



BAKER TILLY INTERNATIONAL

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EDITORIAL

Financial instruments still dominate the accounting agenda with the International Accounting Standards Board (IASB) continuing its programme of revision. Whether this will satisfy all those who claim a vested interest in accounting standards is yet to be seen. Indeed, it is unlikely that such agreement could ever be achieved.

Meanwhile, and on a more practical level, many people are more interested to discover whether the US will commit to IFRS and if it does when will it be introduced and how will a principles based framework fit within the US system. At the time of writing these questions remain unanswered.

The other big issue is the debate about what should become the accounting standards for non-public interest entities. Amid signs of interest in adoption of IFRS for SMEs, the European Commission has launched a survey on whether it should have a role within the EU.

Paul Ginman

Chief operating officer and technical director, Baker Tilly International

NEW STANDARDS

IFRS 9: Financial Instruments

The IASB has released a new standard, IFRS 9: Financial Instruments, as the first of three phases of its project to replace IAS 39: Financial Instruments: Recognition and Measurement. The new standard only applies to the classification and measurement of financial assets. The guidance for financial liabilities, initially included within the exposure draft of this standard, has been omitted due to concerns raised about the requirement for certain financial liabilities with cash flow characteristics to be measured at fair value through profit and loss (under IAS 39 such a liability would be an embedded derivative). It is expected that IFRS 9 will be extended to encompass all elements of IAS 39, including financial liabilities, during 2010.

The most significant change is that the classification of financial assets will be restricted to assets measured at amortised cost and assets measured at fair value as opposed to the current four categories. Classification depends on an entity's business model and the cash flow characteristics of the asset. Broadly speaking, an asset will be measured at amortised cost if the entity's business model is to hold assets to collect consistent cash flows and these cash flows are solely payments of principal and interest thereon.

Other significant changes include:

- The removal of the requirement to separate an embedded derivative from a financial asset host falling within the scope of the new standard
- Reclassifications will only allowed in rare circumstances where the business model changes
- Equity investments are no longer to be measured at cost less impairment, but at fair value with some exceptions.

The standard is effective for periods beginning on or after 1 January 2013; early adoption is permitted.

AMENDMENTS TO STANDARDS

IAS 24 (Revised 2009): Related Parties

This revised standard deals with two main issues: a revised definition of a related party and government related entities.

The clarification of the definition of a related party has eliminated a number of inconsistencies and will result in additional disclosures under certain circumstances, particularly where there are associated companies included in the group. An example of this is where a person has control (or has joint control) of one entity but exerts a significant influence over another entity, the two entities are related parties.

The standard also introduces an exemption for government related entities. The definition of a government related entity is "an entity that is controlled, jointly controlled, or significantly influenced by a government". Such an entity does not need to disclose transactions and balances with the government or other government related entities, however additional disclosures regarding the nature of the relationship with the government and individually significant transactions are required.

The amended standard is effective for periods beginning on or after 1 January 2011; early adoption is permitted.

IAS 32: Financial Instruments:

Presentation – Classification of Rights Issues

This amendment addresses situations where rights issues are made in currencies other than the functional currency. Rights issues will be classified as equity instruments if issued for a fixed amount of cash, regardless of the currency in which they are to be exercised. These were previously classified as derivative financial liabilities that needed to be measured at fair value on an ongoing basis.

The amendment is effective for periods beginning on or after 1 February 2010; early adoption is permitted.

Amendments to IFRS 1: Additional Exemptions for First Time Adopters

The standard has been amended to allow additional exemptions for first time adopters with oil and gas assets and arrangements containing leases.

NEW INTERPRETATIONS

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

The interpretation addresses issues relating to debt for equity swaps. The conclusion is that the issue of equity instruments to extinguish an obligation represents consideration paid. This should be measured at fair value unless fair value is not readily

determinable, in which case the equity instruments should be measured at the fair value of the obligations extinguished. If only a portion of the financial liability is settled consideration should be given as to whether a part of the consideration relates to a renegotiation of the portion of the liability that remains outstanding.

This interpretation is effective for periods beginning on or after 1 July 2010.

AMENDMENTS TO INTERPRETATIONS

Amendments to IFRIC 14 – IAS 19: the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement

This amendment removes an unintended consequence arising from the treatment of prepayments in some circumstances when there is a minimum funding requirement.

This interpretation is effective for periods beginning on or after 1 July 2011.

EXPOSURE DRAFTS

Exposure Draft: Financial Instruments: Amortised Cost and Impairment

This exposure draft is the second phase of IFRS 9, described above under "New Standards". This section expands on accounting for financial assets, and specifically details how credit loss expectations would be included in the amortised cost measurement of such assets.

The approach is broadly consistent with current practice: amortised cost is calculated using the effective interest method, using the expected cash flows over the life of the financial instrument discounted at the effective interest rate. The most significant change is that an entity should consider credit losses over the asset's life. In making this assessment it must disclose the basis of the relevant assumptions and any changes to these. Where stress testing is carried out for internal purposes, further disclosures are necessary.

Comments are due by 30 June 2010.

IMPORTANT REMINDERS

Preparers of December year-end financial statements need to consider the implications of any new standards or amendments to IFRS effective for accounting periods beginning on or after 1 January 2009.

The standards likely to have the most profound impact are:

IFRS 8: Operating Segments – this is a new standard and supersedes IAS 14: Segment Reporting. This standard bases the identification of segments and related disclosures on internal reporting.

Amendments to IAS 1: Presentation of Financial Statements permit a choice on how to present the income statement:

- Either as one single statement comprising the current income statement to profit or loss for the year, plus any other comprehensive income items, or
- As two separate statements similar to the current approach.

There are also several terminology changes, for example the statement of financial position replaces the balance sheet. Although these are not mandatory in financial statements terminology they will appear in future standards.

Amendments to IAS 23: Borrowing Costs withdraw the option to expense all borrowing costs. If the borrowing costs relate to a qualifying asset they must be capitalised.

These are just a few of the changes relevant to this reporting cycle, however there are many projects and joint projects ongoing, the implications of which should be considered and planned for sooner rather than later. It is important to remember the requirement from IAS 8, that any IFRS issued but not yet effective has disclosure requirements for current financial statements.

LIST OF FINANCIAL REPORTING DEVELOPMENTS

New Standard Now Effective

IFRS 8: Operating Segments

New Standard

IFRS 9: Financial Instruments

Amended Standards

IAS 1: Presentation of Financial Statements

IAS 23: Borrowing Costs

IAS 24 (Revised 2009): Related Parties

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

IAS 32: Financial Instruments: Presentation – Classification of Rights Issues

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

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

IFRS 2: Share-based Payments

IFRS 7: Financial Instruments – Disclosures

IAS 39: Financial Instruments – Recognition and Measurement

Annual Improvements Project

Improvements to Standards 2009

Effective Date

Accounting periods beginning on or after 1 January 2009

Effective Date

Accounting periods beginning on or after 1 January 2013

Effective Date

Accounting periods beginning on or after 1 January 2009

Accounting periods beginning on or after 1 January 2009

Accounting periods beginning on or after 1 January 2011

Accounting periods beginning on or after 1 January 2009

Accounting periods beginning on or after 1 February 2010

Accounting periods beginning on or after 1 July 2009

Accounting periods beginning on or after 1 July 2009

Accounting periods beginning on or after 1 January 2009 and 1 January 2010

Accounting periods beginning on or after 1 January 2009

Accounting periods beginning on or after 1 July 2009

Effective Date

Accounting periods beginning on or after 1 July 2009 or 1 January 2010

LIST OF FINANCIAL REPORTING DEVELOPMENTS (continued)

Latest Interpretations

IRIC 11 – IFRS 2: Group and Treasury Share Transactions	Withdrawn as of 1 January 2010, incorporated into IFRS 2
IFRIC 8: Scope of IFRS 2	Withdrawn as of 1 January 2010, incorporated into IFRS 2
IFRIC 16: Hedges of a Net Investment in a Foreign Operation	Accounting periods beginning on or after 1 January 2009
IFRIC 17: Distributions of Non-cash Assets to Owners	Accounting periods beginning on or after 1 July 2009
IFRIC 18: Transfers of Assets from Customers	Accounting periods beginning on or after 1 July 2009
IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments	Accounting periods beginning on or after 1 July 2010

Amendments to Interpretations

Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14 – IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Accounting periods beginning on or after 1 July 2011
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Current Proposals – Discussion Papers

	Effective Date
	Effective Date
Discussion Paper: Financial Instruments with Characteristics of Equity	Accounting periods beginning on or after 1 July 2011
Discussion Paper: Preliminary Views on Financial Statement Presentation	Accounting periods beginning on or after 1 July 2011
Discussion Paper: Preliminary Views on Insurance Contracts	Accounting periods beginning on or after 1 July 2011
Discussion Paper: Preliminary Views on Amendments to IAS 19: Employee Benefits	Accounting periods beginning on or after 1 July 2011
Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers	Accounting periods beginning on or after 1 July 2011
Discussion Paper: An Improved Conceptual Framework for Financial Reporting	Accounting periods beginning on or after 1 July 2011
Discussion Paper: Leases: Preliminary Views	Accounting periods beginning on or after 1 July 2011
Discussion Paper: Credit Risk in Liability Measurement	Accounting periods beginning on or after 1 July 2011

Status

Exposure draft due second quarter 2010
Exposure draft due second quarter 2010
Exposure draft due April 2010
Project discontinued
Exposure draft in due second quarter 2010
Project is continuing
Exposure draft due second quarter 2010
Project to be incorporated into other IASB projects

LIST OF FINANCIAL REPORTING DEVELOPMENTS (continued)**Current Proposals – Exposure Draft****Status**

Exposure Draft: Consolidated Financial Statements	Revised standard expected second half 2010
Exposure Draft: Investments in Debt Instruments	Project incorporated into IFRS 9
Exposure Draft: Discontinued Operations: Proposed amendments to IFRS 5	Final amendment expected first half 2010
Exposure Draft: Simplifying Earnings per Share, Proposed Amendments to IAS 33	Project delayed until later in 2010
Exposure Draft: Joint Arrangements	Final standard expected first half 2010
Exposure Draft: Income Taxes	Project on hold
Exposure Draft: Fair Value Measurement	Comments being analysed
Exposure Draft: De-recognition (Proposed Changes to IAS 39 and IFRS 7)	Comments being analysed
Exposure Draft: Financial Instruments: Amortised Cost and Impairment	Comments due by 30 June 2010
Exposure Draft: Measurement of Liabilities in IAS 37	Comments due by 30 April 2010



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WorldHeadquarters

2 Bloomsbury Street
London WC1B 3ST
United Kingdom

T. +44 (0)20 7314 6875

F. +44 (0)20 7314 6876

E. info@bakertillyinternational.com

www.bakertillyinternational.com