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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 third edition of 2012 starts with a look at how work is progressing on the main IFRS and US GAAP convergence projects, before focussing in detail on the new Standards that have been published in the last quarter and the documents the IASB has issued for public comment.

We then turn to IFRS-related news at Grant Thornton, including the publication of our updated example interim IFRS financial statements and our updated US GAAP comparison guide. We end with a more general round-up of activities affecting the IASB, and the implementation dates of newer Standards that are not yet mandatory.

Update on IFRS and US GAAP convergence

At the end of April, the IASB and FASB issued a 'Joint Update Note' on the convergence of their respective Standards.

The update note throws further light on the plans for completion of the four remaining convergence projects that we discussed in the last edition of IFRS News. We outline some of the main points below.

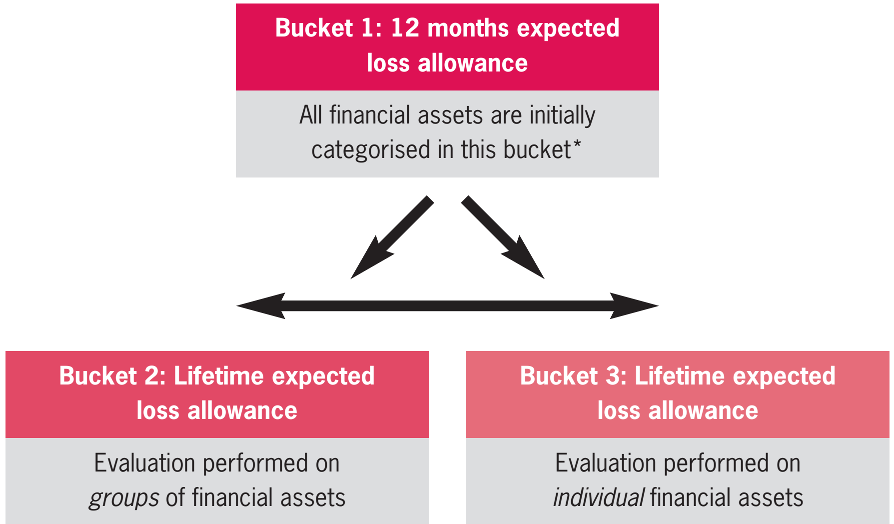
Financial instruments

Classification and measurement

- the IASB is continuing to deliberate on making limited-scope changes to IFRS 9
- both the IASB and the FASB are focussing on discussing which instruments are eligible for amortised cost accounting, whether there is a need for bifurcation of financial assets (and, if so, the basis for bifurcation), the basis for and scope of a possible third classification category (debt instruments measured at fair value through other comprehensive income); and any knock-on effect of such a decision
- an Exposure Draft is planned for the fourth quarter of 2012.

Impairment

- the IASB and the FASB are continuing to address the main criticism of the incurred loss impairment model that was highlighted during the financial crisis by working together to develop a more forward-looking 'expected loss' approach to impairment
- the overall objective of the proposed model is to reflect the deterioration in the credit quality of financial assets
- it does this by means of a "three bucket" approach. On initial recognition financial assets would go into Bucket 1, with expected (as opposed to incurred) losses being recognised but only on a twelve month outlook period. Financial assets would then move from Bucket 1 to Buckets 2 and 3 on the basis of a deterioration in recoverability. Estimates of full expected lifetime losses would be made for both Buckets 2 and 3. Bucket 2 would however be on a portfolio basis whereas Bucket 3 would be on an individual basis. The diagram illustrates the process
- an Exposure Draft is planned for the last quarter of the year.



* Assets are transferred out of Bucket 1 when:
- a 'more than insignificant' deterioration in credit quality occurs AND
- it is reasonably possible that some of the contractual cash flows will not be collected.

Hedging

The IASB has divided the hedging part of its financial instruments project into two parts: General hedge accounting and macro hedge accounting:

General hedge accounting

- publication of the part of the final Standard dealing with general hedge accounting is expected in the second half of this year
- it is expected that it will be easier to apply hedge accounting, with removal of the 80-125% 'bright line' that currently marks the maximum permitted range of hedge ineffectiveness, and better alignment between hedge accounting and actual risk management practices
- it will however not be possible to voluntarily discontinue hedge accounting while the underlying risk management strategy remains the same. As a result, adequate documentation of the hedge accounting relationship will be more important than ever.

Macro hedge accounting

- the second part of the hedge accounting project considers macro hedging (risk management strategies referring to open portfolios held primarily by financial institutions)
- at the moment this part of the project is focussed on interest rate risk management within the banking industry, but other risks and industries will be considered in due course
- a discussion paper is planned for the second half of 2012, which will elicit views on a broader range of accounting alternatives.

Revenue

- the two Boards are currently considering the feedback received from the November 2011 Exposure Draft
- at the date of publication of the Joint Update Note, the two Boards envisaged a final Standard being issued in early 2013. The IASB's latest work plan however does not show an anticipated date of publication of the Final Standard.

Leases

- the two Boards are not planning to reconsider their overall decision that all leases should be recorded on the balance sheet
- the Boards are however redeliberating whether the 'front-loaded' profit and loss profile for lessees that would result from the approach proposed in their previous Exposure Drafts is appropriate for all leases (see our separate article 'update on lease accounting project' later in the newsletter for more detail).

Insurance contracts

- the Boards are developing a model that would reflect current estimates of the amount necessary to fulfil an insurance obligation
- at present the Boards have not reached consistent conclusions about several elements of the model. Given the strong desire for a global Standard on insurance however, the Boards are making a conscious effort to understand each other's decisions and to resolve differences where possible
- a review draft of a final Standard or a new Exposure Draft is expected to be published before the end of the year.

SEC publishes final staff report on IFRS Work Plan

The Office of the Chief Accountant of the Securities and Exchange Commission (SEC) has published its final staff report on the 'Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for US Issuers'.

The highly awaited report takes care to emphasise that its publication does not imply that the SEC has made any policy decision as to whether IFRSs should be incorporated into the financial reporting system for US issuers, or how any such incorporation, were it to occur, should be implemented.

It instead examines IFRS and the arguments for and against various forms of adoption. The report notes that it became clear to the SEC staff early on in the process that an outright switch to IFRS was not supported by the vast majority of US participants. The SEC staff also note that IFRS has become more comprehensive but still has some gaps, and that the IFRS Foundation (the IASB's parent) needs to shore up and broaden its funding base. The report also observes that IFRS lacks many industry-specific standards.

The IASB reacted to the report by noting that many of the challenges expressed in the report were challenges which had been faced by other jurisdictions and which had been successfully overcome by them. Regret was also expressed that the report was not accompanied by a recommended action plan for the SEC, with Michel Prada, Chairman of the Trustees of the IFRS Foundation, stating that "given the achievements of the convergence programme inspired by repeated calls of the G20 for global accounting standards, a clear action plan would be welcome".

2009-2011 Annual Improvements published

Amendments address non-urgent (but necessary) minor amendments

The IASB has published 'Annual Improvements 2009-2011 Cycle'. The publication is a collection of amendments to IFRSs resulting from issues that were discussed by the IASB during the project cycle for making annual improvements that began in 2009, and which were subsequently included in an Exposure Draft published in June 2011. The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of any other project.

A summary of the issues addressed is given in the box below.

Annual Improvements 2009-2011 Cycle

Standard affected	Subject	Summary of amendment
IFRS 1 First-time Adoption of International Financial Reporting Standards	Repeated application of IFRS 1	• addresses the question of whether IFRS 1 can be applied more than once • clarifies that in a situation where an entity readopts IFRSs, it can elect to either apply IFRS 1 or apply IFRSs retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' as if the entity had never stopped applying IFRSs
	Borrowing costs	Addresses situations where an entity chooses to apply IFRS 1's exemption from the requirements of IAS 23 'Borrowing Costs', clarifying that: • borrowing costs that were capitalised before the date of transition in accordance with previous GAAP should be carried forward in the opening statement of financial position • borrowing costs incurred after the date of transition in relation to qualifying assets under construction at the date of transition should be accounted for in accordance with IAS 23 • where a first-time adopter chooses to apply the requirements of IAS 23 from a date earlier than the date of transition, it should account for borrowing costs in accordance with IAS 23 on or after the earlier date selected.
IAS 1 Presentation of Financial Statements	Clarification of the requirements for comparative information	The amendment covers two issues: 1) Opening statement of financial position – addresses the comparative requirements for the opening statement of financial position when an entity changes accounting policies, or makes retrospective restatements or reclassifications, in accordance with IAS 8 – clarifies that the appropriate date for the opening statement of financial position is the beginning of the preceding period. Related notes to this opening statement of financial position are no longer required to be presented. 2) Comparative information beyond minimum requirements – addresses whether an entity should be required to present a complete set of financial statements when it provides financial statements beyond the minimum comparative information requirements (ie additional comparative information)

Grant Thornton International comment

We welcome the IASB's publication of these changes. By presenting the amendments in a single document rather than as a series of piecemeal changes, the burden of change should be eased for all concerned.

Overall the changes are relatively uncontroversial. We particularly welcome the clarification of whether IFRS 1 can be applied more than once. Such a situation might occur for example when an entity was previously required to apply IFRSs in order to meet an overseas listing requirement but then delists and reverts to national GAAP. In a subsequent reporting period, the reporting requirements in the entity's local jurisdiction then change from national GAAP to IFRSs, requiring it to present its financial statements in accordance with IFRSs again.

Annual Improvements 2009-2011 Cycle

Standard affected	Subject	Summary of amendment
IAS 1 Presentation of Financial Statements (cont)	Clarification of the requirements for comparative information	– clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum comparitive requirements. Any additional information presented should however be presented in accordance with IFRSs and the entity should present comparative information in the related notes for that additional information.
IAS 16 Property, Plant and Equipment	Classification of servicing equipment	• addresses a perceived inconsistency in the classification requirements for servicing equipment which had led some to think that servicing equipment used during more than one period would be classified as part of inventory • the amendment clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment. If they do not meet this definition they are classified as inventory.
IAS 32 Financial Instruments: Presentation	Tax effect of distribution to holders of equity instruments	• addresses perceived inconsistencies between IAS 12 'Income Taxes' and IAS 32 with regards to recognising the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction. • clarifies that the intention of IAS 32 is to follow the requirements in IAS 12 for accounting for income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction. IAS 12 requires the recognition of the income tax consequences of dividends in profit or loss except to the extent that the tax arises from a business combination or from a transaction which is recognised outside profit or loss (either in other comprehensive income or directly in equity).
IAS 34 Interim Financial Reporting	Interim financial reporting and segment information for total assets and liabilities	• clarifies the requirements on segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of IFRS 8 'Operating Segments' • the amendment clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (a) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; and (b) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment.

SME Implementation Group publishes two final Q&As

The SME Implementation Group (SMEIG) has published the following two new question and answer documents (Q&As) on the IFRS for Small and Medium-sized Entities (SMEs).

- Q&A 2012/03 IFRS for SMEs Section 11: Fallback to IFRS 9 Financial Instruments
- Q&A 2012/04 IFRS for SMEs Section 30: Recycling of cumulative exchange differences on disposal of a subsidiary.

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. The table summarises the guidance in the two Q&As.

In its recently-published Request for Views on the IFRS for SMEs (see our separate article later in the newsletter), the IASB asks for input on the future role of the Q&A process. No further Q&As are currently under development by the SMEIG.

Q&A 2012/03 IFRS for SMEs Section 11: Fallback to IFRS 9 Financial Instruments

The issue:

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 IASB has been replacing IAS 39 with IFRS 9 'Financial Instruments' in phases. The question asks if an entity can choose to apply the recognition and measurement provisions of IFRS 9?

The answer:

No. The IFRS for SMEs refers specifically to IAS 39. SMEs are not permitted to apply IFRS 9.

Q&A 2012/04 IFRS for SMEs Section 30: Recycling of cumulative exchange differences on disposal of a subsidiary

The issue:

The IFRS for SMEs requires exchange differences arising on translation of a foreign subsidiary into the group's presentation currency for consolidation purposes to be recognised in other comprehensive income but is silent on recycling. The question asks whether the cumulative exchange differences that arise on translation into a presentation currency are prohibited from being recognised in profit or loss on disposal of the subsidiary?

The answer:

Such exchange differences should not be recycled to profit or loss. The answer clarifies explicitly that the exchange difference should not be taken into account in measuring the gain or loss on disposal.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – transition guidance

Amendments to IFRS 10, IFRS 11 and IFRS 12 – transition guidance

The IASB has published 'Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12'.

The amendments clarify the transition guidance in IFRS 10 'Consolidated Financial Statements'. They also provide additional transition relief in IFRS 10, IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities', limiting the requirement to provide adjusted comparative information to only the preceding comparative period. In addition, for disclosures related to unconsolidated structured entities, the amendments remove the requirement to present comparative information for periods before IFRS 12 is first applied.

Grant Thornton International comment

We welcome the Amendments. We believe they will help to improve the clarity and the consistent application of the transition requirements in IFRS 10, 11 and 12. We also believe that this pragmatic approach will not adversely affect the interests of the users of the financial statements.

2010-2012 Annual Improvements exposure draft published

The IASB has published 'Annual Improvements to IFRSs: 2010-2012 Cycle', an Exposure Draft containing proposals for amendments to eleven International Financial Reporting Standards. The proposed amendments reflect issues discussed by the IASB in a project cycle that began in 2010. By including them in a single document, the IASB aims to provide a streamlined process for dealing efficiently with non-urgent but necessary amendments to IFRSs.

IFRSs addressed

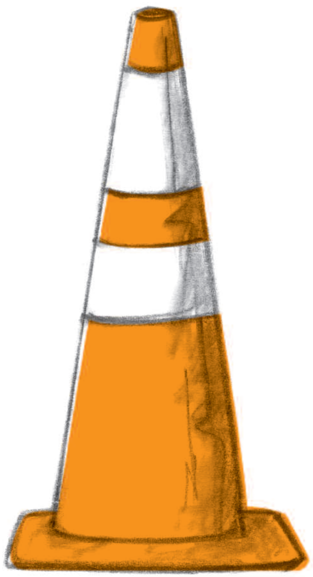
The following table lists the IFRSs and topics addressed by the proposed amendments.

IFRSs addressed in the 'Annual Improvements to IFRSs: 2010-2012 Cycle'

	IFRS	Subject	Proposed amendment
1	**IFRS 2 Share-based Payment**	Definition of 'vesting conditions'	Clarifies the definition of 'vesting conditions' by separately defining a 'performance condition' and a 'service condition'.
2	**IFRS 3 Business Combinations**	Classification of contingent consideration	Clarifies that contingent consideration is assessed as either a liability or an equity instrument only on the basis of the requirements of IAS 32 'Financial Instruments: Presentation'; and, that contingent consideration that is not classified as an equity instrument is subsequently measured at fair value, with the corresponding gain or loss being recognised either in profit or loss or other comprehensive income in accordance with IFRS 9.
3	**IFRS 8 Operating Segments**	Aggregation of reportable segments	Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated.
4	**IFRS 8 Operating Segments**	Reconciliation of reportable segments' assets	Clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker.
5	**IFRS 13 Fair Value Measurement**	Exemption from discounting for short-term receivables and payables	Explains that the deletion of this exemption in IAS 39 and IFRS 9 (on publication of IFRS 13) was not intended to change practice.
6	**IAS 1 Presentation of Financial Statements**	Non-current classification	Clarifies that classifying a liability as non-current on the basis of an ability and expectation to roll over or refinance the obligation is possible only if there is an existing loan facility with the same lender, on the same or similar terms.

IFRSs addressed in the 'Annual Improvements to IFRSs: 2010-2012 Cycle'

IFRS	Subject	Proposed amendment
7 **IAS 7 Statement of Cash Flows**	Classification of capitalised interest	Clarifies that the classification of capitalised interest shall follow the classification of the underlying asset to which those payments were capitalised.
8 **IAS 12 Income Taxes**	Recognition of deferred tax assets	Clarifies that an entity assesses whether to recognise the tax effect of a deductible temporary difference as a deferred tax asset in combination with other deferred tax assets: • taxable profit against which an entity assesses a deferred tax asset for recognition is the amount before any reversal of deductible temporary differences; and an action that results only in the reversal of existing deductible temporary differences is not a tax planning opportunity.
9 **IAS 16 Property, Plant and Equipment** **IAS 38 Intangible Assets**	Depreciation under the revaluation method	Clarifies the requirements for the revaluation method in IAS 16 and IAS 38 to address concerns about the computation of accumulated depreciation at the date of the revaluation.
10 **IAS 24 Related Party Transactions**	Disclosure of key management personnel compensation	Clarifies the identification and disclosure requirements for related party transactions that take place when key management personnel services are provided by a management entity that is not otherwise a related party of the reporting entity.
11 **IAS 36 Impairment of Assets**	Disclosure requirements relating to impairment	Clarifies that the disclosure requirements in IAS 36 that are applicable to value in use are also applicable to fair value less costs of disposal when there has been a material impairment loss or impairment reversal in the period.



IASB invites comments on review of the IFRS for SMEs

The IASB has issued a Request for Information as the first step in its initial comprehensive review of the IFRS for SMEs.

When it issued the IFRS for SMEs in July 2009, the IASB said it would assess the Standard after entities had had two years' experience in implementing it. The IASB also said that, after the initial review, it expected to consider amendments to the IFRS for SMEs approximately once every three years.

The Request for Information seeks public views on whether there is a need to make any amendments to the IFRS for SMEs and, if so, what amendments should be made. It asks specific questions on particular sections of the IFRS for SMEs, as well as general questions about respondents' experience with it. Respondents are also encouraged to raise any other issues that they want to put forward. Among the specific questions are whether any changes to the IFRS for SMEs are needed as a result of the revised requirements in new and amended IFRSs that have been published after the IFRS for SMEs was issued in July 2009. These include IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 13 'Fair Value Measurement' and IAS 19 'Employee Benefits (revised)'.

The IASB's SME Implementation Group (SMEIG) worked closely with IASB staff to develop the Request for Information. Frank Timmins, a senior partner in our South African firm, represents Grant Thornton on the SMEIG.

After consideration of the responses to the Request for Information, the IASB anticipates publishing an Exposure Draft of proposed amendments to the Standard in the first half of 2013. The IASB plans to publish the final revisions in the second half of 2013 or the first half of 2014.

Breaking news

The IASB had just published a Request for Information 'Post-implementation Review: IFRS 8 Operating Segments' at the time of going to press.

Post-implementation reviews are intended to make sure that major new Standards are working as intended. The document asks for information on people's experience of implementing IFRS 8, looking at matters such as the management perspective approach to segment identification taken in the Standard.

The Request for Information will be featured in more detail in the next edition of IFRS News.

Draft IFRIC Interpretations published

The IFRS Interpretations Committee (IFRIC) has published two draft interpretations for public comment:

- 'Put Options Written on Non-controlling Interests'
- 'Levies Charged by Public Authorities on Entities that Operate in a Specific Market'.

Put Options Written on Non-controlling Interests

The draft IFRIC would apply to a put option written by a parent on the shares of its subsidiary held by a non-controlling interest shareholder that, if exercised, obliges the parent to purchase those shares. IFRS requires a financial liability to be recognised in such a situation for the present value of the redemption amount of the shares.

The issue addressed by the draft IFRIC

The draft IFRIC addresses a possible conflict between IAS 32 and IAS 27: IAS 32 requires that the financial liability is subsequently measured in accordance with IAS 39 or IFRS 9. Those Standards require that all changes in the measurement of such financial liabilities are recognised in profit or loss. IAS 27 (and IFRS 10 going forward) on the other hand requires that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, meaning that no gain or loss would be recognised.

The proposed approach

The draft IFRIC proposes that changes in the measurement of the financial liability would be required to be recognised in profit or loss in accordance with IAS 39 or IFRS 9. IFRIC's justification for this approach is that changes in the measurement of the financial liability do not change the relative interests in the subsidiary held by the parent and the non-controlling-interest shareholder. Accordingly, writing a put option to a non-controlling-interest shareholder is not an equity transaction.

Levies Charged by Public Authorities on Entities that Operate in a Specific Market

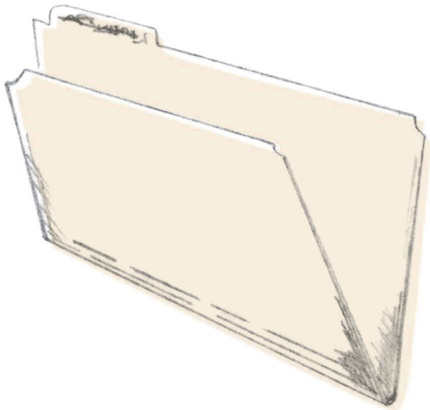
The draft IFRIC addresses the accounting for levies charged by public authorities (national governments, regional governments, local authorities, and their component entities) on entities that operate in a specific market. A number of such levies were raised following the global financial crisis, particularly on banks.

The proposed approach

The draft IFRIC asserts that such levies are not within the scope of IAS 12 'Income Taxes', and therefore proposes to account for them as a provision under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

The consensus reached by the draft IFRIC is that the obligating event that gives rise to a liability is the activity that triggers the payment of the levy as identified by the legislation. This means that, for a levy that is triggered by operating in a specific market on a specific date, the entire expense is recognised on that date (rather than being spread over time). This point in time approach would apply even if the amount of the levy is based on financial measures from an earlier date or period.

The draft IFRIC specifically rejects the argument that an entity has a constructive obligation to pay a levy that will arise from operating in a future period as a result of being economically compelled to continue operating in that future period. The IFRIC's justification is that such an approach would result in recognising a current period expense for future operating costs.



Update on lease accounting project

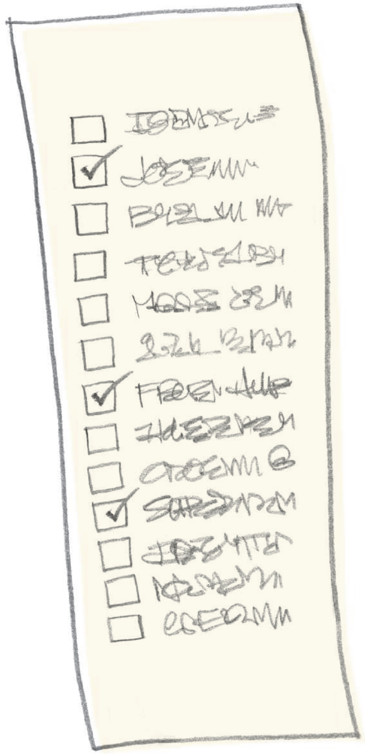
The IASB and the US Financial Accounting Standards Board (FASB) have reached agreement on an approach for lessee accounting for lease expenses as part of their joint project to revise lease accounting. Many commentators have expressed concern about the 'front-loading' impact of the Boards' previous proposal.

The two Boards had previously agreed that lessees should record all leases (except short-term leases) on the balance sheet, but have been continuing to discuss the appropriate classification and pattern of expenses in the income statement. They have now reached a general agreement on these issues.

Under their agreed approach:

- leases that convey a relatively small percentage of the life or value of the leased asset, such as many property leases, will be recognised as a straight-line lease expense
- other leases, including many equipment leases, would be recognised in accordance with the method proposed in the Exposure Draft that was issued jointly by the IASB and FASB in 2010. Under that approach, interest would be recognised on the lease liability and as amortisation of the "right of use asset". This approach results in a higher level of interest expense being recognised in the earlier years of a lease, leading to the front-loading effect referred to above.

The IASB and FASB plan to issue another Exposure Draft in the fourth quarter of 2012, that will set out their agreed approach in more detail for public comment.



Findings from Canada's transition to IFRS

Following Canada's adoption of IFRS for publicly accountable enterprises for years beginning on or after 1 January 2011, the majority of those companies have now completed their transition and can breathe a little easier. Set out below are some observations that Raymond Chabot Grant Thornton (RCGT), one of our Canadian member firms, made during the transition process. Their findings will be of use to other companies around the world who are making the move to IFRS.

Transition-related findings

- as expected, there was a significant increase in the volume of notes to financial statements, mainly pertaining to the transition itself, management's significant judgements regarding the application of accounting policies, uncertainty surrounding critical estimates, goodwill and impairment testing, impairment losses, and business combinations
- smaller entities experienced difficulties in adapting their financial statements to IFRSs, notably when it came to classifying financial instruments, recognising deferred taxes and drafting notes on the significant accounting policies, taxes, related party transactions and the transition itself. However, several preparers said that Grant Thornton's example financial statements were of great help to them in easing these problems
- the most frequent and significant transition-related adjustments among RCGT's clients notably involved the recognition of flow-through shares (mining sector), share-based payments (portions considered as separate awards and forfeitures) and defined benefit plans (actuarial gains and losses).

RCGT noted that the work involved in the preparation of the first annual IFRS financial statements seems to have been much easier for entities that invested sufficient time and effort in the years preceding the transition and during the interim periods of the transition year itself. Additionally, auditing these financial statements was easier when auditors had previously performed work on the IFRS opening balance sheet, IFRS financial statement templates and transition-year quarterly financial statements.

What lies ahead?

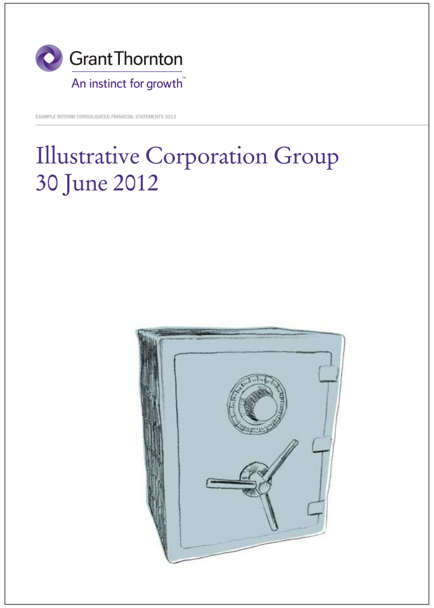
With transition to IFRS complete, Canadian publicly accountable enterprises could be forgiven for expecting to have some respite. RCGT encourages such entities to continue to improve the quality of their financial statements however. They note that doing so can only be beneficial and improve the perception of investors, lenders, regulatory authorities and analysts. In addition, thought should be given to major new IFRSs that have recently been published (on consolidations and fair value measurement) and those under development that will become applicable in the coming years.

New Grant Thornton International example interim IFRS financial statements released

The Grant Thornton International IFRS team has published an updated version of its IFRS 'Example Interim Consolidated Financial Statements'.

The previous version has been reviewed and updated to reflect changes in IFRSs that are effective for the year ending 31 December 2012. The publication also reflects the early-adoption of 'Presentation of Items of Other Comprehensive Income (Amendments to IAS 1 Presentation of Financial Statements)' which is effective for annual periods beginning on or after 1 July 2012.

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



IFRS training in Canada

Raymond Chabot Grant Thornton, one of our two member firms in Canada, is collaborating with the world-renowned training company IASeminars to provide French training sessions on IFRS in Montréal.

A series of seminars is planned for the autumn of 2012, covering a variety of topics including financial instruments, business combinations, share-based payment, and accounting for deferred tax as well as the IASB's new standards on consolidation and fair value measurement.

Comment letter on business combinations under common control

The Grant Thornton International IFRS Team has submitted a comment letter on the Discussion Paper 'Accounting for Business Combinations under Common Control' developed by the European Financial Reporting Advisory Group (EFRAG) and the Italian standard-setter, the Organismo Italiano di Contabilità (OIC).

In our letter, we:

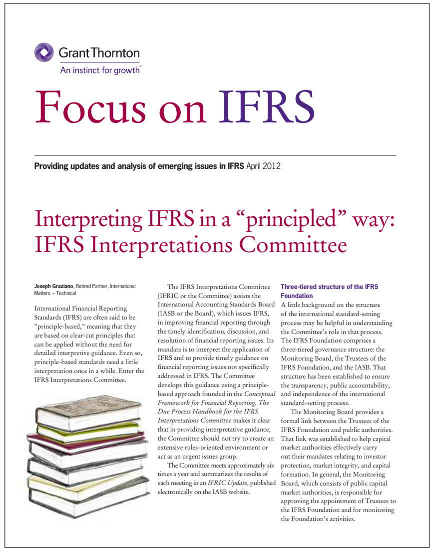
- welcomed the Paper as an important contribution to the debate on this issue and a stimulus for future standard-setting activity
- questioned whether approaching the challenge of developing accounting principles for business combinations under common control by applying the logic of the IAS 8 hierarchy (as suggested in the EFRAG and OIC Discussion Paper) will yield a clear conclusion
- strongly endorsed the Paper's comments that the application of 'predecessor accounting' has several variants in practice and that this diversity of application is unsatisfactory
- agreed with the direction of the Paper that a practical solution should focus on acquisition accounting and predecessor accounting, which are the approaches most commonly seen in practice
- suggested two main issues for further analysis by EFRAG and the IASB:
  - the basis for selecting between the two methods, for example whether both should be permitted as a 'free' accounting policy choice or, alternatively, whether entities should be required to apply one or the other in particular circumstances
  - practical issues on the application of each of the two methods.

US firm focuses on interpreting IFRS in a ‘principled’ way

Our US member firm, Grant Thornton LLP, has issued a ‘Focus on IFRS’ article entitled ‘Interpreting IFRS in a “principled” way: IFRS Interpretations Committee’.

The article looks at the IFRS Interpretations Committee (IFRIC) and its work in interpreting the application of IFRS and providing timely guidance on financial reporting issues not specifically addressed in IFRS.

The article can be downloaded from the US firm’s website http://www.grantthornton.com (go to Home>Grant Thornton Thinking>International Financial Reporting Standards) along with a number of other thought leadership articles.



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Focus on IFRS

Providing updates and analysis of emerging issues in IFRS April 2012

Interpreting IFRS in a “principled” way: IFRS Interpretations Committee

Joseph Graziano, Retired Partner, International Matters – Technical

International Financial Reporting Standards (IFRS) are often said to be “principle-based,” meaning that they are based on clear-cut principles that can be applied without the need for detailed interpretive guidance. Even so, principle-based standards need a little interpretation once in a while. Enter the IFRS Interpretations Committee.

The IFRS Interpretations Committee (IFRIC or the Committee) assists the International Accounting Standards Board (IASB or the Board), which issues IFRS, in improving financial reporting through the timely identification, discussion, and resolution of financial reporting issues. Its mandate is to interpret the application of IFRS and to provide timely guidance on financial reporting issues not specifically addressed in IFRS. The Committee develops this guidance using a principle-based approach founded in the *Conceptual Framework for Financial Reporting*. *The Due Process Handbook for the IFRS Interpretations Committee* makes it clear that in providing interpretative guidance, the Committee should not try to create an extensive rules-oriented environment or act as an urgent issues group.

The Committee meets approximately six times a year and summarizes the results of each meeting in an *IFRIC Update*, published electronically on the IASB website.

Three-tiered structure of the IFRS Foundation

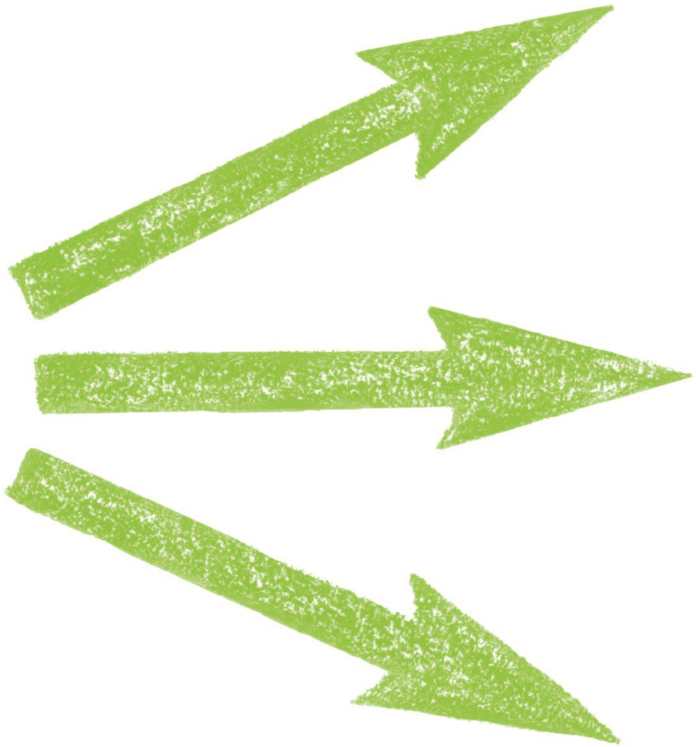
A little background on the structure of the international standard-setting process may be helpful in understanding the Committee’s role in that process. The IFRS Foundation comprises a three-tiered governance structure: the Monitoring Board, the Trustees of the IFRS Foundation, and the IASB. That structure has been established to ensure the transparency, public accountability, and independence of the international standard-setting process.

The Monitoring Board provides a formal link between the Trustees of the IFRS Foundation and public authorities. That link was established to help capital market authorities effectively carry out their mandates relating to investor protection, market integrity, and capital formation. In general, the Monitoring Board, which consists of public capital market authorities, is responsible for approving the appointment of Trustees to the IFRS Foundation and for monitoring the Foundation’s activities.

Grant Thornton's international expert groups meet

In May, the Grant Thornton International IFRS Interpretations Group (IIG) met in the Stockholm office of our Swedish member firm. During the meeting they were joined by Dan Brännström, Secretary General for the Swedish Institute of accountants. Mr Brännström discussed the status of the IFRS work plan with the members of the IIG, as well as the experiences of Sweden with IFRS issues. 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 twice a year to discuss technical matters which are related to IFRS.

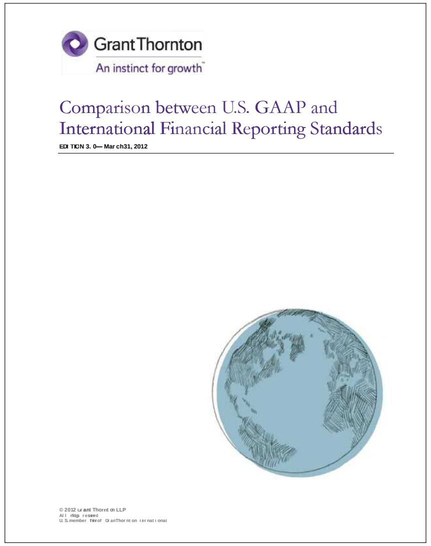
Later in May, the Grant Thornton Financial Instruments Working Group (FIWG) met in Grant Thornton International's London office. The Group discussed a number of issues relating to financial instruments, including the ramifications of the Eurozone sovereign debt crisis. The FIWG consists of a representative from each of our member firms in Germany, Greece, France, and the United Kingdom, the United States, Canada, New Zealand, the Philippines and India as well as representatives from Grant Thornton International.



US GAAP versus IFRS comparison guide updated

Our US member firm has updated its publication ‘Comparison between US GAAP and International Financial Reporting Standards’. The publication is intended to help readers identify the major areas of similarity and difference between current US GAAP and IFRS. It will also assist those new to either US GAAP or IFRS to gain an appreciation of their major requirements.

Edition 3.0 of the publication has been updated for standards issued through to 31 March 2012. The guide can be downloaded from Grant Thornton LLP’s website (www.grantthornton.com).



Spotlight on our IFRS Interpretations Group

Each quarter we throw a spotlight on one of the members of the IIG. This quarter we focus on the United States' representative:

Gary Illiano, United States

Gary Illiano is the National Partner-in-Charge, International, in our US member firm. Gary has been a partner in the National Office of Grant Thornton LLP for the past 14 years, with involvement in IFRS matters for the last seven.

Prior to joining Grant Thornton, Gary worked at the US Securities and Exchange Commission. Currently on the Nasdaq Listing and Hearings Review Council, Gary is a former adjunct professor at Pace University in New York.

Round-up

Europe moves to adopt the IASB's new consolidations Standards

On 1 June 2012 the Accounting Regulatory Committee (ARC) voted on a regulation that requires IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 to be applied by companies in the European Union from the start of financial years beginning on or after 1 January 2014 at the latest.

The decision means that companies in the European Union will be able to early adopt the new consolidations standards once they have been endorsed by the European Commission. The endorsement decision is expected to be made in the fourth quarter of 2012.

Discussion paper looks towards a disclosure framework

The European Financial Reporting Advisory Group (EFRAG), the Autorité des Normes Comptables (ANC) in France, and the Financial Reporting Council (FRC) in the United Kingdom have jointly published a discussion paper, 'Towards a Disclosure Framework for the Notes'.

The discussion paper has been published against a background of concern over the ever increasing number of disclosure requirements that have been introduced into IFRS on a piecemeal basis as individual projects have been completed by the IASB. Many people believe that the notes to the financial statements have as a result become a real burden and do not serve their intended purpose of helping users understand the numbers in the financial statements.

Rather than just re-state the problem, the Discussion Paper sets out some key principles that EFRAG, the ANC and the FRC consider essential to the design of an effective Disclosure Framework.

ESMA publishes 2011 Activity Report on IFRS Enforcement

In June, the European Securities and Markets Authority (ESMA) issued its Activity Report on IFRS Enforcement in 2011. The report provides an overview of the monitoring of compliance of financial information with IFRS and enforcement action in the European Economic Area (EEA) during the year ended 31 December 2011.

Particular areas of concern noted in the report include disclosures related to: fair value hierarchy of financial instruments; disclosures of assumptions used as part of impairment tests; presentation of risk factors and uncertainties with an impact on going concern assumptions; and various aspects related to consolidation of entities.

Emerging Economies Group meets

The IASB's Emerging Economies Group met in Buenos Aires, Argentina at the end of May. Delegates attending the meeting shared experiences and discussed issues related to agriculture accounting, accounting for telecommunication towers, and the clarification of terms in IFRSs and translation issues. The meetings are aimed at providing feedback for the IASB on the types of financial reporting issues that are of particular concern to developing economies.

PAFA General Assembly resolution to adopt the IFRS for SMEs

The Pan African Federation of Accountants (PAFA) General Assembly has passed a resolution to adopt IFRSs and the IFRS for SMEs.

The resolution represents a broad policy statement that requires action from the 39 constituent members of PAFA, which was established in May 2011 to accelerate the development of the accountancy profession in Africa. Some PAFA members have already adopted IFRSs and the IFRS for SMEs or are taking steps towards doing so; the resolution aims to encourage others to follow.

IFAC calls for G20 to adopt global standards

The International Federation of Accountants (the IFAC) has written to the G20 (the Group of Twenty Finance Ministers and Central Bank Governors) encouraging all G20 countries who have not yet adopted IFRS and International Standards on Auditing to do so. In the letter, the IFAC also recommends increasing resources for regulators and standard setters, and supporting the International Integrated Reporting Council's proposed integrated reporting framework.

IVSC release draft valuation guide

The International Valuations Standards Council (IVSC) has released draft guidance aimed at helping professional valuers who may be engaged to provide expert advice to either an auditor or a company preparing its financial statements. Although focussed on professional valuers, the IVSC hopes that the guidance will be a useful document for all parties involved in the preparation of the financial statements.

Managing Complexity in Financial Reporting

The Australian Financial Reporting Council (FRC) has released a report 'Managing Complexity in Financial Reporting'. The report explores the issue of complexity in financial reporting from an Australian perspective and suggests strategies to better manage complexity.

Their suggestions include making better use of developments in information technology and delivery, addressing legal impediments to preparers determining relevant material disclosures, developing guidelines that encourage more use of financial reporting terms and definitions, as well as influencing the direction of the IASB's work.

PAIB report on processes for effective business reporting

The Professional Accountants in Business Committee of the International Federation of Accountants (IFAC) has issued proposed 'International Good Practice Guidance – Eleven Principles for Effective Business Reporting Processes', for public comment.

The guidance aims to establish a benchmark for good practice in implementing effective business reporting processes in an organisation. It is intended to help professional accountants in business and their organisations create a cycle of continuous improvement for their business reporting processes to assist stakeholders in making informed decisions.

Canadian measurement paper on financial reporting measurement

The Canadian institute of Chartered Accountants has posted to its website a research paper "Toward a Measurement Framework for Financial Reporting by Profit-oriented Entities" to stimulate study and debate on the concept of current market value, and to provide input for the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB).

ISDA paper on offsetting for derivatives

The International Swaps and Derivatives Association has published a paper 'Netting and Offsetting: Reporting Derivatives Under US GAAP and Under IFRS'.

The paper is intended to give the reader an insight into the different requirements that apply to balance sheet offsetting under IFRS and US GAAP and their impact on the new Basel III Leverage Ratio for the banking industry.

UK report on going concern and liquidity risks

The Sharman Panel of Inquiry has published its final report and recommendations on 'Going Concern and Liquidity Risks: Lessons for companies and auditors'. The inquiry was launched by the UK's Financial Reporting Council in March 2011 to draw on the experience of companies and auditors who have had to address going concern and liquidity issues in times of difficulty, including during the credit crisis. Although targeted at a UK audience, the report's findings will be of general interest to a wider audience.

The Panel's key recommendations are that:

- the primary purpose of the going concern assessment and reporting should be to reinforce responsible behaviour in the management of going concern risks; and
- the going concern considerations made by directors and reviewed by auditors should cover both solvency and liquidity and that these should be considered over the cycle, taking an appropriately prudent view of future prospects.

Update on reporting in an uncertain economic environment

The UK's Financial Reporting Council has published an 'Update for Directors of Listed Companies in the UK' to assist them in responding to continued economic uncertainties facing a number of countries around the world.

The Update aims to draw together a number of the more significant issues directors may consider in preparing interim reports, given the heightened country and currency risk that many UK companies face. Although the report specifically relates to UK companies, its suggestions may also be of interest to companies overseas.

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 February 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 February 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 1	Government Loans – Amendments to IFRS 1	1 January 2013	Yes
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)

Effective dates of new standards and IFRIC interpretations

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

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
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)
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

Effective dates of new standards and IFRIC interpretations

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

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IAS 24	Related Party Disclosures	1 January 2011	Yes (either of the whole Standard or of the partial exemption for government-related entities)
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

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	Annual Improvements to IFRSs 2010—2012 Cycle	5 September 2012
Draft IFRIC	Levies Charged by Public Authorities on Entities that Operate in a Specific Market	5 September 2012
Due process document	IFRS Foundation Due Process Handbook	5 September 2012
Draft IFRIC	Put Options Written on Non-controlling Interests	1 October 2012
Request for Information	Post-implementation Review: IFRS 8 Operating Segments	16 November 2012
Request for Information	Comprehensive Review of the IFRS for SMEs	30 November 2012