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EDITORIAL

The dominant accounting topic during this period of financial turmoil is fair value and the problem of valuation for financial instruments. The International Accounting Standards Board (IASB) continues to defend its main position, but at the same time continues to make minor changes to the financial instrument standards.

This is a challenging time for financial reporting and it is important that all those involved in the process, whether as preparers, auditors or users, fully understand the effect that these conditions have on the reporting entity.

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NEW/AMENDED STANDARDS

IFRS 8 Operating Segments

This IASB standard is now effective for annual periods beginning on or after 1 January 2009 and supersedes IAS 14 Segment Reporting. It takes the US approach towards defining operating segments. These are designated as components of an entity about which the chief operating decision maker receives separate, regular financial information in order to allocate resources and assess performance (as reported in International **INSIGHT**, August 2007).

Amendments to IAS 39 – Clarification on Reclassification of Financial Instruments

The IASB has published a clarification to its October 2008 revisions of IAS 39 allowing the reclassification of certain financial instruments. These controversial amendments allowed certain assets previously classified as “fair value through profit and loss” and “available for sale” to be reclassified as “loans and receivables”, measured at amortised cost rather than fair value.

The clarification states that any reclassification which took place on or after 1 November 2008 takes effect from the date of reclassification. Any reclassification which took place before this can take effect from 1 July 2008 or a subsequent date.

Amendments to IAS 39 and IFRIC 9

The IASB have issued amendments to IAS 39 and IFRIC 9. These amendments deal with the treatment of embedded derivatives following the reclassification of certain financial instruments with an embedded derivative within them.

The amendment takes effect from 1 July 2009.

Amendments to IFRS 7 – Financial Instruments: Disclosures

The IASB have released amendments to IFRS 7 that increase the disclosure requirements about fair value measurements and liquidity risk. The main changes are the introduction of a hierarchy for fair value measurement and disclosures for each class of financial instruments concerning the relative reliability of fair value measurements.

The hierarchy is as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices that are observable either directly (as prices) or indirectly (derived from prices)
- Level 3 – inputs not based on observable market data.

The amendments are effective for periods beginning on or after 1 January 2009.

IFRS 1 – First Time Adoption of International Financial Reporting Standards

In December 2008 the IASB released a revised version of IFRS 1 which has an improved structure but does not contain any technical changes. The new version is designed to make it easier for the reader to understand.

NEW INTERPRETATIONS

IFRIC 17 – Distributions of Non-cash Assets to Owners

This International Financial Reporting Interpretation Committee (IFRIC) interpretation deals with:

- Distributions of non-cash assets to owners
- Distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

The interpretation is split into three sections:

1. When to recognise a dividend payable.

The liability to pay a dividend must be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.

2. How the dividend is measured.

The liability must be measured at the fair value of the assets to be distributed. Where the entity offers a choice of receiving non-cash assets or a cash alternative the entity must estimate the dividend payable by considering the fair value of each alternative and the associated probabilities of the owners' decision.

3. Accounting for a difference in the carrying values of the assets and the dividend payable.

Any such differences should be recorded in profit or loss.

The interpretation contains further details regarding the presentation and disclosure of such items. The interpretation is effective for annual periods beginning on or after 1 July 2009.

IFRIC 18 – Transfers of Assets from Customers

This interpretation deals with the situation where an entity receives an item of property, plant and equipment (PPE) or cash used to acquire PPE which must then be used to provide ongoing access to goods and services. A particular example highlighted in the interpretation is that of the utilities industry.

The interpretation gives guidance in four areas:

1. Is the definition of an asset met?

The interpretation cites the IASB's Framework for the Preparation and Presentation of Financial Statements. The Framework states that "an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity". The interpretation clarifies that control is important to the asset definition, whereas ownership is not essential.

2. If the definition of an asset is met, how should the transfer of PPE be measured on initial recognition?

The asset should be measured at fair value on initial recognition.

3. If the PPE is measured at fair value on initial recognition, how should the credit be accounted for?

In accordance with IAS 18, where an entity receives goods or services in exchange for dissimilar goods and services the exchange should be recognised as a transaction which generates revenue. Therefore, the credit shall go to revenue.

4. How should the entity account for the transfer of cash from its customer?

If the scope and definitions set out in the interpretation are met, the entity shall recognise the item of PPE at cost and shall recognise revenue at the amount of cash received from the customer.

The interpretation is effective for the transfer of assets received on or after 1 July 2009.

OTHER NEWS

Discussion Paper: Revenue Recognition in Contracts with Customers

The IASB and the US Financial Accounting Standards Board (FASB) have published a joint discussion paper on revenue recognition.

The discussion paper proposes replacing the current standards (IAS 11, IAS 18 and numerous US standards, many of which are industry specific) which contain conflicting principles with a single revenue recognition model that can be applied to transactions.

The paper proposes that revenue should be recognised as a result of increases in the net contract position. The net contract position is increased when an entity fulfils performance obligations and reduced when payment is received. The paper defines a contract as “an agreement between two or more parties that creates enforceable obligations”. The contract can be verbal, written or otherwise implied.

Key to the paper is the identification of performance obligations within the contract. These are defined as a “promise in a contract [...] to transfer an asset (such as a good or a service) to that customer”. Revenue can only be recognised when a performance obligation is satisfied. Where a contract contains multiple performance obligations, they will be treated separately considering the different times of receipt of the promised assets and relative standalone prices.

Other issues covered by the paper include the definition of control, measurement and onerous contracts.

The paper has been drafted with a view to issuing a revised standard in 2011. Comments are due by 19 June 2009.

SEC Releases IFRS Roadmap

The US Securities and Exchange Commission (SEC) has released a “roadmap” proposing the use of IFRS by US issuers of financial statements.

The document sets out seven milestones that propose the US adoption of IFRS in 2014 – 2016. A decision is to be made in 2011 regarding mandatory adoption, although up to 110 companies could opt to begin using IFRS this year (2009).

The proposal has, however, been met with criticism from the US National Association of State Boards of Accountancy (NASBA) who have called for the SEC to withdraw the roadmap.

The newly appointed chair of the SEC, Mary Schapiro, has confirmed that the SEC will re-address the roadmap, saying: “I will take a big deep breath and look at this entire area again carefully and will not necessarily feel bound by the existing road map that’s out for comment”.

The comment period for this document has been extended to 20 April 2009.

Proposed Amendments to the European Union (EU) Company Law Directives

The European Commission (EC) has proposed amendments to the EU 4th and 7th Company Law Directives to simplify reporting for small and medium size companies (SMEs). The proposals are as follows:

- Removal of disclosure requirements for formation expenses.

In all EU member states other than Denmark, Sweden and the UK, formation expenses are allowed to be capitalised and require the disclosure of such expenses. The proposed legislation removes this requirement for SMEs.

- Removal of disclosure requirements for breakdown of turnover into activity and geographic markets for SMEs.

The proposed amendment extends the exemption for small companies in respect of this disclosure within the 4th Directive to cover medium size companies.

- Amendment to the 7th Directive in order to clarify the relationship of its consolidation rules with the rules of IFRS.

This proposal removes the obligation to draw up consolidated accounts and consolidated annual reports where the parent undertaking only has subsidiary undertakings considered as not material both individually and as a whole.

New Standard Now Effective

IFRS 8: Operating Segments

Effective Date

Effective for accounting periods beginning on or after 1 January 2009

Amended Standards

IAS 1: Presentation of Financial Statements

Effective Date

Amendments effective for accounting periods beginning on or after 1 January 2009

IAS 23: Borrowing Costs

Amendments effective for accounting periods beginning on or after 1 January 2009

IAS 32: Financial Instruments: Presentation and IAS 1: Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

Amendments effective for accounting periods beginning on or after 1 January 2009

IFRS 3: Business Combinations and IAS 27: Consolidated and Separate Financial Statements

Amendments effective for annual periods beginning on or after 1 July 2009

IFRS 1: First-time Adoption of International Financial Reporting Standards and IAS 27: Consolidated and Separate Financial Statements

Amendments effective for accounting periods beginning on or after 1 July 2009

IFRS 2: Share-based Payments

Amendments effective for accounting periods beginning on or after 1 January 2009

IFRS 7: Financial Instruments – Disclosures

Amendments effective for accounting periods beginning on or after 1 January 2009

IAS 39: Financial Instruments – Recognition and Measurement

Amendments effective for accounting periods beginning on or after 1 July 2009

Annual Improvements Project

Improvements to Standards (numerous)

Effective Date

Amendments effective for accounting periods beginning on or after 1 January and 1 July 2009

Latest Interpretations

IFRIC 13: Customer Loyalty Programmes

Effective for periods commencing on or after the 1 July 2008

IFRIC 14: IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Effective for periods commencing on or after the 1 July 2008

IFRIC 15: Agreements for the Construction of Real Estate

Effective for periods commencing on or after the 1 October 2008

IFRIC 16: Hedges of a Net Investment in a Foreign Operation

Effective for accounting periods beginning on or after 1 January 2009

IFRIC 17: Distributions of Non-cash Assets to Owners

Effective for accounting periods beginning on or after 1 July 2009

IFRIC 18: Transfers of Assets from Customers

Effective for accounting periods beginning on or after 1 July 2009

Current Proposals – Discussion Papers

Discussion Paper: Fair Value Measurements

Discussion Paper: Financial Instruments with characteristics of Equity

Discussion Paper: Preliminary Views on Financial Statement Presentation

Discussion paper: Preliminary Views on Insurance Contracts

Discussion Paper: Preliminary Views on Amendments to IAS 19 Employee Benefits

Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers

An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information

Status

Exposure draft in development

Exposure draft in development in conjunction with FASB

Comments due by 14 April 2009

Exposure draft due late 2009

Exposure draft due third quarter 2009

Comments due by 19 June 2009

Comments being analysed

Current Proposals – Exposure Draft

Exposure Draft: Consolidated Financial Statements.

Exposure Draft: Investments in Debt Instruments

Exposure Draft: IFRS for Non-publicly Accountable Entities (NPAEs) (Previously IFRS for Private Entities, which was previously IFRS for SMEs)

Exposure Draft: Discontinued Operations: Proposed amendments to IFRS 5

Exposure Draft Simplifying Earnings per Share: Proposed Amendments to IAS 33

Exposure Draft: Additional Exemptions for First-time Adopters: Amendments to IFRS 1

Exposure Draft: Joint Arrangements

Exposure Draft: Proposed Amendments to IAS 24: Related Party Disclosures – State-controlled Entities and the Definition of a Related Party

Exposure Draft: Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits

Exposure Draft: Share-based Payment: Group Cash-settled Share-based Payment Transactions

Status

Comments due by 20 March 2009

Comments being analysed

Revised draft expected second quarter 2009

Comments being analysed

Comments being analysed

Comments being analysed

Final standard expected second quarter 2009

Final amendment expected second quarter 2009

Comments being analysed

Final amendment expected second quarter 2009



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