies in the UK.

The Accounting Standards Board (ASB) has recognised this in its policy proposal 'The Future of UK GAAP' published in August.

What is the ASB proposing?

The ASB is proposing a three-tiered approach with 'publicly accountable' entities using full IFRS, UK GAAP enjoying a modest but important afterlife through continued application of the UK Financial Reporting Standard for Smaller Entities ('FRSSE'), for those entities currently able to apply this standard, and all other entities using IFRS for SMEs. Entities may voluntarily move up the tiers. For example, a small company could opt to use IFRS for SMEs or full IFRS.

The ASB's proposal discusses the question of how 'publicly accountable' should be defined. Two alternatives are suggested, namely the definition included in the IFRS for SMEs or one based upon Companies Act 2006.

'IFRS for SMEs' alternative	'Companies Act' alternative
<ul style="list-style-type: none">• An entity whose debt or equity instruments are traded in a public market or which is in the process of issuing such instruments for trading in a public market.• An entity which holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.	<ul style="list-style-type: none">• Listed consolidators to which the IAS Regulation currently applies (i.e. the consolidated financial statements of companies listed on the main market or on AIM).• An entity qualifying as 'large' under the Companies Act requirements (based upon levels of turnover, balance sheet totals and average numbers of employees).

The ASB recommends use of the definition used in the IFRS for SMEs as it focuses on factors which may make an entity's financial statements of interest to a large number of external parties and which therefore justify the use of full IFRS.

Extending the scope of full IFRS

If the ASB's preferred approach, of requiring full IFRS to be adopted by entities defined as 'publicly accountable' under the IFRS for SMEs, is applied, this will have the perhaps unexpected consequence of requiring some entities to move straight from UK GAAP to full IFRS.

Examples of such entities are:

- deposit-taking entities with no quoted securities, such as building societies and credit unions;
- listed companies not preparing consolidated financial statements (most commonly, investment trusts); and
- company only financial statements of listed companies (many of whom continue to use UK GAAP despite their consolidated financial statements being prepared under IFRS).

The role of SORPs

Statements of Recommended Practice (SORPs) currently play an important role in some areas of UK GAAP, which are not specifically covered by accounting standards. They are not formally part of the ASB's literature, but contain a negative assurance statement from the ASB to confirm that nothing in the SORP conflicts with extant accounting standards. It is unclear what, if any, role SORPs will have following the adoption of IFRS for SMEs.

The ASB's position is that the International Financial Reporting Interpretations Committee (IFRIC) is the appropriate body for providing authoritative guidance on the application of IFRS principles and requirements. The guidance currently found in UK SORPs might therefore be expected to be provided by IFRIC in future. But if SORPs are removed before that happens gaps may still remain for particular sectors where IFRS guidance or the more limited guidance in IFRS for SMEs do not cover common transactions or arrangements.

Accordingly, it may be that SORPs can continue to give useful guidance for certain sectors for some time to come.

The impact on current UK GAAP reporters

The proposed outcome is that for financial years beginning on or after 1 January 2012 (the ASB's proposed change date) those 50,000 or so entities currently reporting under UK GAAP (i.e. privately owned companies and subsidiaries) will be required to adopt the new IFRS for SMEs.

If the ASB goes ahead with this simple replacement of UK GAAP with the IFRS for SMEs set out below are some of the areas that will be most significantly affected by the transition.

Primary statements

As might be expected, the format of an entity's primary statements under IFRS for SMEs is equivalent to the format under full IFRS. This means a statement of financial position, a statement of comprehensive income (which can be split into a separate income statement and statement of comprehensive income), a statement of changes in equity and a statement of cash flows. Pleasingly, the titles of primary statements used in IFRS for SMEs are not mandatory and so entities can still use reliable, well understood terms such as 'balance sheet' and 'cash flow statement' in their financial statements. However, significant rearrangements of items in the primary statements will be needed.

It is also worth noting that the IFRS for SMEs has no requirement to present a third balance sheet in the event of a prior period adjustment or change in accounting policy.

New disclosures

Many UK companies, particularly wholly owned subsidiaries and smaller companies, have grown used to taking advantage of a number of exemptions available under UK GAAP. As it is intended to be applied uniformly by a wide range of entities, IFRS for SMEs includes fewer such exemptions. Significantly for many companies, there is no exemption for wholly owned subsidiaries reporting under IFRS for SMEs from either presenting a cash flow statement or disclosing details of transactions with other group companies.

Revaluations and capitalisation of costs

Again in accordance with the desire for simplicity and comparability in financial reporting, IFRS for SMEs has few options for alternative accounting treatments. Options under UK GAAP which are not available under IFRS for SMEs include:

- revaluation of tangible fixed assets;
- capitalisation of borrowing costs as part of fixed assets; and
- capitalisation of development costs as intangible assets.

The requirements for entities reporting under IFRS for SMEs for the first time give some useful transitional exemptions for entities which have previously applied such accounting policies.

Defined benefit schemes

The accounting for a defined benefit scheme under IFRS for SMEs is in most respects equivalent to the familiar treatment under FRS 17 (albeit that in some circumstances limited simplifications to the actuarial valuation are allowed). Significantly though, the definition of a multi-employer plan under IFRS for SMEs excludes plans servicing the employees of entities under common control. This will impact many UK groups which currently take advantage of the multi-employer exemption under FRS 17 to recognise a pension deficit only on consolidation. Under IFRS for SMEs, a reasonable allocation amongst group companies will be required. Companies will need to consider how best to perform this exercise and whether it will result in any issues regarding distributable profits.

Financial instruments

IFRS for SMEs applies a relatively simple model for financial instruments, with everything measured at cost, amortised cost or fair value through profit or loss. There is an option to apply full IAS 39 accounting, which may be of use to aid consistency within a group of companies.

The scope for hedge accounting under IFRS for SMEs is limited, with strict limitations on what may be defined as a hedged item or hedging instrument. Again, this is intended to reduce the complexity of non-publicly accountable financial statements and entities with complex hedging strategies may wish to take advantage of the option to apply the measurement and recognition criteria of IAS 39.

Goodwill

Another simplification of the IFRS for SMEs is the requirement to amortise goodwill balances over their useful life or – where this cannot be reliably estimated – ten years. Amortisation of goodwill is required by current UK GAAP but is prohibited by full IFRS.

What to do now?

Those items mentioned above are only a few of the areas where IFRS for SMEs may differ from UK GAAP. Entities will need to consider the detailed requirements to identify changes to their current accounting, to analyse the potential consequences for other areas of their business and to plan the likely transition. If the ASB sticks to its planned implementation for financial statements for a year to 31 December 2012, comparative information under IFRS for SMEs for the year to 31 December 2011 will be required.

Activities of the IASB

IASB issues IFRS 9 Financial Instruments

The IASB has issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. At this stage, IFRS 9 covers the recognition and measurement of financial assets.

IFRS 9 requires all financial assets within its scope to be measured either at amortised cost or at fair value, distinguishing between the two using the following principles:

- A debt instrument can be measured at amortised cost if:
 - the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realise its fair value changes); and
 - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.
- All other debt instruments must be measured at fair value through profit or loss (FVTPL).
- All equity investments in scope of IFRS 9 are to be measured at FVTPL. There is no 'cost exception' for unquoted equities. However, if the equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income (FVTOCI) with only dividend income recognised in profit or loss.
- All derivatives, including those linked to unquoted equity investments, are measured at FVTPL.

The embedded derivative concept of IAS 39 is not included in IFRS 9. Consequently, embedded derivatives that under IAS 39 would have been separately accounted for at FVTPL because they were not closely related to the financial asset host will no longer be separated. Instead, the contractual cash flows of the financial asset are assessed in their entirety, and the asset as a whole is measured at FVTPL if any of its cash flows do not represent payments of principal and interest.

IFRS 9 also amends some of the requirements of IFRS 7 Financial Instruments: Disclosures including added disclosures about investments in equity instruments designated as at FVTOCI.

The requirements of IFRS 9 must be applied for periods beginning on or after 1 January 2013, with earlier adoption permitted.

The IASB intends to expand IFRS 9 during 2010 to add new requirements for classifying and measuring financial liabilities, derecognising financial instruments, impairment, and hedge accounting. This will achieve the aim of producing a complete replacement for IAS 39.

IASB proposes to amend IAS 39 on impairment

The IASB has issued an exposure draft (ED) proposing to amend IAS 39 Financial Instruments: Recognition and Measurement to modify the way impairment losses are recognised on financial assets measured at amortised cost. This is one of the phases of the IASB's comprehensive project to replace IAS 39.

Currently, IAS 39 recognises impairment of financial assets using an 'incurred loss model'. An incurred loss model assumes that all loans will be repaid until evidence to the contrary (known as a loss or trigger event) is identified. Only at that point is the impaired loan (or portfolio of loans) written down to a lower value.

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

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

Deloitte (Global) has issued an IAS Plus Update Newsletter covering this topic in more detail, which is available at <http://www.iasplus.com/iasplus/0911ifrs9.pdf> and Deloitte in the UK has issued an iGAAP Alert which is available at <http://www.deloitte.co.uk/audit>

Deloitte (Global) has issued an IAS Plus Update Newsletter covering this topic in more detail, which is available at <http://www.iasplus.com/iasplus/0911impairmented.pdf>

The model proposed in the new ED is an 'expected loss model'. Under that model, expected losses are recognised throughout the life of a loan or other financial asset measured at amortised cost, not just after a loss event has been identified. The expected loss model avoids what many see as a mismatch under the incurred loss model – front-loading of interest revenue (which includes an amount to cover the lender's expected loan loss) while the impairment loss is recognised only after a loss event occurs.

Under the proposed expected loss model, a provision against credit losses would be built up over the life of the financial asset based on the expected cash flows of the instrument (including expected credit losses), not market values. Extensive disclosure requirements would provide investors with an understanding of the loss estimates that an entity judges necessary.

Comments on the ED are due by 30 June 2010.

Deloitte (Global) has issued an IAS Plus Update Newsletter covering this topic in more detail, which is available at <http://www.iasplus.com/iasplus/0911ias24.pdf>

IASB issues revised version of IAS 24

The IASB has revised IAS 24 Related Party Disclosures to provide a partial exemption from the disclosure requirements for government-related entities and to clarify the definition of a related party.

Until now, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. Disclosure is now required only if such transactions are individually or collectively significant.

The revised standard also provides a revised definition of a related party and clarifies that disclosure is required of any commitments of a related party to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised).

The revised standard is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted.

Deloitte (Global) has issued an IAS Plus Update Newsletter covering this topic in more detail, which is available at <http://www.iasplus.com/iasplus/0910rightsissues.pdf>

IASB finalises 'rights issues' amendment to IAS 32

The International Accounting Standards Board has finalised an amendment to IAS 32 Financial Instruments: Presentation. The amendment addresses the accounting for rights issues (rights, options, or warrants) that are denominated in a currency other than the functional currency of the issuer.

Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that rights, options, or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount of any currency are equity instruments – regardless of the currency in which the exercise price is denominated – if the entity offers the rights, options, or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The amendment is effective for annual periods beginning on or after 1 February 2010, with earlier application permitted and is to be applied retrospectively.

Deloitte (Global) has issued an IAS Plus Update Newsletter covering this topic in more detail, which is available at <http://www.iasplus.com/iasplus/0912ifric19.pdf>

IFRIC 19 on liability-equity swaps

The International Financial Reporting Interpretations Committee has issued IFRIC 19 Extinguishing Liabilities with Equity Instruments. The Interpretation applies when a debtor extinguishes a liability fully or partly by issuing equity instruments to the creditor.

The key features of IFRIC 19 are:

- If a debtor issues equity instruments to a creditor to extinguish all or part of a financial liability, those equity instruments are 'consideration paid' in accordance with IAS 39.41. Accordingly, the debtor should derecognise the financial liability fully or partly.

- The debtor should measure the equity instruments issued to the creditor at fair value, unless fair value is not reliably determinable, in which case the equity instruments issued are measured at the fair value of the liability extinguished.
- The debtor recognises in profit or loss the difference between the carrying amount of the financial liability (or part) extinguished and the measurement of the equity instruments issued.

IFRIC 19 must be applied in annual periods beginning on or after 1 July 2010. Earlier application is permitted.

IASB amends IFRIC 14

On 26 November 2009, the IASB issued Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. Without the amendments, in some circumstances entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem.

The amendments are effective for annual periods beginning 1 January 2011, with earlier application permitted.

IASB proposes disclosure relief under IFRS 1

The IASB has issued an exposure draft (ED) proposing to amend IFRS 1 First-time Adoption of IFRSs. It is proposed that an entity need not provide the comparative prior-period information required by the March 2009 amendments to IFRS 7 Improving Disclosures about Financial Instruments if it is a first-time adopter adopting before 1 January 2010.

This proposed limited exemption from comparative IFRS 7 disclosures for first-time adopters is consistent with the exemption permitted for early adopters of the March 2009 amendments to IFRS 7.

Deadline for comments on the ED is 29 December 2009.

IASC publishes 'Guide through IFRSs 2009'

The IASC Foundation has published A Guide through International Financial Reporting Standards IFRSs July 2009. This guide is the complete IFRS bound volume of standards, updated through 1 July 2009, with cross-references and other annotations added. The cross-references link the text in an IFRS to relevant IFRIC and SIC Interpretations and to illustrative examples and implementation guidance published in appendices to the IFRSs.

Deloitte (Global) has issued an IAS Plus Update Newsletter covering this topic in more detail, which is available at <http://www.iasplus.com/iasplus/0912/ifric14.pdf>

UK GAAP round up

FRC publishes revised Guidance for Directors on Going Concern Assessments and Disclosures

The Financial Reporting Council (FRC), has published updated Guidance for directors of UK companies to assist them when making their assessment of going concern. The Guidance is based on three principles covering the process which directors should follow when assessing going concern, the period covered by the assessment and the disclosures on going concern and liquidity risk. The Guidance emphasises the importance of balanced, proportionate and clear disclosures about going concern issues and the key assumptions being made in one place in an annual report.

The Guidance takes into account feedback received from market participants in response to a series of documents published by the FRC in the last twelve months including an Exposure Draft. Commentators expressed strong support for both the principles based approach and the implementation date of 31 December 2009.

The Guidance is designed to be relevant to the annual going concern assessment that must be carried out by directors of all UK companies including those that apply the Financial Reporting Standard for Smaller Entities. For companies that are admitted to trading on a regulated market the Guidance will apply to both their annual and half-yearly financial statements.

ASB issues Improvements to Financial Reporting Standards 2009

The Accounting Standards Board (ASB) has issued Financial Reporting Standard (FRS); 'Improvements to Financial Reporting Standards 2009' so as to maintain the existing levels of convergence between UK GAAP and IFRS.

The amendments apply changes to IFRS arising from the IASB's annual improvements process to IFRS-based UK accounting standards.

In addition the ASB has amended FRS 11 'Impairment of Fixed Assets and Goodwill' to strengthen the disclosure requirements in the FRS. The amendments are similar in nature to those made by the IASB to IAS 36 'Impairment of Assets' as part of its 'Improvements to IFRS' issued in 2008.

The amendments set out in the FRS are based on the ASB's Financial Reporting Exposure Draft Improvements to Financial Reporting Standards issued in June 2009.

ASB publishes Review of Narrative Reporting noting continuing challenges for companies

The ASB has issued 'Rising to the challenge', the report of its review of the narrative reporting of 50 UK listed companies in 2008 and 2009.

The review focused on:

- how companies are complying with the enhanced business review content requirements from the Companies Act 2006 (CA);
- effective communication and presentation of the required content; and
- areas that are leading to clutter in narrative reporting.

The review found that the best reporters continue to evolve their narrative reporting and also did well across a number of content areas. Overall, most companies provided good content in relation to their:

- financial performance and position;
- financial key performance indicators (KPIs); and
- articulation of strategy.

However, some companies continue to struggle to meet some of the requirements, notably the communication of principal risks and non-financial KPIs.

The recent Deloitte publication 'A telling performance' (see page 16) provides further guidance in this area.

The Financial Reporting of Pensions: ASB issues Feedback and Redeliberations Report on Future Directions

The ASB's report, 'The Financial Reporting of Pensions: Feedback and Redeliberations', aims to provide the IASB with recommendations on matters it might consider in developing a future financial reporting standard on pensions.

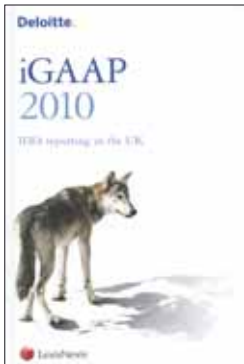
The report is a follow-up to the January 2008 Discussion Paper (DP) 'The Financial Reporting of Pensions'. It sets out the ASB's redeliberations and recommendations following the comments received during the consultation process.

In the main, the views set out in the DP are affirmed, acknowledging that a number of them cover difficult issues and are controversial. In particular, on the measurement of liabilities, the ASB has affirmed the view that the discount rate used should reflect the time value of money, and therefore should be a risk-free rate.

In addition there is an attempt to clarify the cash flows that should be used in measuring the liability to pay pensions.

The ASB has, however, decided not to affirm its view that the actual return on assets held to fund pension liabilities should be presented separately as financing income in the statement of comprehensive income. Whilst acknowledging the conceptual merits of this approach, it took into consideration the views of some respondents, including users of financial statements, who did not consider the approach useful. The ASB considers that further research is required in this area.

Publications

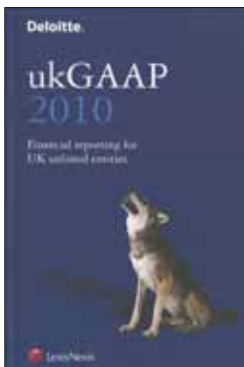


iGAAP 2010 – IFRS Reporting in the UK

Deloitte has published *iGAAP 2010 IFRS Reporting in the UK*. This book sets out comprehensive guidance for UK companies reporting under IFRS. The book explains clearly the requirements of IFRSs and how they differ from UK GAAP; adds interpretation and commentary where IFRSs are silent or unclear; identifies related UK-specific requirements; and provides many illustrative examples.

The manual deals comprehensively with those new standards that apply for periods beginning in 2009 and also covers those further pronouncements issued by the IASB up to 30 June 2009 that will apply from 2010, distinguishing clearly those that have not yet been endorsed by the European Commission.

iGAAP 2010 may be ordered at at:
www.lexisnexis.co.uk/deloitte



ukGAAP 2010 – Financial reporting for UK unlisted entities

ukGAAP 2010 – the latest edition of Deloitte’s authoritative guide to reporting under UK GAAP – has been published. This book is suitable for all companies following UK accounting standards, including those that have adopted the Companies Act fair value accounting rules for financial instruments, as it deals with the requirements of FRS 26 Financial Instruments: Recognition and Measurement and the ‘package’ of other standards that must be adopted with FRS 26, including FRS 29 Financial Instruments: Disclosures.

This edition of the manual deals comprehensively with the reporting and accounting requirements extant at 31 August 2009 including the amendment to FRS 8 Related Party Disclosures: Legal changes 2008, the new standard FRS 30 Heritage Assets, various amendments to FRS 26 and 29 and increased guidance on going concern following the publication of guidance in this area by the Financial Reporting Council.

ukGAAP 2010 may be ordered at at:
www.lexisnexis.co.uk/deloitte



A telling performance – Surveying narrative reporting in annual reports

This publication follows on from *Write from the start*, the 2008 survey on narrative reporting. The survey analyses the narrative reporting of 130 listed companies, split into two categories, being investment trusts and other companies. It includes a review of:

- how compliance with the disclosure requirements of the Companies Act 2006, the Listing Rules, the Disclosure and Transparency Rules and the Combined Code varied;
- the extent to which companies have adopted the FRC’s November 2008 guidance on going concern. In this respect its publication is timely as the FRC has published recently its revised guidance which will be effective for 31 December 2009 period ends; and
- the use of the ASB’s Reporting Statement: Operating and Financial Review.

A telling performance is available at:
http://www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/Services/Audit/Corporate%20Governance/UK_Audit_A_telling_performance.pdf

Finishing (in) figures – Surveying financial statements in annual reports

Finishing (in) figures analyses the financial statements of the listed companies surveyed in *A telling performance*.

It includes a review of:

- the variety in presentation of the primary statements in listed companies' financial statements;
- which critical judgements and key estimations directors consider to be the most significant when preparing their financial statements; and
- how compliance with disclosure requirements and the accounting policy choices made under IFRSs varied.

The publication includes detail of some current disclosure requirements and latest developments, as well as various "good practice" examples.

Finishing (in) figures is available at:

http://www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/Services/Audit/Corporate%20Governance/UK_Audit_FinishingFigures.pdf



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 2 December 2009)
IAS/IFRS standards			
IFRS 1 (revised November 2008)	First-time Adoption of International Financial Reporting Standards	1 July 2009 ²	26 November 2009
IAS 24 (revised November 2009)	Related Party Disclosures	1 January 2011	Q2 2010
IFRS 9 (November 2009)	Financial Instruments: Classification and Measurement	1 January 2013	To be confirmed
Amendments to IFRS 7 (March 2009)	Improving Disclosures about Financial Instruments	1 January 2009	1 December 2009
Amendments to IFRIC 9 and IAS 39 (March 2009)	Embedded Derivatives	Periods ending on or after 30 June 2009 ³	1 December 2009
Improvements to IFRSs (April 2009)	Improvements to IFRSs 2009	1 July 2009 or 1 January 2010 (varies by standard)	Q1 2010
Amendments to IFRS 2 (June 2009)	Group Cash-settled Share-based Payment Transactions	1 January 2010	Q1 2010
Amendments to IFRS 1 (July 2009)	Additional Exemptions for First-time adopters	1 January 2010	Q1 2010
Amendments to IAS 32 (October 2009)	Classification of Rights Issues	1 January 2010	Q4 2009
Interpretations			
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009 ⁴	27 November 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009 ⁴	1 December 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010 ¹	Q2 2010
Amendment to IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011	Q2 2010

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

Note 1: may be applied prior to endorsement as interpretative only

Note 2: EU endorsement is for periods beginning on or after 1 January 2010.

Note 3: EU endorsement is for periods beginning on or after 1 January 2009.

Note 4: EU endorsement is for periods beginning on or after 1 November 2009.

ASB and IASB timetables

ASB Current Projects

The Future of UK GAAP	<ul style="list-style-type: none"> The ASB issued on 11 August 2009 a consultation paper 'Policy Proposal: the future of UK GAAP', which sets out its proposals for the future reporting requirements for UK and Irish entities. The Board's proposals envisage a differential reporting regime based on public accountability, with publicly accountable entities applying IFRS as adopted by the EU, small entities continuing to apply the FRSSE and all other entities applying the IFRS for SMEs.
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.
Retirement benefits	<ul style="list-style-type: none"> The project on the Financial Reporting of Pensions is led by the ASB as part of the PAAinE (Pro-Active Accounting in Europe) initiative – a partnership including EFRAG and European standard setters. The ASB has completed its research project and issued its final report 'The Financial Reporting of Pensions: Feedback and Redeliberations'.
Financial statement presentation	<ul style="list-style-type: none"> The ASB, as part of the PAAinE (Pro-Active Accounting in Europe) initiative, has welcomed the discussion paper Performance Reporting prepared jointly by the staff of the Spanish standards-setter (ICAC) and of EFRAG, but does not necessarily agree with all of the views expressed in the paper.
Accounting for Income Tax	<ul style="list-style-type: none"> The ASB and Accounting Standards Committee of Germany (DRSC) have a joint project to consider accounting for income tax from first principles.
Business combinations	<ul style="list-style-type: none"> The ASB, as a result of the IASB issuing a revised IFRS 3 and IAS 27, is reconsidering what action is required to FRED 36, 37 and 39 as part of its overall convergence strategy.

IASB Project Timeline – Active Projects

Annual Improvements to IFRSs – 2009-2010	<ul style="list-style-type: none"> ED issued August 2009. Final IFRS expected first half of 2010.
Common Control Transactions	<ul style="list-style-type: none"> Added to agenda December 2007. Timing not yet determined.
Conceptual Framework Eight phases in all	<ul style="list-style-type: none"> ED on objectives and qualitative characteristics was issued in May 2008. Final chapter expected in 2009. Discussion paper (DP) on reporting entity was issued in May 2008. ED is expected in second half of 2009. DP on measurement expected first half of 2010. DP on elements and recognition expected in second half of 2010.
Consolidation, including SPEs*	<ul style="list-style-type: none"> ED issued in December 2008. Round tables held in June 2009. Final IFRS expected second half of 2010.
Convergence – Short-term issues, IFRSs and US GAAP*	<p>IAS 12 Income taxes</p> <ul style="list-style-type: none"> ED issued in March 2009. A limited project now being considered. <p>Joint Arrangements – Reconsideration of IAS 31</p> <ul style="list-style-type: none"> ED 9 Joint Arrangements issued September 2007. Final IFRS expected first half of 2010. <p>Government Grants</p> <ul style="list-style-type: none"> Work deferred pending revenue recognition, related parties and emissions trading schemes projects.

Derecognition*	<ul style="list-style-type: none"> • ED issued March 2009. • Round tables held June 2009. • Final IFRS expected second half of 2010.
Discontinued operations amendment	<ul style="list-style-type: none"> • ED issued September 2008. • Amendment expected first half of 2010.
Earnings per share amendment	<ul style="list-style-type: none"> • Exposure draft issued August 2008. • No further discussion expected until 2010.
Emissions Trading Schemes	<ul style="list-style-type: none"> • ED expected first half of 2010. • Final IFRS expected first half of 2011.
Fair Value Measurement Guidance	<ul style="list-style-type: none"> • ED issued May 2009. • Round tables held second half of 2009 • Final IFRS expected second half of 2010.
Financial Instruments with the Characteristics of Equity*	<ul style="list-style-type: none"> • DP issued February 2008. • ED expected first half of 2010. • Final IFRS expected first half of 2011.
Financial Instruments (replacement of existing standards)*	<ul style="list-style-type: none"> • Classification and measurement ED issued July 2009, Final IFRS issued November 2009. • Impairment ED issued November 2009, Hedging ED expected first half of 2010, Final IFRSs expected second half of 2010.
Financial Statement Presentation* Phase B: Statement of information in the financial statements	<ul style="list-style-type: none"> • DP issued October 2008. • ED expected first half of 2010. • Final IFRS expected 2011.
Insurance Contracts – Phase II	<ul style="list-style-type: none"> • DP issued May 2007. • ED expected first half of 2010. • Final IFRS expected 2011.
Leases*	<ul style="list-style-type: none"> • DP issued March 2009. • ED expected first half of 2010. • Final IFRS expected first half of 2011.
Liabilities (IAS 37 amendments)	<ul style="list-style-type: none"> • ED issued June 2005. • ED expected 2009. • Final IFRS expected second half of 2010.
Limit on a defined benefit asset (IFRIC 14 amendment)	<ul style="list-style-type: none"> • Amendment issued November 2009.
Management Commentary	<ul style="list-style-type: none"> • Output will be best practice guidance, not an IFRS. • ED issued June 2009. • Final guidance expected second half of 2010.
Post-employment Benefits (including Pensions)*	<ul style="list-style-type: none"> • DP issued March 2008. • ED expected first half of 2010. • Final IFRS expected 2011.
Rate-regulated activities	<ul style="list-style-type: none"> • ED published July 2009. • Final IFRS expected first half of 2010.

Related Party Disclosures (IAS 24)	<ul style="list-style-type: none"> • Revised IFRS issued November 2009.
Revenue Recognition*	<ul style="list-style-type: none"> • DP issued December 2008. • ED expected first half of 2010. • Final IFRS expected 2011.
Rights issues (classification)	<ul style="list-style-type: none"> • Final amendment issued October 2009.

IASB project timeline – Research agenda

Credit risk in liability measurement	<ul style="list-style-type: none"> • Discussion paper issued June 2009.
Extractive activities	<ul style="list-style-type: none"> • Group of national standard setters conducting research. • DP available on the IASB website August 2009. • Request for views expected first half of 2010.
Intangible Assets*	<ul style="list-style-type: none"> • Decision in December 2007 not to add to agenda but continue as research project.

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

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

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