

IFRS News

October 2009

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 final edition of 2009 leads with an article on the major new Standards that will affect December 2009 year ends. We go on to consider the changes the IASB has made to its Standards in the last quarter together with some changes that are in the IASB's 'pipeline'. The IASB has been, and continues to be, busy as it responds to the credit crisis.

We then look at some of the guides that Grant Thornton International has made available in the last quarter, and give a round up of activities affecting the IASB. We end with a summary of the proposals that the IASB currently has out for comment and the implementation dates of newer Standards and IFRIC Interpretations.



Are you ready for 2009's financial reporting changes?

With a number of new accounting standards coming into effect for annual accounting periods beginning on or after 1 January 2009, now is the time to ensure that all necessary changes to your 2009 financial statements have been identified. Plans to implement any necessary changes to accounting policies and disclosures should be well in hand.

For a full list of new standards and amendments that will come into effect for December 2009 year ends, see our 'Effective dates of new standards and IFRIC interpretations' at the back of the newsletter. The following paragraphs are a brief reminder of the most significant changes.

IAS 1 Presentation of Financial Statements

IAS 1 'Presentation of Financial Statements' was revised in 2007 to make the information presented in a set of financial statements more useful to the user. The 2007 changes take mandatory effect for years beginning on or after 1 January 2009. Under the revised Standard:

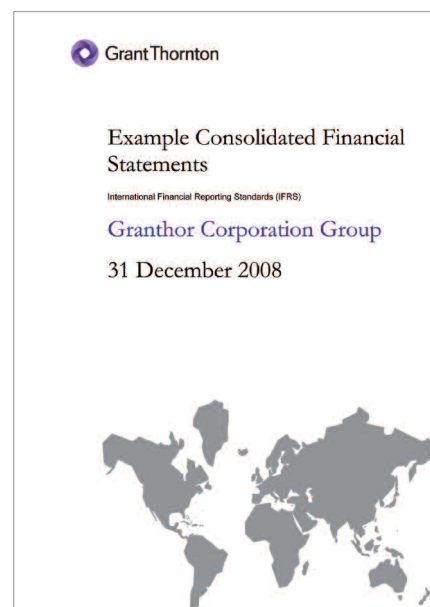
- all items of income and expense in the period are required to be presented in a single 'statement of comprehensive income' or in two statements: a 'separate income statement' and a 'statement of comprehensive income'

When is an additional statement of financial position presented?

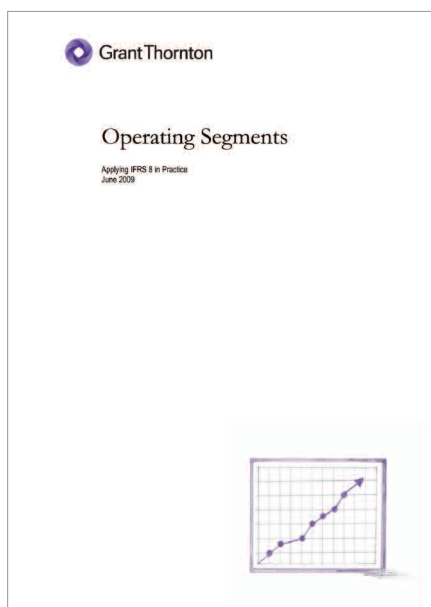
An additional statement of financial position is presented when:

- the entity retrospectively applies an accounting policy
 - makes a retrospective restatement
 - reclassifies items in its financial statements.
- an additional statement of financial position, covering the beginning of the earliest comparative period presented, is required in certain circumstances (see box)
 - a 'statement of changes in equity' is required to be presented as a primary statement in all circumstances. The contents of this compulsory statement are restricted to changes in equity arising from owners in their capacity as owners (eg dividends, new share issues). Any non-owner changes in equity (eg revaluations) are detailed in the statement of comprehensive income and are shown in the statement of changes in equity.

Our 'Example Consolidated Financial Statements' for 2008 illustrate these new presentation and disclosure requirements for a fictional entity that presents its financial statements under IFRS. To obtain a copy of this publication, please get in touch with your local IFRS contact. We plan to issue the 2009 edition in the near future.



IFRS 8 Operating Segments



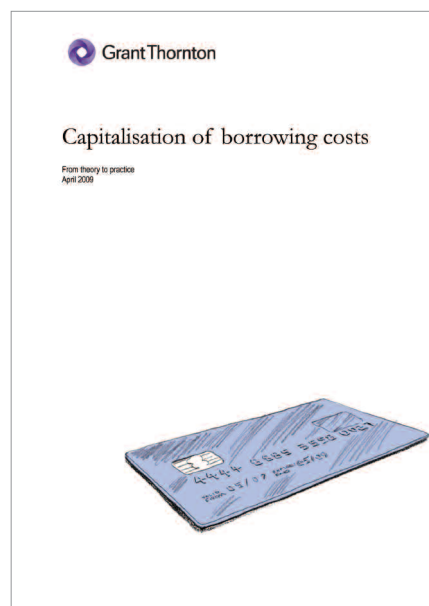
IFRS 8 'Operating Segments' replaces IAS 14 'Segment Reporting' while retaining the general scope of that Standard (entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets are within the scope of the Standard).

It requires entities to adopt the 'management approach' to reporting on their operating segments. The segment results disclosed in annual financial statements are to be based on the reports used by management to evaluate segment performance and to allocate resources to operating segments. These internal reports will typically use different accounting conventions to those required in the IFRS primary statements.

IFRS 8 therefore requires reconciliations between the entity's segment results and its reported IFRS figures.

There may be some very practical difficulties for preparers in moving to this new standard. Our guide 'Operating Segments – Applying IFRS 8 in Practice' will help you in dealing with these difficulties. To obtain a copy of the guide, please get in touch with your local IFRS contact.

IAS 23 Borrowing Costs



The revised version of IAS 23 'Borrowing Costs':

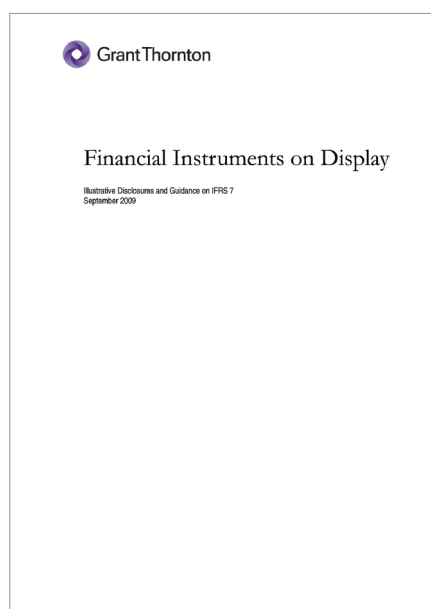
- eliminates the previous benchmark treatment of recognising borrowing costs as an expense

- requires borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised as part of the cost of that asset
- requires all other borrowing costs to be expensed as incurred.

The revised version becomes effective for years beginning on or after 1 January 2009. Entities whose previous accounting policy was to expense all borrowing costs are required to apply the revised Standard prospectively to new qualifying assets for which development commenced after that date. However, an entity may wish to apply the capitalisation requirements to qualifying assets for which the commencement date was before 1 January 2009. An entity is permitted to designate any date before 1 January 2009 and apply the standard to borrowing costs relating to all qualifying assets for which the commencement date is on or after that designated date.

For more information please refer to our publication 'Capitalisation of borrowing costs – From theory to practice' which can be obtained from your local IFRS contact.

Amendments to IFRS 7 Financial Statements: Disclosure



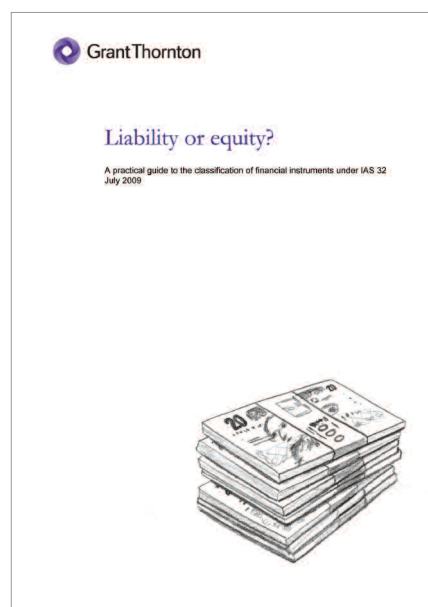
The IASB has made several amendments to IFRS 7 'Financial Instruments: Disclosures' in response to the credit crisis. Changes were made in October 2008 as a result of the IASB's decision to relax the rules regarding the reclassification of financial assets.

Further changes were then made in March 2009, to:

- explain more clearly how entities determine the fair value of their financial instruments by use of a three-level fair value hierarchy
- improve the disclosure of liquidity risk.

For information on these changes and more, please see the separate article in this newsletter on our new guide to IFRS 7.

Amendments to IAS 32 and IAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation



Exceptions to IAS 32's basic principle of liability and equity classification were introduced in 2008 by the 'Amendments to IAS 32 and IAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation'.

The Amendments introduce a set of criteria which, if met, require some instruments which would otherwise have been classified as liabilities to be classified as equity. They cover two types of financial instruments:

- puttable instruments (broadly instruments which give the holder the right to put the instrument back to the issuer for cash or which are automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the holder)
- instruments with obligations arising on liquidation.

Although the criteria set are stringent such that the Amendments will only alter classification in some narrowly defined cases, they will have a significant impact on the reported results and financial position of those entities which are affected. Our guide 'Liability or equity? A practical guide to the classification of financial instruments under IAS 32' provides extensive insights into the more problematic aspects of debt and equity classification under IAS 32, including those that are expected to arise from the Puttable Financial Instruments and Obligations Arising on Liquidation amendments.

To obtain a copy of the guide, please get in touch with your usual IFRS contact.

Classification of rights issues

The IASB has issued a narrow, targeted amendment to IAS 32 entitled 'Classification of rights issues (Amendment to IAS 32)'.

The Amendment alters IAS 32 'Financial Instruments: Presentation' so that rights issues, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers them pro rata to all of its existing shareholders.

Prior to the Amendment, rights issues denominated in a foreign currency were considered not to result in the issuing entity receiving a fixed amount of cash for a fixed number of equity instruments due to the possibility of exchange rate fluctuations. They therefore failed the requirements for equity classification and were required to be accounted for as derivative liabilities. The IASB received requests to revisit this accounting outcome as the current economic crisis led many large companies with stock exchange listings in more than one country to raise finance via rights issues.

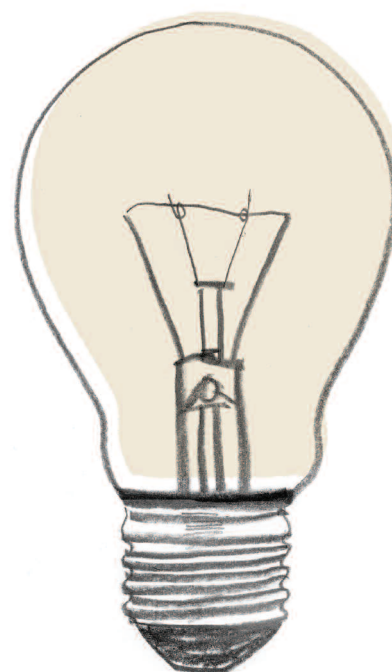
rights issues denominated in a foreign currency are equity if offered pro rata to all existing shareholders

Grant Thornton International comment

Grant Thornton International welcomes the publication of the Amendment to IAS 32. The previous classification outcome under which a rights issue with an exercise price denominated in a foreign currency was accounted for as a derivative liability at fair value through profit or loss was counter-intuitive.

Although we would have preferred the Amendment to IAS 32 to have been a broader one addressing the classification of all instruments denominated in a foreign currency, the fact that rights with these characteristics are being issued by a significant number of entities in the current economic environment justified this urgent amendment of the Standard.

The IASB agreed that classifying rights issues as derivative liabilities does not reflect their substance. Rights are issued only to existing shareholders on the basis of their existing shareholdings. The Board therefore decided that a pro rata issue of rights, options or warrants to all existing shareholders to buy additional shares is a transaction with an entity's owners in their capacity as owners and should be classified as equity.



IASB to issue revised version of IAS 24 'Related Party Disclosures'

Revised version will reduce the level of disclosure required by government controlled entities

The IASB has published a 'near final' draft of a revised version of IAS 24 'Related Party Disclosures'. The main change compared to the previous version of IAS 24 will be the introduction of an exemption from IAS 24's disclosures for transactions with:

- a government that has control, joint control or significant influence over the reporting entity and
- 'government-related entities' (entities controlled, jointly controlled or significantly influenced by that same government).

Under the previous version of IAS 24, government-controlled entities that use IFRSs had to disclose transactions with other government-controlled entities. In some countries government-controlled entities are such a major segment of the economy that the volume of disclosure needed to comply with this requirement was regarded as excessive.

Grant Thornton International comment

We agree with the introduction of the 'government-related entities' exemption from IAS 24's usual disclosure requirements. We also welcome the specific disclosures required for those entities applying the exemption, which we believe meet the objective of the Standard without imposing an unnecessary burden on entities.

If a reporting entity applies this exemption, it will be required to disclose the name of the government in concern and the nature of its relationship with the reporting entity. It will also be required to disclose information on the nature and amount of each individually significant transaction with the government or government-related entity. For other transactions that are collectively but not individually significant, a qualitative or quantitative indication of their extent will be required to be disclosed.

the disclosures required for government-controlled entities under the previous version were regarded as excessive

In addition to the introduction of the 'government-related entities' exemption, the IASB is also amending the definition of a related party to clarify the intended meaning and remove some inconsistencies.

Based on the 'near final' draft, the revised Standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. Earlier application, of either the whole Standard or of the partial exemption for government-related entities, will be permitted.

Amendments to IFRS 1 ease transition for first-time adopters

The IASB has issued amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards'. The amendments address the retrospective application of IFRSs in two situations and are aimed at ensuring that entities applying IFRSs for the first time will not face undue cost or effort in the transition process.

The amendments:

- provide additional exemptions for entities in the oil and gas industry that use the full cost method
- exempt entities with existing contracts which contain 'embedded' leases from reassessing the classification of those contracts in accordance with IFRIC 4 'Determining whether an Arrangement contains a Lease' when their national accounting practice required an equivalent prior assessment.

Group cash-settled share-based payment transactions

The IASB has published 'Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)'.

The Amendments to IFRS 2 clarify that an entity that receives goods or services from its suppliers (including employees) must apply IFRS 2 even where it itself has no obligation to make the required share-based cash payments. This will be the case where, for example, a subsidiary receives services but its parent company is obliged to settle the related share-based payment obligation.

The Amendments also incorporate the requirements of two IFRIC Interpretations (IFRICs 8 and 11) into the main Standard itself, such that the two IFRICs become obsolete.



The IT implications of IFRS

With Canadian companies converting to IFRS in 2011, Grant Thornton Canada has been considering the IT implications for publicly listed companies. The implications are equally relevant to all countries converting to IFRS.

Grant Thornton Canada warns that as companies implement their strategies for conversion, they often neglect to consider the full impact of IFRS conversion on their IT systems. With companies having to both prepare their normal financial statements under Canadian GAAP in 2010 and generate IFRS compliant information for 2010 for use in their 2011 comparatives, Grant Thornton Canada advises companies to consider the following questions:

- can systems handle parallel processing?
- is there sufficient storage and memory capacity to retain all the financial information required?
- does the finance department have the capacity to enter data into two systems?
- does the finance department have access to the level of data required to run financial statements using divergent accounting standards?

Avoiding common traps

Without question, each company's conversion to IFRS will require unique effort. However, advanced planning can help you avert common conversion pitfalls. To make sure your company remains on track throughout its conversion, take steps to:

- conduct a detailed analysis of the impacts of IFRS on your IT systems
- carefully assess your software choices
- bolster your project management capabilities
- model international best practices.

The implications of IFRS convergence on IT systems extend beyond this first year. Grant Thornton Canada advises companies to consider in particular the IT implications relating to:

- new data requirements (especially given IFRS's detailed disclosure requirements)
- data storage and retention, including the ability to access legacy financial systems to comply with data retention requirements
- implications on business intelligence and decision systems.

To read more, please go to http://www.grantthornton.ca/resources/insights/TLs/IT_implications_of_IFRS.pdf

Grant Thornton LLP together with the Quebec firm Raymond Chabot Grant Thornton LLP, have more than 3,100 people in offices across Canada.



Annual improvements exposure draft published

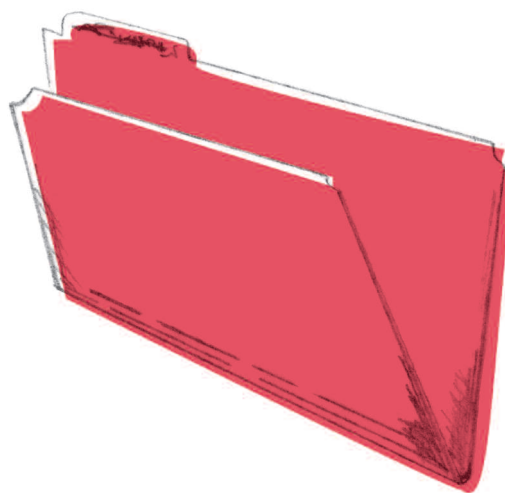
The IASB has published this year's annual improvements project. The Exposure Draft 'Improvements to IFRSs' is the third edition of the IASB's annual improvements project which aims to deal efficiently with a collection of non-urgent but necessary amendments to IFRSs in a single document rather than by a series of piecemeal changes.

IFRSs addressed

The following table lists the IFRSs and topics addressed by the proposed amendments.

IFRS	Subject of amendment	Summary of proposed amendment
IFRS 1 First-time adoption of IFRS	Accounting policy changes in year of adoption	Clarifies that if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 'Interim Financial Reporting' it explains those changes and updates the required reconciliations of comprehensive income and equity
	Revaluation basis as deemed cost	Clarifies the scope of the exemption that permits a first-time adopter to use a revaluation basis as 'deemed cost' when an event such as a privatisation triggered a revaluation at or before the date of transition to IFRSs. The proposal clarifies that the reasons for that exemption are equally valid for similar revaluations that occurred after the date of transition to IFRSs but during the periods covered by the first IFRS financial statements
IFRS 3 Business Combinations	Transition requirements for prior contingent consideration arrangements	The Board proposes to amend the effective date paragraph in the amendments made to IFRS 7 'Financial Instruments: Disclosures', IAS 32 'Financial Instruments: Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' to clarify that those standards do not apply to contingent consideration that arose from business combinations whose acquisition dates preceded the application of IFRS 3 (Revised 2008)
	Measurement of non-controlling interests	Clarifies that the choice of measuring non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets applies only to instruments that are currently entitled to a proportionate share of the acquiree's net assets
	Un-replaced and voluntarily replaced share-based payments	Proposes to amend the application guidance in IFRS 3 so that it would also apply to share-based payment transactions of the acquiree that the acquirer chooses not to replace and share-based payment transactions that the acquirer chooses to exchange for share-based payment transactions of the acquiree, even though they would not expire as a consequence of the business combination
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Loss of significant influence (joint control) over an associate (jointly controlled entity)	Clarifies that an entity classifies as held for sale its interest in an associate or a jointly controlled entity when it is committed to a sale plan involving loss of significant influence or joint control
IFRS 7 Financial Instruments: Disclosures	Clarifications of disclosures	Proposes a variety of minor changes to the disclosures required about the nature and extent of risks arising from financial instruments
IAS 1 Presentation of Financial Statements	Clarification of Statement of Changes in Equity	Proposes to amend IAS 1 to state explicitly that an entity shall present the components of changes in equity either in the statement of changes in equity or in the notes to the financial statements

IFRS	Subject of amendment	Summary of proposed amendment
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Update for conceptual framework terminology changes	Proposes to amend IAS 8 to be consistent with the terminology changes made in the forthcoming conceptual framework that will replace the 'Framework for the Preparation and Presentation of Financial Statements'
IAS 27 Consolidated and Separate financial Statements	Impairment of investments in associates in separate financial statements of the investor Transition requirements for 2008 amendments to IASs 21, 28 and 31	Clarifies that in its separate financial statements the investor shall apply the provisions of IAS 39 'Financial Instruments: Recognition and Measurement' to test its investments in subsidiaries, jointly controlled entities and associates for impairment Clarifies that the amendments as a result of IAS 27 made to IAS 21, IAS 28 and IAS 31 require prospective application
IAS 28 Investments in Associates	Partial use of fair value for measurement of associates	Proposes to amend IAS 28 to clarify that different measurement bases can be applied to portions of an investment in an associate when part of the investment is designated at initial recognition as at fair value through profit or loss in accordance with the scope exception in IAS 28
IAS 34 Interim Financial Reporting	Significant events and transactions	Proposes an amendment to emphasise the disclosure principles in IAS 34 and to add further guidance to illustrate how to apply these principles
IAS 40 Investment Property	Changes from fair value model to cost model	Proposes to remove the requirement to transfer investment property carried at fair value to inventory when it will be developed for sale, to add a requirement for investment property held for sale to be displayed as a separate category in the statement of financial position and to require disclosures consistent with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'
IFRIC 13 Customer Loyalty Programmes	Fair value of award credit	Proposes to amend IFRIC 13 to clarify the meaning of the term 'fair value'



Comprehensive review of IAS 39 gathers pace

We report on the IASB's progress towards issuing a replacement standard for 'IAS 39 Financial Instruments: Recognition and Measurement'

As reported in the July edition of IFRS News, the IASB is undertaking a comprehensive review of IAS 39 with the aim of replacing all of its current requirements by 2010. The project has been divided into the following three parts.

Phase 1: Classification and measurement

An Exposure Draft on 'Classification and Measurement' was issued on 14 July 2009. Many of the concerns raised during the credit crisis arose from IAS 39's classification and measurement requirements (eg concern about the difference in magnitude of impairment losses recognised for debt instruments arising from differing classifications) and the Exposure Draft was a reaction to this. The comment period has now closed, and the IASB expects to finalise this phase of the project in time to allow, but not require, early application for 2009 year end financial statements.

The box summarises the proposals that were in the Exposure Draft and the IASB's tentative decisions following closure of the comment period.

Classification and measurement proposals

Under the proposals in the Exposure Draft 'Financial Instruments: Classification and Measurement', there would be a reduction in the number of categories of financial instruments:

- the existing categories of loans and receivables, held-to-maturity investments and available-for-sale investments would be eliminated
- almost all financial assets and financial liabilities would be measured at either amortised cost or fair value
- financial instruments which have only basic loan features and are managed on a contractual yield basis would be measured at amortised cost (a fair value option would however be retained)
- all other instruments would be measured at fair value
- for investments in equities, entities could elect to present fair value changes in other comprehensive income (OCI) provided the equity investments were not held for trading. Amounts recognised in OCI would not be recycled to profit or loss on disposal or in any other circumstances meaning there would be no impairment testing for these assets.

Effective date and transition

- retrospective application proposed but with some transition relief (on adoption assets and liabilities would be classified under the new criteria)
- available for 2009 year end financial statements, with mandatory adoption not likely to be before January 2012.

The Exposure Draft proposed that there would be no equivalent of IAS 39's exemption from measuring equity instruments at fair value where those instruments do not have a quoted market price and fair value cannot be reliably determined.

In the course of discussing the responses to the Exposure Draft, the IASB has, however, tentatively decided to provide guidance for when entities can use a simplified current measurement for equity instruments if determining fair value is impracticable.

Phase 2: Impairment methodology

The second phase of the project to replace IAS 39 will be the publication of an Exposure Draft on impairment in October. The Exposure Draft will take account of the feedback received on the IASB's 'Request for Information on the feasibility of an expected loss model for the impairment of financial assets' (see July IFRS news).

At the date of writing IFRS News, the Exposure Draft had not yet been released but the IASB had made the following tentative decisions:

- to include trade receivables, instruments quoted in active markets and individually significant assets in the scope of the Exposure Draft
- to prohibit the recognition of a loss on initial recognition of a loan that bears interest sufficient to cover the credit losses expected at initial recognition
- to seek the IASB's Expert Advisory Panel's input on possible ways to simplify application of the effective interest method.

Phase 3: Hedge accounting

The IASB intends to issue an exposure draft on hedge accounting in December 2009 as the final part of the project.

As can be seen from our 'Round-up' section, there are many views on the IASB's project. We will have a better idea by the end of the year on whether the ambitious plan to replace all of the current requirements of IAS 39 by 2010 is likely to be achieved.

Accounting for extractive activities

The IASB is to issue a discussion paper on accounting for extractive activities. The ultimate objective of this project is to develop a Standard which will supersede IFRS 6 'Exploration for and Evaluation of Mineral Resources', which

was released as an interim measure.

The primary focus of the project is to consider financial reporting issues associated with reserves and resources (including the exploration for reserves and resources) – in particular whether

and how to define, recognise, measure and disclose reserves and resources.

A working draft of the project team's discussion paper is available now on the IASB's website.

Debt for equity exchanges

IFRIC has published a draft Interpretation on how entities should account for issuing their own equity instruments in settlement of debt in a restructuring. The current economic climate has increased the frequency of these so-called 'debt for equity exchanges', making this a priority subject for IFRIC.

D25 'Extinguishing Financial Liabilities with Equity Instruments' proposes that:

- the equity instruments issued are 'consideration paid' to extinguish the liability

Grant Thornton International comment

There is significant diversity in the accounting for these types of transaction in practice, and we therefore support IFRIC's efforts to develop guidance in this area.

We question the proposed measurement of the equity instruments issued however, as we do not believe there is a robust basis for deciding which measurement basis is 'more reliably determinable'. Instead, we would like to see IFRIC decide which measurement approach is preferable from a conceptual and decision-usefulness standpoint, and require its use.

- the equity instruments are measured at either their fair value or the fair value of the financial liability extinguished, whichever is more reliably determinable
- any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of these equity instruments is included in the entity's profit or loss for the period.

IASB issues proposals on rate-regulated activities

The IASB has published an Exposure Draft on 'Rate-regulated Activities'. Rate regulation is a restriction in the setting of prices that can be charged to customers for services or products. Generally, it is imposed by regulatory bodies or governments when an entity has a monopoly or a dominant market position that gives it excessive market power.

The objective of the IASB's project is to develop a standard that clarifies whether regulated entities could or should recognise an asset or a liability as a result of rate regulation.

When the scope criteria are met, an entity recognises regulatory assets

and liabilities that would otherwise be recognised as an expense or as income

The IASB has mainly steered clear of developing industry specific standards in the past. Many billions of dollars of 'regulatory' assets and liabilities are however currently recognised in jurisdictions that apply US GAAP or similar standards. With some of these jurisdictions converging to IFRSs, clarifying the treatment of assets and liabilities arising from rate regulation in IFRSs has become an important subject.

The scope of the Exposure Draft is limited to activities that meet the following two criteria:

- an authorised body is empowered to establish rates that bind customers
- the price established by regulation (the rate) is designed to recover the specific costs the entity incurs in providing the regulated goods or services and to earn a specified return.

When the scope criteria are met, an entity recognises regulatory assets and liabilities that would otherwise be recognised as an expense or as income. Regulatory assets and liabilities are measured at their expected present value on initial recognition and at the end of each subsequent reporting period.

The Exposure Draft is open for comment until 20 November 2009.

IFRS News special edition on IFRS for SMEs

In September 2009 we issued a special edition of IFRS News on the International Financial Reporting Standard for Small and Medium-Sized Entities ("IFRS for SMEs").

Published by the International Accounting Standards Board (IASB) on 9 July 2009, the IFRS for SMEs has the potential to revolutionise and harmonise financial reporting by private companies across the world.

If you wish to receive a copy of this special edition of IFRS News, please get in touch with your usual IFRS contact.

Grant Thornton

IFRS News Special Edition

September 2009

"The potential of this new standard is that we move to a situation where lenders and investors are able to assess company performance from financial statements that use directly comparable, authoritative, internationally recognised principles, regardless of the country of origin of the company itself."

Alex MacLachlan
Global Leader of Privately Held Business Services at Grant Thornton International

The IFRS for Small and Medium-sized Entities

The International Financial Reporting Standard for Small and Medium-Sized Entities ("IFRS for SMEs") is a simplified version of full IFRS aimed at the needs of private companies. Published by the International Accounting Standards Board (IASB) on 9 July 2009, the IFRS for SMEs has the potential to revolutionise and harmonise financial reporting by private companies across the world.

Why has the IASB issued this Standard? In short, the answer is no response to demand. Full IFRS is developed primarily for publicly traded entities. It is not over 100 countries require or permit the use of IFRS-based standards for such companies. However, there are far more privately held companies than publicly traded ones. Many private companies prepare financial statements but, in much of the world, these statements are based on local requirements.

Now, for the first time, there is an internationally recognised reporting framework for private companies intended to assist those involved in their financing, to assess performance and make decisions on a like-for-like basis. Furthermore, a one-Standard approach has been taken in developing the IFRS for SMEs, with the emphasis being on easing the financial reporting burden on private companies.

This special edition of IFRS News tells you more about the new Standard.

New Grant Thornton International guide on IFRS 7 released

The Grant Thornton International IFRS team has published a detailed new IFRS guide in the last quarter. 'Financial Instruments on Display – Illustrative Disclosures and Guidance on IFRS 7' is intended for entities faced with the challenge of complying with IFRS 7 and other financial instruments-related disclosure requirements.

Experience has shown that IFRS 7 presents challenges, and two years of practical experience enables us to share our insights into the most problematic areas. Moreover, the global financial crisis has put the spotlight on the adequacy of risk and other disclosures concerning financial instruments. The main body of the guide illustrates IFRS 7's requirements using financial statement extracts and footnote disclosures for a fictional (non-financial services) entity.

The box is an extract from the Guide covering 10 'pitfalls' commonly encountered when dealing with IFRS 7 – requirements that in our experience take up management time and are sometimes misunderstood.

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

10 common pitfalls:

- IFRS 7 is detailed but still requires significant management judgement to decide, in the light of circumstances, how much information to provide and the format in which to present it
- IFRS 7's scope is wider than IAS 39. For example, obligations under finance leases are within its scope along with some instruments that may be 'off balance sheet'
- disclosure of fair value is required for most financial instruments even if they are not measured at fair value in the statement of financial position
- IFRS 7 now requires more comprehensive fair value disclosures for financial instruments measured at fair value, in particular a three-level 'fair value hierarchy'
- quantitative data about risk exposures should be sourced from information reported internally to key management. This 'management view' should then be benchmarked against the minimum quantitative data required
- the requirements for liquidity risk disclosures have changed – management must now assess which derivative liabilities to include and whether to include financial assets based broadly on the relevance of the cash flows to the liquidity position
- the maturity analyses required for liquidity risk show gross, undiscounted cash flows and should be based on the remaining contractual maturities (including interest payments etc). The amounts will not therefore 'tie-in' to the primary statements
- the disclosure for credit risk of financial assets is wide-ranging and goes well beyond trade receivables. Indeed credit risk can arise in some liabilities and some unrecognised instruments. Possible sources of credit risk include credit insurance, collateral, financial guarantees and loan commitments
- translation risk is not necessarily 'currency risk' for the purpose of the sensitivity analysis for currency risk. Currency risk arises only from financial instruments that are denominated in a different currency to each entity's functional currency
- a default on payment or a breach of a loan agreement (such as a loan covenant) triggers additional disclosures under IFRS 7 – even if rectified by year-end.

Grant Thornton surveys US chief financial officers on IFRS

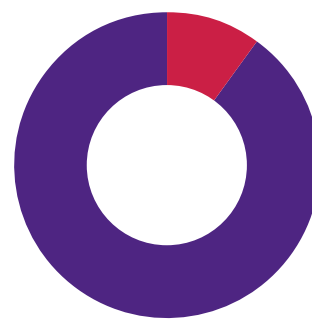
Grant Thornton LLP, the US member firm of Grant Thornton International Ltd, has completed its biannual survey of US CFOs and senior comptrollers. The survey was carried out between 21 September and 2 October 2009, with 846 respondents answering a variety of questions on financial matters.

Among the questions in the survey were several relating to US attitudes to IFRS. While not many companies are currently preparing their financial statements under IFRS, the survey shows a positive attitude to its use in the United States. The majority believe that the use of IFRS should be required at some stage in the future, although few favour its immediate introduction.

Perhaps most significantly, the survey shows a good awareness of the recently issued 'International Financial Reporting Standard for Small and Medium-sized Entities' (IFRS for SMEs). Over half of respondents thought that eligible US companies should be allowed to use the IFRS for SMEs despite the fact that the Standard was only issued in July of this year. A snapshot of some of the findings is presented below.

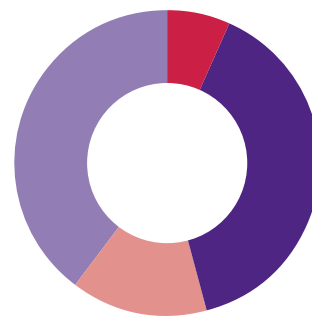
1. Does your firm prepare financial statements according to IFRS?

- Yes: **10.18%**
- No: **89.82%**



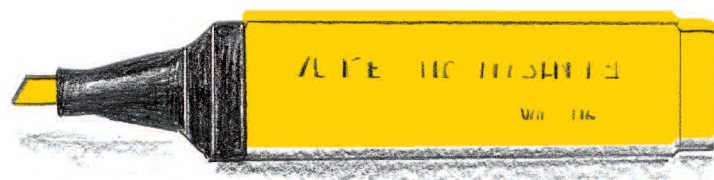
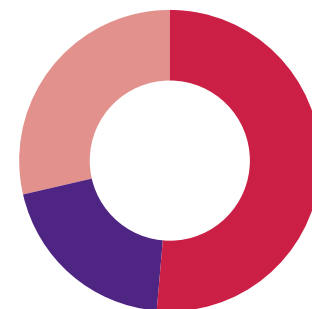
2. Do you believe US companies should be required to use IFRS:

- Immediately: **6.70%**
- In 3 to 5 years: **39.24%**
- In 5 years or longer: **14.47%**
- Never, US Generally Accepted Accounting Principles (GAAP) is fine: **39.59%**



3. Should non-public entities in the US be allowed to use IFRS for SMEs when preparing financial statements?

- Yes: **51.62%**
- No: **19.81%**
- Don't know: **28.57%**



Round-up

SEC Chairman positive on IFRS

In a speech to the International Organization of Securities Commissions (IOSCO), SEC Chairman, Mary Schapiro, has applauded the quick reaction and ambitious timeline that the IASB and FASB have laid out to revise their accounting standards in the wake of the credit crisis.

She also outlined the SEC's intentions to focus on developing a work plan which will follow up on the release of last year's roadmap to IFRS conversion in the United States, and expand on the concepts that were proposed in that plan.

SEC appointment viewed as favourable for IFRS

James Kroeker has been appointed to the role of SEC Chief Accountant. Kroeker's appointment is viewed as positive for the adoption of IFRS in the United States as he has previously expressed support for principles-based accounting.

South Africa adopts the IFRS for SMEs

South Africa has become the first country to formally adopt the International Financial Reporting Standard for Small and Medium-sized Entities. South Africa quickly moved to issue the final Standard (without any change to the text) as a Statement of Generally Accepted Accounting Practice following its publication.

Entities falling within the scope of the IFRS for SMEs may apply it for annual

financial statements that are authorised for issue after 13 August 2009.

IASC Foundation publishes proposed IFRS for SMEs Taxonomy

The International Accounting Standards Committee (IASB) Foundation has published an exposure draft of the IFRS for SMEs Taxonomy. The Taxonomy is a complete translation of the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) into eXtensible Business Reporting Language (XBRL).

XBRL is effectively a dictionary of data tags, which allows financial statement information to be shared and analysed over the internet. It is becoming increasingly popular with governments for filing and taxation purposes. The exposure draft is open for comment until 27 November. The IASB Foundation aims to publish the final version of the Taxonomy in December 2009.

G20 calls for a single set of global accounting standards by June 2011

In an agreement reached at a summit held in Pittsburgh in September, the leaders of the G-20 nations called on "international accounting bodies to redouble their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard setting process and complete their convergence project by June 2011".

IASB Chairman speaks to EU

Sir David Tweedie, IASB Chairman, gave a speech to the Economic and Monetary Affairs Committee of the European Parliament where he drew attention to the work the IASB was doing alongside prudential supervisors, financial institutions, investors and other stakeholders to improve loan-loss provisioning by developing more forward-looking measures.

During his speech Sir David also rejected any possibility of the IASB delaying its development of a Standard to replace IAS 39 'Financial Instruments: Recognition and Measurement' and adopting the US standard on impairment as an interim measure.

On 20 October Sir David also updated EU Finance Ministers (ECOFIN) on progress.

Financial Stability Board recommendations on strengthening accounting standards

The Financial Stability Board, established following the G20 Leaders' Summit of April 2009, has urged the IASB and FASB to agree on converged standards that will:

- incorporate a broader range of available credit information than existing provisioning requirements so that credit losses in loan portfolios are recognised at an earlier stage; and
- simplify and improve the accounting principles for financial instruments and their valuation in a way that does not expand the use of fair value in

relation to the lending activities of financial intermediaries.

Basel committee recommendations on replacing IAS 39

The Basel committee on Banking Supervision has released a set of high level guiding principles to assist the IASB in addressing issues related to provisioning, fair value measurement and related disclosures. The move follows calls by the G20 leaders for the IASB to work urgently with supervisors and regulators with the goal of achieving a single set of high-quality global accounting standards.

To address particular concerns about procyclicality, the Basel Committee recommends that the IASB should provide for valuation adjustments to avoid misstatement of both initial and subsequent profit and loss recognition when there is significant valuation uncertainty. The Basel Committee also recommends that loan loss provisions should reflect expected credit losses in banks' existing loan portfolios over the life of the portfolios.

Review of the IASC Foundation Constitution

The Trustees of the International Accounting Standards Committee Foundation (IASC Foundation), the oversight body of the IASB, have published proposals forming the second and final part of their review of the Foundation's Constitution.

The key proposals seek to: enhance the IASB agenda-setting processes; expand the IASB's liaison with other organisations; establish a procedure for the possibility of an accelerated due process; provide further geographical balance among the Trustees; change the name of the organisation to the IFRS Foundation to provide clarity regarding its mission (a similar name change is proposed for the IASB).

Japanese convergence

The Accounting Standards Board of Japan and the IASB held their tenth meeting to accelerate convergence of Japanese generally accepted accounting principles and IFRS. The meeting, which

was held in London during September, reaffirms the ongoing cooperation of the two standard setters in achieving convergence in their standards.

Exposure Draft proposes to amend the discount rate for measuring employee benefits

The IASB has published an Exposure Draft entitled Discount Rate for Employee Benefits (proposed amendments to IAS 19). The Exposure Draft would eliminate the requirement to use yields on government bonds when there is no deep market in corporate bonds. The proposed amendments are aimed at ensuring that the comparability of financial statements is maintained, regardless of whether there is a deep market for high quality corporate bonds in a particular jurisdiction.

Subject to the comments it has received on the Exposure Draft (which are currently being considered), the IASB intends to permit entities to adopt the proposed amendments in their December 2009 financial statements.

Appointments

Canada

Sophie Bureau, Partner in accounting research at our Canadian firm Raymond Chabot Grant Thornton, has been appointed by the Canadian Accounting Standards Board to its IFRS Discussion Group (IDG).

The purpose of the IDG is to assist the Canadian standard-setter in identifying issues relating to the application of IFRSs in Canada. The IDG will be a public forum in which such issues can be discussed. The IDG will make recommendations to the Canadian standard-setter as to whether particular issues should be referred to the International Accounting Standards Board (IASB) or the IASB's

International Financial Reporting Interpretations Committee.

Our congratulations go out to Sophie. The first meeting has been set for Wednesday November 25th in Toronto.

Europe

Brian Shearer, National Director of Financial Reporting at Grant Thornton UK, has been appointed to EFRAG's SME Working Group.

EFRAG (the European Financial Reporting Advisory Group) was set up in 2001 to assist the European Commission in the endorsement of IFRS by providing advice on the technical quality of IFRS. Its SME

Working Group will look at all matters that might affect accounting by Small and Medium-sized Entities (as defined by the European Union) including the recently issued IFRS for SMEs.

Commenting on his appointment, Brian said:

"Accounting by private companies, especially those with international connections, is a vibrant debate at the moment. Globalisation affects these companies, and the IFRS for SMEs has energised discussions on what the best accounting looks like. I am delighted to be involved at the centre for the European region."

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?
IAS 32	Classification of Rights Issues (Amendment to IAS 32)	1 February 2010	Yes
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities	Immediately, subject to approval within the individual jurisdiction	N/A
IFRS 1	Additional Exemptions for First-time Adopters (Amendments to IFRS 1)	1 January 2010	Yes
IFRS 2	Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2010	Yes
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)

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
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

Open for comment

This table lists the documents that the IASB currently has out for 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	Management Commentary	1 March 2010
Consultation Document	Constitution Review – Proposals for enhanced public accountability	30 November 2009
Exposure Draft	IFRS for SMEs Taxonomy	27 November 2009
Exposure Draft	Improvements to IFRSs	24 November 2009
Exposure Draft	Rate-regulated Activities	20 November 2009



www.gti.org

© 2009 Grant Thornton International Ltd. All rights reserved.
Grant Thornton International Ltd (Grant Thornton International) and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.