



# IFRS News

Welcome to IFRS News – a quarterly update from the Grant Thornton International IFRS team. IFRS News offers a summary of the more significant developments in International Financial Reporting Standards (IFRS) along with insights into topical issues and comments and views from the Grant Thornton International IFRS team.

Our second edition of the year is dominated by repercussions from the credit crisis. We start with an article looking at the calls for changes to the way loan loss provisions are determined in companies' financial statements – including so-called “dynamic provisioning”. We also consider the effects the credit crisis may have on the adoption of IFRS in the United States.

We then go on to consider changes made to Standards in the last quarter as a result of the crisis as well as some more general developments that have taken place. We end with a round up of the proposals that the IASB currently has out for comment and the implementation dates of newer Standards that are about to come into effect.



# A new model for loan loss provisioning?

The impact of the credit crisis continues to dominate the agenda of accounting standard setters across the world. In the first three months of the year, the Financial Crisis Advisory Group (FCAG) established by the IASB and US Financial Accounting Standards Board (FASB) in response to the credit crisis, met three times.

**‘dynamic provisioning’ is a statistical method that takes a long-term, ‘through the cycle’ view of rates of loan loss and builds up buffers during the good times**

A particular focus of these meetings has been whether the IASB and FASB should re-examine their requirements on loan loss provisions. The existing models take an ‘incurred loss’ approach, under which loss provisions are recognised only when objective evidence of a problem (such as late payment) is identified. Some argue that this inappropriately delays recognising losses. They suggest the risk of not being paid is an inherent part of all lending activity and that the current ‘impaired’ or ‘not impaired’ divide is artificial. An alternative ‘expected loss’ model tries to reflect this by building up provisions from day 1 based on expected default rates.

Another variant put forward by some is ‘dynamic provisioning’. Like the expected loss approach, this uses statistical methods to estimate defaults. The difference is that the loss estimates are based on a long term view of the

economic cycle rather than the current circumstances. The effect is that a ‘buffer’ is built-up when the economy is strong and is then depleted during a downturn. Some believe this has a beneficial ‘counter-cyclical’ effect, smoothing profits and dampening excessive lending behaviour in the boom years. Notable amongst the advocates is European Commissioner for Internal Market and Services, Charlie McCreevy. He has gone on record to say he would like to see a return to its use as a way of countering the cyclicity of bank lending and avoiding the mistakes that have led to the current credit crisis being repeated. Critics argue that this model fails to reflect economic reality and does not provide decision-useful information for investors.

This is part of a wider debate about whether financial stability issues should be part of the IASB’s mandate. Members of the FCAG agree that accounting

should be neutral and should not be used as a policy tool to mitigate procyclicality, but have nonetheless recommended that the IASB, FASB and the Basel Committee of Banking Supervisors establish a working group to consider the issues relating to loan loss provisioning. The FCAG has invited input to assist in making its recommendations (comments invited by 20 April). Some other high profile commentators, such as the Group of Thirty (an international body of very senior representatives of the private and public sectors and academia), have recommended that both regulatory policies and accounting standards must guard against procyclical effects.

This is a fundamental debate about the role of accounting standards and financial reporting. It will be interesting to see how the IASB and FASB proceed – both on loss provisioning and with wider questions – in the coming months.

# IASB to seek views on new FASB financial instruments guidance

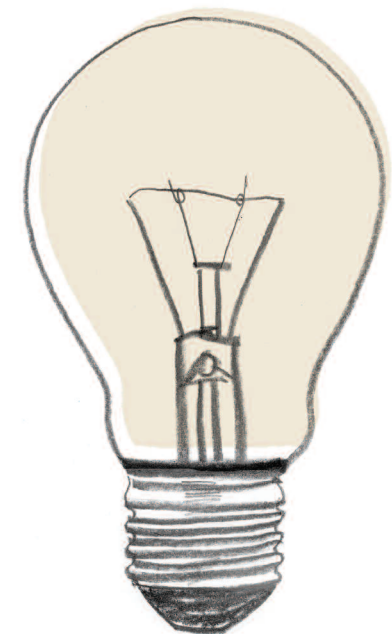
In a move which underlines the commitment of the IASB and US Financial Accounting Standards Board (FASB) to a joint approach to issues arising from the credit crisis, the IASB has announced that it will seek views on two changes relating to mark-to-market valuations that have been made by the FASB to US GAAP.

The changes made by the FASB deal with guidance on fair value measurement ('Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly') and impairment of financial instruments ('Recognition and Presentation of Other-than-Temporary Impairments').

The IASB has issued a document explaining the relevant differences between current US GAAP and IFRS. Views will be sought from interested parties as well as the IASB's Expert Advisory Panel established in 2008.

**rather than making piecemeal changes, the IASB will prioritise a fundamental review of IAS 39**

The IASB will consider the feedback it receives but has decided that it will address the issues raised as part of a fundamental review of IAS 39 'Financial Instruments' rather than making piecemeal adjustments in the short-term. The fundamental review, which will be a joint project with the FASB, will be prioritised, and it is expected that a proposal will be published within six months.



# Comment deadline on SEC IFRS Roadmap extended

The US Securities and Exchange Commission (SEC) has extended the comment period for responding to its 'roadmap' to the potential mandatory implementation of IFRS in the United States.

The original comment period was scheduled to end on 19 February 2009 but this has been extended for 60 days until 20 April 2009. The SEC believes the move will improve the response rate and quality of responses.

In January's edition of IFRS News, we reported early comments by incoming SEC Chair, Mary Schapiro, indicating that approval of the SEC roadmap was not necessarily certain. Since then, sentiment towards IFRS adoption has perhaps hardened further.

**it seems that full convergence of US GAAP with IFRS may be further away than appeared likely last year**

In particular, the US Financial Accounting Foundation and the Financial Accounting Standards Board have expressed the view that the time is not yet right for switching to IFRS. While not dismissing the adoption of IFRS, their response recommends that further study of the implications is needed. They also express the view that the SEC should not permit an option for US public companies to use IFRS until there is a decision that all US public companies will ultimately be required to adopt IFRS.

The two Boards continue to pursue convergence through a wide range of joint projects. Some believe that continued convergence is preferable to outright IFRS adoption in the US. Either way, it seems that a US switch to IFRS may be further away than appeared likely last year. But then few things in the financial world are as certain as they were thought to be then.

# Convergence with Japanese GAAP continues

While the future of IFRS in the US has become harder to predict, convergence between Japanese GAAP and IFRS continues to advance. In February, a Draft Interim Report entitled ‘Application of International Financial Reporting Standards in Japan’ was published by an advisory body to the Commissioner of the Japanese Financial Services Agency.

The Draft Report is part of the ‘Tokyo Agreement’ between the IASB and the Accounting Standards Board of Japan under which major differences between Japanese GAAP and IFRSs were to be eliminated by 2008, and the remaining differences on or before June 2011.

Subject to certain considerations being met, the Draft Report proposes:

- optional use of IFRSs for fiscal years ending March 2010 for consolidated financial statements prepared by listed companies whose financial activities are conducted internationally or by large-scale listed companies who are well recognised in the market;
- a decision on mandatory adoption of IFRSs for consolidated financial statements prepared by listed companies being taken in or around 2012.



# Amendments to IFRS 7 ‘Financial Instruments: Disclosures’

## **IASB acts to improve information on fair value measurement and liquidity risk**

The IASB has issued ‘Improving Disclosures about Financial Instruments (Amendments to IFRS 7)’ as part of its response to the credit crisis. The Amendments to IFRS 7 are intended to:

- explain more clearly how entities determine the fair value of their financial instruments; and
- improve the disclosure of liquidity risk.

The lack of transparency over the calculation of fair values has been the focus of much criticism in recent months. In order to address this, the Amendments to IFRS 7 introduce a fair value hierarchy which is similar (but not identical) to that which is required under US GAAP.

The fair value hierarchy is intended to indicate the ‘observability’ of companies’ financial instrument fair values and consists of the following three levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices);
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## **Grant Thornton International comment**

The new three level fair value hierarchy should help investors and other users to understand more clearly how entities have determined the fair value of their financial instruments, and is to be welcomed.

In our comment letter of December 2008 on the Exposure Draft that preceded the amendments, we did express concern that full retrospective application of the amendments would be burdensome for companies, given the requirements for additional fair value information. We are therefore pleased that the IASB has given relief from providing comparative information in respect of the amended disclosures in the first year of their application.

As well as the level in the hierarchy, companies will need to disclose significant transfers between Level 1 and Level 2 and, for Level 3 measurements, a reconciliation between the opening and closing balances.

In relation to liquidity risk, the most important change relates to derivative financial liabilities. Under the previous version of IFRS 7, entities were required to disclose a quantitative maturity analysis for all derivative financial liabilities according to their remaining contractual maturities. The change is a response to comments that disclosing the remaining contractual maturities was difficult to apply for some derivatives and did not always reflect how liquidity risk is managed (such as by derivatives held for short-term trading purposes).

As a result, the Amendments to IFRS 7 retain the requirement to disclose the remaining contractual maturities of derivative financial liabilities only where the information is essential for an understanding of the timing of the cash flows.

**the most important change compared to the previous IFRS 7 liquidity risk disclosures relates to derivative financial liabilities**

The Amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2009. In the first year of application, however, an entity need not provide comparative information in respect of the new requirements. Earlier application is permitted.

In a separate development, the IASB has shelved its plans for additional disclosures for investments in debt instruments.

The IASB discussed responses to the exposure draft 'Investments in Debt Instruments' (reported in January's IFRS News) during its January 2009 meeting, and decided not to proceed with the proposed amendments at this time. It will instead consider the underlying issues in its broader project on accounting for financial instruments.



# IFRS Taxonomy 2009

The International Accounting Standards Committee (IASC) Foundation has published the IFRS Taxonomy 2009.

The IFRS Taxonomy 2009 is a translation of IFRSs as issued at 31 December 2008 into XBRL (eXtensible Business Reporting Language).

**IFRS XBRL is effectively a dictionary of data tags, which allows financial statement information to be shared and analysed over the internet**

XBRL is a computer language developed for the automation of business information requirements, including the preparation, sharing and analysis of financial statements. IFRS XBRL is effectively a dictionary of data tags. Each tag describes a specific piece of information that may be included in a set of IFRS financial statements, facilitating the electronic analysis of the statements using software tools.

XBRL is growing in popularity across the world as a means of filing financial information. In the United States, for instance the Securities and Exchange Commission will require the top 500 or so companies to provide

XBRL financial information with their US GAAP quarterly filings from June 2009. The specific characteristics of XBRL allow companies, regulators, investors, analysts and others using the IFRS Taxonomy 2009 with easier filing, access to and comparison of financial data prepared under IFRS.

In a related move, the IASC Foundation has published the 'Due Process Handbook for XBRL Activities' for public comment. The handbook sets out the IASC Foundation's XBRL mission, methodology and scope of work and is open for comment until 26 June 2009.

# IASB clarifies the accounting for embedded derivatives

## Amendments to IFRIC 9 and IAS 39 clarify the treatment of embedded derivatives for entities making use of the reclassification amendment issued by the IASB in October 2008

The IASB has published 'Embedded Derivatives – Amendments to IFRIC 9 and IAS 39'. The amendments result from changes made to IAS 39 in October 2008 which allowed the reclassification of certain financial assets out of the fair value through profit or loss category in limited circumstances.

Under IAS 39, it is not necessary to separate an embedded derivative from a host instrument when the hybrid (combined) instrument is measured at fair value through profit or loss. The October 2008 changes to IAS 39 led to questions as to whether reassessment of embedded derivatives is required when financial assets are reclassified out of fair value through profit or loss.

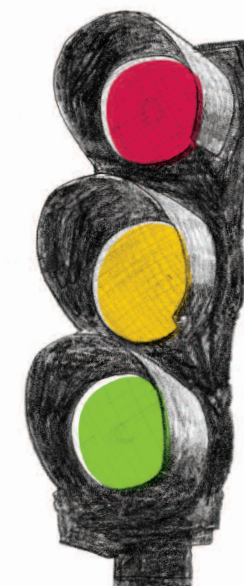
'Embedded Derivatives – Amendments to IFRIC 9 and IAS 39' clarifies that:

- if an entity transfers a financial asset out of the fair value through profit or loss category it must assess whether the asset contains an embedded derivative – where it does, the embedded derivative is required to be separated from the host contract;
- this assessment is based on circumstances that existed when the entity first became party to the contract (not the date of the reclassification);
- if the financial asset contains an embedded derivative that is required to be separated, but the entity is unable to measure the derivative reliably, it is prohibited from reclassifying the asset.

The Amendments are effective for annual periods ending on or after 30 June 2009. There are no stated transition provisions and retrospective application will therefore be required.

## Grant Thornton International comment

We support the Board's decision to clarify the interaction between IFRIC 9 and the October 2008 reclassification amendments to IAS 39. We also agree that financial assets reclassified out of the fair value through profit or loss category should not escape IAS 39's requirements on embedded derivatives.



# All change for lease accounting?

## **Preliminary views contained in joint IASB and FASB discussion paper would radically alter the accounting for leases**

The question of where to 'draw the line' between on- and off-balance sheet leases has exercised accountants for decades. That line may soon cease to exist. The IASB and the US Financial Accounting Standards Board (FASB) have published their long-awaited discussion paper on lease accounting. The paper, entitled 'Leases: Preliminary Views', discusses a possible new approach to lease accounting.

The discussion paper proposes the principle that all leases should result in a lessee recognising:

- an asset representing its right to use the leased item for the lease term (the 'right-of-use' asset); and
- a liability for its obligation to pay rentals.

The lessee's right-of-use asset would be measured initially at cost under the proposals (cost being the present value of the lease payments discounted using the lessee's incremental borrowing rate). The paper proposes that this asset would be amortised over the shorter of the lease term and the economic life of the leased item.

The liability for the obligation to pay rentals would be measured initially at the present value of the lease payments discounted using the lessee's incremental borrowing rate. Subsequently, it would be measured on an amortised cost basis.

The proposals are a response to concerns raised by investors and other users of financial statements regarding the current lease accounting model. Under IAS 17 'Leases', a distinction is made between finance leases (on-balance sheet) and operating leases (off-balance sheet, with lease payments simply

recognised as an expense over the lease term). As a result, two quite similar leases may be accounted for very differently. This affects comparability and creates well-publicised incentives to design leases to fall just within the operating (off-balance sheet) category.

## **the current distinction between operating and finance leases creates well-publicised incentives to design leases to fall just within the operating (off-balance sheet) category**

Sir David Tweedie, IASB Chairman, has commented on the problems created by the difference in treatment between finance and operating leases on a number of occasions. Most memorably he remarked on his ambition, before he dies, to fly in an airplane that is shown on the airline's balance sheet.

More generally, many users of financial statements back the assertion that all lease contracts give rise to assets and liabilities that should be recognised in the financial statements. The approach proposed in the discussion paper reflects this, and is aimed at ensuring that leases are accounted for consistently across sectors and industries. Nonetheless, removing the off-balance sheet operating lease classification will be controversial and the leasing industry and major lessees may not be so supportive.

The paper is open for comment until 17 July 2009. It does not discuss possible methods of transition or the effective date. These issues will be discussed at a future time.

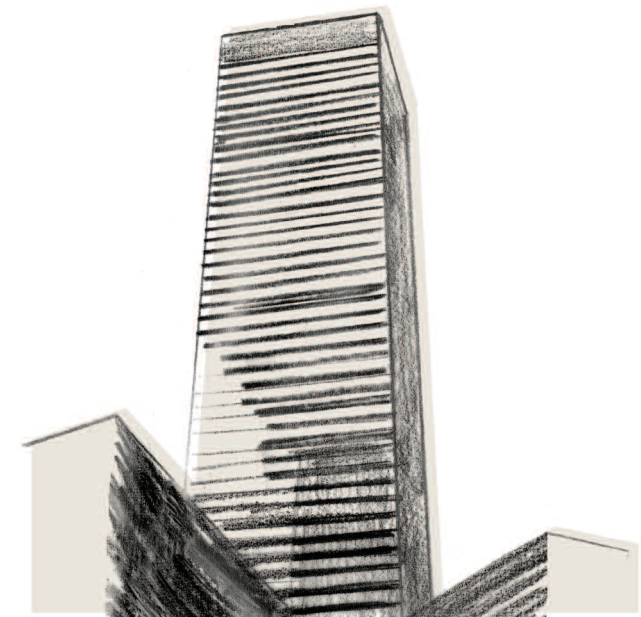
# IFRS for non-publicly accountable entities

The IASB's deliberations over its proposed IFRS for Small and Medium-sized Entities continue, with yet another name change for the project.

Having been relabelled as the 'International Financial Reporting Standard for Private Entities' in the summer of last year, the project's name has been changed again to the 'International Financial Reporting Standard for Non-publicly Accountable Entities' (IFRS for NPAEs) as a result of discussions during the IASB's January board meeting. Following unfavourable reaction to this change, however, the IASB are now looking at changing the name again. In their March meeting, IASB Board members expressed a preference for reverting to the name 'IFRS for Private Entities' with 'Simplified IFRSs' as a second preference.

Fortunately the project itself is progressing, with the debate now focusing on the last few areas of difficulty. These include the sections on accounting for financial assets and financial liabilities and the accounting for defined benefit plans.

The IASB staff plan to submit a ballot draft of the final standard to the Board early in the second quarter of 2009, with its publication expected towards the end of that quarter.



# Grant Thornton International representative appointed to IASB Standards Advisory Council

April Mackenzie, global head of public policy for Grant Thornton International, has been appointed to the Standards Advisory Council (SAC) of the IASB, where she will serve a three year term.

The SAC is the body that oversees the IASB's work. An integral part of the International Accounting Standards Committee's Foundation's governance structure and the IASB's due process, the SAC provides a forum for the IASB to consult a wide range of interested parties affected by the IASB's work. It meets three times a year to advise the IASB on issues including the IASB's agenda and work programme.

As global head of public policy for Grant Thornton International, April oversees the research, development and presentation of the Grant Thornton International position on issues affecting the global capital markets and the accounting profession. Her appointment is recognition of Grant Thornton International's increasing presence at the forefront of the global profession.

April said on her appointment, "I look forward to joining the SAC and presenting the views and ideas of Grant Thornton International and its member firms. I shall be pleased to contribute to the consultation process that will help us to achieve greater global acceptance of the work the IASB is doing – which will benefit all stakeholders in the world's financial markets."

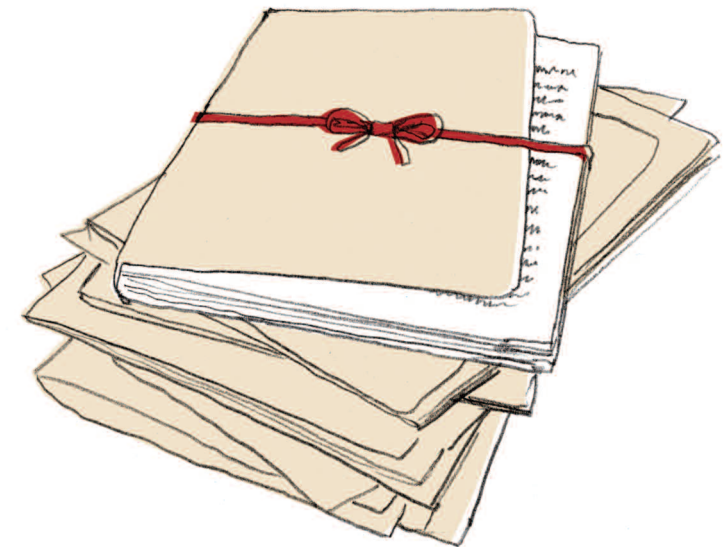


# Grant Thornton International Example IFRS Interim Financial Statements available

Grant Thornton International's IFRS team has published 'Example Interim Consolidated Financial Statements 2009'.

The publication illustrates interim IFRS consolidated financial statements for a six month accounting period beginning on 1 January 2009. There are several important changes to IFRS which take effect in 2009, and the publication illustrates the impact of these on interim reports. For example, the publication covers IFRS 8 'Operating Segments', which significantly changes the requirements on segment reporting as well as IAS 1 'Presentation of Financial Statements (Revised 2007)' which makes major changes to the presentation of the primary financial statements.

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



# Open for comment

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

## Current IASB documents

Document type	Title	Comment deadline
Exposure Draft	Derecognition (proposed amendments to IAS 39 and IFRS 7)	31 July 2009
Exposure Draft	Income Tax	31 July 2009
Discussion Paper	Preliminary Views on Revenue Recognition in Contracts with Customers	19 June 2009
Discussion Paper	Leases: Preliminary Views	17 July 2009

## Breaking news: New Exposure Drafts issued

The IASB has published for public comment two Exposure Drafts.

- Derecognition (proposed amendments to IAS 39 and IFRS 7) contains proposals to improve the complex derecognition requirements for financial instruments currently contained in IAS 39. The proposals are part of the IASB's comprehensive review of off balance sheet activities.
- 'Income Tax' contains proposals which, if adopted, would replace the existing requirements of IAS 12 'Income Taxes'. The proposed standard would retain IAS 12's basic approach to accounting for income tax (the temporary difference approach under which future tax consequences are recognised now rather than waiting until the tax is payable) but would remove most of the exceptions currently contained in that standard in order to simplify the accounting and strengthen the principle upon which the standard is based.

The July 2009 edition of IFRS News will feature full reports on the two Exposure Drafts, which are both open for comment till 31 July 2009.



# 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 2008. 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 2008**

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IFRS 1	First-time Adoption of International Financial Reporting Standards (Revised 2008)	1 July 2009	Yes
IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items	1 July 2009	Yes
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009	Yes (but must also apply IFRS 3 Revised 2008, IAS 27 Revised 2008) and IFRS 5 (as amended by IFRIC 17)
IFRS 3	Business Combinations (Revised 2008)	1 July 2009	Yes (but only for periods beginning on or after 30 June 2007, and in conjunction with IAS 27 Revised 2008)
IAS 27	Consolidated and Separate Financial Statements	1 July 2009	Yes (but must be applied in conjunction with IFRS 3 Revised 2008)
IFRIC 18	Transfers of Assets from Customers	Transfers of assets on or after 1 July 2009	Yes provided the valuations and other information needed to apply the Interpretation to past transfers were obtained at the time those transfers occurred.
IAS 32 and IAS 1	Amendments to Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009	Yes (but must be applied in conjunction with related amendments to IAS 39, IFRS 7 and IFRIC 2)

# Effective dates of new standards and IFRIC interpretations

## New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2008

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IFRS 1 and IAS 27	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements	1 January 2009	Yes
IFRS 7	Amendments to IFRS 7 Financial Instruments Disclosures: Improving Disclosures about Financial Instruments	1 January 2009	Yes
IFRS 2	Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations	1 January 2009	Yes
IAS 1	Presentation of Financial Statements	1 January 2009	Yes
IAS 23	Amendments to IAS 23 Borrowing Costs	1 January 2009	Yes
IFRS 8	Operating Segments	1 January 2009	Yes
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009	Yes
Various	Annual Improvements to IFRSs 2008	1 January 2009 (unless otherwise stated)	Yes
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008	Yes
IAS 39 and IFRIC 9	Embedded Derivatives – Amendments to IFRIC 9 and IAS 39	Annual periods ending on or after 30 June 2009	Yes

# Effective dates of new standards and IFRIC interpretations

## New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2008

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IAS 39 and IFRS 7	Reclassification of Financial Assets – Effective Date and Transition Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures	1 July 2008 (any reclassification made on or after 1 November 2008 takes effect from the date of reclassification. Any reclassification before 1 November 2008 can take effect from 1 July 2008 or a subsequent date)	No
IAS 39 and IFRS 7	Amendments to IAS 39 Reclassification of Financial assets: Effective Date and Transition	1 July 2008 (clarifies the transition rules mentioned above)	No
IFRIC 13	Customer Loyalty Programmes	1 July 2008	Yes
IFRIC 12	Service Concession Arrangements	1 January 2008	Yes
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008	Yes

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