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IFRS News

Welcome to IFRS News. This is your quarterly update on all things relating to International Financial Reporting Standards. We'll bring you up to speed on topical issues, provide comment and points of view and give you a summary of any significant developments.

In this fourth and final edition of 2014, we'll cover areas that regulators are likely to be focussing on in the forthcoming reporting season; new Standards issued by the IASB; Exposure Drafts issued; IFRS-related news at Grant Thornton; and a general round-up of financial reporting developments.

You can find out about the implementation dates of newer Standards that are not yet mandatory towards the end of the document, as well as a list of IASB publications that are out for comment.

Areas of regulatory focus

Most jurisdictions have established systems to enforce accounting requirements, including IFRS.

Many of the regulatory bodies responsible for accounting enforcement publish some form of feedback from past reviews as well as information about priority areas for the next review cycle. Drawing on reports and feedback from several enforcement bodies around the world, we have identified several common themes. With the 2015 reporting season just around the corner, we believe these common themes will help you plan and prioritise when preparing your financial statements.

The common themes include:

- consistency within the financial report
- cutting the clutter
- going concern
- impairment testing
- revenue accounting policies
- statement of cash flows
- financial instruments
- tax
- non-GAAP financial measures
- operating segments
- the new package of consolidation standards
- fair value disclosures.

We discuss these in more detail below. Of course the matters above are not intended to be a definitive list and regulators will no doubt raise points on many other areas in the forthcoming reporting season.

Consistency within the financial report

Regulators commonly raise concerns about a lack of consistency both within the financial statements and between the statements and accompanying management commentary-type reports. Apparent inconsistencies can lead to various accounting treatments and disclosures being challenged. Particular areas to note include:

Consistency within the financial report

Focus areas	Issue
Segment disclosures	• companies that provide a segmental analysis in their management commentary but then describe their operating segments differently in the notes to their financial statements.
Going concern and impairment testing disclosures	• inconsistency between management commentary and the financial statements in relation to the assumptions and outlook that underpin those assessments • regulators will also look for inconsistency relating to events after the reporting period between the management commentary at the front and the financial statements at the back.
Accounting policies	• failure to cover all the key types of transactions mentioned in an entity's management commentary • failure to provide appropriate disclosure on critical judgements and estimates.

Cutting the clutter

In recent years the size of financial statements has grown significantly as the IASB and other standard setters have added to existing disclosure requirements in the quest for greater transparency. Many people have expressed concern over this, believing it makes it more difficult for users of financial statements to identify the information that is really important while increasing the burden of preparation for the companies themselves.

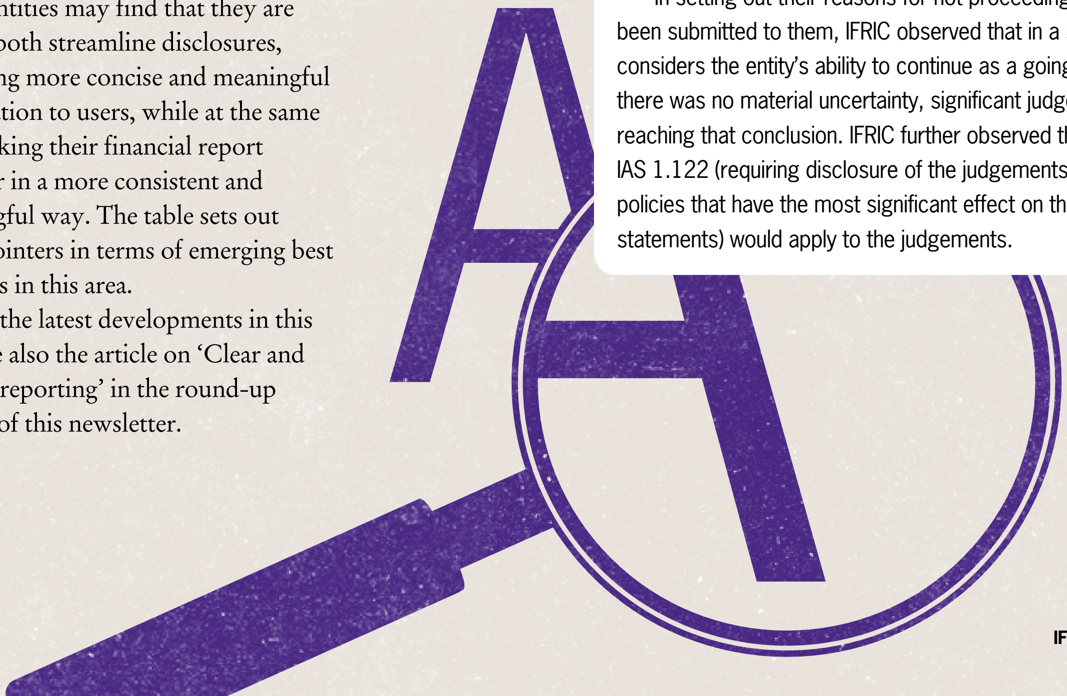
The IASB has taken heed of these concerns and launched its 'Disclosure Initiative' which seeks to improve the disclosure of financial information and ensure that entities are able to use judgment when preparing their financial statements. Many regulators are also emphasising the importance of 'cutting clutter' and streamlining existing disclosures.

Tips for more meaningful disclosure

- important messages need to be highlighted and supported with relevant context and not be obscured by immaterial detail
- effective cross-referencing needs to be provided and repetition avoided
- the language used needs to be precise and explain complex issues clearly
- jargon and 'boilerplate' wording should be avoided
- items in the financial statements should be reported at an appropriate level of aggregation to convey the essential messages and avoid unnecessary detail
- tables of reconciliations need to be supported by and consistent with the accompanying narrative
- preparers should avoid a mentality of erring on the side of caution by seeking to include each and every disclosure requirement regardless of materiality.

Keeping these initiatives in mind, entities may find that they are able to both streamline disclosures, providing more concise and meaningful information to users, while at the same time linking their financial report together in a more consistent and meaningful way. The table sets out some pointers in terms of emerging best practices in this area.

For the latest developments in this area, see also the article on 'Clear and concise reporting' in the round-up section of this newsletter.



Going concern

IAS 1.25 requires that where directors are aware, in making their going concern assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern, those uncertainties must be disclosed in the financial statements.

In relation to this requirement, management should consider whether there is information in the annual report which suggests that there may be uncertainties over going concern, and ensure that this is addressed in the disclosures they give. This might include, for example, financial information such as impairment losses, cash outflows or disclosures showing significant debts due for repayment within a year, as well as narrative disclosures such as principal risks and uncertainties and financial risk management information.

The effects of intercompany indebtedness and any concerns over the recoverability of intercompany balances should not be overlooked in doing this. Management should also be aware that the going concern disclosures are an opportunity for management to explain why such matters do not affect the status of the company as a going concern.

Readers should also be aware of a recent (August 2014) IFRIC agenda decision which considered a situation in which management of an entity considered events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

In setting out their reasons for not proceeding with further work on the request that had been submitted to them, IFRIC observed that in a situation such as this where management considers the entity's ability to continue as a going concern but reaches the conclusion that there was no material uncertainty, significant judgement may still have been exercised in reaching that conclusion. IFRIC further observed that the disclosure requirements of IAS 1.122 (requiring disclosure of the judgements made in applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements) would apply to the judgements.

Impairment testing

Impairment testing is a frequent focus for regulators, with concerns being frequently raised over:

- the level of entities' impairment assessments
- the supportability of management's underlying assumptions
- the transparency and adequacy of the related disclosures.

Executing the impairment assessment at the appropriate level is critical to ensuring that an over-performing asset or CGU does not mask an impairment of an under-performing asset or group of CGUs. The table illustrates some points that are regularly raised by regulators.

Revenue accounting policies

The revenue recognition policy is often the most important accounting policy in the financial statements and therefore continues to be a key area of focus and scrutiny for regulators.

Common (and recurring) criticisms from regulators when reviewing disclosures of revenue recognition accounting policies include:

- failure to properly describe, without the use of boilerplate language, the accounting policy adopted for the recognition of revenue
- failure to disclose the amount of each significant category of revenue recognised during the period, with revenue streams identified elsewhere in the report not being addressed in the accounting policy note
- recording revenues on a gross basis for transactions where an entity has been acting on behalf, and for the benefit, of another party in an agency agreement
- insufficient explanation of areas of significant judgement.

Given the inadequacy of some disclosure, regulators continue to ask management for additional information to understand the basis on which management has satisfied itself that:

- where services are rendered – the stage of completion of services rendered can be determined reliably
- where various revenue streams are identified elsewhere in the financial report, but not addressed in the footnotes – it has identified the significant policies applied to these revenue streams
- where revenue relates to both the sale of goods and rendering of services – the revenue has been allocated to the various components and recognised appropriately
- entities have adequately disclosed and explained significant judgments and/or estimates.

Statement of cash flows

Regulators continue to stress the importance of the statement of cash flows in enabling users to evaluate the ability of an entity to generate cash flows and to understand the timing and certainty thereof. Common issues that have been identified in relation to the statement of cash flows include:

- the inclusion of various non-cash flow items as cash flow items. Specific examples were fair value adjustments, an increase in goodwill, an increase in a provision, the injection of assets from a non-controlling shareholder and accrued interest
- showing investing activities as financing activities and vice-versa
- the omission of the detailed notes regarding the acquisition and disposal of subsidiaries and businesses.

Financial instruments

- failure to state the valuation techniques and inputs used to determine the fair value of certain financial assets and liabilities
- failure to provide disclosure about financial instruments designated as measured at fair value.

Impairment testing

Focus areas	Issue
The level of entities' impairment assessments	• disclosures too broad and do not provide entity-specific factors of the main events and circumstances that resulted in the impairment.
Lack of sufficient context regarding the impact of the impairment on the overall activities and operations of the entity	• disclosures do not provide a description of the CGU or lack substance and entity-specific information • lack of disclosures where goodwill is allocated to a cash generating unit or units despite specific requirements in IAS 36.
Lack of disclosure of key management assumptions	• specific focus on: – cash flow projections for the period – approach used to determine recoverable amounts • disclosures often do not make it clear whether values reflect past experience or whether they are consistent with external sources of information.
Where goodwill or indefinite life intangibles have been allocated to a CGU but no impairment recognised	• a frequent concern from regulators is that the disclosures do not contain a sensitivity analysis or for those that do, there is a lack of consistency in the analyses provided.

Tax

Regulators are raising various tax-related questions including:

- requesting evidence supporting the recognition of a deferred tax asset when the entity has suffered a loss in the current or preceding period and the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences
- requesting explanations around the reconciliation of tax expense (income) and accounting profit multiplied by the applicable tax rate(s).

Non-GAAP financial measures

Regulators continue to raise a number of concerns in relation to the use of non-GAAP financial measures. These include concern over:

- failure to explain why non-GAAP financial measures provide useful information, or the use of overly general explanations
- the presentation of non-GAAP financial measures with greater prominence than the most directly comparable GAAP measure
- entities altering the definitions of non-GAAP financial measures that have a generally understood or defined meaning in the wider marketplace. For instance, regulators have objected to entities using the term EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) but altering the composition of the individual elements in a way that can mislead users of the financial statements.

> With the 2015 reporting season just around the corner, we believe these common themes will help you plan and prioritise when preparing your financial statements.

Operating segments

Despite being published in 2006, incorrect application of IFRS 8 'Operating Segments' remains an issue and therefore the subject of regulatory scrutiny. The table to the right illustrates some recurring areas of focus.

Operating segments

Focus areas	Issue
Identification of the Chief Operating Decision Maker (CODM)	• regulators have raised concerns in cases where even large and complex entities report only a single segment by identifying the entire Board as the CODM. Entities that take this approach may well be challenged.
Application of the aggregation criteria in IFRS 8	• regulators have raised concerns about over-aggregation of operating segments. IFRS 8 allows entities to aggregate segments with 'similar economic characteristics' but regulators are concerned that these criteria are being applied too liberally • IFRS 8 has been amended to require more disclosure about key judgements made when aggregating segments. Although these changes take effect for annual periods from 1 July 2014, regulators may expect this information to be provided sooner
Incomplete or omitted information about major customers	• if revenues from transactions with a single external customer amount to 10% or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues.
Failure to provide restated comparative period segment data following a change in reportable segments	• IFRS 8 states that if an entity changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change, the corresponding information for previous periods should generally be restated.

The new package of consolidation standards

The application of IFRS 10 'Consolidated Financial Statements' and IFRS 11 'Joint Arrangements', has not had a material impact on many entities' financial statements. In cases where the impact is significant, however, regulators have raised concerns over insufficient disclosure in the financial statements to explain the basis for the change. In particular they noted it was not transparent what factors had led to the change (examples include the underlying structure, the agreements in place, the relevant activities, or management's judgements). The regulators further observed that in many of these circumstances, the issuer only disclosed what the change was and how it was accounted for, but did not explain the significant judgements and assumptions made in arriving at management's conclusion.

In relation to IFRS 12 'Disclosure of Interests in Other Entities', regulators have noted that management should include significant judgements and assumptions made, and changes in those judgements and assumptions, to support their conclusion that an entity has control, joint control or significant influence over another entity. The following is a reminder of some specific examples of areas where a reporting entity is required to disclose significant judgements and assumptions:

- when it does not control another entity even though it holds more than 50 per cent of the voting rights
- when it controls another entity even though it holds less than 50 per cent of the voting rights
- when determining whether it is an agent or a principal
- when it does not have significant influence even though it holds 20 per cent or more of the voting rights of the entity
- when it has significant influence even though it holds less than 20 per cent of the voting rights of the entity.

It is also worth a reminder that under IFRS 12, an entity must disclose information that enables users to understand the interest that non-controlling interests have in the group's activities and cash flows. IFRS 12.12 provides a prescriptive list of disclosures to achieve this objective for each subsidiary that has a material non-controlling interest.

Fair value disclosures

Many entities applied IFRS 13 'Fair Value Measurement' for the first time in 2013 (IFRS 13 was effective for annual periods beginning on or after 1 January 2013). Many regulators around the world have identified IFRS 13 disclosures as a focus area going forward. As a reminder, IFRS 13 prescribes various disclosure requirements for recurring and non-recurring fair value measurements and there are considerably more disclosures for Level 3 valuations including but not limited to:

- quantitative information about significant unobservable inputs used in fair value measurements
- total gains or losses included in profit or loss attributable to the change in unrealised gains or losses for measurement within Level 3
- a description of the valuation processes used for Level 3 measurements
- a narrative description of sensitivity analysis for Level 3 measurements.

Regulators commonly raise concerns about a lack of consistency both within the financial statements and between the statements and accompanying management commentary-type reports.

IASB completes IFRS 9 'Financial Instruments'

The IASB has finished its project to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) by publishing IFRS 9 'Financial Instruments (2014)'.

Background

The IASB began its overhaul of the accounting for financial instruments in the summer of 2009 in response to the widespread criticism of IAS 39 and its alleged role in contributing to the financial crisis of 2007/8. In order to allow for a phased completion of the Standard, IFRS 9 was divided into chapters with the first chapter of IFRS 9 being published in 2009. The publication of IFRS 9 (2014) completes these chapters and therefore the Standard as a whole.

Changes made by IFRS 9 (2014)

IFRS 9 (2014):

- adds requirements dealing with expected credit losses (impairment)
- amends the Standard's classification and measurement requirements by adding a new measurement category of fair value through other comprehensive income
- introduces a new mandatory effective date (IFRS 9 (2014) must be applied for accounting periods beginning on or after 1 January 2018).

Expected credit losses

IFRS 9 (2014) contains the Standard's requirements on expected credit losses. IAS 39's impairment requirements had been criticised for being overly complicated and resulting in impairment being recognised at too late a stage.

Expected credit losses

Deterioration in credit quality

Stage 1 – Performing	Stage 2 – Under-performing	Stage 3 – Non-performing
• financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date	• financial instruments that have deteriorated significantly in credit quality since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of a credit loss event	• financial assets that have objective evidence of impairment at the reporting date
• 12-month expected credit losses are recognised	• lifetime expected credit losses are recognised	• lifetime expected credit losses are recognised
• interest revenue is calculated on the gross carrying amount of the asset.	• interest revenue is still calculated on the asset's gross carrying amount.	• interest revenue is calculated on the net carrying amount (ie reduced for expected credit losses).
Credit risk = low	Credit risk > low	

IFRS 9 (2014) addresses these criticisms by applying the same impairment model to all financial instruments that are subject to impairment accounting and by using more forward-looking information. In applying this more forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. There is also a third step to the model in the sense that for assets which actually become credit-impaired after initial recognition, interest is calculated on the asset's amortised cost (ie the amount net of the loss allowance) as opposed to its gross carrying amount.

Amendments to the Standard's classification and measurement requirements

IFRS 9 (2014) introduces a new measurement category of 'fair value through other comprehensive income'. The Standard requires an entity to measure a financial asset at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

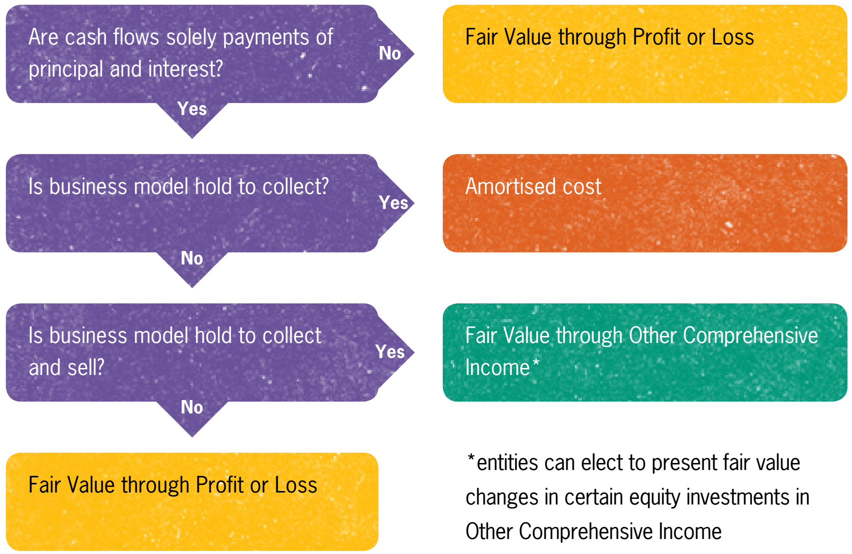
The diagramme to the right summarises IFRS 9's classification model for financial assets.

New mandatory effective date

IFRS 9 (2014) introduces a new mandatory effective date for the Standard of accounting periods beginning on or after 1 January 2018.

Extensive transition provisions have been included due to the complexity of the material and the phased way in which the project has been completed.

Summary of classification model



*entities can elect to present fair value changes in certain equity investments in Other Comprehensive Income

Grant Thornton International Ltd comment

IFRS 9 (2014) is likely to result in significant changes to many entities' financial statements. While its effective date of 2018 may seem a long way off, we strongly advise companies to start evaluating the new Standard now as it may have important ramifications in terms of system requirements and ratios.

The Grant Thornton International Ltd IFRS Team has published a special edition of IFRS News on IFRS 9 'Financial Instruments (2014)'. The special edition takes readers through the key features of the new Standard and gives practical insights into how it 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.

Equity Method in Separate Financial Statements

The IASB has published narrow scope amendments to IAS 27 'Separate Financial Statements', entitled 'Equity Method in Separate Financial Statements (Amendments to IAS 27)'.

The Amendments to IAS 27 allow entities to use the equity method to account for investments in subsidiaries, joint ventures, and associates in their separate financial statements.

Background

Prior to the publication of the Amendments to IAS 27, that Standard required 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

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 should serve to reduce the burdens on entities in some jurisdictions and encourage greater use of IFRS.

While there are some concerns with the Amendments in that they will reduce consistency and lack a clear conceptual basis, we support their introduction on pragmatic grounds.

The Amendments

In response, the IASB has published the Amendments to IAS 27, so introducing a third option which allows entities to account for investments in subsidiaries, joint ventures and associates under the equity method.

As a result, entities will 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 are required to apply the same accounting for each category of investments.

Effective date and transition

The Amendments to IAS 27 are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

No transitional provisions have been included as the IASB believes entities should be able to use information that is already available to them in applying the Amendments.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The IASB has issued 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28' (the Amendments).

The Amendments address an acknowledged inconsistency between IFRS 10 'Consolidated Financial Statements' and IAS 28 (2011) 'Investments in Associates'. This relates to accounting for transactions in which a parent entity loses control of a subsidiary by contributing it to an associate or joint venture.

Grant Thornton International Ltd comment
As their name suggests, the scope of the Amendments are narrow in nature. For those entities that are affected by them however, the Amendments offer a pragmatic solution to a well-known conflict between IFRS 10 and IAS 28.

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 remained.

The Amendments

The Amendments alter IFRS 10 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.

Corresponding amendments have been made to IAS 28 (2011) to reflect these changes. In addition IAS 28 (2011) has been amended to clarify that 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.

Effective date and transition

The Amendments are to be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

2012-2014 Annual Improvements published

The IASB has completed the latest cycle of its annual improvements process by publishing 'Annual Improvements to IFRSs 2012-2014 Cycle'.

The publication is a collection of amendments to IFRSs resulting from issues that were discussed by the IASB during the project cycle for making annual improvements that began in 2012 and were included in an Exposure Draft published in December 2013. The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of any other project. By presenting the amendments in a single document rather than as a series of piecemeal changes, the IASB aims to ease the burden of change for all concerned.

A summary of the issues addressed is set out in the table.

Effective date

The amendments to IFRSs contained in 'Annual Improvements to IFRSs 2012-2014 Cycle' are effective for annual periods beginning on or after 1 July 2016, although entities are permitted to apply them earlier. The amendments are effective on a retrospective basis, except for the amendments to IFRS 5 which are to be applied prospectively. Reference should be made to the IASB publication itself for further information.

Annual Improvements published

Standard affected	Summary of amendment
IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'	**Change in methods of disposal** • Amends IFRS 5 to clarify that a direct reclassification of an asset (or disposal group) from being held for sale to being held for distribution (or vice-versa) is not treated as a cessation of held for sale classification. Accordingly the entity continues to measure the asset (or disposal group) at the lower of carrying amount and fair value less costs to sell. The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29.
IFRS 7 'Financial Instruments: Disclosures'	**Servicing contracts** • The amendments provide additional guidance to help entities identify the circumstances under which a contract to 'service' financial assets is considered to be 'continuing involvement' in those assets for the purposes of applying the disclosure requirements in paragraphs 42E-42H of IFRS 7. Such circumstances commonly arise when, for example, the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset or when a fixed fee is not paid in full due to non-performance of that asset.
IFRS 7 'Financial Instruments: Disclosures'	**Applicability of the amendments to IFRS 7 to condensed interim financial statements** • These amendments clarify that the additional disclosures required by the recent amendments to IFRS 7 'Disclosure–Offsetting Financial Assets and Financial Liabilities' are not specifically required for all interim periods. However, these disclosures may still be required in some circumstances to meet the general principles of IAS 34.
IAS 19 'Employee Benefits'	**Discount rate: regional market issue** • Paragraph 83 of IAS 19 requires that the currency and term of the corporate or government bonds used to determine the discount rate for post-employment benefit obligations must be consistent with the currency and estimated term of the obligations. The amendments clarify that the assessment of the depth of the corporate bond market shall be made at the currency level rather than the country level. This will be particularly relevant to Eurozone entities with defined benefit plans.
IAS 34 'Interim Financial Reporting'	**Disclosure of information 'elsewhere in the interim financial report'** • The amendments clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and require the inclusion of a cross-reference from the interim financial statements to the location of this information. The amendments specify that information incorporated by cross-reference must be available to users of the interim financial statements on the same terms and at the same time as those statements.

Reporting the Financial Effects of Rate Regulation

The IASB has published a Discussion Paper on 'Reporting the Financial Effects of Rate Regulation'.

Many governments around the world regulate the supply and pricing of particular types of activity by entities. These activities usually involve providing goods or services that are considered in that jurisdiction to be essential to customers, including transport services, some types of insurance policies, and utilities such as gas, electricity and water. Some forms of rate regulation can significantly affect not only the amount of revenue and profit that a rate-regulated entity can earn, but also the timing of the related cash flows.

The IASB's Paper describes a type of rate regulation that contains elements of both cost recovery and incentive approaches. The Paper seeks comments on whether this description sufficiently captures the type(s) of rate regulation that have the most significant financial effects in practice, and whether these effects are sufficiently important to justify changes to normal IFRS accounting principles.

The Discussion Paper is unusual in that it does not include any specific accounting proposals. Instead, it explores what information about rate-regulated activities is most useful to users of financial statements and outlines possible approaches that the IASB could consider in deciding how best to report the financial effects of rate regulation.

The Discussion Paper also seeks comments on whether the presentation and disclosure requirements of IFRS 14 'Regulatory Deferral Accounts' should form the basis of any future proposals that the IASB may develop as a result of feedback from this consultation. IFRS 14 was issued in January 2014 as an interim measure until the IASB is able to complete its overall project.

Measuring quoted investments in subsidiaries, joint ventures and associates at fair value

The IASB has published an Exposure Draft proposing to clarify the measurement of investments in subsidiaries, joint ventures and associates at fair value.

Fair value accounting for such investments is required for investment entities, and is an accounting policy choice in separate financial statements. The valuation approach has however been a problematic area since the publication of IFRS 13 'Fair Value Measurement', because of a lack of clarity as to whether the fair value should be based on:

- the entire investment; or
- the sum of the values of each individual share making up the investment.

The proposals, which would amend IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities', IAS 27 'Separate Financial Statements', IAS 28 'Investments in Associates and Joint Ventures' and IAS 36 'Impairment of Assets', would result in:

- the fair value of investments in unquoted subsidiaries, joint ventures and associates being measured based on the entire investment
- the fair value of investments in quoted subsidiaries, joint ventures and associates generally being measured as the sum of the quoted prices of each share (a so-called price times quantity or PxQ approach)
- the measurement of the recoverable amount of cash-generating units (CGUs) on the basis of fair value less costs of disposal when they correspond to entities that are quoted in an active market (quoted CGUs).

The Exposure Draft also includes proposed amendments to the Standard's Illustrative Examples to clarify questions received relating to the application of the exception from IFRS 13's usual requirements for portfolios of financial assets and liabilities with offsetting positions in market risks or counterparty credit risk.

Changes proposed to IAS 12

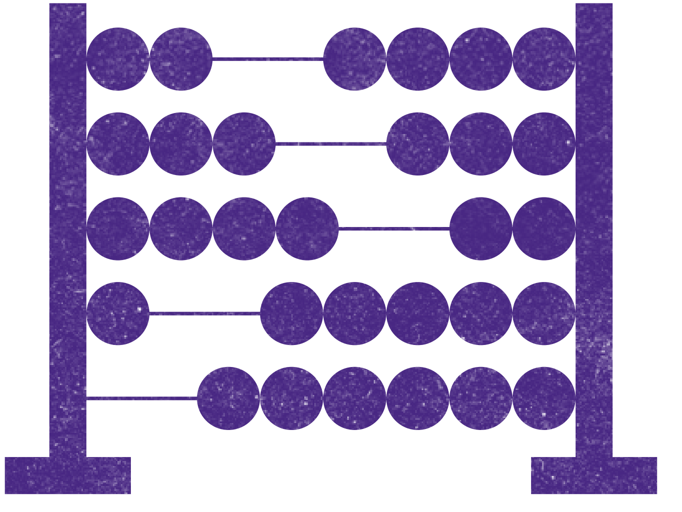
The IASB has issued an Exposure Draft 'Recognition of Deferred Tax Assets for Unrealised Losses' proposing changes to clarify the application of IAS 12's requirements in this area.

The Amendments, which will be relevant in situations where an entity reports tax losses, clarify the recognition of a deferred tax asset that is related to a debt instrument measured at fair value in circumstances in which:

- changes in the market interest rate decrease the fair value of the debt instrument below cost
- it is probable that the debt instrument's holder will receive all the contractual cash flows if it holds the debt instrument until maturity
- the debt instrument's holder has the ability and intention to hold the debt instrument until the decrease in its fair value reverses
- the tax base of the debt instrument remains at cost until the debt instrument is sold or until maturity
- the probable future taxable profits of the debt instrument's holder are insufficient for the utilisation of all of its deductible temporary differences.

The Exposure Draft proposes to add guidance to the Standard that would clarify the following issues where there is currently diversity in practice:

- do decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity always give rise to a deductible temporary difference if this debt instrument is measured at fair value and if its tax base remains at cost?
- does an entity assume that it will recover an asset for more than its carrying amount when estimating probable future taxable profit against which deductible temporary differences are assessed for utilisation if such recovery is probable? (relevant when taxable profit from other sources is insufficient for the utilisation of the deductible temporary differences related to debt instruments measured at fair value)
- when an entity assesses whether it can utilise a deductible temporary difference against probable future taxable profit, does that probable future taxable profit include the effects of reversing deductible temporary differences?
- does an entity assess whether a deferred tax asset is recognised for each deductible temporary difference separately, or in combination with other deductible temporary differences?



Grant Thornton appointment to UK Financial Reporting Committee

Jake Green, Director of Financial Reporting in our UK member, Grant Thornton LLP, has been appointed to the UK's Financial Reporting Committee (FRC).

The FRC is responsible for the development of the Institute of Chartered Accountants in England and Wales' (ICAEW) policy on financial reporting issues and ensures that ICAEW works in the public interest to influence national and international legislators, regulators and standard setters.

IFRS 15 Revenue – industry insights

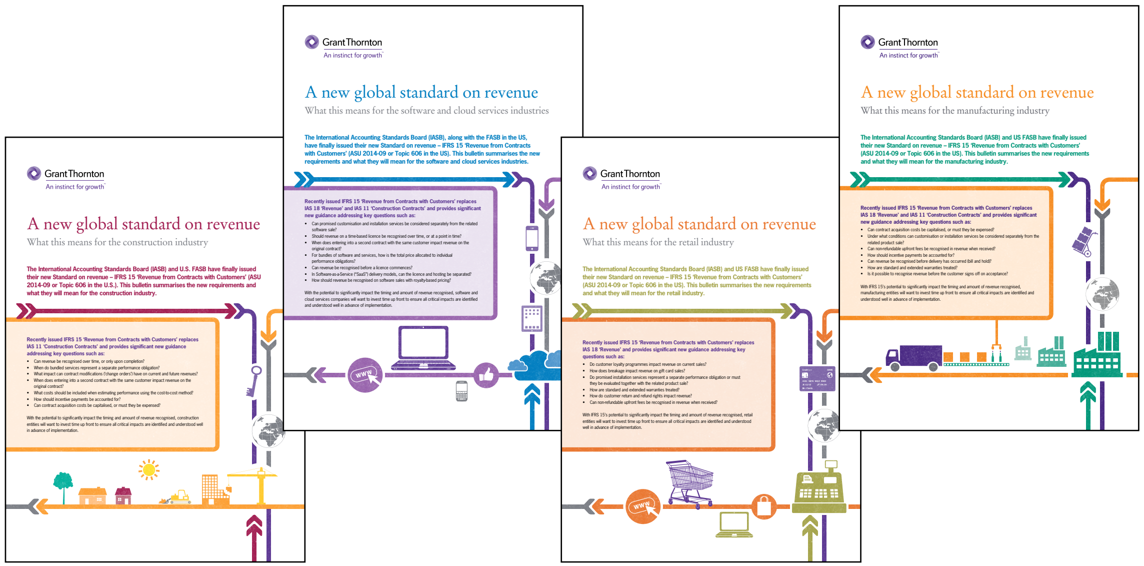
The Grant Thornton International Ltd IFRS Team has released four publications in a series of 'industry insights' on IFRS 15 'Revenue from Contracts with Customers', the new global standard on revenue.

IFRS 15 establishes a new control-based model for recognising revenue, replacing the guidance that was previously in IAS 18 'Revenue', IAS 11 'Construction Contracts' and some revenue-related Interpretations.

The industry insights publications look at what the new Standard means for the following industries:

- construction
- software & cloud services
- retail
- manufacturing.

These publications supplement the IFRS News Special Edition on Revenue that Grant Thornton published in June 2014. To obtain a copy of either the Industry Insights or the IFRS News Special Edition, please get in touch with the IFRS contact in your local Grant Thornton office.



2014 Example IFRS Financial Statements released

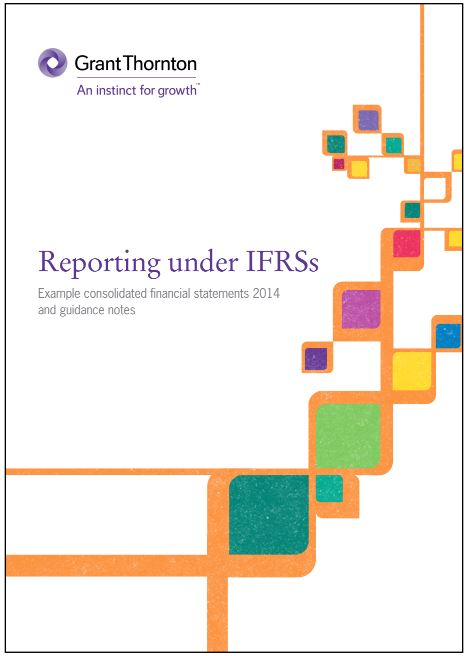
The Grant Thornton International Ltd IFRS Team has published the 2014 version of its IFRS 'Example Consolidated Financial Statements'.

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 2014, including:

- the issuance of IFRIC 21 'Levies'
- limited scope amendments to IAS 32 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures' concerning the offsetting of financial assets and financial liabilities, and related disclosures
- limited scope amendments to IAS 36 'Impairment of Assets' clarifying the applicability of recoverable amount disclosures for non-financial assets experiencing a material impairment loss or reversal during the period.

The Publication also reflects the early adoption of 'Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)' but does not reflect the early adoption of any other changes in IFRSs that have been issued but are not yet effective.

To obtain a copy of the 2014 Example Consolidated Financial Statements, please get in touch with the IFRS contact in your local Grant Thornton office.



Canadian partner appointed to IFRS Discussion Group

Rinna Sak, National Director of Accounting Standards and Partner at Grant Thornton LLP in Canada, has been appointed as a member of Canada's IFRS Discussion Group (IDG) for an initial three year term.

The IDG was established by the Canadian Accounting Standards Board to implement and maintain a regular public forum to discuss issues that arise in Canada when applying IFRS. While the IDG's discussions are not authoritative, the Group is well-respected in the accounting standard-setting community, both in Canada and globally.

As Grant Thornton LLP's National Director of Accounting Standards, Rinna oversees or participates in all important initiatives related to IFRS, including assessing complex and judgmental accounting and reporting issues for clients and professional staff, educating accounting professionals and external audiences and performing quality reviews. Experience which will be highly useful in contributing to the IDG's discussions.

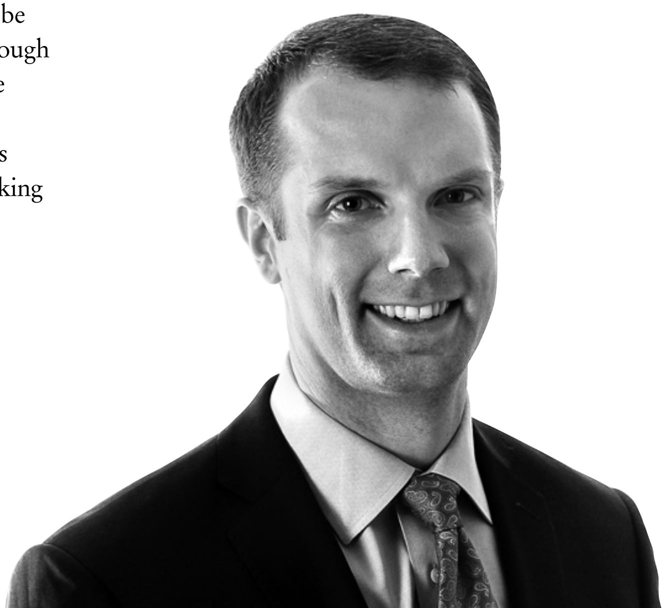
Grant Thornton represented on Impairment Transition Resource Group

Graham Dyer, a senior manager in our US member firm, has been appointed to serve on the International Accounting Standards Board's Impairment Transition Resource Group (ITG).

The ITG was formed to help address the challenges that will arise as companies begin to implement IFRS 9's impairment requirements. IFRS 9's approach of recognising expected credit losses represents a fundamental change to current practice and will have significant implications particularly in the financial services sector.

The objective of the ITG is to provide a forum for stakeholders to discuss emerging implementation issues arising from the new impairment requirements following the issue of IFRS 9 (2014). It will also provide information that will help the IASB to determine what, if any, action will be needed to resolve these issues, although it will not itself issue guidance. The meetings will also be observed by regulatory bodies including experts from the Basel Committee on Banking Supervision.

The IASB expects that the ITG will meet approximately two to three times a year, depending upon the volume and complexity of the issues raised. The first meeting is planned for the last quarter of 2014.



Round-up

Consultation on the impact of IFRS in the EU

The European Commission has undertaken a public consultation on the impact of International Financial Reporting Standards (IFRS) in the European Union, with a particular focus on to what extent the adoption of IFRS has improved the efficiency of EU capital markets by increasing the transparency and comparability of financial statements. The consultation, which takes the form of an online survey, ends on 31 October 2014.

One source of support from within the EU for the use of IFRS has come from FEE (Fédération des Experts-comptables Européens or the Federation of European Accountants) who have responded to the survey stating their view that “the IFRS are a robust, complete and broadly accepted set of financial standards that can effectively serve the role of global financial reporting standards”.

EFRAG feedback statement: the role of the business model

EFRAG has published a feedback statement following its analysis of responses to its December 2013 research paper ‘The Role of the Business Model in Financial Statements’.

The feedback statement details strong support for having the business model play a role in financial statements. There was also a strong desire among respondents to the research paper for the business model concept to be addressed as part of the IASB’s Conceptual Framework project.

Clear and concise reporting

The UK Financial Reporting Council’s Financial Reporting Lab (the Lab) has published an insight report ‘Towards Clear & Concise Reporting’.

The report examines progress made by companies towards producing relevant and succinct annual reports and accounts, and provides ideas on how companies can make further progress. Based on a review of recent annual reports from some of the UK’s largest companies, the Lab encourages companies to think about:

- the communication channels used and how to match information to users’ needs
- how to focus content on what is most important to investors
- removing immaterial disclosures
- using cross-referencing and layout to improve clarity
- planning ahead.

By sharing observations on the steps already being taken by some companies, the Lab aims to provide a useful source of ideas to act as an impetus for further progress towards clear and concise reporting.

IASB Vice-Chairman makes the argument for global standards

IASB Vice-Chairman, Ian Mackintosh, made the argument for global standards in a speech delivered in South Africa in August.

In his speech, he reasoned that the highly interconnected nature of national capital markets presents a compelling case for a global language of financial reporting and described how the IASB is working to advance the quality and use of IFRS around the world.

IFRS Foundation and ESMA sign joint Statement of Protocols

The IFRS Foundation and the European Securities and Markets Authority (ESMA) have announced the agreement of a joint Statement of Protocols to serve as the basis for future co-operation in areas of mutual interest.

The Statement of Protocols reaffirms the existing high levels of co-operation between the IFRS Foundation and ESMA, as well as describing additional areas of co-operation, including electronic reporting, the implementation of new Standards and other emerging financial reporting issues.

EFRAG Discussion Papers

Classification of claims

EFRAG has published a Discussion Paper 'Classification of Claims' to assist the IASB in the development of its project on distinguishing between equity and liabilities in relation to the revision of the Conceptual Framework for Financial Reporting.

The paper, which is educational in nature, addresses wider questions than just the distinction between equity and liabilities, including how many elements the claims on an entity should be classified into, the objective of classification requirements and how dilution can be depicted.

The IASB is expected to publish a discussion paper of its own at the same time as an Exposure Draft of the revised Conceptual Framework (scheduled for 2015).

Separate Financial Statements

EFRAG has published a Discussion Paper on 'Separate Financial Statements'.

As part of the 2002 IAS Regulation in the European Union, EU countries were given several options regarding the use of IFRSs in unconsolidated financial statements. Where Member States have selected the option however, a number of practical concerns have arisen in the application of IFRS to the separate financial statements.

The Discussion Paper therefore considers how financial statements (other than consolidated financial statements) are used in Europe for economic decision making, and analyses the technical financial reporting issues that arise when preparing such financial statements under IFRS. It also proposes solutions to the issues identified and suggestions on how to consider separate financial statements in the future.

EFRAG 'Short Discussion Series'

EFRAG has issued two papers in its 'Short Discussion Series' (a series of papers which address topical and problematic issues with the aim of helping the IASB to address a cross-cutting dilemma in financial reporting after having stimulated debate among constituents in Europe and beyond):

Levies

'Levies: what would have to be changed in IFRS for a different accounting outcome?' responds to concerns that were raised during the process of endorsing IFRIC 21 'Levies' for use in the European Union, in particular the immediate expensing of some levies. The paper explores alternative approaches that might counter these concerns.

Presentation of the reversal of acquisition 'step-ups'

IFRS 3 'Business Combinations' requires the assets and liabilities acquired in a business combination to be measured at their acquisition-date fair value (with only a few exceptions), which may result in upward adjustments or 'step-ups' to the carrying amounts in the acquiree's financial statements.

The EFRAG paper discusses whether information about the impact of a subsequent reversal of such a step-up may be relevant to users, and how this information might be presented. The paper also discusses some of the practical issues about producing this information.

IOSCO proposed Statement on non-GAAP Financial Measures

The International Organization of Securities Commissions (IOSCO) has issued a proposed 'Statement on Non-GAAP Financial Measures', dealing with the presentation of non-GAAP financial measures such as 'EBITDA' (earnings before interest, tax, depreciation and amortisation) or 'underlying earnings'.

In response to potential problems associated with the use of such measures, the proposed Statement sets out IOSCO's expectations for the presentation of such measures. Among the proposals are that non-GAAP financial measures should be:

- defined
- presented consistently over time
- unbiased in their usage
- not given greater prominence than relevant GAAP measures.

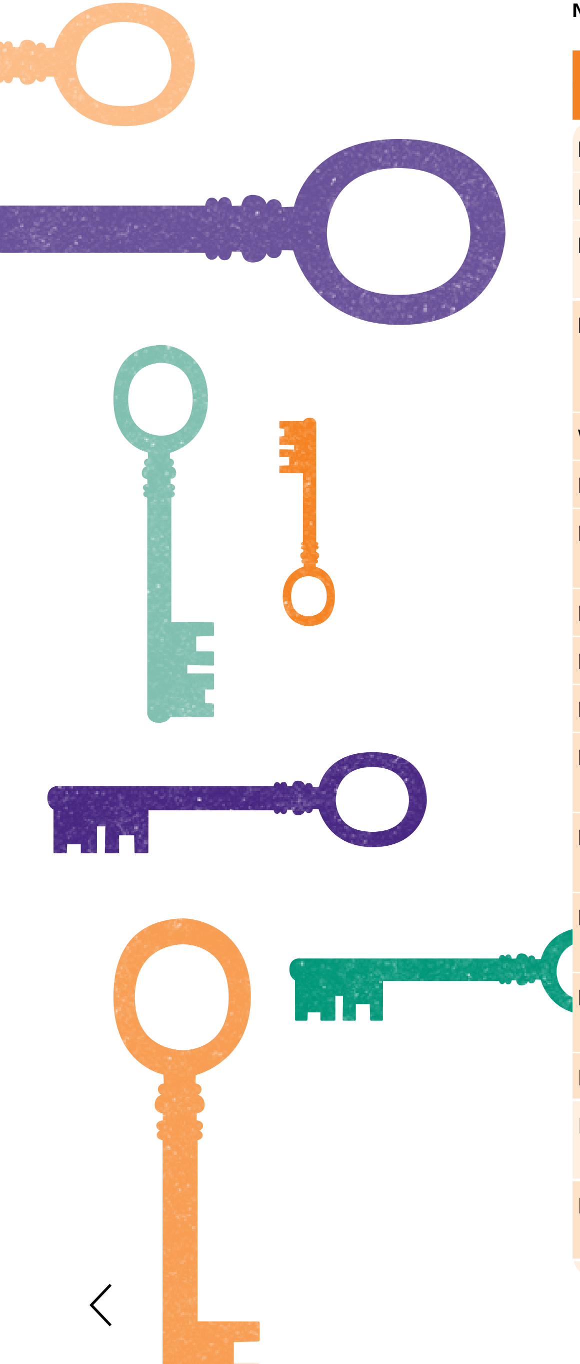
In addition, the proposed Statement suggests reconciliations be presented between non-GAAP financial measures and their most directly comparable GAAP measure in the financial statements, and that items that are likely to recur should not be depicted as non-recurring or unusual.

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 July 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 July 2012

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IFRS 9	Financial Instruments (2014)	1 January 2018	Yes (extensive transitional rules apply)
IFRS 15	Revenue from Contracts with Customers	1 January 2017	Yes
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	1 January 2016	Yes
Various	Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016	Yes
IAS 27	Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016	Yes
IAS 16 and IAS 41	Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016	Yes
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1 January 2016	Yes
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016	Yes
IFRS 14	Regulatory Deferral Accounts	1 January 2016	Yes
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)



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

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
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	1 January 2014 (Amendments to IAS 32)	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)
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 non-mandatory guidance	No effective date as	Not applicable
IAS 1	Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	1 July 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	Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)	18 December 2014
Discussion Paper	Reporting the Financial Effects of Rate Regulation	15 January 2015
Exposure Draft	Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13)	16 January 2015