Grant Thornton

IFRS News

Welcome to IFRS News – a quarterly update from the Grant Thornton International IFRS team. IFRS News offers a summary of the more significant developments in International Financial Reporting Standards (IFRS) along with insights into topical issues and comments and views from the Grant Thornton International IFRS team.

Our first edition of 2012 focuses on the IASB's and FASB's latest revenue recognition proposals. We summarise the key changes made since the 2010 exposure draft and their likely impact. We also share the results of a global survey of businesses' awareness of the proposals and their views on the need for improvements to the existing revenue recognition standards.

We go on to consider other recent developments at the IASB, including several amendments to IFRSs published in the last quarter and various proposed amendments that have been issued for public comment.

We then turn to IFRS-related news at Grant Thornton, as well as a general round-up of activities affecting the IASB. We end with an overview of the proposals that the IASB currently has out for comment, and the implementation dates of newer Standards that are not yet mandatory.

IASB re-exposes revenue recognition proposals

The 'five step model'

1.	2.	3.	4.	5.
Identify the contract(s) with the customer	Identify the separate performance obligations	Determine the transaction price	Allocate the transaction price	Recognise revenue when a performance obligation is satisfied

New Exposure Draft keeps same underlying control model as original proposals but adds considerable extra guidance

In November, the IASB and the U.S. Financial Accounting Standards Board (FASB) issued a revised version of their proposals to improve and converge their respective revenue recognition requirements. The Boards had originally planned to publish a final Standard in 2011 but in view of the importance of revenue to all companies, they decided a second exposure period was necessary.

The new Exposure Draft (ED) 'Revenue from Contracts with Customers' reflects the changes to the Boards' thinking since their original ED in June 2010, which generated almost 1,000 responses.

The core principle remains the same – that an entity would recognise revenue from contracts with customers when it transfers promised goods or services to the customer. The new ED also retains the five step model (see above) to apply that core principle. The new ED would apply to almost all contracts with customers, including construction contracts currently covered by IAS 11 'Construction Contracts'.

Although the model differs from the current standards it is unlikely to affect the amount or timing of revenue for entities with only simple contracts such as the straightforward sale of goods. In addition, the IASB and FASB have made considerable efforts to simplify application and reduce disruption to well-established accounting practices.

For example, the new ED is expected to result in most construction and services sector businesses continuing to recognise revenue as they perform under a contract, much more in line with current practice. The two Boards have added practical expedients to simplify application in some areas, including contracts with embedded financing and onerous obligations. To some extent these revisions represent a trade-off between a purely principle-based approach and a pragmatic assessment
of costs and benefits.

The table on the oppposite page summarises the 5-step model and the main changes to its application.

The 'five step model'

Step 1	Identify the contract with a customer	• the 2010 ED required entities to 'combine' or 'segment' contracts based on specified criteria • segmenting contracts is no longer required.
Step 2	Identify the separate performance obligations in the contract	• under the 2010 ED all 'distinct' performance obligations were to be accounted for separately – which could be burdensome in some cases (eg for construction contracts) • the new ED provides relief from this requirement when the entity provides a significant service of integrating and modifying a bundle of goods or services.
Step 3	Determine the transaction price	• the 2010 ED proposed that the effects of credit risk (collectability) would be reflected by reducing revenue • in the new ED revenue is based on the contract price but 'credit losses' are presented in an adjacent line in the income statement • if the transaction price varies (eg in a performance-based contract) revenue is based on estimated price, but a 'most likely amount' approach is used when this provides a better prediction than 'expected value' • revenue recognised is also limited to the amount that is 'reasonably assured'.
Step 4	Allocate the transaction price to the separate performance obligations in the contract	• the transaction price is allocated to the distinct performance obligations on the basis of their relative stand-alone selling prices but the new ED provides more guidance on how to do this • discounts and contingent amounts are allocated entirely to one performance obligation if specified criteria are met.
Step 5	Recognise revenue when (or as) the entity satisfies a performance obligation	• consistent with the 2010 ED revenue is recognised as each performance obligation is satisfied, which is when control is transferred to the customer • transfer of control may occur at a point in time or over time eg if the customer obtains control over work-in-progress during development • under the new ED control is also transferred over time if, in summary, the goods or services have no alternative use to the entity (ie are customer-specific) and – the customer receives the benefits continuously – there would be no need to re-perform the work if a new supplier was engaged – the entity has a right to payment for work done • this is an important change for construction and services sector businesses who were concerned that the earlier proposals would only allow them to recognise revenue when contracts were complete.

In addition to the points mentioned in the table, other changes from the 2010 ED include:

- aligning the accounting for product warranties more closely with existing requirements
- limiting the scope of the onerous test
- adding practical expedients for retrospective application of the proposals
- specifying the disclosures required for interim financial reports.

Despite these amendments and simplifications, implementing the new ED will still be a major task for many entities. Entities will need to analyse revenue contracts, benchmark existing policies and practices against the new requirements, and modify IT and internal control systems. Entities will also need to consider the impact of the proposed guidance on debt covenants, compensation arrangements, and other contracts tied to their financial results. Areas requiring attention will include:

- assessing whether contracts include more than one distinct performance obligation
- allocation of the transaction price to multiple performance obligations
- estimating the outcome of variable consideration and the amount that is reasonably assured
- determining the point at which, or period over which, control is transferred
- analysis of contracts that include a significant financing component
- gathering the information required to meet expanded disclosure requirements.

The comment deadline for the ED is 13 March 2012. The new Standard will not however apply until accounting periods beginning on or after 1 January 2015 at the earliest. While that date may seem a long way away, however, the Standard would be retrospective and significant changes may be needed in order to apply the new proposals. Given the potential impact of the proposed guidance on debt covenants, compensation arrangements, and other contracts tied to an entity's financial results, companies would be well advised to take heed of the proposals sooner rather than later.

Grant Thornton International comment

We welcome the IASB's decision to re-expose its revenue recognition proposals. Revenue recognition is an important issue for all entities, and it is correct for the IASB to try to avoid any unintended consequences from changes in this area.

Grant Thornton global survey finds only 37% of businesses agree that revenue standards need improvement

Research from the Grant Thornton International business report, which surveys 2,800 businesses globally, finds only 37% of respondents believe that existing accounting standards on revenue recognition need to be improved or replaced, despite a documented history of high-profile corporate revenue recognition problems.

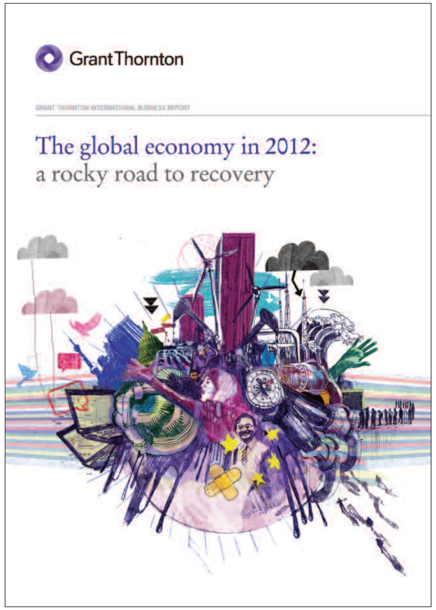
The survey, which was conducted in November and December 2011, also found that almost two-thirds of the respondents thought that the latest joint proposals would lead to increased costs (62%) and more complexity (65%). Alarmingly, only 35% of interviewees were aware of the upcoming revenue recognition changes, findings consistent with the recent Grant Thornton commissioned lease accounting global survey, which found only 45% aware of the pending changes in reporting leases.

Commenting on the findings, Ed Nusbaum, CEO of Grant Thornton International said: "Revenue is a key performance measure for every business and a single, global accounting standard in this area is critical.

"Although some argue that the current standards aren't broken, we do think there are serious problems. The two main IASB standards are based on different principles and lack guidance in important areas such as multiple element arrangements. The U.S. literature suffers from the opposite problem of excessive guidance – much of which is specific to particular industries. The regional variations in attitude to the Boards' proposals are no doubt affected by these different starting points.

"There is understandable concern about increased cost and complexity, but we believe that the IASB and FASB are moving in the right direction, and we're pleased they're moving together. The Boards and their staff have been doing a great job of engaging with their constituents in their outreach, and the results are evident in the new proposals. The decision to re-expose is also very positive."

For more information on the Grant Thornton International Business Report, please visit: **www.internationalbusinessreport.com**



IASB issues financial instruments amendments

In December, the IASB issued three separate amendments to Standards dealing with financial instruments:

- Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7)
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
- Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

Mandatory Effective Date of IFRS 9 and Transition Disclosures

The amendments to IFRS 9 'Financial Instruments' defer the mandatory effective date of that Standard from 1 January 2013 to 1 January 2015.

Commentators had raised concerns over the delays to the completion of the overall project to replace IAS 39 'Financial Instruments: Recognition and Measurement', with the phases on impairment and hedge accounting still to be finalised as we start 2012. The IASB's amendment addresses this concern, and means that all phases of the project will now have the same mandatory effective date.

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The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012 and is a significant change. To compensate, additional transition disclosures have been introduced to help understand the initial application of the Standard.

Grant Thornton International comment

We welcome the deferral of the mandatory date of IFRS 9. It is important for entities to be able to apply all the phases of the project at the same time and to have an adequate transition period to prepare. The decision to extend the relief from restating comparative financial statements for the effect of initial application of the Standard will also be of help when companies make the transition.

While it is disappointing that the IASB and the FASB have not been able to achieve convergence on offsetting, we welcome the publication of common disclosure requirements and the IASB's clarification of IAS 32's requirements for offsetting financial instruments.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The Amendments to IAS 32 add application guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. Two areas of inconsistency are addressed by the amendments.

The first relates to the meaning of 'currently has a legally enforceable right of set-off'. The IASB has clarified that a right of set-off is required to be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The right must also exist for all counterparties.

The second area relates to gross settlement systems such as clearing houses used by banks and other financial institutions. There had been diversity in practice over the interpretation of IAS 32's requirement for there to be 'simultaneous settlement' of an asset and a liability in order to achieve offsetting.

The IASB has therefore clarified the principle behind net settlement and included an example of a 'gross settlement system' with characteristics that would satisfy the IAS 32 criterion for net settlement.

Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

The third of the amendments also relates to offsetting. The IASB and the FASB had originally intended to introduce common offsetting requirements for IFRSs and U.S. GAAP (an Exposure Draft containing proposals to that effect had been issued in January 2011). In the end, however, the two Boards decided to maintain their respective offsetting models. While they were unable to achieve convergence on common offsetting requirements, they noted that requiring common disclosures would be helpful for users of financial statements.

Accordingly, qualitative and quantitative disclosures have been added to IFRS 7 relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position.

Entities are required to apply the amendments for annual reporting periods beginning on or after 1 January 2013, and interim periods within those annual periods. The required disclosures should be provided retrospectively.

SME Implementation Group publishes two final Q&As

The SME Implementation Group (SMEIG) published two question and answer documents (Q&As) on the IFRS for Small and Medium-sized Entities (SMEs) in December. The two Q&As (see table) contain guidance to help entities assess whether they have public accountability and, therefore, whether they meet the scope requirements in Section 1 of the IFRS for SMEs.

Q&As published by the SMEIG are non-mandatory guidance that will help those who use the IFRS for SMEs to think about specific accounting questions. They are not intended to modify in any way the application of full IFRSs. This point is important as some commentators had questioned whether these Q&As might be misused as interpretations of similar issues and terminology in full IFRS.

Entities that typically have public accountability
• the IFRS for SMEs identifies banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of the type of entity that 'typically' holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses • the question asks does that mean that all entities of those types should automatically be assumed to have public accountability?
The answer clarifies that: • although such entities can be presumed to have public accountability, there may be limited circumstances in which such an entity may not have public accountability • the answer cites captive insurance subsidiaries and investment funds with only a few participants as possible examples.

Interpretation of 'traded in a public market' in applying the IFRS for SMEs
• the question asks how broadly should 'traded in a public market' be interpreted in the definition of public accountability?
The answer clarifies that: • a 'public market' is not restricted to recognised and/or regulated stock exchanges. It includes all markets that bring together entities that seek capital and investors who are not involved in managing the entity • for a market to be public it must be accessible by a broad group of outsiders • the availability of a published price does not necessarily mean that an entity's debt or equity instruments are traded in a public market.

IASB proposes amendments to clarify IFRS 10’s transition guidance

The IASB has issued an Exposure Draft following requests for it to clarify the transition guidance in IFRS 10 ‘Consolidated Financial Statements’.

‘Transition Guidance (Proposed amendments to IFRS 10)’ aims to provide this clarification by:

- explaining that the “date of initial application” in IFRS 10 means “the beginning of the annual reporting period in which IFRS 10 is applied for the first time”
- clarifying that an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application under IFRS 10 is the same as under IAS 27 ‘Consolidated and Separate Financial Statements’ / SIC-12 ‘Consolidation – Special Purpose Entities’. As a result, the IASB confirms that relief from retrospective application of IFRS 10 would also apply to an investor’s interests in investees that were disposed of during a comparative period such that consolidation would not occur under either IAS 27 / SIC-12 or IFRS 10 at the date of initial application
- clarifying how an investor would adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application is different under IAS 27 / SIC-12 and IFRS 10.

In addition, the IASB proposes to align the effective date of the proposed amendments with the effective date of IFRS 10. An entity would therefore also apply the proposed amendments for annual periods beginning on or after 1 January 2013.

IASB invites comments on two draft Q&As for the IFRS for SMEs

The SME Implementation Group (SMEIG) has published two draft Questions & Answers (Q&As) on the IFRS for Small and Medium-sized Entities (SMEs). The draft Q&As cover the following topics:

Whether an entity may choose to apply the recognition and measurement provisions of IFRS 9?

Background

Currently, the IFRS for SMEs gives an entity the option of applying the recognition and measurement provisions of IAS 39 instead of the IFRS for SMEs' own provisions for financial instruments. The question asks if an entity can choose to apply the recognition and measurement provisions of IFRS 9?

SMEIG's draft answer

The SMEIG's draft answer is no – the IFRS for SMEs refers specifically to IAS 39. SMEs are not permitted to apply IFRS 9.

Whether cumulative exchange differences that arise on translation of a foreign subsidiary into a presentation currency are prohibited from being recognised in profit or loss on disposal of the subsidiary?

Background

The IFRS for SMEs requires exchange differences arising on translation of a foreign subsidiary into the group presentation currency for consolidation purposes to be recognised in other comprehensive income but is silent on whether they can subsequently be recycled.

SMEIG's draft answer

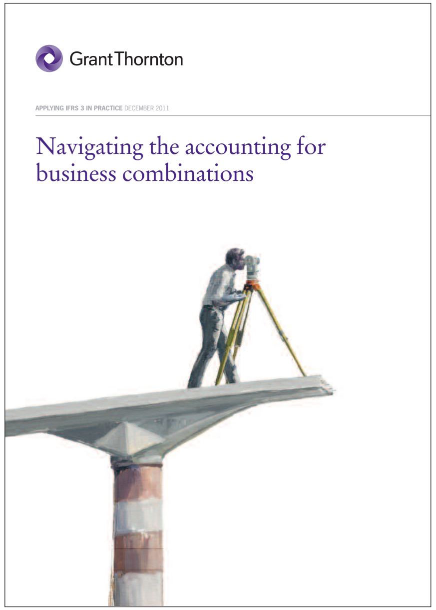
The SMEIG's draft answer is that such exchange differences should not be recycled to profit or loss.

Grant Thornton International guide to business combinations issued

The Grant Thornton International IFRS team has issued a new publication entitled 'Navigating the accounting for business combinations – Applying IFRS 3 in practice'.

The aims of the publication are to assist management in:

- planning and negotiating the terms of the business combinations – identifying how alternative deal strategies can affect an acquirer's reported results and financial position
- preparing to report the effects of the transaction – by noting key information requirements, accounting policy options and areas where specialist advice might be needed
- applying IFRS 3 – by summarising the requirements, using extensive examples to explain their application and highlighting possible problem areas.



Grant Thornton International guide to navigating the changes to IFRS

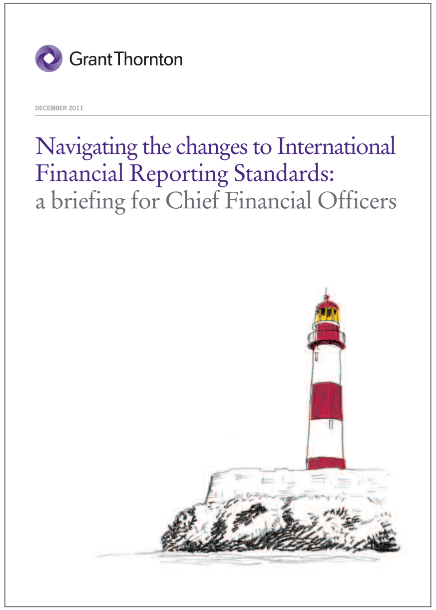
The Grant Thornton International IFRS team has published an updated version of its guide 'Navigating the changes to International Financial Reporting Standards: a briefing for Chief Financial Officers'.

The December 2011 edition of the publication has been updated for changes to International Financial Reporting Standards that have been published between 1 December 2010 and 30 November 2011.

The publication gives Chief Financial Officers a high-level awareness of recent changes that will affect companies' future financial reporting and their commercial significance. It has been designed to help entities planning for a specific financial reporting year end identify:

- changes mandatorily effective for the first time
- changes not yet effective
- changes already in effect.

To obtain a copy of either publication, please get in touch with the IFRS contact in your local Grant Thornton office.



IFRS seminar for mining companies in Canada

Raymond Chabot Grant Thornton, one of our two member firms in Canada, recently held an 'Information Day on IFRS and Taxation for the Mining Sector' in Montreal.

Experts from Raymond Chabot Grant Thornton's mining team, which includes the Montreal and Val-d'Or offices as well as several others, presented the seminar to over 70 attendees in October. They were joined by guest representatives from the Autorité des Marchés Financiers (the Quebec Securities Commission) and the TSX Venture Exchange.

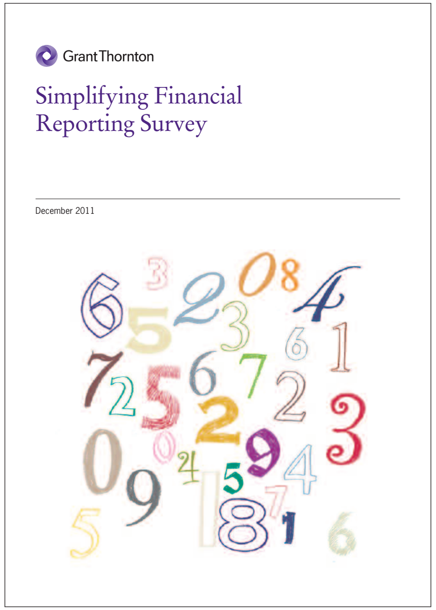
John Cochrane and Serge Allard from Raymond Chabot Grant Thornton are shown in the picture alongside Alexandra Lee and Johanne Boulerice of the Quebec Securities Commission.

Grant Thornton Australia survey on Simplifying Financial Reporting

Our Australian member firm has released the results of its survey on 'Simplifying Financial Reporting'.

The survey was designed to see whether recent changes to financial reporting requirements have reduced compliance costs in practice, whether further improvements are needed and what lessons can be learned for the future.

Significant among the survey's findings was strong support for the IFRS for SMEs to be made available for use in Australia. Grant Thornton Australia continues to put the case for the IFRS for SMEs to be an option in the Australian market.



US partner appointed

Chuck Evans, a partner in our U.S. firm's National Professional Standards Group, has been appointed to the FASB's Emerging Issues Task Force (EITF). He will serve a five-year term in this prestigious leadership role in the U.S. profession, starting from January 2012.

The EITF assists the FASB in improving financial reporting by issuing timely implementation guidance, discussion, and resolution of financial reporting issues.

Spotlight on our IFRS Interpretations Group

Grant Thornton International's IFRS Interpretations Group (IIG) consists of a representative from each of our member firms in the United States, Canada, Singapore, Australia, South Africa, India, the United Kingdom, France, Sweden and Germany as well as members of the Grant Thornton International IFRS team. It meets in person three times a year to discuss technical matters which are related to IFRS.

Each quarter we throw a spotlight on one of the members of the IIG. This quarter we focus on South Africa's representative:

Frank Timmins, South Africa

Frank is Head of Professional Standards at Grant Thornton, South Africa. He joined our South African member firm in 1986 and has specialised in financial reporting standards for over 25 years. Frank was closely involved with South Africa's harmonisation with IFRS and adoption in 2001. Frank is involved in advising companies and the legal profession on IFRS reporting requirements and in acting as an expert in accounting related disputes. He is registered as an IFRS Advisor with the Johannesburg Stock Exchange and is a member of the IASB's SME Implementation Group.

Frank is also a board member of South Africa's Independent Regulatory Board for Auditors, and chairs its Committee for Auditing Standards.

Over 650 days and counting: SEC postpones decision on IFRS adoption at AICPA Conference

Sheri Fabian, a partner in International Matters – Technical, in our US member firm, comments on the decision recently taken by the Securities and Exchange Commission (SEC) to postpone its decision on whether or not to adopt IFRS.

Many of us here in the U.S. – and, frankly, throughout the world – have been waiting almost two years for the SEC to make a final determination on whether, when, and how to incorporate IFRS into the U.S. financial reporting system. Some of us thought that perhaps the SEC would make an announcement at the 2011 AICPA National Conference on Current SEC and PCAOB Developments (Conference), held recently in Washington, D.C. Unfortunately, those expectations were unrealistic. In its 2010 'Commission Statement in Support of Convergence and Global Accounting Standards', the Securities and Exchange Commission (SEC or Commission) directed its staff to develop and execute a Work Plan to enhance the public's understanding of the Commission's purpose and its transparency in evaluating IFRS. Execution of the Work Plan, along with completion of the convergence projects between the FASB and the IASB, was supposed to position the Commission to make a determination in 2011 on whether to incorporate IFRS into the financial reporting system for U.S. issuers.

But, with 2012 just weeks away at the time of writing, the SEC staff is still finalising its analysis as outlined in the Work Plan, while the SEC commissioners have not yet been presented with a final report from the SEC staff or even begun to publicly debate the issue. To date, the SEC staff has in fact made significant progress in its analysis under the Work Plan, especially with the release of a number of SEC staff papers in the past year: the first one, in May, outlining the 'condorsement' approach, and the other two, both in November, comparing the differences between U.S. GAAP and IFRS and analysing the use of IFRS in practice around the world. But many items remain open, chief among them being a review of the governance structure of the IASB. The SEC staff is waiting for the Trustees and the Monitoring Board of the IASB to complete their independent reviews of the IASB's governance and strategy before finalising its work in this area.

As we continue to wait, many of us, including the IASB and its constituents, appear to be growing impatient

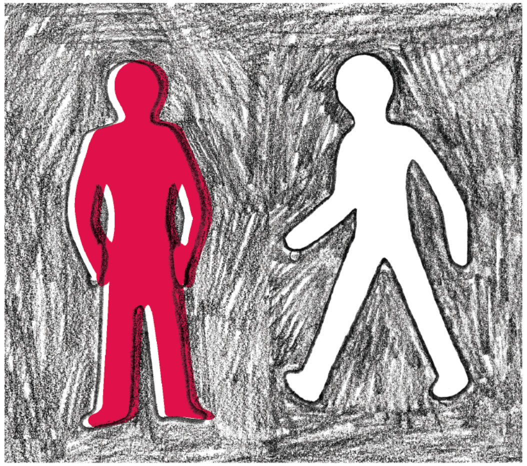
Even so, based on the vast amount of information the SEC staff has gathered and analysed through its work on other areas of the Work Plan, some believe that the Commission should have sufficient information at this point to draw a conclusion regarding the adoption of IFRS in the United States. However, James Kroeker, SEC Chief Accountant, indicated at the Conference that "the staff will need a measure of a few additional months' time to produce a final report. "At the same time," he added, "the staff is in the process of developing an approach for Commission consideration." The SEC has stated all along that it plans to take the time necessary to ensure that appropriate consideration is given to each of the issues outlined in the Work Plan. The SEC continues to proceed with caution – some might say too cautiously – in its analysis of incorporating IFRS in the U.S., perhaps to ensure the continued protection of the investing public and capital markets. As a result, there's still no final decision on incorporating IFRS in the United States, although many constituents have publicly expressed strong support for the development of a single set of high-quality accounting standards.

As we continue to wait, many of us, including the IASB and its constituents, appear to be growing impatient. There also appears to be waning interest in continuing convergence efforts between the IASB and the FASB beyond completion of the priority projects on revenue recognition, leases, financial instruments, and insurance. Perhaps this is because the IASB and the FASB have been working at converging their standards for almost 10 years. Hans Hoogervorst, Chairman of the IASB, stated at the Conference, "[F]or the long-term, the status quo is an unstable way of decision making that inevitably leads to diverged solutions or sub-optimal outcomes." Leslie Seidman, FASB Chairman, agreed: "Despite its challenges and, in retrospect, its overly ambitious scope, I think the convergence process has advanced global financial reporting in several key areas. However, I believe that the side-by-side convergence model is not the optimal model in the long run." Although future convergence projects between the FASB and the IASB may be in question, some believe that completion of converged accounting standards for the priority projects is sufficient evidence for the SEC to move forward on the IFRS question.

It's time for the SEC to make a decision and to stop such indecisiveness

On a positive note, Mr. Kroeker stated at the Conference, "I am encouraged about the potential prospects of IFRS incorporation, particularly as I consider and reflect on the input received on the May staff paper exploring a potential incorporation approach." Responses to that staff paper generally support the SEC's commitment to a single set of global accounting standards and the basic premise for incorporation of IFRS into the U.S. financial reporting system through the 'condorsement' approach, which attempts to marry the best of the endorsement and convergence approaches. While generally supportive of condorsement, some respondents, including Grant Thornton LLP and the Financial Accounting Foundation, the FASB's oversight body, offered a number of changes to enhance the proposed approach for implementing IFRS in the U.S. Responses to the staff paper also strongly encouraged the SEC to make a final determination now regarding IFRS and to develop an implementation plan.

It's time for the SEC to make a decision and to stop such indecisiveness. Let's hope the SEC doesn't keep us waiting too much longer for a final determination on the use of IFRS for financial reporting in the United States. If this keeps dragging on, not only will the SEC lose credibility, but U.S. companies will become isolated from their competitors in the global market.



Round-up

IASB updates work plan

The IASB released an updated version of its work plan at the end of December. The revised version sets out its commitment to completing its major convergence projects, with the following items scheduled for publication in quarter 2 of 2012:

- re-exposure of its proposals on leases
- a review draft or a revised Exposure Draft on insurance contracts
- re-exposure of its proposals on financial asset impairment.

The revised work plan also anticipates the final version of the IASB's proposals on general hedge accounting being published in quarter 2.

Improving the Financial Reporting of Income Tax

The UK Accounting Standards Board and the European Financial Reporting Advisory Group (EFRAG) have published a Discussion Paper in order to gather views on how the financial reporting of income tax could be improved.

'Improving the Financial Reporting of Income Tax' discusses ways in which the usefulness of information prepared in accordance with IAS 12 could be enhanced. In particular it discusses possible changes to the reconciliation of tax expense to a standard rate; revisions to the requirements in respect of uncertain tax positions; and whether deferred tax should be discounted.

The paper also discusses alternative approaches that could form the basis for a new accounting standard that would replace IAS 12. The Discussion Paper is available at **http://www.efrag.org/Front/n2-875/Discussion-Paper--Improving-the-Financial-Reporting-of-Income-Tax-.aspx** and is open for comment until 29 June 2012.

Accounting for business combinations under common control

EFRAG and the Organismo Italiano di Contabilita have jointly published a Discussion Paper 'Accounting for business combinations under common control'.

The objective of the project is to stimulate debate about how business combinations under common control should be reflected in the financial statements. At present, IFRS is silent on how to account for business combinations under common control and a number of different approaches are applied in practice.

The Discussion Paper sets out three different ways of looking at the problem as a first step towards stimulating debate on this issue and responding to the diversity in accounting treatment that currently exists.

The Discussion Paper is available at: **http://www.efrag.org/files/bcucc/bcucc_DP.pdf.**

ESMA consultation on the considerations of materiality in financial reporting

The European Securities and Markets Authority (ESMA) has issued a consultation paper entitled 'Considerations of materiality in financial reporting'.

Publication of the consultation paper has been influenced by discussions at the European Enforcers Coordination Sessions (a forum in which all European National Enforcers of financial information meet to exchange views and discuss experiences of enforcement of IFRS).

A recurring theme of those discussions has been the apparent differing views regarding the practical application of the concept of materiality amongst preparers, auditors, possibly users of the financial reports and, in some instances, accounting enforcers. The consultation paper seeks comments from interested parties on their understanding of various aspects of materiality in an effort to contribute to a consistent application of this important concept in financial reporting. It is open for comment until 29 February 2012.

The consultation document is available at: **http://www.esma.europa.eu/system/files/2011_373_.pdf**.

Sovereign debt

With many sovereign issuers in the Eurozone continuing to struggle in raising new finance, ESMA published a public statement 'Sovereign Debt in IFRS Financial Statements' in November. The statement is divided into two sections:

Section 1 discusses accounting issues related to sovereign debt in IFRS annual financial statements ending 31 December 2011. It highlights elements that should be considered by issuers and their auditors in relation to exposure to sovereign debt when preparing their year-end financial statements.

Section 2 is an ESMA Opinion "Accounting for Exposure to Greek Sovereign Debt – Considerations with respect to IFRS Interim Financial Statements for Accounting Periods ended on 30 June 2011. The Opinion provides a summary of the outcome of the fact-finding exercise together with elements that should have been considered by issuers and their auditors as part of the IFRS interim financial statements for periods ended 30 June 2011.

The US SEC has also published guidance on enhanced disclosure of European sovereign debt exposures for SEC registrants. This might also be a useful guidance source for non-registrants applying IFRS.

The ESMA and SEC statements are available at: **http://www.esma.europa.eu/system/files/2011_397.pdf** and **http://www.sec.gov/divisions/corpfin/guidance/cfguidance-topic4.htm**.

ESMA report on its post-implementation review of IFRS 8 Operating Segments

ESMA has released a Report entitled 'Review of European enforcers on the implementation of IFRS 8 – Operating Segments'.

The Report provides the main findings of the review of European enforcers on the implementation of IFRS 8 – Operating Segments and ESMA's tentative recommendations to enhance the application of the Standard.

The report identifies four main areas where preparers' segmental reporting disclosures could be improved:

- identification of the chief operating decision maker
- aggregation of operating segments into reportable segments
- measurement basis for information presented under IFRS 8
- how the materiality concept should be applied in relation to the analysis of entity-wide disclosures.

The ESMA report is available at: **http://www.esma.europa.eu/system/files/2011_372.pdf**.

Financial Reporting Lab launched in the UK

A Financial Reporting Lab has been launched under the auspices of the UK's Financial Reporting Council.

The Financial Reporting Lab aims to offer an environment where corporates and investors can come together to develop pragmatic solutions to today's reporting needs. It encourages management and investors to experiment with new reporting formats that offer a tangible step forward in effective communication. Initial financial statements projects being considered by the Lab include: net debt reconciliation; debt terms and economic obligations; debt maturity schedule; cash flow statement; tax reconciliation; own credit adjustments; accounting policy disclosures; and share-based payments (materiality).

G20 reiterates commitment to global accounting standards

Following the Leaders' summit held in France in November, the G20 has released a statement calling on the IASB and FASB to complete their convergence project. In their Cannes Summit Final Declaration the G20 leaders said "We reaffirm our objective to achieve a single set of high quality global accounting standards and meet the objectives set at the London summit in April 2009, notably as regards the improvement of standards for the valuation of financial instruments."

FEE policy statement on current economic difficulties

The Fédération des Experts – Comptables Européens (Federation of European Accountants) has released a policy statement entitled Professional Accountants' Contribution in the Current Economic Difficulties: Enhancing Transparency and Confidence.

The policy statement contains a high-level summary of issues that preparers, auditors and public sector entities may wish to consider in the current economic circumstances. These include issues such as the measurement of assets, impairment of financial and non-financial assets, going concern considerations, disclosures, areas of particular audit attention, and public sector governance.

AICPA survey on IFRS readiness

The American Institute of Certified Public Accountants has surveyed the readiness of its members for the possible adoption of IFRS in the United States.

The key messages from the IFRS Readiness Survey are:

- a majority support the SEC giving U.S. issuers an option to use IFRS
- 60% say the FASB should not make changes to IFRS, or changes should be rare, if the SEC follows an endorsement approach for IFRS
- U.S. entities continue to delay planning and preparing for IFRS
- members support adoption of IFRS, although more convergence is desired first
- 59% of respondents from U.S. public companies and public practice believe 4 to 5 years would allow enough time for implementation
- a majority of members are aware of the FASB / IASB convergence projects.

Survey on CFO and investor perspectives on global reporting standards

The Association of Chartered Certified Accountants (ACCA) has issued a report summarising the results of a survey of CFOs and investors on their attitudes towards global reporting standards.

Among the key findings in the survey were:

- increasing familiarity with global standards in financial reporting continues to break down resistance to their implementation
- the effect of the financial crisis has been to improve perceptions of global standards among investors and issuers
- rising demands from investors and customers for greater disclosure is fuelling an appetite for global standards in non-financial reporting
- executives believe that global standards or benchmarks in corporate governance would encourage more "long-term" thinking.

Effective dates of new standards and IFRIC interpretations

The table below lists new IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2010. Companies are required to make certain disclosures in respect of new Standards and Interpretations under IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’.

New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2010

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IFRS 9	Financial Instruments	1 January 2015	Yes (extensive transitional rules apply)
IAS 32	Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	1 January 2014	Yes (but must also make the disclosures required by Disclosures – Offsetting Financial Assets and Financial Liabilities)
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	1 January 2013	Not stated (but we presume yes)
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013	Yes
IFRS 13	Fair Value Measurement	1 January 2013	Yes
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013	Yes
IFRS 11	Joint Arrangements	1 January 2013	Yes (but must apply IFRS 10, IFRS 12, IAS 27 and IAS 28 at the same time)
IFRS 10	Consolidated Financial Statements	1 January 2013	Yes (but must apply IFRS 11, IFRS 12, IAS 27 and IAS 28 at the same time)
IAS 28	Investments in Associates and Joint Ventures	1 January 2013	Yes (but must apply IFRS 10, IFRS 11, IFRS 12 and IAS 27 at the same time)
IAS 27	Separate Financial Statements	1 January 2013	Yes (but must apply IFRS 10, IFRS 11, IFRS 12 and IAS 28 at the same time)

Effective dates of new standards and IFRIC interpretations

New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2010

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IFRS Practice Statement	Management Commentary: A framework for presentation	No effective date as non-mandatory guidance	Not applicable
IAS 19	Employee Benefits (Revised 2011)	1 January 2013	Yes
IAS 1	Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).	1 July 2012	Yes
IAS 12	Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)	1 January 2012	Yes
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1)	1 July 2011	Yes
IFRS 7	Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)	1 July 2011	Yes
Various	Annual Improvements 2010	1 January 2011 unless otherwise stated (some are effective from 1 July 2010)	Yes
IFRIC 14	Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14	1 January 2011	Yes
IAS 24	Related Party Disclosures	1 January 2011	Yes (either of the whole Standard or of the partial exemption for government-related entities)

Effective dates of new standards and IFRIC interpretations

New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2010

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment to IFRS 1)	1 July 2010	Yes
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	Yes
IAS 32	Classification of Rights Issues (Amendment to IAS 32)	1 February 2010	Yes
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities	Immediately subject to approval within the individual jurisdiction	N/A
Various	Annual Improvements 2009	1 January 2010 unless otherwise stated (some are effective from 1 July 2009)	Yes
IFRS 1	Additional Exemptions for First-time Adopters (Amendments to IFRS 1)	1 January 2010	Yes
IFRS 2	Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2010	Yes

Open for comment

This table lists the documents that the IASB currently has out to comment and the comment deadline. Grant Thornton International aims to respond to each of these publications.

Current IASB documents

Document type	Title	Comment deadline
Exposure Draft	Revenue from Contracts with Customers	13 March 2012
Exposure Draft	Transition Guidance (proposed amendments to IFRS 10)	21 March 2012