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EDITORIAL

A new year starts; the issues remain the same! We are promised, later in the year, a decision from the US on whether they will adopt International Financial Reporting Standards (IFRS). Most commentators are expecting that the decision will focus on convergence rather than adoption. This will lead to concern in other jurisdictions about potential further changes to IFRS and additional difficulties in balancing the principles approach in IFRS to the rules based approach for US GAAP.

For IFRS the focus of change continues to be financial instruments with amendments to standards and a further exposure draft. However with standards promised this year on revenue recognition, leasing and financial statement presentation a testing time can be expected.

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AMENDMENTS TO STANDARDS

Amendments to IFRS 7: Financial Instruments: Disclosures

The International Accounting Standards Board (IASB) issued amendments to the above standard introducing additional disclosure requirements concerning transactions involving the transfer of financial assets (for example securitisations). The disclosures are designed to improve the understanding of such transactions and to enable a better assessment of the risks remaining with the reporting entity in respect of transfers of financial assets.

Further disclosures are required if a disproportionate level of transfer transactions take place at or around the period end.

The aim of the amendments is to alert users of financial statements to off balance sheet risks and the possibility of "window dressing".

The revised disclosure requirements are broadly similar to those required under US GAAP.

Additional Requirements for IFRS 9: Financial Instruments

The IASB has added new requirements to IFRS 9 regarding the accounting treatment for financial liabilities. The addition of the requirements concludes the classification and measurement phase of the wider project to replace International Accounting Standard (IAS) 39: Financial Instruments: Recognition and Measurement.

This phase of the project is designed to address the issue of volatility in the income statement that arises from the measurement of liabilities at fair value. Most financial liabilities will be accounted for using amortised cost, rather than fair value, and where fair value is used, changes in fair value will be presented in other comprehensive income. The aim of the limitation of the use of fair value is to prevent an entity recognising substantial profits on the basis that it could buy back its own debt at a reduced cost (the "own credit" problem).

IFRS 9 applies to financial reporting periods beginning on or after 1 January 2013. Earlier adoption may be permitted but the IFRS 9 requirements relating to financial assets must also be applied.

Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards

The IASB has made two minor amendments to IFRS 1. The first of the changes was exposed for comment in August 2010 and was reported in the September 2010 issue of *International INSIGHT*.

References to a fixed date of “1 January 2004” have been replaced with “the date of transition to IFRSs” as proposed in the exposure draft.

This amendment eliminates the need for entities adopting IFRSs for the first time to restate derecognition transactions that predated transition.

The second change was both exposed and reflected during the quarter ended 31 December 2010. This relates to an entity resuming the presentation of financial statements in accordance with IFRSs after a period during which it was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

The amendment introduces guidance applicable to these circumstances.

Both amendments are effective from 1 July 2011. Earlier application is permitted.

Amendment to IAS 12: Income Taxes

The IASB has amended the above standard in an effort to simplify the measurement of deferred tax relating to assets included at fair value in accordance with IAS 40: Investment Property.

The amendment introduces a presumption that recovery of the carrying amount of such an asset will normally be via sale. This aim is to remove the subjectivity involved when assessing whether the carrying amount will be recovered by the entity through use or via sale.

As a consequence, Standing Interpretations Committee (SIC) Interpretation 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets has been withdrawn and part of the guidance previously included in SIC-21 has been incorporated into IAS 12.

EXPOSURE DRAFTS

Exposure Draft – Accounting for Hedging Activities

The IASB has issued an exposure draft proposing more closely to align the hedge accounting adopted by an entity with the risk management activities it undertakes.

The draft proposals are designed to move away from the existing rule-based hedge accounting requirements and to replace them with a principle-based approach. The aim is to help users of financial statements to understand the effect of hedging activities on future cash flows via improved presentation and new disclosure requirements.

The exposure draft is part of the wider project to replace IAS 39 Financial Instruments: Recognition and Measurement and the proposals would be incorporated into IFRS 9 Financial Instruments.

Comments are due by 9 March 2011.

OTHER DOCUMENTS

Improved Conceptual Framework

The IASB and the US Financial Accounting Standards Board (FASB) have issued the first phase of their joint project to improve the conceptual framework for IFRSs and US GAAP. The objective of the project is to design a consistent and internationally converged, principle-based foundation for future accounting standards.

This phase relates to the objective and qualitative characteristics of financial reporting.

IFRS and US GAAP Convergence Progress Report

The IASB and US FASB have published a progress report dealing with their work on convergence of IFRS and US GAAP.

Since the previous report was issued in June 2010, major exposure drafts have been issued jointly on leases and revenue recognition. Further discussions have been held regarding financial instruments and the first phase of the Conceptual Framework Project has been issued (see above).

Management Commentary IFRS Practice Statement

The IASB has published a practice statement on the subject of narrative reports accompanying financial statements. The document does not have the status of an IFRS and entities are not required to apply the practice statement to comply with IFRSs.

The practice statement has been designed to promote international consistency in management commentaries included in annual reports. It emphasises that the management commentary should provide information on the objectives of the entity's management and the strategies they adopt to achieve these objectives as well as providing a useful commentary on the financial position, financial performance and cash flows of the entity.

The purpose of the management commentary is to provide users with historical and forward looking information and the practice statement advocates a flexible approach that reflects the entity's circumstances.

IASB Work Plan – Projected Timetable as of 20 December 2010

	Estimated Publication Date				
	2011 Q1	2011 Q2	2011 H2+	MoU ¹	Joint ²
Financial Crisis Related Projects					
Financial instruments (IAS 39 replacement)					
Impairment	RV			✓	✓
Hedge accounting [ED, comments due 9 March 2011]		IFRS		✓	✓
Asset and liability offsetting	ED			✓	✓
Consolidation					
Replacement of IAS 27	IFRS			✓	✓
Disclosures unconsolidated entities	IFRS				
Investment companies		ED			✓
Fair value measurement	IFRS			✓	✓
Memorandum of Understanding Projects					
Financial statement presentation (Presentation of OCI)	IFRS				
Leases	RT 5&6 Jan	IFRS		✓	✓
Revenue recognition		IFRS		✓	✓
Joint ventures	IFRS			✓	
Post-employment benefits (incl. pensions)	IFRS			✓	
Effective dates and transition [request for views, comments due 31 January 2011]					✓
Other Projects					
Insurance contracts		IFRS			✓
Annual improvements 2009-2011		ED			
Agenda Consultation					
Three-yearly public consultation	RV				

Abbreviations

AD	Agenda Decision (to add the topic to the active agenda)
PS	IFRS Practice Statement
DP	Discussion Paper
ED	Exposure Draft
IFRS	International Financial Reporting Standard
RT	Roundtables
RV	Request for Views
TBD	To be determined

¹“MoU” refers to agreement with the FASB on convergence.

²“Joint” refers to projects where joint publication by the IASB and FASB will be made.



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