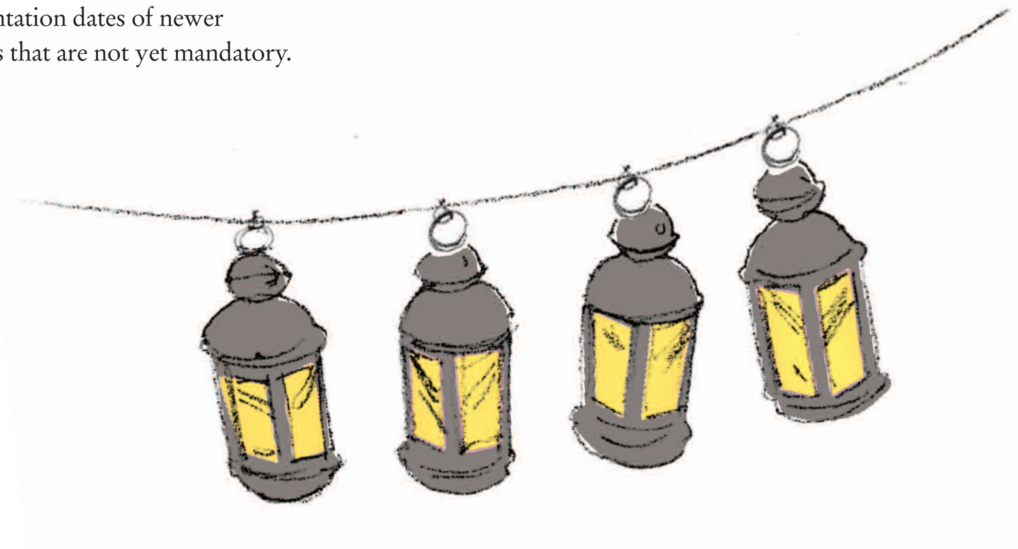
IFRS News

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 final edition of 2012 starts with a look at the IASB's review draft of a forthcoming new Standard on hedge accounting and its main implications. We then look at how the IASB's other projects are progressing as well as considering some IFRS-related developments.

We go on to IFRS-related news at Grant Thornton, including the publication of new guides on IFRS 10 'Consolidated Financial Statements' and IAS 7 'Cash flow statements'. 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.



Hedge accounting to move closer to real-world risk management

Hedge accounting project nears completion

The IASB has published a Review Draft of the general hedge accounting section of IFRS 9 'Financial Instruments'. The Review Draft, which was published on 7 September, will remain on the IASB's website for 90 days after which time the Board intends to proceed to finalise it.

The IASB is not seeking comments on the draft but is making it available for information purposes to enable constituents to familiarise themselves with the document. It is then effectively a preview of the expected final Standard. If finalised in its current form, the standard should make it easier for many entities to reflect their actual risk management activities in their hedge accounting and thus reduce profit or loss volatility. By way of contrast the previous Standard, IAS 39 'Financial Instruments: Recognition and Measurement', was heavily criticised for containing complex rules which either made it impossible for entities to use hedge accounting or, in some cases, simply put them off doing so.

the final standard should make it easier for many entities to achieve hedge accounting and should also reduce profit or loss volatility

We outline in the table the major features of the likely new Standard before considering the changes from the requirements of the previous Standard in more detail in the main body of the text.

Major features of the likely new Standard

Features	Key points
Objective of the (proposed) Standard	• to better align hedging from an accounting point of view with entities' underlying risk management activities
Similarities with IAS 39	• hedge accounting remains an optional choice • the three types of hedge accounting (fair value hedges, cash flow hedges and hedges of a net investment) remain • ineffectiveness needs to be measured and included in profit or loss
The major changes	• increased eligibility of hedged items • increased eligibility of hedging instruments and reduced volatility • revised criteria for hedge accounting qualification and for measuring hedge ineffectiveness • a new concept of rebalancing hedging relationships • new requirements restricting the discontinuance of hedge accounting

The major changes

Increased eligibility of hedged items

Risk components

- if finalised in its current form, the IASB's new Standard will make it easier to achieve hedge accounting for individual components of an identified risk
- it is now possible to treat a 'risk component' as an eligible hedged item if it is separately identifiable and reliably measurable
- it does not matter if the risk is a financial or a non-financial risk provided these criteria are met
- the proposed Standard contains a rebuttable presumption that inflation risk is not an eligible risk component that can be hedged unless it is contractually specified.

What is a risk component?

- something that is less than the entire item.

When can a risk component be a hedged item?

- to be eligible it must be
  - a separately identifiable component of the financial or non-financial item
  - the changes in the cash flows or fair value of the item attributable to changes in that risk component must be capable of reliable measurement.

Groups of items

- the rules regarding hedging groups of items have also been significantly relaxed
- a net position arising from a group of cash inflows and outflows can qualify as a hedged item in a cash flow hedge provided that:
  - the items in the group would on an individual basis be capable of qualifying as hedged items
  - the items in the group are managed on a group basis for risk management purposes
- there is no longer a requirement for the individual cash flows in the group to affect profit or loss all at the same time as had been earlier proposed
- cash flow hedge accounting is however limited to a hedge of foreign exchange risk.

Hedged items that include derivatives

- an aggregated exposure that includes a derivative (sometimes referred to as a 'synthetic position') would be capable of being treated as an eligible hedged item
- this is a change from IAS 39 which prohibits such exposures from being hedged items
- this may be welcomed by entities that manage risk management exposures which themselves include derivative positions.

Increased eligibility of hedging instruments and reduced volatility

- a non-derivative financial instrument can now be treated as a hedging instrument provided it is measured at fair value through profit or loss
- in practice there are relatively few non-derivative financial instruments measured at fair value through profit or loss, so this may not be a big change
- new rules on the accounting for the time value of options and the forward points in forward contracts may reduce profit or loss volatility compared to under IAS 39:
  - if an entity uses an option to hedge and designates the hedge on an intrinsic value basis, the changes in fair value of the time value of the option will initially be shown in other comprehensive income (OCI)
  - similarly, there is an accounting policy choice to show the change in value of the forward points in OCI for hedges based on the spot rate of a forward contract.

Revised criteria for hedge accounting qualification and for measuring hedge ineffectiveness

To qualify for hedge accounting under IAS 39, the hedge had to be highly effective on both a prospective and a retrospective basis. Demonstrating effectiveness required a mathematical assessment of the degree of offset between the hedging instrument and the hedged item, the results of which were required to show an offset of between the range of 80/125%.

These requirements have been replaced with the following more principles-based qualifying criteria:

To qualify for hedge accounting under the proposed new Standard, three requirements must be met:

- an economic relationship must exist between the hedged item and the hedging instrument
- the effect of credit risk should not dominate the value changes in the hedging relationship
- the weightings of the hedged item and the hedging instrument (the hedge ratio) must be based on the quantities of hedged item and hedging instrument that the entity actually uses to meet its risk management objective (unless this would deliberately create ineffectiveness).

The assessment of whether a hedging relationship meets the new requirements for hedge effectiveness need only be performed on a prospective basis. Hedge ineffectiveness must still be measured and recognised at the end of each reporting period however.

Qualifying for hedge accounting under the new principles

establish whether there is an economic relationship between the hedged item and the hedging instrument

Yes

does the effect of credit risk dominate the fair value changes in the hedging relationship?

No

base the hedge ratio on the actual quantities used for risk management

A new concept of rebalancing hedging relationships

- rebalancing denotes adjustments to the designated quantities of the hedged item or the hedging instrument of an already existing hedging relationship for the purpose of maintaining a hedge ratio that complies with the hedge effectiveness requirements
- the proposed Standard requires rebalancing to be undertaken if the risk management objective remains the same, but the hedge effectiveness requirements are no longer met
- rebalancing will usually only be needed when adjustments are made to the actual quantities used for risk management purposes

- it should only result in adjustments that maintain an appropriate hedge ratio and should not be applied any wider
- where the risk management objective for a hedging relationship has changed, rebalancing does not apply and the hedging relationship must be discontinued (see below).

New requirements restricting the discontinuance of hedge accounting

- unlike under IAS 39, an entity cannot voluntarily discontinue hedge accounting
- under the proposed Standard, an entity is not allowed to discontinue hedge accounting where the hedging relationship:
  - still meets the risk management objective[1] and
  - continues to meet all other qualifying criteria
- discontinuation can affect either a hedging relationship in its entirety or just a part of it, and is accounted for prospectively from the date on which the qualifying criteria are no longer met
- it is possible to designate a new hedging relationship that involves the hedging instrument or hedged item of a previous hedging relationship for which hedge accounting was (in part or in its entirety) discontinued.

Effective date and transition

The expected date of the hedge accounting chapter of IFRS 9 is anticipated to be annual periods beginning on or after 1 January 2015, with earlier application permitted. The new requirements would, apart from a few exceptions, be applied on a prospective basis. The figures for the comparative period would show hedge accounting under the previous requirements of IAS 39.

1 the risk management objective is not the same as the risk management strategy. The risk management strategy is established at the highest level at which an entity determines how it manages its risk and typically includes some flexibility to react to changes in circumstances. The risk management objective on the other hand applies at the particular hedge relationship level and is a means of executing the risk management strategy.

IASB work plan

At the beginning of October, the IASB issued a revised version of its work plan. The plan shows the IASB's projected targets for work to be undertaken in the remainder of 2012 and the first half of 2013.

Of particular interest are the latest plans for the IASB's projects on financial instruments, revenue recognition, leases, insurance contracts and investment entities (see article). The first four of these arose from the IASB's convergence work with the US Financial Accounting Standard Board, and represent a barometer by which we can gauge its enthusiasm for continuing with convergence with US GAAP. More generally, the work plan is an important resource for companies wishing to plan ahead for their future reporting requirements.

The timing of deliverables on these major projects is set out in the table to the right. In addition to the progress being made on its financial instruments project (see our lead article), it now looks certain that a new Standard dealing with revenue recognition will be released in 2013. Further Exposure Drafts are however planned for both the leases and insurance contracts projects.

In addition to the items shown in the table, the IASB plans to make a number of narrow scope amendments to the Standards it released on consolidations last year as well as amendments resulting from its Annual Improvements process (a process for making non-urgent, but necessary, amendments to IFRSs). Exposure Drafts on these items are expected to be released in the last quarter of the year. The IASB will also consider the findings from its post-implementation review of IFRS 8 'Operating Segments' and initiate a similar review of IFRS 3 'Business Combinations'.

IASB's projected targets for 2012 and the first half of 2013

	Q4 2012	Q1 2013	Q2 2013
IFRS 9: Financial Instruments			
• **Classification and measurement**	Target ED		
• **Impairment**	Target ED		
• **General hedge accounting**	Target IFRS		
• **Macro hedging**		Target DP	
Revenue recognition		Target IFRS	
Leases		Target ED	
Insurance contracts		Target ED	
Consolidation – investment entities	Target IFRS		

Key: ED = Exposure Draft
DP = Discussion Paper
RD = Review Draft
PIR = Post-implementation review

Overall, the revised work plan indicates that the IASB remains committed to the majority of projects that were started under the leadership of former chairman, Sir David Tweedie. Despite this however, there are indications that it may be prepared to let some projects, such as leases, which were formerly seen as key, drop.

IASB on-track to finalise an exemption from consolidation for investment entities

The IASB remains on track to provide an exemption for qualifying investment entities from consolidating their controlled investments by the end of 2012.

Many commentators have long held the view that consolidating the financial statements of an investment entity and its investees does not provide the most useful information. Their concern is that the reported investment performance of the investment entity is distorted by consolidating the trading activity of a small number of investees over which it holds a controlling interest. Consolidation in such circumstances makes it more difficult for investors to understand what they are most interested in – the value of the entity's investments.

The IASB has been influenced by these arguments and, in August 2011, published an exposure draft 'Investment Entities' (the ED). The ED proposed an exception to the consolidation principle such that a qualifying investment entity would:

- measure its investments in controlled entities at fair value through profit or loss
- provide additional disclosures to enable users of its financial statements to evaluate the nature and financial effects of its investment activities
- have to meet detailed criteria in order to qualify as an investment entity.

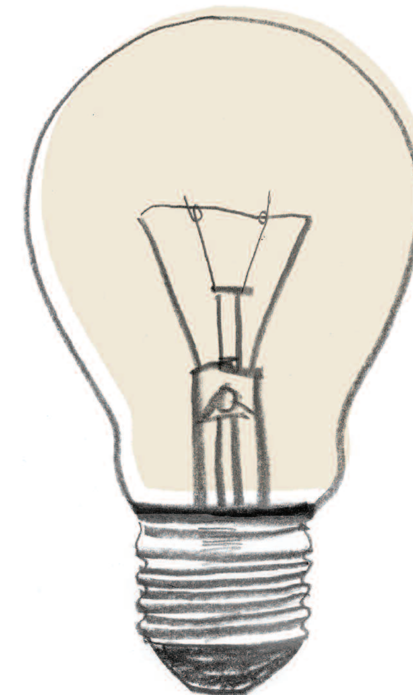
Working definition of 'investment entity'

- an investment entity does all of the following:
  - obtains funds from an investor or investors and provides the investor(s) with professional investment management services
  - commits to its investor(s) that its business purpose and only substantive activities are investing the funds for returns from capital appreciation or capital appreciation and investment income; and
  - measures and evaluates the performance of substantially all of its investments on a fair value basis
  - an entity is not disqualified from being an investment entity only because it provides substantive investment-related services, either internally or to third parties
- an investment entity and its affiliates do not obtain, or have the objective of obtaining, returns or benefits from their investments that are either of the following:
  - other than capital appreciation or capital appreciation and investment income; and
  - not available to other non-investors or are not normally attributable to ownership interests
- an entity that has more than an insignificant amount of investments that are not managed on a fair value basis or held for investment income only would not be an investment entity
- an investment entity does not plan to hold its investments indefinitely. Accordingly, an investment entity shall have an exit strategy documenting how the entity plans to realise capital appreciation for investments, because these investments have the potential to be held indefinitely
- typically, an investment entity would have all the following characteristics (if it does not, it is required to justify how its activities are consistent with an investment entity):
  - multiple investments
  - multiple investors
  - investors that are not related to the parent entity or the investment manager
  - ownership interests in the form of equity or partnership interests.

The ED proposed six criteria to qualify as an investment entity, all of which would have to have been satisfied. However, following feedback from constituents, the IASB has made several changes and improvements. Based on the latest re-deliberations, the key features of the definition of an investment entity (which are still subject to possible change) will be as shown in the table on the previous page.

As a result of the changes to the proposed definition, an investment entity with only a single investor (eg a sovereign wealth fund) would not necessarily be precluded from meeting the requirements for exemption. For entities that do qualify, the consolidation exemption will be mandatory not optional.

The timing of finalisation is significant because the effective date of IFRS 10 'Consolidated Financial Statements' is 1 January 2013. Clearly, a consolidation exemption would have a huge impact on the entities affected – and would spare them from much of the time and effort involved in reassessing their control conclusions based on IFRS 10. Watch this space.



EFRAG paper sets out possible disclosure framework for the notes

The European Financial Reporting Advisory Group has issued a Discussion Paper entitled 'Towards a Disclosure Framework for The Notes'. The size of financial statements has grown significantly in recent years as the IASB and other standard setters have added to existing disclosure requirements in the quest for greater transparency. Many people have expressed concern however that the increased size of the notes to the financial statements has created a major burden for preparers, while failing to serve their intended purpose which is to help users understand the numbers in the financial statements.

The Discussion Paper sets out some key principles that the FRC considers essential to the design of an effective Disclosure Framework that could mitigate these problems. The key principles cover the general objective of a disclosure framework; the purpose and content of the notes; suggestions on how to set the disclosure requirements; how to apply the requirements; how to communicate information; and how to make a disclosure framework succeed in practice. The box sets out a highly summarised version of these key principles.

The Discussion Paper is open for comment until 31 December 2012.

Discussion paper entitled 'Towards a Disclosure Framework for The Notes'

Subject area	Key principles
General objective of a Disclosure Framework	• to ensure that all and only relevant information is disclosed in an appropriate manner, so that detailed information does not obscure relevant information in the notes to the financial statements.
Purpose and content of the notes	• the purpose of the notes is to provide a relevant description of the items presented in the primary financial statements and of unrecognised arrangements, claims against and rights of the entity that exist at the reporting date • the notes should focus on past transactions and other events existing at the reporting date • information about the future that is unrelated to those past transactions and other events, is not provided in the notes.
Setting the disclosure requirements	• disclosure needs to be an objective distinct from other objectives, specifically from recognition, measurement and presentation • disclosure requirements should be principle-based and detailed rules should be avoided • disclosure requirements should achieve proportionality to the entity's users' needs. As a result, alternative disclosure requirements to the current 'one size fits all' approach may need to be put in place • disclosure requirements should be set in a consistent manner across the whole set of accounting standards, including the level of granularity.
Applying the requirements	• care should be taken in applying the materiality principle in practice, bearing in mind that disclosing immaterial information reduces the relevance and the understandability of disclosures.
Communicating information	• disclosure requirements should be applied with a view to communicating information to users rather than as a compliance exercise.

Report looks at best practice in disclosure of net debt

The UK's Financial Reporting Lab has issued a report entitled 'Net debt reconciliations'. The Financial Reporting Lab has been set up by the UK's Financial Reporting Council to improve the effectiveness of corporate reporting in the UK. It is designed to provide an environment where investors and companies can come together to develop pragmatic solutions to today's reporting needs. As much of the Lab's work focuses on listed companies who prepare their financial statements under IFRS, its findings will be of interest to IFRS preparers around the world.

the report looks at best practice in the presentation of net debt reconciliations and encourages more companies to consider presenting them

The net debt reconciliation project focused on existing reporting practices among listed UK companies and aims to encourage more companies to consider adopting the practices highlighted as helping to meet the analytical needs of investors. The report shows how some companies are defining net debt and disclosing various cash and non-cash movements in net debt that might not otherwise be apparent from financial reports.

Tips for presenting net debt reconciliations

Recommendations	Tips and examples
• make clear how components of net debt relate to amounts on the balance sheet	– disclose the corresponding balance sheet line items – describe the nature of any adjustments made to these
• adjust net debt to retranslate foreign currency denominated amounts to the exchange rates achieved by hedging, or disclosing the retranslation amount	
• make clear the nature of any derivatives included in net debt and whether net debt includes accrued interest	
• disclose additional items, or aspects relevant to evaluating net debt	examples include: – cash and investments that may not be readily available to pay debt – fair value or fair value hedge adjustments to reported debt – derivatives related to debt that have not been adjusted for in the company's definition of net debt.
• disclose separate movements in net debt	– make clear whether each is cash or non-cash – clarify how they relate to other aspects of reporting.

The report finds that a strong majority of investors indicate they use a net debt reconciliation or reconciliation of net cash flows to net debt in their analysis when one is presented, and given the importance, attempt to construct them when they are not. Reconciliations can provide insight on:

- the company's definition of net debt
- the cash and non-cash drivers of changes in net debt
- the effect of hedging activities on debt
- the measurement of debt for accounting purposes.

The report notes that the reconciliations are particularly important when debt is significant to the company's capital structure or where there are concerns over cash flow generation.

a strong majority of investors indicate they use a net debt reconciliation when one is presented, and attempt to construct them themselves when they are not

We outline in the tables on this and the previous page, some of the characteristics of net debt reconciliations that investors find most useful. A section in the Lab's report provides illustrations of many of these reporting practices taken from the published annual reports of the companies that participated in the project.

Tips for presenting net debt reconciliations

Recommendations	Tips and examples
• list movements that differ in nature separately	– eg separately list significant currency movements that differ from fair value changes that relate to different economic drivers.
• separately reconcile key components	– eg total borrowings – derivatives – cash and cash equivalents – financial investments.

Financial Reporting Review Panel Annual Report 2012

UK regulator's report highlights issues IFRS preparers should be aware of

The UK's Financial Reporting Council has published a report of the findings of the Financial Reporting Review Panel (the Panel) in relation to its annual review of reports and accounts.

The role of the Panel is to ensure that the provision of financial information by public and large private companies in the UK complies with relevant accounting requirements. The report draws on the Panel's review of over 300 reports of UK companies in the year to 31 March 2012. The vast majority of those companies are required to report under IFRS, making the Panel's findings of interest to more than just UK companies.

Financial Reporting Review Panel Annual Report 2012

No.	Area of focus	Panel comments/common deficiencies noted
1.	Management commentary	• entities should explain – material variations from prior year to current year – the relationship between amounts listed as 'adjusted' to the reported IFRS amounts (eg 'adjusted operating profit')
2.	Cutting the clutter	• entities should – have the confidence to make the judgments to decide if disclosures are material or not (ie they should not err on the side of caution by disclosing more information as opposed to the key messages) – remove policies from the IAS 1 footnote if they relate only to immaterial amounts and detract from more substantive policies (eg policies such as leasing or hedging)
3.	IAS 1 'Presentation of Financial Statements'	• entities should discuss the impact of reasonably possible alternative judgements where a financial statement item is significant and the judgement applied has a material impact on the recognition or measurement of the item • the Panel noted a number of accounts where items charged or credited to other comprehensive income should have either been included in the income statement or taken directly to equity
4.	IAS 12 'Income Taxes'	• the following common errors/deficiencies were noted with respect to income taxes: – failure to recognise deferred tax liabilities that should have been recognised in respect of separately identifiable intangible assets acquired in a business combination effected through the acquisition of shares – failure to recognise a deferred tax liability in respect of all taxable temporary differences arising from roll-over relief and capital gains

The 2012 report aims to help entities address issues that are likely to be significant in the current reporting season. Some of the highlights of the report, focusing on the common deficiencies noted by the Panel, are set out in the table:

Financial Reporting Review Panel Annual Report 2012

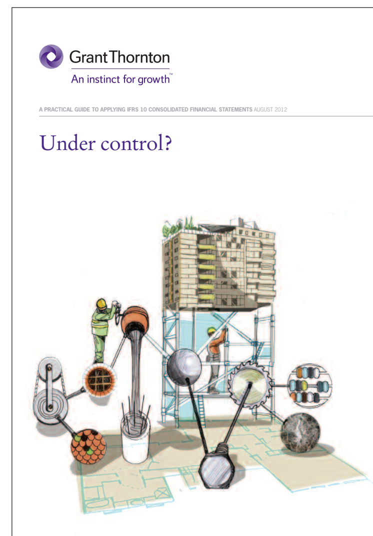
No.	Area of focus	Panel comments/common deficiencies noted
5.	IAS 18 'Revenue'	• the Panel noted the following deficiencies with respect to revenue: – revenue-specific policies were often drafted in broad generic terms or simply repeated text from the standard which did not enable users to understand the transactions entered into or the point at which revenue would be reflected in the income statement – the Panel noted that progress payments and advances or amounts invoiced do not necessarily reflect the stage of completion (companies that say they base revenue recognition on such transactions or events can expect to be challenged)
6.	IAS 24 'Related Party Disclosures'	• share-based payments attributable to key management personnel need to be disclosed and included in total compensation • clarity is required when identifying other employees who are considered to satisfy the criteria of key management personnel
7.	IAS 40 'Investment Property'	• when disclosing the methods and significant assumptions applied in determining the fair value, the Panel felt that the requirement was not satisfied by a statement that the valuation was carried out under the standards issued by professional bodies such as the International Valuation Standards Council
8.	IFRS 3 'Business combinations'	• the Panel expressed concern that not all identifiable intangible assets which meet the criteria for recognition and measurement were being appropriately recognised on acquisition (companies were challenged where there was reason to believe that an asset had been subsumed within goodwill rather than accounted for separately) • the Panel noted errors in reporting contingent consideration liabilities, specifically where the consideration is payable to vendors and is conditional on the vendors continuing to provide services to the business following its purchase by the acquirer

Grant Thornton International guide to IFRS 10 published

The Grant Thornton International IFRS team has issued a new publication entitled 'Under Control? A Practical Guide to IFRS 10 Consolidated Financial Statements'.

The guide has been written to assist management in transitioning to and applying IFRS 10. More specifically it aims to assist readers in:

- understanding IFRS 10's new requirements on control and consolidation and how they differ from the previous requirements
- identifying situations in which IFRS 10 is more likely to affect the scope of consolidation
- identifying and addressing the key practical application issues and judgements.

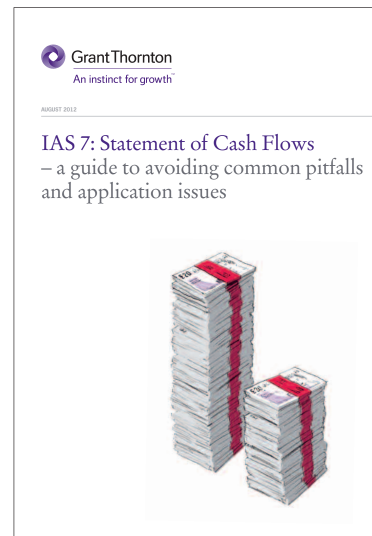


Grant Thornton International guide to IAS 7 published

The Grant Thornton International IFRS team has published 'IAS 7: Statement of Cash Flows – a guide to avoiding common pitfalls and application issues'.

Increased attention to companies' cash generation and liquidity position has resulted in more scrutiny of the Statement of Cash Flows by financial statement users, regulators and other commentators. The Grant Thornton International IFRS team has written the Guide to remind users of the basic requirements for preparing the Statement of Cash Flows while providing insights on avoiding common pitfalls and application issues that have been highlighted by regulators and seen in practice by our IFRS experts.

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



Grant Thornton Argentina hosts IFRS seminar

Grant Thornton Argentina hosted an IFRS event in August, at the prestigious German club in Buenos Aires. Around 25 clients and prospective clients were invited to the half day event, which was titled "A comprehensive look over a new concept of business-information".

During the event, guests heard from Grant Thornton Argentina partners Gabriel Righini and Sergio Kriger. Gabriel lectured about the effects of the first-time adoption of IFRS on listed entities' 2012 financial statements while Sergio, who specialises in financial services, spoke about the possible effects of IFRS adoption on financial institutions in Argentina. Gabriel and Sergio were also joined by guest speakers Ignacio Gajst and Professor Hernán Casinelli, well-known specialists in the teaching and implementation of IFRS.

Grant Thornton
An instinct for growth™

Invitación Desayuno: NIIF (Normas Internacionales de Información Financiera)

Una mirada integral frente a una nueva concepción sobre la información de las empresas.

Las Normas Internacionales de Información Financiera presentan, en apariencia, un nuevo marco contable... aunque en realidad son mucho más que eso. Actualmente afectan a las ciertas entidades cotizantes, aunque es de esperar que impacten en breve sobre un número importante de organizaciones tanto en materia de Reporting, como en Finanzas, Impuestos, Tecnología y otras áreas.

Es por eso que queremos invitarlo al **desayuno sobre NIIF**, en donde socios de Grant Thornton, estudio Gajst y profesionales reconocidos en el campo de la docencia e implementación de NIIF, como el profesor **Hernán Casinelli**, compartirán una mirada actual e integradora sobre la implementación de las NIIF y sus efectos contables, fiscales, de tecnología y otros.

El evento se llevará a cabo el día **jueves 23 de agosto** a las **9 horas (hasta 12.30hs)** en el **Club Alemán** (Av. Corrientes 327 – Piso 21).

Algunos de los puntos a tratar serán:

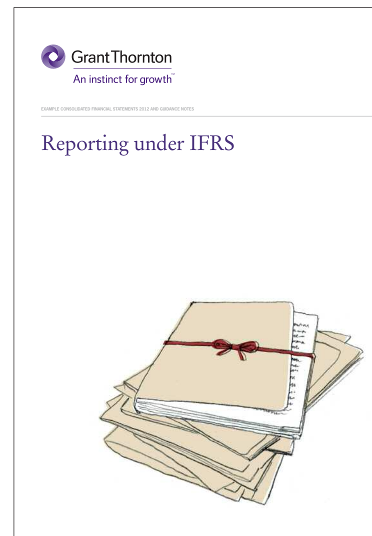
- Visión actual del impacto de las NIIF en Argentina y en el mundo
- Cómo afectan las NIIF a las decisiones de negocios, las inversiones y los recursos de las sociedades
- Qué elementos debe contener un plan de implementación de NIIF

Grant Thornton International 2012 Example IFRS Financial Statements released

The Grant Thornton International IFRS Team has published the 2012 version of its IFRS 'Example Consolidated Financial Statements'.

The new version of the publication has been reviewed and updated to reflect changes in IFRSs that are effective for annual periods ending 31 December 2012. It also reflects the early-adoption of certain Amendments to IAS 1, effective for annual periods beginning on or after 1 July 2012. The publication does not reflect the early adoption of any other changes in IFRS that have been issued but are not yet effective.

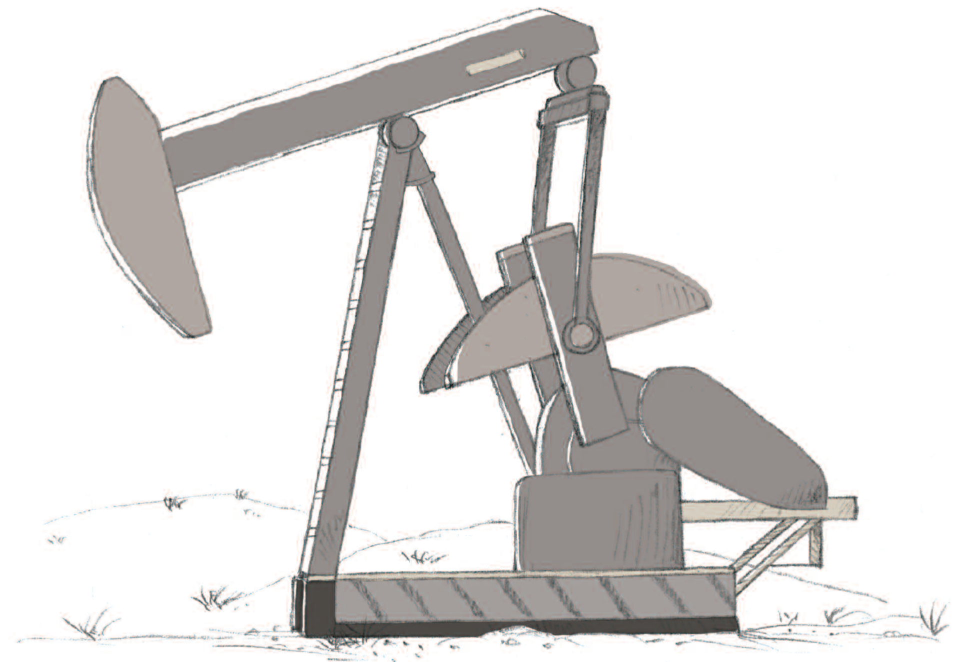
To obtain a copy of the 2012 Example Consolidated Financial Statements, please get in touch with the IFRS contact in your local Grant Thornton office.



Raymond Chabot Grant Thornton hosts IFRS seminar for mining companies in Canada

Raymond Chabot Grant Thornton, one of our Canadian member firms, hosted an information day for mining companies at the beginning of October, attracting around 50 clients and potential clients.

The seminar covered recent IFRS developments, transactions specific to the mining sector, an example of a typical income tax reconciliation for a mining exploration company, as well as changes to Raymond Chabot Grant Thornton's model financial statements for mining exploration companies. A number of guest speakers also presented during the course of the day. A presentation was made by the provincial securities regulator on their findings from their review of annual and quarterly financial statements. Several presentations were also made by financing entities who explored some of the challenges that mining exploration companies currently face when trying to raise capital.



South African partner reappointed to the SMEIG

Frank Timmins, Head of Risk Management and Professional Standards in the Johannesburg office of Grant Thornton, has been re-appointed for a further two-year term to the IASB's SME Implementation Group (SMEIG).

Since it was formed two years ago, the main responsibility of the SMEIG has been to consider implementation questions raised by users of the IFRS for SMEs and to develop proposed non mandatory guidance in the form of questions and answers (Q&As).

More recently the SMEIG helped the IASB to develop the Request for Information which marks the first step in the IASB's initial comprehensive review of the IFRS for SMEs (see last quarter's edition of IFRS News). The SMEIG will meet in London in February next year, where they will discuss responses to that comprehensive review and look to develop a list of specific recommendations for amendments to the IFRS for SMEs.

Raymond Chabot Grant Thornton presents IFRS 13 webinar

In September, Raymond Chabot Grant Thornton, one of our Canadian member firms, offered its first accounting webinar to clients and business contacts.

More than a hundred clients and business contacts signed up for the hour-long presentation (in French) entitled “New IFRS on Fair Value Measurement: Are You Ready?” which was given by partner Sophie Bureau and senior manager Stéphanie Fournier, two IFRS experts in Raymond Chabot Grant Thornton’s Risk Management and Accounting Research department.

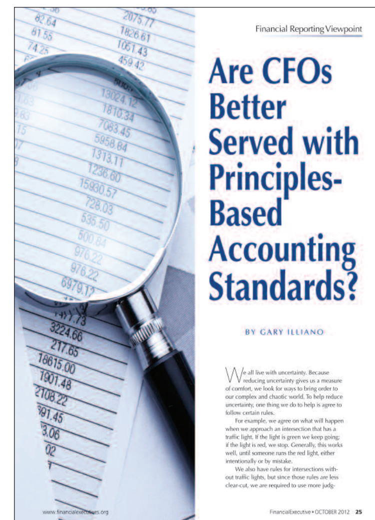
The online event covered the main requirements and implications of IFRS 13 ‘Fair Value Measurement’. As IFRS 13 will become effective for years beginning on or after 1 January 2013, preparing for its application is a priority for all parties involved.

You can watch the webinar or download the presentation used at the event (both in French) by going to **http://www.rcgt.com/en/news/accounting-webinar-clients-business-contacts-a-first-raymond-chabot-grant-thornton/**

US partner featured in Financial Executive Magazine

An article by Gary Illiano, National Partner-in-Charge, International in our US member firm was published in the October issue of Financial Executive magazine.

The article looks at principles-based and rules-based standards, and the way they interact with litigation risk in the US. The article notes that given the prohibitive cost of litigation in the US, people's preference for rules or principles will be influenced by their approach to managing litigation risk. It notes that while plaintiffs are more likely to allege violations under a principles-based system, they have more trouble proving their case.



Financial Reporting Viewpoint

Are CFOs Better Served with Principles-Based Accounting Standards?

BY GARY ILLIANO

We all live with uncertainty. Because reducing uncertainty gives us a measure of comfort, we look for ways to bring order to our complex and chaotic world. To help reduce uncertainty, one thing we do to help is agree to follow certain rules.

For example, we agree on what will happen when we approach an intersection that has a traffic light. If the light is green we keep going; if the light is red, we stop. Generally, this works well, until someone runs the red light, either intentionally or by mistake.

We also have rules for intersections without traffic lights, but since those rules are less clear-cut, we are required to use more judg-

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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 Australia's representative:

Keith Reilly, Australia

Keith Reilly is Grant Thornton Australia's National Head of Professional Standards.

Keith has over 40 years' experience in financial reporting. During that time he has been the technical director and advisor for the Institute of Chartered Accountants in Australia (ICAA) and a member of the Australian Accounting Standards Board's Urgent Issues Group.

He is currently a member of the Australian Institute of Company Directors' Financial Reporting Committee, a member of Macquarie University's Advisory Board's Department of Accounting and Corporate Governance, and various ICAA, CPA Australia, and IPA Committees. Keith writes and lectures extensively on financial reporting and assurance issues.

Round-up

IASB chairman extols virtues of prudence

In September, IASB Chairman, Hans Hoogervorst, gave a speech entitled 'The Concept of Prudence: dead or alive?'.

Speaking about the removal of the concept of prudence from the IASB's Conceptual Framework in 2010, Mr Hoogervorst maintained that, despite its removal, the basic tenets of the concept remain intact and visible throughout IFRS. He also explained that prudence plays an important role in the development of new IFRSs, outlining the challenges that the IASB faces in building sufficient levels of caution in developing rules for areas such as financial instruments, particularly with regard to impairment.

IASB editorial corrections

The IASB published a collection of editorial corrections at the end of July 2012. Editorial Corrections consist of those amendments that are needed as a result of an error made when writing or typesetting the documents (for example spelling errors, grammatical mistakes or unmarked consequential amendments).

IFRS for SMEs

The IASB staff, in conjunction with the SME Implementation Group, are to develop guidance to help micro-sized entities apply the IFRS for SMEs.

The current plan is to develop the guidance by extracting from the IFRS for SMEs only those requirements that are clearly necessary for most micro-sized entities, without modifying any of the principles for recognising and measuring assets, liabilities, income and expenses. Only the main principles relating to those requirements would be included. Where there are matters not dealt with by the guidance, the guidance document would contain cross-references to the IFRS for SMEs. The plan is that having applied the guidance, a micro-sized entity could state it conforms to the IFRS for SMEs on the basis that there has been no modification of the requirements of that Standard.

IFRS Foundation Constitution

The Trustees of the IFRS Foundation, responsible for the governance and oversight of the International Accounting Standards Board (IASB), have published a drafting review of a revised IFRS Foundation Constitution.

The drafting review reflects the conclusions of the Monitoring Board Governance Review to separate the role of Chairman of the IASB and Chief Executive Officer of the IFRS Foundation. The change will help to ensure a clear division of responsibilities and reporting lines between the IASB's standard-setting functions and its oversight and fund-raising functions.

EFRAG questionnaire on impairment

The European Financial Reporting Advisory Group, in conjunction with the Organismo Italiano di Contabilità (Italian Accounting Committee) have issued a questionnaire on the impairment requirements for goodwill under IFRS.

The IASB is expected to initiate a post-implementation review of IFRS 3 'Business Combinations' in 2013. EFRAG plans to use the findings from the questionnaire to provide early input and in-depth analysis to the IASB's review.

Greek sovereign debt

The European Securities and Markets Authority (ESMA) has published a review of its findings on accounting practices and disclosures in IFRS financial statements relating to exposure to Greek government bonds.

The ESMA review considered a sample of 42 European financial institutions, each with significant exposure to Greek government bonds totalling an estimated gross exposure of around €80 billion. It found a good level of consistency regarding the level of impairment losses on those exposures, showing an improvement compared to June 2011 when there were significant variations between various financial institutions. However, the review also found that issuers fell short of meeting IFRS disclosure requirements in particular in relation to transparency of gross exposure, maturities, valuation methodologies and fair value levels used, as well as the impact of impairment on profit or loss. The review also identified a lack of transparency on credit default swaps and their impact on exposure.

On the basis of the findings of the review, ESMA will now focus on:

- the application of IFRS specific and general requirements related to financial instruments and associated risks
- improving transparency of disclosures related to sovereign exposures
- improving the disclosures related to non-sovereign exposures by type of exposures
- monitoring developments related to financial instruments accounting (in particular for sovereign debt) in 2012 IFRS financial statements.

ESMA will discuss the detailed outcome of the review with the national securities markets regulators, who it expects will take or have already taken appropriate enforcement actions in case of infringements.

IVSC discussion papers

The International Valuation Standards Council (IVSC) has issued two discussion papers in the last quarter, one on trade related properties and one on valuation in the mining, oil and gas industries.

Trade-related properties

The IVSC Discussion Paper examines the methods used for valuing trade-related properties around the world, following concern about the different practices that are currently being used.

The Discussion Paper highlights the main issues and asks for comments from parties who may need to rely on valuations. It focuses in particular on the valuation of hotels, although the issues are equally relevant to other trade-related properties such as bars, restaurants, other properties in the leisure sector and specialised health care facilities.

Valuation in the mining, oil and gas industries

The IVSC has announced the launch of a new project designed to provide greater valuation guidance to the mining, oil and gas industries.

The adoption of IFRS during recent years has exposed many inconsistencies in how the values of mineral reserves and resources are being estimated around the globe, causing concern for financial regulators, auditors and investor groups. The IVSC's project looks to gather views from all interested parties on the wide range of practices currently used in order to help determine the form and content of a future valuation standard.

Convergence

India may adopt IFRS from 2013

An Indian minister has indicated that India may adopt IFRS next year. During a speech in August to the Associated Chambers of Commerce and Industry of India, Dr M Verappa Moily, the Indian Minister for Corporate Affairs and Power, indicated the determination of the Indian government to ensure that IFRS is implemented by April 2013.

India announced in 2011 that a phased implementation of IFRS would occur when certain issues (in particular issues relating to tax) had been resolved. While not binding in any way, Dr Moily's speech suggests that the Indian government may press ahead with the adoption of IFRS even while some of those issues remain unresolved.

Canada confident on its IFRS strategy

Following the adoption of IFRS in Canada last year, the Canadian Accounting Standards Board has reflected on the experience in its 2011/2012 annual report.

While the standard setter notes some areas of criticisms, such as divergence in practice on some IFRS interpretative issues and the lack of specific guidance on the effects of rate regulation, it is generally confident that its choice of adopting IFRS has been the right one. It notes in particular that "although IFRSs require improvement, they represent the only practical route to achieving the goal of a single set of high quality, globally accepted financial reporting standards contributing to the improved functioning of global capital markets".

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 2011. 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 2011

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)
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 2011

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)

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
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

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