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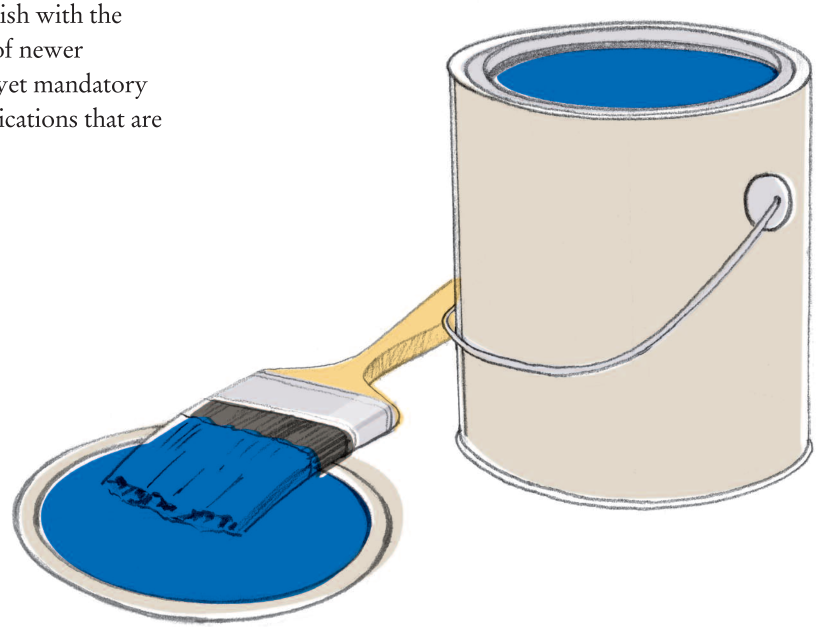
IFRS News

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 first edition of 2013 starts with a look at the IASB's recently published exception from consolidation for investment entities (itself the subject of a December 2012 special edition of IFRS News) before looking at a host of Exposure Drafts that have been issued.

We go on to IFRS-related news at Grant Thornton before turning to a more general round-up of financial reporting developments relevant to IFRS preparers. We finish with the implementation dates of newer Standards that are not yet mandatory and a list of IASB publications that are out for comment.



IASB issues exception from consolidation for investment entities

At the end of October, the IASB issued 'Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27' (the Amendments), creating an exception for investment entities to the well-established principle that a parent entity must consolidate all its subsidiaries.

The Amendments define an investment entity (see box) and provide detailed application guidance on that definition. Private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds are likely to be particularly interested in the Amendments.

Entities that meet the definition are required to measure investments that are controlling interests in another entity (in other words, subsidiaries) at fair value through profit or loss instead of consolidating them.

adopting the consolidation exception early could spare affected entities much of the time and effort they will otherwise need to spend on reassessing control conclusions under IFRS 10

The publication is a response to concerns raised by many commentators that consolidating the financial statements of an investment entity and its investees does not provide the most useful information, namely information on the value of the entity's investments. The table summarises the key features of the Amendments.

Definition and typical characteristics of an investment entity

Definition

An investment entity is an entity that:

a. obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services (investment services condition)
b. commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both (business purpose condition)
c. measures and evaluates the performance of substantially all of its investments on a fair value basis (fair value condition).

Typical characteristics

In assessing whether it meets the definition an entity shall consider whether it has the following typical characteristics of an investment entity:

a. it has more than one investment
b. it has more than one investor
c. it has investors that are not related parties of the entity
d. it has ownership interests in the form of equity or similar interests.

The Amendments are effective for annual periods beginning on or after 1 January 2014, one year later than IFRS 10's effective date. The IASB has however permitted early adoption in order to allow investment entities to apply the Amendments at the same time they first apply the rest of IFRS 10. Adopting the consolidation exception early could spare affected entities from much of the time and effort they would otherwise need to spend on reassessing their control conclusions under IFRS 10's new requirements.

The Amendments at a glance

	Summary
Who's affected?	Entities that: • meet the new definition of 'investment entity' • hold one or more investments that are controlling interests in another entity
What is the impact?	Investment entities will: • no longer consolidate investments that are controlling interests in another entity • make additional disclosures about these investments
Other key points	• a non-investment parent entity that controls an investment entity will continue to consolidate its subsidiaries (the consolidation exemption does not 'roll up') • an investment entity's service subsidiaries (subsidiaries that are not 'investments') will continue to be consolidated • if an investment entity has no non-investment subsidiaries it presents separate financial statements as its only financial statements

IASB proposes limited amendments to IFRS 9's classification and measurement provisions

The IASB has published an Exposure Draft titled 'Classification and Measurement: Limited Amendments to IFRS 9 – Proposed amendments to IFRS 9 (2010)'.

The table sets out the main changes proposed by the Exposure Draft. While the proposed amendments are portrayed as limited in nature, they propose the introduction of a fair value through other comprehensive income (OCI) measurement category for debt instruments that would be based on an entity's business model – a major change to IFRS 9's current requirements.

Issue	Background	Summary of proposals
Introduction of a 'fair value through other comprehensive income' measurement category	The proposals are a reaction to concerns from constituents, in particular: • insurers, who are concerned that IFRS 9 would result in an accounting mismatch between some of their insurance liabilities and the assets held to back them • some banks, who are concerned that their liquidity portfolios would be forced into the FVTPL category under the existing version of IFRS 9	The Exposure Draft proposes: • debt instruments held within a business model in which assets are managed both in order to collect contractual cash flows and for sale should be mandatorily measured at fair value through OCI • interest revenue, credit impairment and any gain or loss on derecognition would be recognised in profit or loss; all other gains or losses would be recognised in OCI The Exposure Draft also contains: • application guidance on how to determine whether the business model is to manage assets both to collect contractual cash flows and to sell • clarifications to the application guidance in IFRS 9 on what is a 'hold to collect' business model
Clarification of application issues relating to the 'contractual cash flow' test	The proposals have been developed with the aim of providing relief for certain types of financial assets which would be classified at fair value under the current requirements: • in particular, questions have been raised about financial assets that contain interest rate mismatch features (ie the interest rate is reset but the frequency of the reset does not match the tenor of the interest rate). • this has caused problems in certain regulated markets where interest rates are set by a regulator or government agency without regard to a market-based link between interest rates and maturities, one prominent example being Chinese mortgage bonds	The Exposure Draft proposes amending the application guidance in IFRS 9 to clarify that: • where a financial asset contains such an interest rate mismatch feature or leverage, an entity shall assess the modification to determine whether the contractual cash flows represent solely payments of principal and interest. This is done by reference to cash flows on a 'benchmark' instrument • if the modification could result in contractual cash flows that are more than insignificantly different from the benchmark cash flows, the contractual cash flows are not solely payments of principal and interest

Issue	Background	Summary of proposals
Early adoption	• at present, more than one version of IFRS 9 can be applied early • this means that entities can apply either the classification and measurement requirements for financial assets only (ie IFRS 9 issued in 2009) or the classification and measurement requirements for both financial liabilities and financial assets (ie IFRS 9 issued in 2010)	• the Exposure Draft proposes that, going forward, only the completed version of IFRS 9 (ie including the Classification and Measurement, Impairment and General Hedge Accounting chapters) can be newly applied prior to the mandatory effective date • the proposed amendment would become effective six months after the completed version of IFRS 9 is issued
Presentation of 'own credit' gains or losses on financial liabilities	• in 2010, the IASB amended IFRS 9 to require the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income • the change addressed the counter-intuitive way in which a company in financial trouble was previously able to recognise a gain based on its theoretical ability to buy back its own debt at a reduced cost	• notwithstanding the proposed transition requirement above, once IFRS 9 is completed, an entity will be permitted to early apply only the 'own credit' provisions in IFRS 9, which require an entity to present in other comprehensive income fair value gains or losses attributable to changes in the credit risk of financial liabilities designated as measured at fair value through profit or loss, without otherwise changing the classification and measurement of financial instruments.

Annual improvements proposals published

Proposed amendments address non-urgent (but necessary) minor amendments

The IASB has published an Exposure Draft 'Annual Improvements to IFRSs 2011–2013 Cycle' which proposes minor amendments to four IFRSs. The proposals are the latest under the IASB's annual improvements project, a process for making non-urgent, but necessary, minor amendments to IFRSs. A summary of the issues, which reflect issues discussed by the IASB in a project cycle that began in 2011, is set out in the table.

Grant Thornton International comment

Overall the changes are uncontroversial. We do however have some concerns over the proposed amendment to IAS 40, in particular whether it would force even a simple purchase of a single property with in-place tenants and associated services into the scope of IFRS 3.

Proposals for 2011-2013 Annual Improvements Cycle

Standard affected	Issue	Summary of proposed change
IFRS 1 First-time Adoption of International Financial Reporting Standards	Clarification of the meaning of 'each IFRS effective at the end of an entity's first IFRS reporting period'	• amends the Basis for Conclusions to clarify that if a new IFRS is not yet mandatory but permits early application, that IFRS is permitted, but not required, to be applied in the entity's first IFRS financial statements • consequently, if a first-time adopter chooses to early apply a new IFRS, that new IFRS will be applied throughout the periods presented in its first financial statements, unless IFRS 1 provides an exemption or an exception that permits or requires otherwise
IFRS 3 Business Combinations	Scope of IFRS 3	• amends the scope of IFRS 3 to exclude the formation of all types of joint arrangements • clarifies that the scope exception only applies to the financial statements of the joint venture or the joint operation itself
IFRS 13 Fair Value Measurement	Scope of portfolio exception	• amends the portfolio exception in IFRS 13 (the exception that permits an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis if the entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risk or credit risk) to clarify that the exception applies to all contracts within the scope of IAS 39 'Financial Instruments: Recognition and Measurement' or IFRS 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 'Financial Instruments: Presentation'
IAS 40 Investment Property	The interrelationship of IFRS 3 and IAS 40 when classifying investment property or owner-occupied property	• amends IAS 40 to clarify that: a. judgement is required to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 b. that this judgement is not based on paragraphs 7–15 of IAS 40 but is instead based on the guidance in IFRS 3

Sale or contribution of assets between an investor and its associate or joint venture

The IASB has issued the Exposure Draft 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'. The Exposure Draft proposes amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures (Revised 2011)'.

The objective of the proposed amendments is to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of a subsidiary.

The inconsistency stemmed originally from a conflict between the requirements of IAS 27 'Consolidated and Separate Financial Statements (Revised 2008)' and SIC-13 'Jointly Controlled Entities – Non-Monetary Contributions by Venturers'. While IAS 27 required the full gain or loss to be recognised on the loss of control of a subsidiary, SIC-13 required a partial gain or loss recognition in transactions between an investor and its associate or joint venture. Although IFRS 10 supersedes IAS 27, and IAS 28 (2011) supersedes both IAS 28 and SIC-13, the conflict remains.

The Exposure Draft proposes to rectify this problem by amending IAS 28 (2011) so that:

- the current requirements for the partial gain or loss recognition for transactions between an investor and its associate or joint venture only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business, as defined in IFRS 3
- the gain or loss from the sale or contribution of assets that constitute a business between an investor and its associate or joint venture is recognised in full
- when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

The Exposure Draft would also amend IFRS 10 so that:

- the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business between an investor and its associate or joint venture is recognised only to the extent of the unrelated investors' interests in the associate or joint venture.

The IASB proposes that the amendments would be applied prospectively to sales or contributions occurring in annual periods beginning on or after the date that the proposed amendments would become effective (yet to be determined).

IASB maps out future priorities following conclusion of public consultation

The IASB has finished its public consultation on its future agenda (initially reported on in the Q4 2011 edition of IFRS News) by releasing a Feedback Statement that maps out its future priorities.

The Feedback Statement sets out five broad themes that emerged from the consultation in relation to the strategic direction and overall balance of the IASB's future work programme:

- respondents asked that a decade of almost continuous change in the IASB's financial reporting requirements should be followed by a period of relative calm
- there was unanimous support for the IASB to prioritise work on the Conceptual Framework, in order to provide a consistent and practical basis for standard setting
- the IASB was asked to make some targeted improvements that respond to the needs of new adopters of IFRSs
- the IASB was asked to pay greater attention to the implementation and maintenance of its Standards
- the IASB was asked to improve the way in which it develops new Standards, by conducting more rigorous cost-benefit analysis and problem definition earlier on in the standard setting process.

IASB looks to clarify acceptable methods of depreciation and amortisation

The IASB has issued the 'Exposure Draft 'Clarification of Acceptable Methods of Depreciation and Amortisation'. The proposed amendment:

- seeks to clarify that when applying the guidance in IAS 16.62 and IAS 38.98, a revenue-based method should not be used to calculate the charge for depreciation and/or amortisation, because that method reflects a pattern of economic benefits being generated from the asset, rather than the expected pattern of consumption of the future economic benefits embodied in the asset
- provides further guidance in the application of the diminishing balance method.

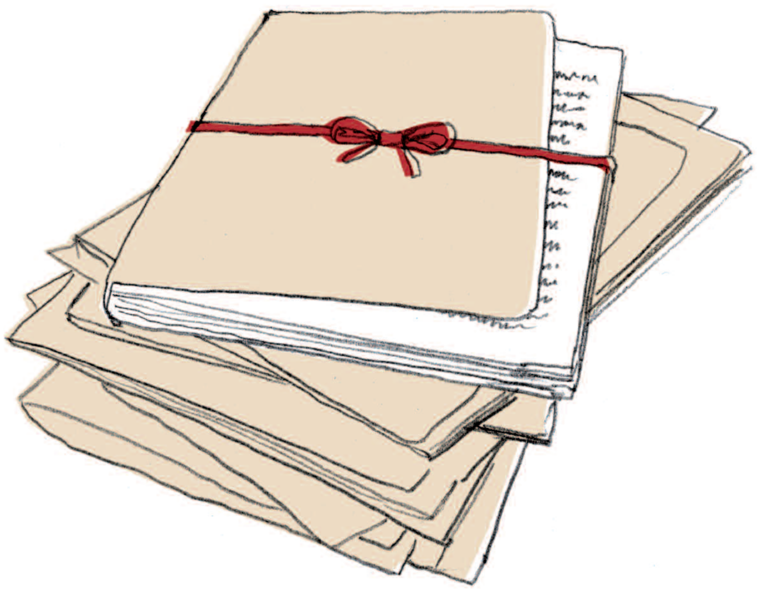
Grant Thornton International comment

We agree with the proposal to prohibit the use of depreciation or amortisation methods that are based on actual revenue generated. We feel however that the final amendments should acknowledge that for some assets the expected future pattern of revenue generation can serve as a valid proxy for the expected consumption of economic benefits in some circumstances.

Recoverable amount disclosures for non-financial assets (proposed amendments to IAS 36)

The IASB has published an Exposure Draft of proposed modifications to the disclosures in IAS 36 'Impairment of Assets' for the measurement of the recoverable amount of impaired assets.

Those disclosure requirements were introduced by IFRS 13 'Fair Value Measurement'. The IASB has noticed however that some of the amendments made in introducing those requirements have resulted in the requirement being more broadly applicable than the IASB intended. The Exposure Draft aims to rectify this problem. In view of the relatively uncontroversial nature of the proposals, the Exposure Draft has a sixty day comment period ending on 19 March.



Acquisition of an interest in a joint operation

IASB proposes amendment to IFRS 11

The IASB has issued 'Acquisition of an Interest in a Joint Operation (Proposed amendment to IFRS 11). The Exposure Draft has been issued because neither IFRS 11 'Joint Arrangements' nor its predecessor standard IAS 31 'Interests in Joint Ventures' provided guidance on the accounting by a joint operator for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. As a result, significant diversity in practice has arisen in venturers' accounting for such transactions.

The Exposure Draft looks to remedy this problem. The proposed amendment:

- changes IFRS 11 and IFRS 1 so that a joint operator accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, applies the relevant principles for business combinations accounting in IFRS 3 and other Standards and discloses the relevant information required by those Standards for business combinations
- applies to the acquisition of an interest in an existing joint operation and the acquisition of an interest in a joint operation on its formation.

The IASB proposes that the amendments would be applied prospectively to acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business, on or after the (yet to be determined) effective date of the proposed amendment.

Proposed amendments to IAS 28

The IASB has published the Exposure Draft 'Equity Method: Share of Other Net Asset Changes'. The aim of the Exposure Draft is to provide additional guidance to IAS 28 (revised 2011) on the application of the equity method (under which an investment is initially recognised at cost and subsequently adjusted to reflect the change in the investor's share of the investee's net assets). The Exposure Draft proposes to do this by amending IAS 28 so that:

- an investor should recognise in the investor's equity its share of the changes in the net assets of the investee that are not recognised in profit or loss or OCI of the investee, and that are not distributions received
- that an investor shall reclassify to profit or loss the cumulative amount of equity that the investor had previously recognised when the investor discontinues the use of the equity method.

Grant Thornton International comment

We welcome clarification of the issues addressed in the Exposure Draft. We do however have some concerns over the effect of the proposals on transactions that change an investor's proportionate ownership interest, and also on an investor's accounting for its share of an equity-accounted investee's equity-settled share-based payment plan. We will look to discuss these concerns in our comment letter on the Exposure Draft.

Special edition of IFRS News on investment entities

The Grant Thornton International IFRS team has published a special edition of IFRS News on the IASB publication 'Investment Entities – Amendments to IFRS 10, IFRS 12, and IAS 27' (featured on page 2 of this newsletter).

The special edition takes readers through the key features of the consolidation exception for investment entities and gives practical insights into how its requirements may affect entities. It will be of particular interest to private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds.

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

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IFRS News
Special Edition

December 2012

"Many commentators have long believed that consolidating the financial statements of an investment entity and its investees does not provide the most useful information. Their concern is that consolidation does not reflect the investment business model and makes it harder for investors to understand what they are most interested in – the value of the entity's investments.

We share these concerns and therefore welcome these Amendments. Although consolidation normally provides the most relevant and useful information for a group, we believe there is a class of investment entity for which fair value accounting is significantly more useful. The IASB has worked hard to identify this class appropriately – aiming for a robust definition that still allows some flexibility and scope for reasonable judgement.

The timing of publication is significant given that IFRS 10 'Consolidated Financial Statements' is effective from 1 January 2013. The consolidation exception will have a huge impact on affected entities and, if adopted early, could spare them from much time and effort on reassessing control conclusions under IFRS 10."

Andrew Watchman
Executive Director of International Financial Reporting

A consolidation exception for investment entities

The IASB has published 'Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27' (the Amendments). The Amendments introduce an exception for investment entities to the well-established principle that a parent entity must consolidate all its subsidiaries. The Amendments:

- define the term 'investment entity' and provide supporting guidance
- require investment entities to measure investments in the form of controlling interests in another entity (in other words, subsidiaries) at fair value through profit or loss in accordance with IFRS 9 'Financial Instruments' (or IAS 39 'Financial Instruments: Recognition and Measurement') instead of consolidating them
- specify disclosure requirements for entities that apply the exception.

This special edition of IFRS News explains the key features of the Amendments and provides practical insights into their application and impact.

Grant Thornton International guide to navigating the changes to IFRS

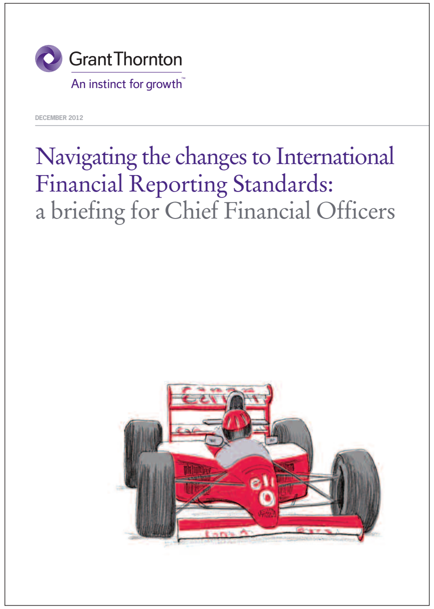
The Grant Thornton International IFRS team has published an updated version of its guide 'Navigating the changes to International Financial Reporting Standards: a briefing for Chief Financial Officers'.

The December 2012 edition of the publication has been updated for changes to International Financial Reporting Standards that have been published between 1 December 2011 and 30 November 2012.

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

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

To obtain a copy of the publication, please get in touch with the IFRS contact in your local Grant Thornton office.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DECEMBER 2012

Navigating the changes to International Financial Reporting Standards:
a briefing for Chief Financial Officers

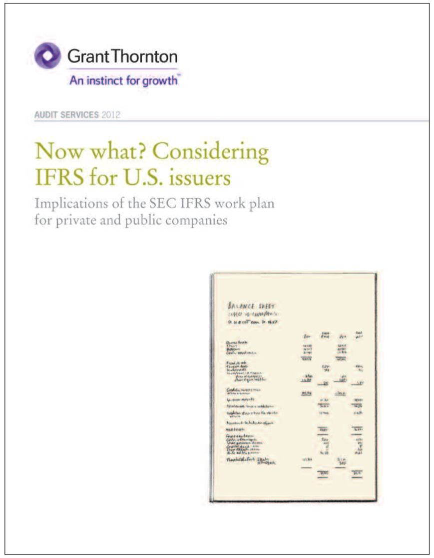
Now what? Considering IFRS for US issuers

US firm's white paper outlines why US companies should not ignore IFRS following SEC staff report

Our US member firm, Grant Thornton LLP, has produced a white paper 'Now what? Considering IFRS for US issuers'. The paper reflects on the recent SEC Staff Report on incorporating IFRS into the US financial system and outlines why the SEC's lack of a decision in that report does not mean that companies, either public or non-public, should simply ignore IFRS.

Separately, Grant Thornton LLP has written to the SEC in reaction to their Staff Report, setting out our US member firm's continued belief that the overarching goal for accounting and financial reporting is to have a single set of high quality, globally accepted accounting standards and that IFRS is best suited to be that set of standards.

The US firm's comment letter also draws attention to the uncertainty in the financial reporting community that has been created by the SEC's delay in making a decision on the use of IFRS, noting that uncertainty is costly to preparers, users, investors, and others. The letter also observes that delaying a decision might also cause regulators, standard setters, and others in the financial reporting community in the US to have less influence in the development and application of IFRS.



IFRS client presentation in Montreal, Canada

In November, Raymond Chabot Grant Thornton, one of our member firms in Canada, hosted a client seminar on IFRS. The presentation, entitled 'IFRS – the future is now!', looked principally at the new IFRSs on consolidation, joint arrangements and fair value which are due to become effective in Canada.

The seminar also featured a presentation from a representative of the Autorité des Marchés Financiers (the Quebec Securities Commission) which set out their expectations for IFRS financial statements in the coming reporting season. The seminar ended with a presentation from a representative of the Canadian Accounting Standards Board, who summarised the role of that Board in the context of applying IFRS in Canada and discussed the Board's most important current projects.

US white paper explores an alternative model for leasing

Our US member firm has released a white paper 'Rethinking the right-of-use asset'. The paper, written by John Hepp and Mark Scoles, two partners in the US firm's Accounting Principles Consultation Group, reconsiders the right-of-use asset proposed by the IASB and the US Financial Accounting Standards Board (FASB) in their original Exposure Draft 'Leases' issued in August 2010.

In the paper, which is available on the US firm's website (http://www.grantthornton.com), the two partners propose an alternative approach that calls for two types of lease contracts, with classification contingent on whether the contract transfers control of the underlying asset to the lessee. The IASB and FASB are expected to issue a second Exposure Draft on lease accounting in the early part of 2013.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Rethinking the right-of-use asset

John Hepp, Partner, Accounting Principles Consultation Group, and **Mark Scoles**, Partner-in-Charge, Accounting Principles Consultation Group

The attempt to find a single lease accounting model based on recognition of a right-of-use asset has faltered. In this article, two professionals in Grant Thornton LLP's National Professional Standards Group suggest a control-based model as an alternative.

The FASB and IASB (the Boards) are preparing to issue a second exposure draft on lease accounting later this year or early next year. This exposure draft is expected to include a second lease accounting model in addition to the original model based on recognition of a right-of-use asset. The right-of-use asset itself isn't being rethought.

Some may attribute the addition of a second model to political pressure or resistance to change on the part of preparers. Others have noted a lack of consistency between the right-of-use asset model and the control-based model for revenue recognition, despite similarities in the economic substance of the transactions. We fall into the latter group.

Regardless of the reasons for the new exposure draft, we are concerned that the current models are complex, conceptually challenged, and unlikely to provide financial statement users with decision-useful information. In our view, the problems that the Boards are encountering in the lease accounting project are largely due to conceptual shortcomings inherent in the right-of-use asset.

The current state of affairs

Under existing GAAP, leasehold rights are considered to be executory contracts unless the lease transfers substantially all of the risks and rewards of ownership to the lessee. In a bold attempt to resolve issues with that model, the Boards issued a blanket assertion in their original discussion paper, *Leases: Preliminary views*, issued in March 2009.[1] In a decision meant to clear the way for a single leasing model, the Boards decided that in a simple lease, the lessee obtains a right to use the leased item — a right that meets the definition of an asset. The Boards did not provide further clarification as to whether the right-of-use asset is considered to be a tangible or intangible asset.

[1] Financial Accounting Standards Board. "Leases: Preliminary views." Financial Accounting Series, Number 1680-100, March 19, 2009. Available at www.fasb.org/DP_Leases.pdf.

Spotlight on our IFRS Interpretations Group

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

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

Jake Green, United Kingdom

Jake is the UK firm's director of financial reporting, having worked in its accounting technical department since 2003. He is an active contributor to the financial reporting community; participating in a number of working parties at the Institute of Chartered Accountants and attending the Confederation of British Industry's Financial Reporting Panel.

Jake is a keen contributor to a number of accounting publications in the UK. He provides training seminars to clients and targets of the UK firm on IFRS and other financial reporting topics of interest. He is also known for occasionally tweeting on those topics. Twitter followers can read more @jake_green_gtuk (the views are his own!)

Round-up

IASB turns its attention to the problem of disclosure overload

The IASB has responded to the growing clamour over disclosure overload in financial statements by announcing that it is to hold a public 'disclosure forum' at the end of January 2013 to consider the problem.

IFRS News has featured a number of initiatives in recent quarters on the subject, including most recently the FASB discussion paper 'Disclosure Framework' and the EFRAG discussion paper 'Towards a Disclosure Framework for the Notes'. The forum will aim to further foster dialogue between preparers, auditors, regulators, users of financial statements and the IASB about how to improve the usefulness and clarity of financial disclosures. Output from the forum will inform the IASB's work on its Conceptual Framework.

IASB Chairman reiterates commitment to its leasing project

Hans Hoogervorst, has reiterated the IASB's determination to complete its leasing project and bring all leases onto the balance sheet.

Speaking at the London School of Economics and Political Science, Mr Hoogervorst highlighted the extent to which lease arrangements have become one of the greatest sources of off-balance sheet financing for many companies.

While acknowledging that the IASB faces an uphill battle to overcome lobbying from vested interests, he voiced his belief that completion of the project was essential if hidden leverage was to be uncovered.

IFRS Foundation issues first chapter of fair value measurement educational material

The IFRS Foundation has issued the first chapter of material to accompany IFRS 13 'Fair Value Measurement' under its Education Initiative.

The first chapter covers the application of the principles in IFRS 13 when measuring the fair value of unquoted equity instruments within the scope of IFRS 9 'Financial Instruments' and was developed with the assistance of a valuation expert group.

Other chapters will be added in due course, the aim being for the material to cover the application of the principles in IFRS 13 across a number of topics. The material has been published to assist in the consistent application of IFRSs. It is non-authoritative guidance however and has not been approved by the IASB.

IFRS Foundation to create Accounting Standards Advisory Forum

The IFRS Foundation has published proposals to create a new advisory group to the IASB. The main purpose of the group, which would consist of national accounting standard-setters and regional bodies with an interest in financial reporting, will be to provide technical advice and feedback to the IASB. Creation of such a group was recommended in last year's Trustee's strategy review.

FASB publishes its impairment proposals

The US Financial Accounting Standards Board (FASB) has issued its impairment proposals. Proposed Accounting Standards Update 'Financial Instruments – Credit Losses (Subtopic 825-15)', proposes a single 'expected credit loss' measurement objective for the recognition of credit losses, replacing the multiple existing impairment models in US GAAP, which generally require that a loss be 'incurred' before it is recognised.

Both the FASB and the IASB have been developing expected loss models for impairment of loans and other debt instruments. Previously, the two Boards had agreed on an approach that would track the deterioration of the credit risk of loans and other financial assets in three 'buckets' of severity. US preparers, auditors, investors, and regulators expressed concerns about the understandability, operability, and auditability of the 'three-bucket' credit impairment model however, and whether it would reflect an appropriate measure of risk. This led the FASB to revise its approach.

The key difference between the US proposals and the IASB's expected proposals (which are due to be published in the first quarter of 2013) relates to the IASB's use of a different expected loss approach for assets that have not yet exhibited significant deterioration in credit risk; specifically, full recognition of an allowance for the expected credit loss would be deferred for financial assets for which a loss event is expected to occur beyond 12 months. Under the FASB model, the entity would not limit its estimate to losses that are expected to occur in a particular time period; it would instead always consider all available information and recognise its current estimate of cash flows not expected to be collected.

ACCA report on IFRS in the US

The Association of Chartered Certified Accountants (ACCA) has released a report 'IFRS in the US: An investor's perspective' which discusses the findings of a survey of US investors' perceptions of IFRS and the prospects for convergence.

The report finds that the general perception among investors is that the US will eventually adopt IFRS, and more investors feel this will be beneficial for the domestic economy than not (the report's findings were based on a survey of 493 US-based investors). While many investors are yet to be convinced of the merits of the standards, those most familiar with IFRS are very confident about the level of disclosures and the prospects for early adopters.

ESMA announces enforcement priorities for 2012 financial statements

The European Securities and Markets Authority (ESMA) has published a set of priority issues to be used by EU regulators in assessing listed companies' 2012 financial statements.

The common financial reporting topics refer to the application of IFRS in relation to:

- financial assets
- impairment of non-financial assets
- defined benefit obligations
- provisions, contingent liabilities, and contingent assets.

ICAEW report on the future of IFRS

The Institute of Chartered Accountants of England and Wales (ICAEW) has published a report 'The Future of IFRS'. The report takes stock of the current state of IFRS, the benefits it offers and the challenges ahead.

The report notes that the move to IFRS has arguably been transformational for international investors but emphasises that the organisation must continue to listen and learn from constituents. Securing funding on a sustainable level is also seen as an important challenge. More controversially, the report says that it is time to end the era of convergence with US GAAP and focus on completing some of the IASB's outstanding standards projects, such as financial instruments.

Reports on debt and cash flow disclosure

The UK's Financial Reporting Lab has released two reports on 'Debt terms and maturity tables' and 'Operating and investing cash flows'.

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 by providing an environment where investors and companies can come together. Much of its work focuses on companies who use IFRS and its findings will therefore be of interest globally.

The two reports contain descriptions of reporting practices that help investors to understand debt obligations and their risks, and the drivers of cash flow movements.

IVSC report on valuation uncertainty

The International Valuation Standards Council (IVSC) has released an Exposure Draft on valuation uncertainty.

The Exposure Draft has been produced in answer to calls from the G20 (the Group of Twenty Finance Ministers and Central Bank Governors) and financial regulators around the world for improved standards of transparency and disclosure of valuation uncertainty factors.

The proposed guidance looks at how valuation uncertainty can be identified, explained and disclosed in a way that is informative to those relying on valuations.

Valuation guidance for commercial forests

The IVSC has also published draft valuation guidance for commercial forests. The publication is in part a reaction to a lack of consistency arising from the need for the tree crop to be accounted for separately from the land under IFRS. Particular concern has been expressed at the different approaches being taken to allocate value among the 'biological asset', i.e. the living trees, and all the other elements that make up the total value of the forest. The guidance is designed to bring greater consistency to this process.

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)
IFRS 10, 12 and IAS 27	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	1 January 2014	Yes
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 10, 11 and 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12	1 January 2013	Yes
Various	Annual Improvements 2009-2011 Cycle	1 January 2013	Yes
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)

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?
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)
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
Exposure Draft	Annual Improvements to IFRSs 2011–2013 Cycle	18 February 2013
Exposure Draft	Recoverable Amount Disclosures for Non-Financial Assets – Proposed Amendments to IAS 36	19 March 2013
Exposure Draft	Classification and Measurement: Limited Amendments to IFRS 9 – Proposed amendments to IFRS 9 (2010)	28 March 2013
Exposure Draft	Equity Method: Share of Other Net Asset Changes – Proposed amendments to IAS 28	22 March 2013
Exposure Draft	Clarification of Acceptable Methods of Depreciation and Amortisation – Proposed amendments to IAS 16 and IAS 38	2 April 2013
Exposure Draft	Exposure Draft: Acquisition of an Interest in a Joint Operation – Proposed amendment to IFRS 11	23 April 2013
Exposure Draft	Exposure Draft: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Proposed amendments to IFRS 10 and IAS 28	23 April 2013