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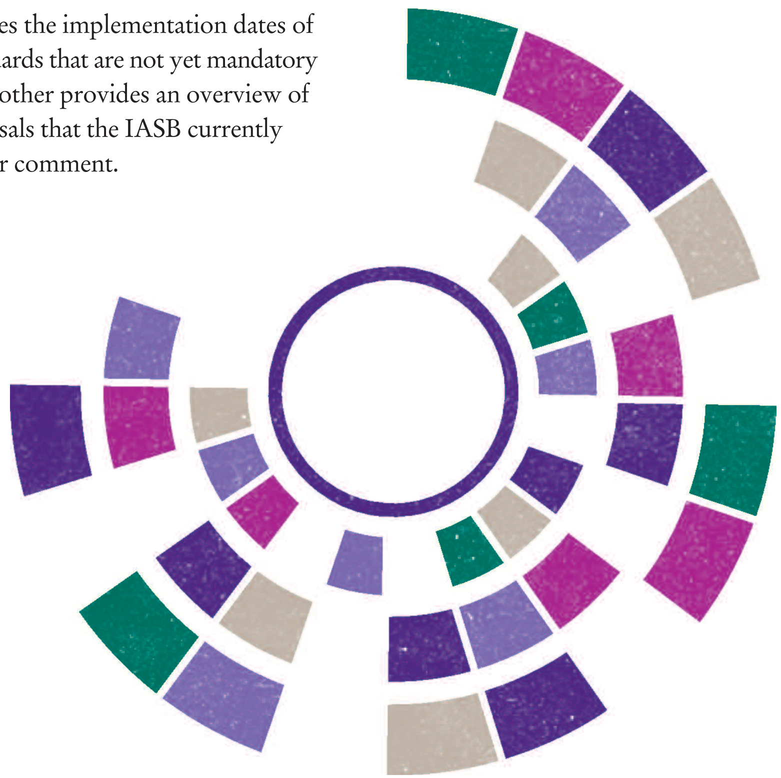
IFRS News

Welcome to IFRS News – a quarterly update from the Grant Thornton International Ltd 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 Ltd IFRS team.

Our first edition of 2014 starts with some important amendments to IFRS 9 'Financial Instruments'. The amendments add new requirements on hedge accounting as well as removing the 1 January 2015 mandatory effective date which had previously been in the Standard.

We then consider a number of other amendments that have recently been made by the IASB to its Standards as well as some proposed changes that it has published. The newsletter then moves on to a round-up of IFRS-related news at Grant Thornton, and a more general round-up of activities affecting the IASB.

We end with two tables. One summarises the implementation dates of new Standards that are not yet mandatory while the other provides an overview of the proposals that the IASB currently has out for comment.



IASB amends IFRS 9 Financial Instruments

Important amendments complete the IASB's hedge accounting project and delay IFRS 9's effective date.

The IASB has published a package of amendments (the Amendments) to the accounting requirements of IFRS 9 'Financial Instruments'. The Amendments:

- add a new chapter on hedge accounting, substantially overhauling previous accounting requirements in this area
- allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9, to be applied in isolation without the need to change any other accounting for financial instruments
- remove the 1 January 2015 mandatory effective date of IFRS 9.

IFRS 9 is replacing IAS 39 'Financial Instruments: Recognition and Measurement' in phases. The publication of these Amendments finalises the hedge accounting phase of the IFRS 9 project. The IASB is still considering limited amendments to the classification and measurement requirements already included in IFRS 9 and is working on finalising the new expected credit loss impairment model. It also has a separate active project on accounting for macro hedging which it continues to work on. More information on the Amendments is set out below:

Hedge accounting

The new chapter added to IFRS 9 on hedge accounting represents a major overhaul to the accounting requirements in this area.

Prior to the Amendments, the hedge accounting requirements were contained in IAS 39. The hedge accounting requirements in that Standard were however criticised for not allowing entities to adequately reflect their risk management practices and for not providing sufficient information in the financial statements about those activities.

The new requirements look to align hedge accounting more closely with entities' risk management activities by:

- increasing the eligibility of both hedged items and hedging instruments
- introducing a more principles-based approach to assessing hedge effectiveness.

The new requirements represent a major accounting change which merit a corresponding level of planning and consideration from entities. The IASB believes that entities hedging non-financial risks (such as non-financial institutions) will benefit the most from these changes. In addition, the Amendments include additional disclosures which are aimed at improving the information provided about an entity's hedge accounting and risk management strategy. The table on page 3 sets out some of the major changes.

IFRS 9's hedge accounting requirements at a glance

Features	Key points
Objective of the Standard	• to better align hedging from an accounting point of view with entities' underlying risk management activities.
The major changes	• increased eligibility of hedged items in the following areas: – risk components – groups of hedged items and net positions – items that include derivatives – equity instruments at fair value through other comprehensive income • increased eligibility of hedging instruments and reduced volatility • revised criteria for hedge accounting qualification and for measuring hedge ineffectiveness – the '80-125%' quantitative test for measuring hedge effectiveness on a retrospective basis has been eliminated – under IFRS 9, a hedging relationship must meet all of the following requirements: 1) there is an economic relationship between the hedged item and the hedging instrument 2) the effect of credit risk does not dominate the value changes that result from that economic relationship 3) the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item • a new concept of rebalancing hedging relationships • new requirements restricting the discontinuance of hedge accounting.

Hedge accounting continued

Amid all the change it is easy to forget that some significant areas are unchanged from the previous requirements of IAS 39. These include the following:

- hedge accounting remains a voluntary choice
- entities will still need to identify a hedged item and a hedging instrument and document the relationship between them at inception
- the three types of hedge relationship used in IAS 39 (fair value hedges, cash flow hedges and hedges of a net investment) and the mechanics of accounting for them remain the same
- hedge ineffectiveness still needs to be measured and included in profit or loss.

The Grant Thornton International Ltd IFRS team has published a special edition of IFRS News on the new hedge accounting requirements. The special edition takes readers through the key features of the new requirements and gives practical insights into how they may affect entities.

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

Own credit

Where an entity chooses to measure its own debt at fair value, IFRS 9 requires 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. This requirement which was introduced in October 2010 (see the Quarter 1 2011 edition of IFRS News) 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.

Up until now however an entity wishing to apply this requirement was required to also apply all of the requirements in IFRS 9 that relate to the classification and measurement of financial instruments. The Amendments enable entities to apply this part of IFRS 9 before applying any of the other requirements in IFRS 9.

Removal of the 1 January 2015 mandatory effective date

The 1 January 2015 mandatory effective date of IFRS 9 has been removed to provide sufficient time for entities to make the transition to the new requirements. The IASB will decide upon a new date when the entire IFRS 9 project is closer to completion. Entities may still apply IFRS 9 immediately if they choose to however.

The publication of these Amendments finalises the hedge accounting phase of the IFRS 9 project.

Grant Thornton International Ltd comment

We welcome the publication of these Amendments. The new hedge accounting requirements should make it easier for many entities to reflect their actual risk management activities in their hedge accounting and so reduce profit or loss volatility, while allowing entities to apply IFRS 9's requirements on own credit without having to apply any of its other requirements is likely to be a popular change with preparers.

Delaying the mandatory effective date meanwhile is a pragmatic decision which reflects the fact that important questions on impairment and classification and measurement are still being debated as we start 2014.

IASB completes two cycles of its annual improvements project

Amendments address non-urgent (but necessary) minor amendments.

The IASB has completed two cycles of its annual improvements project (a process for making non-urgent, but necessary, minor amendments to IFRSs), publishing
- 'Annual Improvements to IFRSs 2010-2012 Cycle'
- 'Annual Improvements to IFRSs 2011-2013 Cycle'.

A summary of the issues addressed in these publications is set out in the tables that follow.

	Subject	Summary of amendment
IFRS 2 Share-based Payment	Definition of vesting conditions	• clarifies the definition of 'vesting conditions' by defining a 'performance condition' and a 'service condition' • amends the definition of a 'market condition' to clarify that a market condition is a performance condition • clarifies that a 'market condition' can be based on the market price (or value) of the entity's equity instruments or the equity instruments of another entity in the same group • clarifies that a share market index is a non-vesting condition because it not only reflects the performance of the entity, but also of other entities outside the group.
IFRS 3 Business Combinations	Accounting for contingent consideration in a business combination	• clarifies that the classification of contingent consideration in a business combination as either a financial liability or an equity instrument is based solely on the requirements of IAS 32 'Financial Instruments: Presentation' • states that the subsequent measurement of contingent consideration in a business combination should be fair value at each reporting date and changes in fair value should be recognised in profit or loss, regardless of whether it is a financial instrument or a non-financial instrument.

	Subject	Summary of amendment
IFRS 8 Operating Segments	**Subjects** Aggregation of operating segments	• requires entities to disclose the judgements made in identifying their reportable segments when operating segments have been aggregated, including a brief description of the operating segments that have been aggregated and the economic indicators that determine the aggregation criteria.
	Reconciliation of the total of the reportable segments' assets to the entity's assets	• clarifies that the entity is required to provide a reconciliation between the total reportable segments' assets and the entity's assets only if the segment assets are regularly reported to the chief operating decision maker.
IFRS 13 Fair Value Measurement	**Subject** Short-term receivables and payables	• amends the Basis for Conclusions to clarify that an entity is not required to discount short-term receivables and payables without a stated interest rate below their invoice amount when the effect of discounting is immaterial.
IAS 16 Property, Plant and Equipment	**Subject** Revaluation method-proportionate restatement of accumulated depreciation	• addresses the diversity in practice in calculating the accumulated depreciation for an item of PP&E that is measured using the revaluation method • clarifies that the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount • clarifies that the accumulated depreciation is calculated as the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
IAS 24 Related Party Disclosures	**Subject** Key management personnel	• amends the definition of a 'related party' in order to include 'management entities' that provide key management personnel services to the reporting entity • requires the disclosure of the amounts recognised by the reporting entity as a service fee to a separate management entity for the provision of the key management personnel services • provides a relief so that the reporting entity is not required to disclose components of the compensation to key management personnel where the compensation is paid via a management entity.

IAS 38 Intangible Assets	**Subject** Revaluation method – proportionate restatement of accumulated amortisation	**Summary of amendment** • makes changes to the accounting for intangible assets that are equivalent to those described above for IAS 16 'Property, Plant and Equipment'.

Annual Improvements to IFRSs 2011-2013 Cycle

IFRS 1 First-time Adoption of International Financial Reporting Standards	**Subject** Meaning of 'effective IFRSs'	**Summary of amendment** Amends the Basis for Conclusions to clarify that a first time adopter has the choice between: • applying an existing and currently effective IFRS or • applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application. A first time adopter is required however to apply the same version of the IFRS throughout the periods covered by those first IFRS financial statements unless IFRS 1 provides an exemption or an exception that permits or requires otherwise.
IFRS 3 Business Combinations	**Subject** Scope exceptions for joint ventures	**Summary of amendment** • amends IFRS 3 'Business Combinations' to exclude from its scope the accounting for the formation of all types of joint arrangements as defined in IFRS 11 'Joint Arrangements' • clarifies that the above mentioned scope exclusion only addresses the accounting in the financial statements of the joint arrangement itself, and not the accounting by the parties to the joint arrangement for their interests in the joint arrangement.
IFRS 13 Fair Value Measurement	**Subject** Scope of paragraph 52 (portfolio exception)	**Summary of amendment** • clarifies that the portfolio exception in IFRS 13.52 applies to all contracts accounted for within the scope of IAS 39 'Financial Instruments: Recognition and Measurement' or IFRS 9 'Financial Instruments', regardless of whether those contracts meet the definitions of financial assets or financial liabilities in accordance with IAS 32 'Financial Instruments: Presentation' • this means for example that commodity contracts that can be settled net in cash and which are accounted for as financial instruments, can qualify for the exemption.

IAS 40 Investment Property	**Subject** Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property	**Summary of amendment** Clarifies that IFRS 3 'Business Combinations' and IAS 40 'Investment Property' are not mutually exclusive. Therefore, in determining whether: • a property is owner-occupied property or investment property, judgement should be exercised based on the requirements of IAS 40.7-14 • the acquisition of an investment property meets the definition of a business combination or is the acquisition of an asset, reference should be made to IFRS 3's definition of a business (not to IAS 40.7-14). The amendments to IAS 40 are to be applied prospectively. An entity may however choose to apply the amendment to individual transactions that occurred prior to the beginning of the first annual period occurring on or after the effective date, but only where the information needed is available to the entity.

The amendments to IFRSs contained in both of the two publications are effective for annual periods beginning on or after 1 July 2014, although entities are permitted to apply them earlier. Certain of the amendments are effective on a prospective basis.

Grant Thornton International Ltd comment

Overall the changes are uncontroversial. Out of the changes, the one that may well have the most significance is the amendment to IAS 40 in the 2011-2013 Cycle, which states that reference should be made to IFRS 3 to determine whether the acquisition of an investment property meets the definition of a business combination or is the acquisition of an asset. Depending on how IFRS 3 and IAS 40 have been interpreted in the past, this could lead to changes in practice in the accounting for acquisitions of investment properties.

IASB publishes Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

The IASB has published narrow scope amendments to IAS 19 'Employee Benefits' entitled 'Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)' which:

- clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service
- permit a practical expedient if the amount of the contributions is independent of the number of years of service.

Prior to the publication of IAS 19 (Revised 2011), it was common practice for entities to deduct employee contributions to defined benefit plans from service cost in the period in which the service was rendered. IAS 19 (Revised 2011) however requires contributions that are linked to service to be attributed to periods of service as a reduction of service cost (ie as a negative benefit). Concerns were raised however about the complexity of this requirement when it was applied to simple contributory plans.

The IASB has responded to these concerns by both clarifying the requirements of IAS 19 and introducing a practical expedient to the Standard.

Grant Thornton International Ltd comment

We welcome the Amendments to IAS 19. In particular we are pleased to see the introduction of the practical expedient for accounting for certain contributions from employees or third parties. This amendment should alleviate the need for complex calculations, and disruption to established practices, in relation to straightforward employee contributions to defined benefit plans.

The practical expedient

The practical expedient applies where the amount of contributions from employees or third parties is independent of the number of years of service, and permits an entity to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service.

Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

The clarification of the requirements of IAS 19

Separately the IASB has clarified that if the amount of the contributions from employees or third parties is dependent on the number of years of service, then an entity shall attribute the contributions to periods of service using the same attribution method required by IAS 19.70 for the gross benefit (ie either using the plan's contribution formula or on a straight-line basis).

IAS 19.93 had previously caused confusion by stating that contributions from employees or third parties in respect of service are attributed to periods of service as a negative benefit in accordance with IAS 19.70, and then stating that the net benefit is attributed in accordance with IAS 19.70.

Equity method in separate financial statements

The IASB has published the Exposure Draft 'Equity Method in Separate Financial Statements (proposed amendments to IAS 27)' containing proposals for narrow-scope amendments to IAS 27 'Separate Financial Statements'.

Currently IAS 27 requires an entity to account for its investments in subsidiaries, joint ventures and associates either at cost or in accordance with IFRS 9 'Financial Instruments' (or IAS 39 'Financial Instruments: Recognition and Measurement' where an entity has not yet adopted IFRS 9).

In responses to the IASB's 2011 Agenda Consultation, some of the IASB's constituents noted however that:

- the laws of some countries require listed companies to present separate financial statements prepared in accordance with local regulations
- those local regulations require the use of the equity method to account for investments in subsidiaries, joint ventures and associates
- in most cases, the use of the equity method would be the only difference between the separate financial statements prepared in accordance with IFRSs and those prepared in accordance with local regulations.

Grant Thornton International Ltd comment

We support the inclusion of the equity method as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements. Reinstating this option will reduce the burdens on entities in some jurisdictions and encourage greater use of IFRS.

While we acknowledge that there are some concerns with the proposals in that they will reduce consistency and lack a clear conceptual basis, on balance we support them on pragmatic grounds.

As a result the Exposure Draft proposes introducing a third option which would allow entities to account for investments in subsidiaries, joint ventures and associates under the equity method. Entities would then have an accounting policy choice in their separate financial statements between accounting:

- at cost
- in accordance with IFRS 9 (or IAS 39)
- under the equity method.

Entities would be required to apply the same accounting for each category of investments. It is proposed that entities would be required to apply the proposed amendments retrospectively.

No transitional provisions are considered necessary as the IASB believes entities should be able to use information that is already available to them in applying the proposals.

The Exposure Draft proposes introducing a third option which would allow entities to account for investments in subsidiaries, joint ventures and associates under the equity method.

Next cycle of annual improvements proposals published

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

The IASB has published an Exposure Draft 'Annual Improvements to IFRSs 2012 - 2014 Cycle' which proposes minor amendments to four Standards.

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 proposals, which reflect issues discussed by the IASB in a project cycle that began in 2012, is set out in the table.

Standard	Issue	Proposed change
IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'	Changes in methods of disposal	• provides guidance for when an entity reclassifies either an asset or a disposal group from held for sale to held for distribution (or vice versa), or when held for distribution accounting is discontinued • clarifies that these types of changes in plans do not result in a new classification but instead lead to the same classification, presentation and measurement requirements for each type of disposal in IFRS 5.
IFRS 7 Financial Instruments: Disclosures	Servicing contracts Applicability of the amendments to IFRS 7 to condensed interim financial statements	• provides additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of IFRS 7's disclosures for transferred assets. • clarifies that the offsetting disclosures introduced by the amendments to IFRS 7 that were issued in December 2011 are not explicitly required for all interim periods • the proposed change notes however that the disclosures may need to be included in condensed interim financial statements to comply with IAS 34 'Interim Financial Reporting'.

IAS 19 Employee Benefits	**Issue** Discount rate: regional market issue	**Proposed change** • clarifies the requirements of IAS 19 'Employee Benefits' in determining the discount rate in a regional market sharing the same currency • the proposed amendment clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. This would result in the depth of the market for high quality corporate bonds being assessed at currency level rather than country level.
IAS 34 Interim Financial Reporting	**Issue** Disclosure of information 'elsewhere in the interim report'	**Proposed change** • clarifies whether 'elsewhere in the interim financial report' means that the required information should be provided in the notes to the interim financial statements or if it means that they may be presented elsewhere • the proposal would do this by requiring disclosures to be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to the other part of the interim financial report • where IAS 34 disclosures are presented outside the interim financial statements, those disclosures should be available to users on the same terms as the interim financial statements and at the same time.

Grant Thornton International Ltd comment

The IASB's Annual Improvements process is intended to address minor changes and are generally not controversial. Possibly the most significant change is that proposed to IAS 19 to clarify its requirements in determining the discount rate in a regional market such as the Eurozone which shares the same currency.

Grant Thornton International Ltd guide to navigating the changes to IFRS

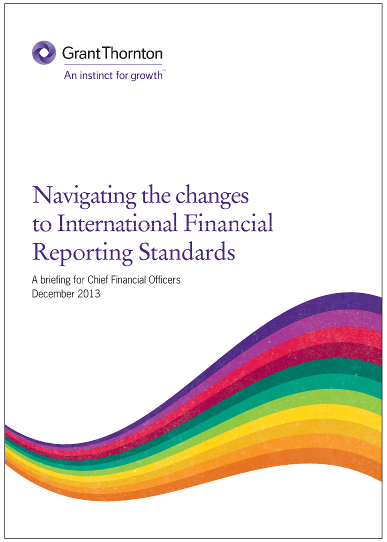
The Grant Thornton International Ltd IFRS team has published an updated version of its guide 'Navigating the changes to International Financial Reporting Standards: a briefing for Chief Financial Officers'.

The December 2013 edition of the publication has been updated for changes to International Financial Reporting Standards that have been published between 1 December 2012 and 30 November 2013.

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 guide, please get in touch with the IFRS contact in your local Grant Thornton office.



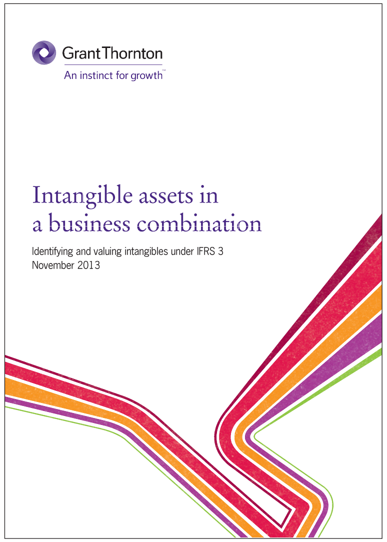
Grant Thornton International Ltd intangible assets guide

The Grant Thornton International Ltd IFRS Team has released an updated version of its guide ‘Intangible assets in a business combination – identifying and valuing intangibles under IFRS 3’.

The guide includes practical guidance on the detection of intangible assets in a business combination and also discusses the most common methods used in practice to estimate their fair value. It provides examples of intangible assets commonly found in business combinations and explains how they might be valued.

The updated version of the guide was produced in collaboration with our valuation experts in Grant Thornton Germany and Grant Thornton UK. It has been revised to reflect the interaction of IFRS 3’s requirements with those of IFRS 10 ‘Consolidated Financial Statements’ and IFRS 13 ‘Fair Value Measurement’, as well as changes in best practice.

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



Comment letter submitted on the Conceptual Framework

The Grant Thornton International Ltd IFRS Team has submitted a comment letter on the IASB's Discussion Paper 'A Review of the Conceptual Framework for Financial Reporting'.

In our letter we express support for the decision to restart the Conceptual Framework (the Framework) project and to prioritise its completion. Some of our major comments are that:

- although we support prioritisation of the Framework, we caution that this project cannot (and should not) aim to address all issues that arise in developing standards
- while we welcome the fact that the Discussion Paper is quite comprehensive, we note some matters that should be considered in more depth
- we think that stewardship (or accountability) is given insufficient prominence in the existing Framework and believe that it should be reinstated as an objective of financial reporting
- given that prudence is a feature of both existing and forthcoming standards, we believe its role should be acknowledged in the Framework and that further work should be undertaken to assess the appropriate role of prudence in developing future standards
- we consider that the reliability of measurement should be given a more prominent role in the context of recognition and in the selection of measurement bases
- we believe the Framework should be a living document and therefore, updated and improved on a regular basis as the IASB's latest thinking develops in standards-level projects.

Emmanuelle Guyomard appointed as member of the IFRS Commission at the ANC (French standard setter)

Emmanuelle Guyomard, head of accounting standards at Grant Thornton France, has been appointed as a member of the IFRS Commission at the Autorité des Normes Comptables (ANC) with effect from 14 January 2014.

The ANC is composed of three bodies: a Board and two specialised Commissions, one dealing with French GAAP and the other with IFRS issues.

In relation to IFRS, the ANC is primarily involved in forming positions on IASB consultations and participating in research activities developed either on its own or in conjunction with other National Standard Setters and EFRAG.

Jake Green appointed as member of the IFRS Advisory Council

Jake Green, Director of Financial Reporting at Grant Thornton UK LLP, has been appointed as a member of the IFRS Advisory Council, the oversight body of the IASB, with effect from 1 January 2014.

As one of 14 new Advisory Council members, Green will advise the IFRS Foundation on its strategic direction, technical work plan and priorities.

IFRS Foundation appoints Grant Thornton as external auditor

After a competitive tender process, the Trustees of the IFRS Foundation have made the decision to appoint Grant Thornton as their external auditor. The appointment of Grant Thornton was approved by the Trustees at their October meeting held in Frankfurt.

Spotlight on our IFRS Interpretations Group

Grant Thornton International Ltd'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, Ireland, France, Sweden and Germany as well as members of the Grant Thornton International Ltd 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 representative from our US member firm, Grant Thornton LLP:

Sheri Fabian

Sheri Fabian is a technical partner leading Grant Thornton's IFRS initiative in the U.S. She is also a partner in the Accounting Principles Consulting Group providing technical accounting guidance on the application of US GAAP.

Sheri is also a member of the NASDAQ Listing Qualifications Panel, an independent panel designated by the NASDAQ Board of Directors to consider and render decisions on the listing of an issuer's securities on the NASDAQ Stock Market.

She has more than 25 years of experience in providing audit and accounting services, training and publications to the accounting profession and organisations, including public and private companies, in a variety of industries.

Raymond Chabot Grant Thornton webinar on IFRS developments

In November, Raymond Chabot Grant Thornton offered a webinar (in French) on IFRS developments to clients and business contacts. The presentation, which lasted one hour, was moderated by partner Gilles Henley and senior managers Stéphanie Fournier and Louise Roy, three IFRS experts in Raymond Chabot Grant Thornton's Risk Management and Accounting Research Department.

The online event presented an overview of the past year's IFRS-related activities by the IASB, the IFRS Interpretations Committee (IFRIC) and the Canadian regulators.

You can watch the webinar or download the presentation used during the event (both in French) by going to: **http://www.rcgt.com/en/assurance/presentation-on-ifrs-updates-webinar/**

Round-up

ESMA announces 2014 enforcement priorities

The European Securities and Markets Authority (ESMA) has published its enforcement priorities for 2013. ESMA has defined these priorities in order to promote the consistent application of IFRS across the European Economic Area (EEA). The priorities identified refer to the application of IFRS in relation to:

- impairment of non-financial assets
- measurement and disclosure of post-employment benefit obligations
- fair value measurement and disclosure
- disclosures related to significant accounting policies, judgements and estimates
- measurement of financial instruments and disclosure of related risks.

Listed companies and their auditors should take account of these areas when preparing and auditing IFRS financial statements for the year ending 31 December 2013.

ESMA review of financial institutions' disclosures

ESMA has also published a review of the comparability and quality of disclosures in 2012 IFRS financial statements of listed financial institutions. The Review makes recommendations aimed at enhancing the transparency of financial statements through the improvement of disclosures in certain key areas including:

- credit risk and impact of forbearance practices
- liquidity and funding risk
- asset encumbrance
- the fair value measurement of financial instruments.

ESMA, while finding that the required disclosures under IFRS were generally observed, also identified broad variations in the quality of the information provided, and found some cases where that was insufficient or insufficiently structured to allow comparability among financial institutions.

FASB diverges from the IASB on financial instruments

It now seems inevitable that the US Financial Accounting Standards Board (FASB) and IASB will diverge in their forthcoming changes to current requirements for the classification and measurement of financial assets and the accounting model for impairment of such assets.

During a meeting in December, FASB decided to abandon its previous plans (which had been shared with the IASB) for classifying and measuring financial assets on the basis of their contractual cash flow characteristics and the business model in which those assets are managed. During the meeting, the FASB also elected to proceed with its Current Expected Credit Loss model for impairments, choosing not to pursue the IASB's expected credit loss model.

EFRAG paper on the role of the business model

The European Financial Reporting Advisory Group (EFRAG), the Autorité des Normes Comptables (ANC) in France, and the Financial Reporting Council (FRC) in the United Kingdom have published a research paper, 'The Role of the Business Model in Financial Statements'.

In the research paper, EFRAG argues that the business model concept (which appeared in the IFRS literature for the first time when IFRS 9 'Financial Instruments' was issued in 2009) should play a greater role in financial reporting and be part of the revised Conceptual Framework. Therefore, all standards must be capable of representing faithfully the business model, and, where applicable, the business model should explicitly be incorporated on a standard-by-standard basis.

For our own part, as expressed in our letter to the IASB on its Discussion Paper 'A Review of the Conceptual Framework for Financial Reporting', we think a certain degree of caution is needed in considering whether the business model should have a different or broader role. We say this as we feel that some of the calls for its greater use are in fact demands for increased flexibility in certain standards.

IVSC draft guidance on counterparty and own credit risk in valuations

The IVSC has published an exposure draft designed to provide guidance on the determination of fair value under IFRS 13 'Fair Value Measurement'.

The exposure draft focuses on how counterparty credit risk and own credit risk are taken into account in the measurement of certain financial assets and financial liabilities measured at fair value, looking to provide clarification on Credit Valuation Adjustments (CVAs) and Debit Valuation Adjustments (DVAs) that are used to achieve this.

The exposure draft provides clarification on the terminology used with regards to CVAs and DVAs and the underlying concepts, as well as providing insights on some of the challenges that they present for entities.

AASB paper advocates substantial change of thinking on liabilities

The Australian Accounting Standards Board (AASB) has published AASB Occasional Paper No. 1 ‘Liabilities – the neglected element: a conceptual analysis of the financial reporting of liabilities’.

The Occasional Paper series is designed to provide an avenue for in-depth consideration of financial reporting issues to facilitate debate and provide thought leadership in accounting standard-setting. AASB Occasional Paper No. 1 advocates that liabilities be defined broadly; meeting the liability definition would be sufficient for an item to be recognised; and liabilities would be measured at current value on initial recognition and in most cases at current value in subsequent periods.

EFRAG review on the use of information by capital providers

The European Financial Reporting Advisory Group (EFRAG) and the Institute of Chartered Accountants of Scotland (ICAS) have published a literature review on the use of information by capital providers.

The review, which was entrusted to a team of independent European academics, draws conclusions and implications from across Europe for standard setters, highlights deficiencies in the existing literature and identifies opportunities for future research on this important topic.

The principal conclusion is that financial statements are used in different ways by various capital providers with different needs and different objectives. This reflects the differences in the nature of debt and equity securities, investors’ ability to obtain and analyse alternative information sources and different capital providers’ level of sophistication. EFRAG believes the findings from the review will be useful for future standard-setting efforts.

IIRC finalises its framework for integrated reporting

The International Integrated Reporting Council (IIRC) has released its ‘International Integrated Reporting <IR> Framework’ following a three month global consultation which drew 350 responses.

The <IR> Framework seeks to explain the fundamental concepts, principles and content requirements underlying an ‘integrated report’, which is considered the next step in the evolution of corporate reporting. The IIRC’s long term vision is a world in which integrated thinking is embedded within mainstream business practice facilitated by Integrated Reporting as the corporate reporting norm. The IIRC believes that a cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability.

Disclosures

UK FRC calls to action for improving disclosures

The UK Financial Reporting Council (FRC) has set out a series of calls to action for preparers and auditors to consider in improving the quality of disclosures in annual reports. The following action points have been identified based on feedback received on an earlier thought leadership 'Thinking about disclosures in a broader context':

- disclosures should focus on communication of relevant information to investors
- core information that is relevant for investors is separated from supplementary information that only meets the needs of a wider stakeholder group
- placement of information outside the annual report may be more appropriate for supplementary information, where the law permits this
- immaterial information should be excluded
- boilerplate language should be avoided with a focus on entity specific disclosures
- related information is linked to tell the story of a company.

In addition, the FRC recommends that the IASB:

- develops a disclosure framework that considers disclosures in the financial report as a whole
- defines the boundaries of financial reporting
- develops placement criteria
- reduces and defines the 'magnitude' terms used in IFRSs, such as significant, key and critical.

ICAEW report calls for financial statement disclosure reform

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a report entitled 'Financial Reporting Disclosures: Market and Regulatory Failures'.

The report, which calls for a cultural shift in financial statement disclosure, says problems stem from the current regulatory framework which has been set up to meet potentially limitless information requirements. As a result, all the incentives are to over-disclose, and not to limit disclosure to relevant and material information.

The ICAEW therefore calls for companies and auditors to be allowed greater scope to use their judgement in deciding what should be disclosed, suggesting four ways to co-ordinate a new approach:

1. reforming the process for setting disclosure requirements
2. changing the disclosure requirements
3. changing the way disclosure requirements are implemented
4. placing more reliance on non-regulatory solutions.

Danish regulator suggests existing framework can deal with disclosure overload

In a letter to companies covering topics that will be relevant to their forthcoming year end reports, the Danish Business Authority (DBA) has taken a different approach to the ICAEW, suggesting that the existing framework can deal with disclosure overload. It suggests the standard of disclosures can be improved considerably by:

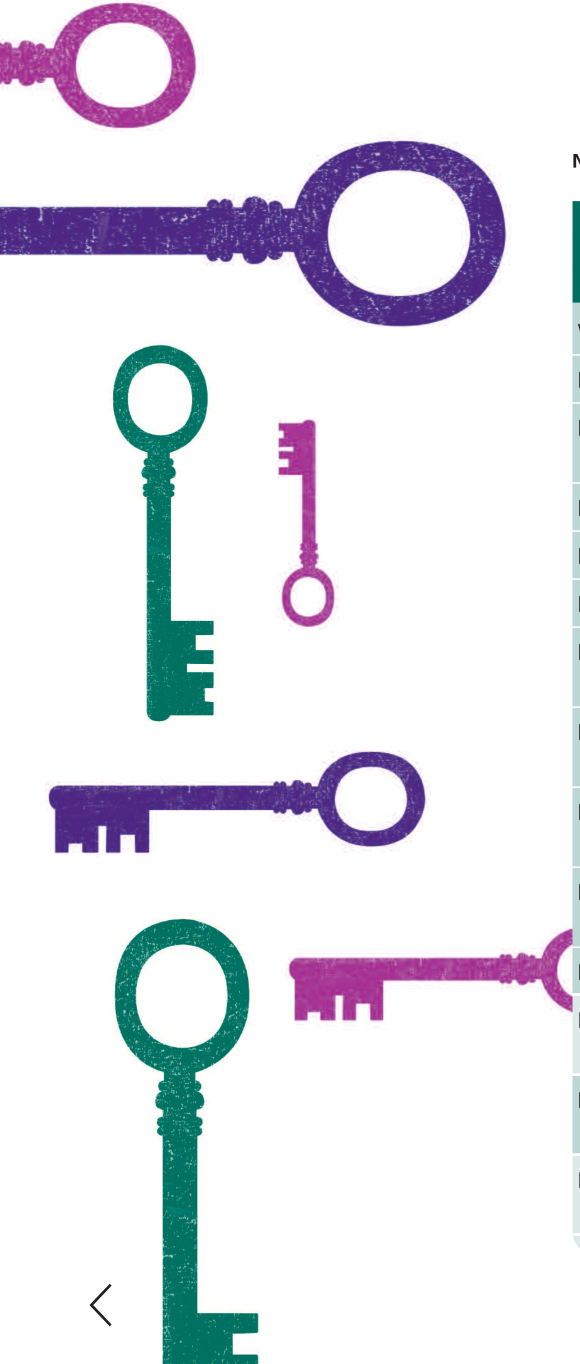
- avoiding repetition
- avoiding generic statements
- leaving out immaterial information
- limiting more marketing related information.

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 2012. 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 2012

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IFRS 9	Financial Instruments	To be determined	Yes (extensive transitional rules apply)
IAS 19	Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	1 July 2014	Yes
Various	Annual Improvements to IFRSs 2011-2013 cycle	1 July 2014	Yes
Various	Annual Improvements to IFRSs 2010-2012 cycle	1 July 2014	Yes
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	1 January 2014	Yes
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	1 January 2014	Yes (but only when IFRS 13 is applied)
IFRIC 21	Levies	1 January 2014	Yes
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



New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2012

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
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)
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)
IAS 19	Employee Benefits (Revised 2011)	1 January 2013	Yes
IFRS Practice Statement	Management Commentary: A framework for presentation	No effective date as non-mandatory guidance	Not applicable
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

Open for comment

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

Current IASB documents

Document type	Title	Comment deadline
Exposure Draft	Exposure Draft: Equity Method in Separate Financial Statements (Proposed amendments to IAS 27)	3 February 2014
Exposure Draft	IFRS for SMEs: Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities	3 March 2014
Exposure Draft	Exposure Draft: Annual Improvements to IFRSs 2012-2014 Cycle	13 March 2014