A practical guide to new IFRSs for 2013

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IFRS technical publications

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Global guide to IFRS providing comprehensive practical guidance on how to prepare financial statements in accordance with IFRS. Includes hundreds of worked examples, extracts from company accounts and guidance on financial instruments. The Manual is a three-volume set comprising:

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- Manual of accounting – IFRS 2013 – volume 2
- Illustrative IFRS consolidated financial statements for 2012 year ends

A practical guide to capitalisation of borrowing costs

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A practical guide to new IFRSs for 2013

A high-level outline of the key requirements of new IFRS standards and interpretations effective in 2013.

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Guidance describing concepts of IAS 29, including detailed illustrative examples.

Manual of accounting – Interim financial reporting 2013

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- Investment funds, 2012
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- Insurance, 2011

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Introduction

This publication is a practical guide to the new IFRS standards and interpretations that come into effect for 2013 year ends.

An amendment to IAS 1, 'Presentation of financial statements', applies from 1 July 2012 and changes the disclosure of items presented in other comprehensive income.

The revisions made to IAS 19, 'Employee benefits', are significant, will impact most entities and come into effect from 1 January 2013. The revisions change the recognition and measurement of defined benefit pensions expense and termination benefits and the disclosures required. In particular, actuarial gains and losses can no longer be deferred using the corridor approach.

A group of five new and revised standards were published in May 2011, dealing with control and the scope of the reporting entity. IFRS 10, 'Consolidated financial statements', changes the definition of control; IFRS 11, 'Joint arrangements', reduces the types of joint arrangement to joint operations and joint ventures, and prohibits the use of proportional consolidation. IFRS 12, 'Disclosure of interests in other entities', brings together in one standard the disclosure requirements that apply to investments in subsidiaries, associates, joint ventures, structured entities and unconsolidated structured entities. As part of this overhaul of the consolidation standards, IAS 27 (revised) now deals only with separate financial statements, and IAS 28 (revised) covers equity accounting for joint ventures as well as associates. These new standards have to be implemented together and apply from 1 January 2013, although they have been adopted by the EU from 1 January 2014. They can be adopted with immediate effect, but only if they are all applied at the same time. A further amendment to these standards sets out the accounting for investment entities and this comes into effect from 1 January 2014.

A number of current IFRSs require entities to measure or disclose the fair value of assets, liabilities or their own equity instruments. The fair value measurement requirements and the disclosures about fair value in those standards do not always articulate a clear measurement or disclosure objective. IFRS 13, 'Fair value measurement', published in May 2011, deals with this issue. The new requirements apply from 1 January 2013, but can be adopted with immediate effect.

IFRS 9, 'Financial instruments', was reissued in 2010 and includes guidance on the classification and measurement of financial assets and financial liabilities and the derecognition of financial instruments. The standard is being added to as the IASB endorses different phases of the project to replace IAS 39. The reissued IFRS 9 applies to 2015 year ends, but can be adopted with immediate effect (subject to EU endorsement for European entities).

One interpretation – IFRIC 20, 'Stripping costs in the production phase of a surface mine', was published in 2011. It sets out the accounting for overburden waste removal costs in the production phase of a mine. It applies from 1 January 2013 but can be early adopted (subject to EU endorsement for European entities).

Amendments were also made to: IFRS 1 'First-time adoption of International Accounting Standards' concerning government loans and severe hyperinflation; IFRS 7, 'Financial instruments: Disclosure', and IAS 32, 'Financial instruments: Presentation', on offsetting; and IAS 12, 'Income taxes' on deferred tax accounting for investment properties.

The 2011 improvements project contained seven amendments affecting five standards, which are all effective from 1 January 2013.

The 2012 improvements had yet to be issued by the IASB at the time this publication went to print.

Standard	Adopted by EU	Early-adoption status	Page
Changes that apply from 1 July 2012			
Amendment to IAS 1, 'Presentation of financial statements' – presentation of items of other comprehensive income	✓	Early adoption is permitted	6
Changes that apply from 1 January 2013			
Amendment to IFRS 1, 'First-time adoption' – government loans	✓	Early adoption is permitted	12
Amendment to IFRS 1, 'First time adoption' – exemption for severe hyperinflation and fixed dates for EU entities	✓	Early adoption is permitted	10
Amendment to IFRS 7, 'Financial instruments: Disclosures' on offsetting	✓	Early adoption is permitted	13
Amendment to IAS 12 'Income taxes'– deferred tax accounting for investment properties for EU entities	✓	Early adoption is permitted	7
IAS 19 (revised), 'Employee benefits'	✓	Early adoption is permitted	8
IAS 27 (revised), 'Separate financial statements' for non EU entities	1/14	Early adoption is permitted	22
IAS 28 (revised), 'Associates and joint ventures' for non EU entities	1/14	Early adoption is permitted	24
IFRS 10, 'Consolidated financial statements', for non EU entities	1/14	Early adoption is permitted	22
IFRS 11, 'Joint arrangements', for non EU entities	1/14	Early adoption is permitted	24
IFRS 12, 'Disclosure of interests in other entities', for non EU entities	1/14	Early adoption is permitted	26
IFRS 13, 'Fair value measurement'	✓	Early adoption is permitted	28
Amendments to IFRS 10, 11, 12 – Transition guidance for non EU entities	×	Early adoption is permitted	14
IFRIC 20, 'Stripping costs in the production phase of a surface mine'	✓	Early adoption is permitted	30
Annual improvements 2011			
Amendment to IFRS 1, 'First-time adoption' – applying IFRS 1 more than once	×	Early adoption is permitted	32
Amendment to IFRS 1, 'First-time adoption' – adoption of IAS 23	×	Early adoption is permitted	32
Amendment to IAS 1, 'Presentation of financial statements'	×	Early adoption is permitted	33
Amendment to IFRS 1 'First-time adoption', as a result of amendment to IAS 1	×	Early adoption is permitted	33

Standard	Adopted by EU	Early-adoption status	Page
Amendment to IAS 16, 'Property, plant and equipment'	×	Early adoption is permitted	33
Amendment to IAS 32, 'Financial instruments: Presentation'	×	Early adoption is permitted	33
Amendment to IAS 34, 'Interim financial reporting'	×	Early adoption is permitted	34
Changes that apply from 1 January 2014			
IAS 27 (revised), 'Separate financial statements' for EU entities	✓	Early adoption is permitted	22
IAS 28 (revised), 'Associates and joint ventures' for EU entities	✓	Early adoption is permitted	24
IFRS 10, 'Consolidated financial statements', for EU entities	✓	Early adoption is permitted	22
IFRS 11, 'Joint arrangements', for EU entities	✓	Early adoption is permitted	24
IFRS 12, 'Disclosure of interests in other entities', for EU entities	✓	Early adoption is permitted	26
Amendments to IFRS 10, 11, 12 – Transition guidance for EU entities	×	Early adoption is permitted	14
Amendments to IAS 32, 'Offsetting financial instruments asset and liability'	✓	Early adoption is permitted	13
Amendments to IFRS 10, 12 and IAS 27 'Investment entities'	×	Early adoption is permitted	15
Changes that apply from 1 January 2015			
IFRS 9, 'Financial instruments' – classification of financial assets and financial liabilities	×	Early adoption is permitted	17

Amended standards

Presentation of items of other comprehensive income – IAS 1 amendment

The IASB has issued an amendment to IAS 1, 'Presentation of financial statements'. The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income.

The IASB originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn, and IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements.

The amendment does not address which items should be presented in OCI and the option to present items of OCI either before tax or net of tax has been retained.

Effective date

Annual periods beginning on or after 1 July 2012. Early adoption is permitted.

EU adoption status

Adopted by the European Commission on 6 June 2012.

What are the key provisions?

The amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled – such as revaluation gains on property, plant and equipment – will be presented separately from items that may be recycled in the future – such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

The title used by IAS 1 for the statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income'. However, IAS 1 still permits entities to use other titles.

Who is affected?

All entities with gains and losses presented in OCI are affected by the change to the presentation of OCI items.

What do affected entities need to do?

Management should confirm that reporting systems can capture the information needed to implement the revised presentation of OCI items, and update the systems where necessary.

Deferred tax accounting for investment property at fair value – IAS 12 amendment

The IASB amended IAS 12, 'Income taxes', to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.

Effective date

Annual periods beginning on or after 1 January 2012. Early adoption is permitted.

EU adoption status

Adopted by the European Commission 29 December 2012 for annual periods on or after 1 January 2013.

Why was this amendment needed?

The current principles in IAS12 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way that management expects to recover or settle the carrying amount of the entity's assets or liabilities. For example, management may expect to recover an asset by using it, by selling it or by a combination of use and sale. Management's expectations can affect the measurement of deferred taxes when different tax rates or tax bases apply to the profits generated from using and selling the asset.

The IASB believes that entities holding investment properties that are measured at fair value sometimes find it difficult or subjective to estimate how much of the carrying amount will be recovered through rental income (that is, through use) and how much will be recovered through sale, particularly when there is no specific plan for disposal at a particular time.

Key provisions

The IASB has added another exception to the principles in IAS 12: the rebuttable presumption that investment property measured at fair value is recovered entirely by sale. The rebuttable presumption also applies to the deferred tax liabilities or assets that arise from investment properties acquired in a business combination, if the acquirer subsequently uses the fair value model to measure those investment properties.

The presumption of recovery entirely by sale is rebutted if the investment property is depreciable (for example, buildings, and land held under a lease) and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The presumption cannot be rebutted for freehold land that is an investment property, because land can only be recovered through sale.

The amendments also incorporate SIC 21, 'Income taxes – Recovery of revalued non-depreciable assets', into IAS 12, although this guidance will not be applied to investment property measured at fair value. The SIC 21 guidance has been included because it is applied by analogy in a number of situations.

What are the transition implications?

The amendment is effective for annual periods beginning on or after 1 January 2012. Management can elect to early adopt the amendment for financial years ending 31 December 2010. Entities should apply the amendment retrospectively in accordance with IAS 8, 'Accounting policies, changes in accounting estimates and errors'.

Who does the amendment affect?

All entities holding investment properties measured at fair value in territories where there is no capital gains tax or where the capital gains rate is different from the income tax rate (for example, Singapore, New Zealand, Hong Kong and South Africa) will be significantly affected. The amendment is likely to reduce significantly the deferred tax assets and liabilities recognised by these entities. It will also mean that, in jurisdictions where there is no capital gains tax, there will often be no tax impact of changes in the fair value of investment properties. It might be necessary for management to reconsider recoverability of an entity's deferred tax assets because of the changes in the recognition of deferred tax liabilities on investment properties, and to consider the impact of the amendment on previous business combinations.

Employee benefits – IAS 19 revised

The IASB has revised IAS 19, 'Employee benefits', making significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.

The changes will affect most entities that apply IAS 19. They could significantly change a number of performance indicators and might also significantly increase the volume of disclosures.

Effective date

The amendment is effective for periods beginning on or after 1 January 2013. Early adoption is permitted. The amendment should be applied retrospectively in accordance with IAS 8, 'Accounting policies, changes in accounting estimates and errors', except for changes to the carrying value of assets that include employee benefit costs in the carrying amount.

EU adoption status

Adopted by the European Commission on 6 June 2012.

The key changes are as follows:

- *Recognition of actuarial gains and losses (remeasurements):* 'Actuarial gains and losses' are renamed 'remeasurements' and will be recognised immediately in 'other comprehensive income' (OCI). Actuarial gains and losses will no longer be deferred using the corridor approach or recognised in profit or loss; this is likely to increase balance sheet and OCI volatility. Remeasurements recognised in OCI will not be recycled through profit or loss in subsequent periods.
- *Recognition of past service cost/curtailment:* Past-service costs will be recognised in the period of a plan amendment; unvested benefits will no longer be spread over a future-service period. A curtailment now occurs only when an entity reduces significantly the number of employees. Curtailment gains/losses are accounted for as past- service costs.
- *Measurement of pension expense:* Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the finance charge and expected return on plan assets, and will increase benefit expense for most entities. There will be no change in the discount rate, which remains a high-quality corporate bond rate where there is a deep market in such bonds, and a government bond rate in other markets.
- *Presentation in the income statement:* There will be less flexibility in income statement presentation. Benefit costs will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. This analysis can be in the income statement or in the notes.
- *Disclosure requirements:* Additional disclosures are required to present the characteristics of benefit plans, the amounts recognised in the financial statements, and the risks arising from defined benefit plans and multi-employer plans. The objectives and principles underlying disclosures are provided; these are likely to require more extensive disclosures and more judgement to determine what disclosure is required.
- *Distinction between 'short-term' and 'other long-term' benefits:* The distinction between short- and long-term benefits for measurement purposes is based on when payment is expected, not when payment can be demanded. However, the amendment does not alter the balance sheet classification of the liabilities recorded in respect of the benefit obligation. Such classification is determined in accordance with IAS 1 and reflects whether an entity has the unconditional ability to defer payment for more than a year, regardless of when the obligation is expected to be settled.

- *Treatment of expenses and taxes relating to employee benefit plans:* Taxes related to benefit plans should be included either in the return on assets or the calculation of the benefit obligation, depending on their nature. Investment management costs should be recognised as part of the return on assets; other costs of running a benefit plan should be recognised as period costs when incurred. This should reduce diversity in practice but might make the actuarial calculations more complex.
- *Termination benefits:* Any benefit that has a future-service obligation is not a termination benefit. This will reduce the number of arrangements that meet the definition of termination benefits. A liability for a termination benefit is recognised when the entity can no longer withdraw the offer of the termination benefit or recognises any related restructuring costs. This might delay the recognition of voluntary termination benefits.
- *Risk or cost sharing features:* The measurement of obligations should reflect the substance of arrangements where the employer's exposure is limited or where the employer can use contributions from employees to meet a deficit. This might reduce the defined benefit obligation in some situations. Determining the substance of such arrangements will require judgement and significant disclosure.

Am I affected?

These changes will affect most entities that apply IAS 19. The changes could significantly change a number of performance indicators, including EBITDA, EPS and balance sheet ratios. They might also significantly increase the volume of disclosures.

What do affected entities need to do?

Management should determine the impact of the revised standard and, in particular, any changes in benefit classification and presentation.

Management should consider the effect of the changes on any existing employee benefit arrangements and whether additional processes are needed to compile the information required to comply with the new disclosure requirements.

Management should also consider the choices that remain within IAS 19, including the possibility of early adoption, the possible effect of these changes on key performance ratios and how to communicate these effects to analysts and other users of the accounts.

Exemption for severe hyperinflation and removal of fixed dates – IFRS 1 amendment

The IASB made two amendments to an exemption for severe IFRS 1, 'First-time adoption of IFRS', hyperinflation; and in December 2010: Removal of fixed dates.

Effective date

Annual periods beginning on or after 1 July 2011. Earlier adoption is permitted.

EU adoption status

Adopted by the European Commission on 29 December 2012 for annual periods on or after 1 January 2013.

Severe hyperinflation

What is the issue?

The amendment creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting, or presents for the first time, financial statements in accordance with IFRSs. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

An entity might be unable to prepare financial statements in accordance with IFRSs for a period of time because it could not comply with IAS 29, 'Financial reporting in hyperinflationary economies', due to severe hyperinflation. The exemption applies where the entity is able to begin reporting in accordance with IFRS.

What are the key provisions?

The amendment states that the currency of a hyperinflationary economy is subject to severe hyperinflation when:

- a reliable general price index is not available to all entities with transactions and balances in the currency; and
- exchangeability between the currency and a relatively stable foreign currency does not exist.

An entity's functional currency ceases to be subject to severe hyperinflation on the functional currency normalisation date, which occurs:

- when one or both of the characteristics of severe hyperinflation no longer exist; or
- when the first-time adopter changes its functional currency to a currency that is not subject to severe hyperinflation.

The exemption applies to entities that were subject to severe hyperinflation and are adopting IFRS for the first time or have previously applied IFRS.

When an entity's date of transition to IFRS is on or after the functional currency normalisation date, it may elect to measure assets and liabilities acquired before that date at fair value and use that fair value as deemed cost in the opening IFRS statement of financial position.

IFRS 1 defines the date of transition as the beginning of the earliest period for which an entity presents comparative information under IFRS in its first IFRS financial statements. When the functional currency normalisation date falls within the comparative period, that period may be less than 12 months, provided that a complete set of financial statements (as required by IAS 1) is provided for that shorter period.

The entity cannot comply with IFRS due to the severe hyperinflation in periods before the date of transition to IFRS, so the comparative information for this period cannot be prepared in accordance with IFRS. The entity should therefore consider whether disclosure of non-IFRS comparative information and historical summaries in accordance with IFRS 1 would provide useful information to the users of the financial statements.

If an entity applies the new exemption to comply with IFRS, it should explain the transition to IFRS, and why and how the entity ceased to have a functional currency subject to severe hyperinflation.

Who does the amendment affect?

The amendment is expected to have a limited impact, as it is only available to entities whose functional currency was subject to severe hyperinflation. The Zimbabwean economy has been identified as an economy that was subject to severe hyperinflation until early 2009; the amendment is unlikely to apply in other territories at the time of going to print.

The amendment would not change or allow any additional IFRS 1 exemptions for a reporting entity that has control, joint control or significant influence over an entity subject to severe hyperinflation, except to the extent that the reporting entity is also a first-time adopter.

What do affected entities need to do?

Management of entities in Zimbabwe and first-time adopters that have interests in Zimbabwe should consider:

- their functional currency normalisation date;
- their proposed date of transition to IFRS;
- whether the comparative period will be presented for a period shorter than 12 months; and
- the assets and liabilities they wish to measure at fair value on transition to IFRS.

Removal of fixed dates requirement

What is the issue?

The IASB amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities.

The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004.

The second amendment relates to financial assets or liabilities at fair value on initial recognition where the fair value is established through valuation techniques in the absence of an active market. The amendment allows the guidance in IAS 39 AG76 and IAS 39 AG76A to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter does not need to determine the fair value of financial assets and liabilities for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.

Who does the amendment affect?

Entities that had derecognised financial assets or liabilities before the date of transition to IFRS will need to apply the derecognition guidance from the date of transition, as it is a mandatory exception. The second change will only be relevant for entities that elect to use the exemption for fair value established by valuation techniques.

Government loans – IFRS 1 amendment

The IASB has amended IFRS 1, 'First- time adoption of International Financial Reporting Standards', to provide relief from the retrospective application of IFRSs in relation to government loans.

The new exception requires first-time adopters to apply the requirements in IFRS 9, 'Financial instruments', and IAS 20, 'Accounting for government grants and disclosure of government assistance', prospectively to government loans that exist at the date of transition to IFRS. This will give first-time adopters the same relief as existing preparers.

Effective date

Annual periods beginning on or after 1 January 2013. Early adoption is permitted.

EU adoption status

Adopted by the European Commission on 5 March 2013.

What is the issue?

The amendment aligns IFRS 1 with the IAS 20 requirements (after its revision in 2008) to prospectively fair value government loans with a below-market rate of interest.

The general requirement in IFRS 1 for first- time adopters to apply IFRS retrospectively at the date of transition to IFRSs could mean some entities have to measure such government loans at fair value at a date before the date of transition to IFRS. This might mean management has to apply hindsight in order to derive a fair value that has significant unobservable inputs. So the Board has added an exception that allows a first-time adopter to use its previous GAAP carrying amount for such loans on transition to IFRS. The exception applies to recognition and measurement only.

Management should use the requirements of IAS 32, 'Financial instruments: Presentation', to determine whether government loans are classified as equity or as a financial liability.

Who is affected?

The amendment affects first-time adopters with government loans with a below-market rate of interest.

What do affected entities need to do?

- First-time adopters should classify all government loans as a financial liability or an equity instrument in accordance with IAS 32. They should apply the IFRS 9 and IAS 20 requirements prospectively to government loans existing at the date of transition to IFRS; they should not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.
- Management may apply the IFRS 9 and IAS 20 requirements retrospectively to any government loan originated before the date of transition to IFRS, provided that the information needed to do so had been obtained at the time of initially accounting for that loan. This is available on a loan-by-loan basis.
- Management can use the exemptions in IFRS 1, paragraphs D19-D19D relating to the designation of previously recognised financial instruments at fair value through profit or loss in conjunction with the government loan exception.

Offsetting requirements and converged disclosures – IAS 32 and IFRS 7 amendments

The IASB has issued an amendment to the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from US GAAP. As a result, the IASB has also published an amendment to IFRS 7, 'Financial instruments: Disclosures', reflecting the joint requirements with the FASB to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

Effective date

IFRS 7: annual periods beginning on or after 1 January 2013, restrospectively applied. Early adoption is permitted.

IAS 32: annual periods beginning on or after 1 January 2014, restrospectively applied. Early adoption is permitted.

EU adoption status

Adopted by the European Commission on 29 December 2012.

What is the issue?

The amendments do not change the current offsetting model in IAS 32, which requires an entity to offset a financial asset and financial liability in the statement of financial position only when the entity currently has a legally enforceable right of set-off and intends either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously.

The amendments clarify that the right of set-off must be available today – that is, it is not contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of bus iness, as well as in the event of default, insolvency or bankruptcy.

The amendments also clarify that gross settlement mechanisms (such as through a clearing house) with features that both

(i) eliminate credit and liquidity risk; and

(ii) process receivables and payables in a single settlement process, are effectively equivalent to net settlement; they would therefore satisfy the IAS 32 criterion in these instances.

Master netting agreements where the legal right of offset is only enforceable on the occurrence of some future event, such as default of the counterparty, continue not to meet the offsetting requirements.

Disclosures

The amendments require more extensive disclosures than are currently required under IFRS and US GAAP. The disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

Who is affected?

These amendments primarily affect financial institutions, as they will be required to provide additional disclosures described above. However, other entities that hold financial instruments that may be subject to offsetting rules will also be affected.

What do affected entities need to do?

Management should begin gathering the information necessary to prepare for the new disclosure requirements. They will also need to investigate whether the clarifications of the offsetting principle in IAS 32 result in any changes to what they offset in the statement of financial position today. Management may need to work with the clearing houses they use to determine whether their settlement processes comply with the new requirements.

Transition guidance for IFRSs 10, 11 and 12 – amendments to IFRS 10, 11 and 12

The IASB has issued an amendment to the transition requirements in IFRS 10, 'Consolidated financial statements', IFRS 11, 'Joint Arrangements', and IFRS 12, 'Disclosure of interests in other entities'.

Effective date

IFRS 10, 11 and 12: annual periods beginning on or after 1 January 2013, restrospectively applied. Early adoption is permitted.

EU adoption status

Not adopted by the European Commission at the time of going to print.

What's the issue?

It clarifies that the date of initial application is the first day of the annual period in which IFRS 10 is adopted – for example, 1 January 2013 for a calendar-year entity that adopts IFRS 10 in 2013. Entities adopting IFRS 10 should assess control at the date of initial application; the treatment of comparative figures depends on this assessment.

The amendment also requires certain comparative disclosures under IFRS 12 upon transition.

The key changes in the amendment are:

- if the consolidation conclusion under IFRS 10 differs from IAS 27/SIC 12 as at the date of initial application, the immediately preceding comparative period (that is, 2012 for a calendar-year entity that adopts IFRS 10 in 2013) is restated to be consistent with the accounting conclusion under IFRS 10, unless impracticable;
- any difference between IFRS 10 carrying amounts and previous carrying amounts at the beginning of the immediately preceding annual period is adjusted to equity;
- adjustments to previous accounting are not required for investees that will be consolidated under both IFRS 10 and the previous guidance in IAS 27/SIC 12 as at the date of initial application, or investees that will be unconsolidated under both sets of guidance as at the date of initial application; and
- comparative disclosures will be required for IFRS 12 disclosures in relation to subsidiaries, associates, and joint arrangements. However, this is limited only to the period that immediately proceeds the first annual period of IFRS 12 application. Comparative disclosures are not required for interests in unconsolidated structured entities.

The amendment is effective for annual periods beginning on or after 1 January 2013, consistent with IFRS 10, 11 and 12.

Am I affected?

The amendment will affect all reporting entities (investors) who need to adopt IFRSs 10, 11 or 12.

What do I need to do?

IFRS preparers should start considering the transition amendment, and how they can use the exemptions granted to minimise implementation costs of IFRSs 10, 11 and 12. IFRS preparers should also start collating the comparative disclosure information required by the amendment.

Exception from consolidation for 'investment entities' – amendment to IFRS 10, IFRS 12 and IAS 27

What's new?

Many funds and similar entities will be exempted from consolidating controlled investees under amendments to IFRS 10, 'Consolidated financial statements'. This is a result of the IASB issuing amendments to IFRS 10, IFRS 12, 'Disclosure of interests in other entities' and IAS 27, 'Separate financial statements', on 31 October 2012. This will particularly benefit private equity funds, as those that qualify will fair-value all of their investments, including those that are controlled.

Effective date

Annual periods beginning on or after 1 January 2014, restrospectively applied. Early adoption is permitted.

EU adoption status

Not adopted by the European Commission at the time of going to print.

The guidance applies to an 'investment entity'. The amendment to IFRS 10 defines an investment entity and introduces an exception from consolidation. The amendments to IFRS 12 also introduce disclosures that an investment entity needs to make.

The amendments apply for annual periods beginning on or after 1 January 2014; earlier application is permitted.

Definition of an investment entity

You will need to make an assessment of whether your business meets the investment entity definition.

An investment entity is an entity that:

- obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

You will also need to consider a set of typical characteristics. These, combined with the definition, are intended to allow for an appropriate balance between creating a clear scope and allowing judgement in assessing whether you are an investment entity.

The characteristics are: holding more than one investment, having more than one investor, having investors that are not related parties of the entity, and having ownership interests in the form of equity or similar interests. The absence of one or more of these characteristics does not prevent the entity from qualifying as an investment entity.

You will not be disqualified from being an investment entity where you carry out any of the following activities:

- provision of investment-related services to third parties and to your investors, even when substantial; and
- providing management services and financial support to your investees, but only when these do not represent separate substantial business activity and are carried out with the objective of maximising the investment return from your investees.

Exception from consolidation and measurement of investees

You are required to account for your subsidiaries at fair value through profit or loss in accordance with IFRS 9, 'Financial instruments' (or IAS 39, 'Financial instruments: recognition and measurement', where applicable), where you qualify as an investment entity. The only exception is for subsidiaries that provide services to you that are related to your investment activities, which are consolidated.

Accounting by a non-investment entity parent for the controlled investments of an investment entity subsidiary

You may be an investment entity but your parent is not. For example, your investment entity fund is controlled by an insurance company. Your non-investment entity parent is required to consolidate all entities it controls including those controlled through an investment entity. The insurance group will have to consolidate the subsidiaries of your fund in the insurance group's financial statements, even though in your fund's own financial statements you will fair value your subsidiaries. Therefore, what is known as the fair value 'roll-up' is not permitted to a non-investment parent entity.

Disclosure

Required disclosures, where you qualify as an investment entity, include the following:

- significant judgements and assumptions made in determining that you have met the definition of an investment entity;
- reasons for concluding that you are an investment entity even though you don't have one or more of the typical characteristics;
- information on each unconsolidated subsidiary (name, country of incorporation, proportion of ownership interest held);
- restrictions on unconsolidated subsidiaries transferring funds to the investment entity;
- financial or other support provided to unconsolidated subsidiaries during the year, where there wasn't any contractual obligation to do so; and
- information about any 'structured entities' you control (for example, any contractual arrangements to provide any financial or other support).

Am I affected?

You will be affected if you are a fund or a similar entity. Some may qualify as investment entities, and some may not.

What do I need to do?

You should look closely at the guidance to determine whether or not you are an investment entity. If you are, for example, a property fund that actively develops properties, you are unlikely to qualify, as your objective is not solely capital appreciation or investment income. On the other hand, if you are a limited life fund set up to buy and sell or list a range of infrastructure subsidiaries, you might qualify as an investment entity.

You should start collating comparative information where you qualify as an investment entity, as the change in accounting has to be applied retrospectively in most cases.

New standards

Financial instruments – IFRS 9

Effective date

Annual periods starting 1 January 2015. Early adoption is permitted from 12 November 2009 (see detail below).

EU adoption status

Not adopted by the European Commission at the time of going to print.

IFRS 9, 'Financial instruments', replaces IAS 39, 'Financial instruments:

Recognition and measurement'. It generally applies retrospectively, with some exceptions. Comparative information is not required to be adjusted retrospectively for adoptions before 2012.

If an entity early adopts IFRS 9, it will not be required to early adopt subsequent stages in the IAS 39 replacement project – that is, impairment and hedging. This is to facilitate early adoption of IFRS 9. However, if an entity chooses to early adopt any of the subsequent stages, it will be required to early adopt all preceding stages from the same date.

Classification and measurement of financial assets

How are financial assets to be measured?

IFRS 9 requires all financial assets to be measured at either amortised cost or full fair value. Amortised cost provides decision- useful information for financial assets that are held primarily to collect cash flows that represent the payment of principal and interest. For all other financial assets, including those held for trading, fair value is the most relevant measurement basis.

What determines classification?

IFRS 9 introduces a two-step classification approach. First, an entity considers its business model – that is, whether it holds the financial asset to collect contractual cash flows rather than to sell it prior to maturity to realise fair value changes. If the latter, the instrument is measured at fair value through profit or loss (FVTPL). If the former, an entity further considers the contractual cash flow characteristics of the instrument.

What is a contractual cash flow characteristics test?

A financial asset within a qualifying business model will be eligible for amortised cost accounting if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

Any leverage feature increases the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. If a contractual cash flow characteristic is not genuine, it does not affect the classification of a financial asset. A cash flow characteristic is not genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

What are common features that would generally pass the cash flow characteristics test?

- unleveraged linkage to an inflation index in the currency in which the financial asset is denominated;
- multiple extension options (for example, a perpetual bond);
- call and put options if they are not contingent on future events, and the pre-payment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for the early termination of the contract;
- interest rate caps, floors and collars that effectively switch the interest rate from fixed to variable and vice versa; and
- in a variable rate financial asset, a borrower option to choose a rate at each interest rate reset day as long as the rate compensates the lender for the time value of money (for example, an option to pay three-month LIBOR for a three-month term or one-month LIBOR for a one- month term).

What are common features that would generally fail the cash flow characteristics test?

- linkage to equity index, borrower's net income or other variables;
- inverse floating rate;
- call option at an amount not reflective of outstanding principal and interest;
- issuer is required or can choose to defer interest payments and additional interest does not accrue on those deferred amounts;
- in a variable rate financial asset, a borrower option to choose a rate at each interest rate reset day such that the rate does not compensate the lender for the time value of money (for example, an option to pay one-month LIBOR for a three-month term and one-month LIBOR is not reset each month);
- a variable rate that is reset periodically but always reflects a five-year maturity in a five-year constant maturity bond (that is, the rate is disconnected with the term of the instrument except at origination); and
- an equity conversion option in a debt host (from a holder perspective).

Are reclassifications permitted?

Classification of financial assets is determined on initial recognition. Subsequent reclassification is permitted only in those rare circumstances when there is a change to the business model within which the financial asset is held. In such cases, all affected financial assets are reclassified.

IFRS 9 specifies that changes in business model are expected to be very infrequent, should be determined by the entity's senior management as a result of external or internal changes, should be significant to the entity's operations and demonstrable to external parties. For example, an entity has a portfolio of commercial loans that it holds to sell in the short term. The entity acquires a company that manages commercial loans and has a business model that holds the loans in order to collect the contractual cash flows. The portfolio of commercial loans is no longer for sale, and the portfolio is now managed together with the acquired commercial loans; all are held to collect the contractual cash flows.

Another example of a change in the business model is where an entity decides to shut down a line of service (for example, a retail mortgage business). The line of service does not accept new business, and the affected portfolio is being actively marketed for sale.

Changes in intentions with respect to individual instruments, temporary disappearance of a particular market or transfers of instrument between business models do not represent a change in business model.

What does this mean for equity investments?

Equity investments do not demonstrate contractual cash flow characteristics of principal and interest; they are therefore accounted for at fair value. However, IFRS 9 provides an option to designate a non-trading equity investment at FVTPL or at fair value through other comprehensive income. The designation is available on an instrument-by-instrument basis and only on initial recognition. Once made, the designation is irrevocable.

All realised and unrealised fair value gains and losses follow the initial designation, and there is no recycling of fair value gains and losses recognised in other comprehensive income to profit or loss. Dividends that represent a return on investment from equity investments continue to be recognised in profit or loss regardless of the designation.

Can an equity investment be measured at cost where no reliable fair value measure is available?

IFRS 9 removes the cost exemption for unquoted equities and derivatives on unquoted equities but stipulates that, in certain circumstances, cost may be an appropriate estimate of fair value. This may be the case where insufficient recent information is available or where there is a wide range of possible fair value measurements. Cost will not be an appropriate estimate of fair value if there are changes in investee circumstances, markets or wider economy, or if there is evidence from external transactions or for investments in quoted equity instruments. To the extent factors exist that indicate cost might not be representative of fair value, the entity should estimate fair value.

What does this mean for hybrid contracts?

IFRS 9 requires financial assets to be classified in their entirety. Hybrid contracts are those instruments that contain a financial or non-financial host and an embedded derivative. Hybrid contracts within the scope of IFRS 9 – that is, hybrid contracts with financial asset hosts – are assessed in their entirety against the two classification criteria. Hybrid contracts outside the scope of IFRS 9 are assessed for bifurcation under IAS 39. In many cases, hybrid contracts may fail the contractual cash flow characteristic test and should therefore be measured at FVTPL.

Is a fair value option available?

Two of the existing three fair value option criteria currently in IAS 39 become obsolete under IFRS 9, as a fair-value-driven business model requires fair value accounting, and hybrid contracts are classified in their entirety. The remaining fair value option condition in IAS 39 is carried forward to the new standard – that is, management may still designate a financial asset as at FVTPL on initial recognition if this significantly reduces recognition or measurement inconsistency, commonly referred to as 'an accounting mismatch'. The designation at FVTPL continues to be irrevocable.

Classification and measurement of financial liabilities

How are financial liabilities to be measured?

Financial liabilities are measured at amortised cost unless they are required to be measured at fair value through profit or loss or an entity has chosen to measure a liability at fair value through profit or loss.

What determines classification?

The classification and measurement of financial liabilities under IFRS 9 remains unchanged from the guidance in IAS 39 except where an entity has chosen to measure a liability at fair value through profit or loss. There continue to be two measurement categories for financial liabilities: fair value and amortised cost. Certain liabilities are required to be at fair value through profit or loss, such as liabilities held for trading and derivatives. Other liabilities are measured at amortised cost unless the entity elects the fair value option; however, if the liability contains embedded derivatives, the embedded derivatives might be required to be separated and measured at fair value through profit or loss.

What is the accounting for financial liabilities that are required to be at fair value through profit and loss?

Financial liabilities that are required to be measured at fair value through profit or loss (as distinct from those that the entity has chosen to measure at fair value through profit or loss) continue to have all fair value movements recognised in profit or loss, with none of the fair value movement recognised in 'other comprehensive income' (OCI). This includes all derivatives (such as foreign currency forwards or interest rate swaps), or an entity's own liabilities that are 'held for trading'. Similarly, financial guarantees and loan commitments that entities choose to measure at fair value through profit or loss will have all fair value movements in profit or loss.

What is the accounting for financial liabilities that an entity chooses to account for at fair value?

IFRS 9 changes the accounting for financial liabilities that an entity chooses to account for at fair value through profit or loss, using the fair value option. For such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI.

However, if presenting the changes in own credit of a financial liability in OCI would create an accounting mismatch in profit or loss, all fair value movements are recognised in profit or loss.

The accounting mismatch must arise due to an economic relationship between the financial liability and a financial asset that results in the liability's credit risk being offset by a change in the fair value of the asset.

The accounting mismatch:

- is required to be determined when the liability is first recognised;
- is not reassessed subsequently; and
- must not be caused solely by the measurement method that an entity uses to determine the changes in a liability's credit risk.

Use of this exemption from the requirement to present movements in the own credit risk of a liability in OCI is expected to be rare.

What are the eligibility criteria for the fair value option?

The eligibility criteria for the fair value option remain the same; they are based on whether:

- the liability is managed on a fair value basis;
- electing fair value will eliminate or reduce an accounting mismatch; or
- the instrument is a hybrid contract (that is, it contains a host contract and an embedded derivative) for which separation of an embedded derivative would be required.

What might be a common reason for electing the fair value option?

A common reason is where entities have embedded derivatives that they do not wish to separate from the host liability. In addition, entities may elect the fair value option for liabilities that give rise to an accounting mismatch with assets that are required to be held at fair value through profit or loss.

Have there been any changes in the accounting for embedded derivatives?

The existing guidance in IAS 39 for embedded derivatives has been retained in this new part of IFRS 9. Entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract – for example, a structured note where the interest is linked to an equity index. The separated embedded derivative continues to be measured at fair value through profit or loss, and the residual debt host is measured at amortised cost. The accounting for embedded derivatives in non-financial host contracts also remains unchanged.

Is the treatment of derivatives embedded in financial liabilities symmetrical to the treatment of derivatives embedded in financial assets?

No. The existing embedded derivative guidance in IAS 39 is retained in IFRS 9 for financial liabilities and non-financial instruments. This results in some embedded derivatives still being separately accounted for at fair value through profit or loss. However, embedded derivatives are no longer separated from financial assets. Instead, they are part of the contractual terms that are considered in determining whether the entire financial asset meets the contractual cash flow test (that is, the instrument has solely payments of principal and interest) to be measured at amortised cost or whether it should be measured at fair value through profit or loss.

How are financial liabilities at fair value to be measured?

Entities will need to calculate the amount of the fair value movement that relates to the credit risk of the liability. IFRS 7 already requires disclosure of the amount of fair value changes that are attributable to own credit risk for liabilities designated at fair value through profit or loss. The existing guidance on how to calculate own credit risk in IFRS 7 is retained but has been relocated to IFRS 9, and some aspects have been clarified.

How can own credit risk be determined?

This can be determined as either:

- the amount of fair value change not attributable to changes in market risk (for example, benchmark interest rates) – this is often referred to as the default method; or
- an alternative method that the entity believes more faithfully represents the changes in fair value due to 'own credit' (for example, a method that calculates credit risk based on credit default swap rates).

IFRS 9 clarifies that if the changes in fair value arising from factors other than changes in the liability's credit risk or changes in observed interest rates (that is, benchmark rates such as LIBOR) are significant, an entity is required to use an alternative method and may not use the default method. For example, changes in the fair value of a liability might arise due to changes in value of a derivative embedded in that liability rather than changes in benchmark interest rates. In that situation, changes in the value of the embedded derivative should be excluded in determining the amount of own credit risk that is presented in OCI.

The expanded guidance in IFRS 9 confirms that the credit risk of a liability with collateral is likely to be different from the credit risk of an equivalent liability without collateral issued by the same entity.

It also clarifies that unit-linking features usually give rise to asset performance risk rather than credit risk – that is, the value of the liability changes due to changes in value of the linked asset(s) and not because of changes in the own credit risk of the liability. This means that changes in the fair value of a unit-linked liability due to changes in the fair value of the linked asset will continue to be recognised in the income statement: they are not regarded as being part of the own credit risk of the liability that is recognised in OCI.

What is the impact of the changes on the presentation of financial liabilities?

Elements of the fair value movement of the liability are presented in different parts of the performance statement; changes in own credit risk are presented in OCI, and all other fair value changes are presented in profit or loss. This means that the amount of the overall fair value movement does not change, but it is presented in separate sections of the statement of comprehensive income.

Amounts in OCI relating to own credit are not recycled to the income statement even when the liability is derecognised and the amounts are realised. However, the standard does allow transfers within equity.

Consolidated financial statements – IFRS 10

The IASB has issued IFRS 10, 'Consolidated financial statements', as part of the group of five new standards that address the scope of the reporting entity. IFRS 10 replaces all of the guidance on control and consolidation in IAS 27, 'Consolidated and separate financial statements', and SIC-12, 'Consolidation – special purpose entities'. IAS 27 is renamed 'Separate financial statements'; it continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged.

The rest of the package includes IFRS 11, 'Joint arrangements'; IFRS 12, 'Disclosure of interests in other entities'; and consequential amendments to IAS 28, 'Investments in associates'.

Effective date

Annual periods beginning on or after 1 January 2013. Early adoption is permitted.

EU adoption status

Adopted by the European Commission on 29 December 2012 for annual periods beginning on or after 1 January 2014.

What are the key provisions?

IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance that addresses the different ways in which a reporting entity (investor) might control another entity (investee). The changed definition and application guidance is not expected to result in widespread change in the consolidation decisions made by IFRS reporting entities, although some entities could see significant changes.

All entities will need to consider the new guidance. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single entity remains unchanged, as do the mechanics of consolidation.

IFRS 10 excludes guidance specifically for investment companies, as the IASB continues to work on a project on accounting by investment companies for controlled entities.

The revised definition of control focuses on the need to have both power and variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both.

The determination of power is based on current facts and circumstances and is continuously assessed. The fact that control is intended to be temporary does not obviate the requirement to consolidate any investee under the control of the investor. Voting rights or contractual rights may be evidence of power, or a combination of the two may give an investor power. Power does not have to be exercised. An investor with more than half the voting rights would meet the power criteria in the absence of restrictions or other circumstances.

The application guidance includes examples illustrating when an investor may have control with less than half of the voting rights. When assessing if it controls the investee, an investor should consider potential voting rights, economic dependency and the size of its shareholding in comparison to other holdings, together with voting patterns at shareholder meetings. This last consideration will bring the notion of 'de facto' control firmly within the consolidation standard.

IFRS 10 also includes guidance on participating and protective rights. Participating rights give an investor the ability to direct the activities of an investee that significantly affect the returns. Protective rights (often known as veto rights) will only give an investor the ability to block certain decisions outside the ordinary course of business.

The new standard includes guidance on agent/principal relationships. An investor (the agent) may be engaged to act on behalf of a single party or a group of parties (the 'principals'). Certain power is delegated to the agent – for example, to manage investments. The investor may or may not have control over the pooled investment funds. IFRS 10 includes a number of factors to consider when determining whether the investor has control or is acting as an agent.

The revised definition of control and associated guidance replaces not only the definition and guidance in IAS 27 but also the four indicators of control in SIC 12.

Who is affected?

IFRS 10 has the potential to affect all reporting entities (investors) that control one or more investees under the revised definition of control. The determination of control and consolidation decisions may not change for many entities. However, the new guidance will need to be understood and considered in the context of each investor's business.

What do affected entities need to do?

Management should consider whether IFRS 10 will affect their control decisions and consolidated financial statements.

Joint arrangements – IFRS 11

The IASB has issued the long awaited IFRS 11, 'Joint arrangements', as part of a 'package' of five new standards that address the scope of the reporting.

Changes in the definitions have reduced the 'types' of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. Entities that participate in joint operations will follow accounting much like that for joint assets or joint operations today.

Effective date

Annual periods beginning on or after 1 January 2013. Early adoption is permitted.

EU adoption status

Adopted by the European Commission on 29 December 2012 for accounting periods on or after 1 January 2014.

What are the key provisions?

Underlying principles

A joint arrangement is defined as being an arrangement where two or more parties contractually agree to share control. Joint control exists only when the decisions about activities that significantly affect the returns of an arrangement require the unanimous consent of the parties sharing control.

All parties to a joint arrangement should recognise their rights and obligations arising from the arrangement. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement.

The structure and form of the arrangement is only one of the factors to consider in assessing each party's rights and obligations. The terms and conditions agreed by the parties (for example, agreements that may modify the legal structure or form of the arrangement) and other relevant facts and circumstances should also be considered.

If the facts and circumstances change, a venturer needs to reassess:

- whether it has joint control; and/or
- the type of joint arrangement in which it is involved.

Types of joint arrangement and their measurement

IFRS 11 classifies joint arrangements as either joint operations or joint ventures. The 'jointly controlled assets' classification in IAS 31, 'Interests in joint ventures', has been merged into joint operations, as both types of arrangements generally result in the same accounting outcome.

A joint operation is a joint arrangement that gives parties to the arrangement direct rights to the assets and obligations for the liabilities. A joint operator will recognise its interest based on its involvement in the joint operation (that is, based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement.

A joint operator in a joint operation will therefore recognise in its own financial statements:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output of the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

A joint venture, in contrast, gives the parties rights to the net assets or outcome of the arrangement. A joint venturer does not have rights to individual assets or obligations for individual liabilities of the joint venture. Instead, joint venturers share in the net assets and, in turn, the outcome (profit or loss) of the activity undertaken by the joint venture. Joint ventures are accounted for using the equity method in accordance with IAS 28, 'Investments in associates'. Entities can no longer account for an interest in a joint venture using the proportionate consolidation method.

The standard also provides guidance for parties that participate in joint arrangements but do not have joint control.

Who is affected?

Entities with existing joint arrangements or that plan to enter into new joint arrangements will be affected by the new standard. These entities will need to assess their arrangements to determine whether they have invested in a joint operation or a joint venture upon adoption of the new standard or upon entering into the arrangement.

Entities that have been accounting for their interest in a joint venture using proportionate consolidation will no longer be allowed to use this method; instead they will account for the joint venture using the equity method or account for their share of assets and liabilities if it is assessed as a joint operation. In addition, there may be some entities that previously equity- accounted for investments that may need to account for their share of assets and liabilities now that there is less focus on the structure of the arrangement.

The transition provisions of IFRS 11 require entities to apply the new rules at the beginning of the earliest period presented upon adoption. When transitioning from the proportionate consolidation method to the equity method, entities should recognise their initial investment in the joint venture as the aggregate of the carrying amounts that were previously proportionately consolidated. In transitioning from the equity method to accounting for assets and liabilities, entities should recognise their share of each of the assets and liabilities in the joint operation, with specific rules detailing how to account for any difference from the previous carrying amount of the investment.

What do affected entities need to do?

Management of entities that are party to joint arrangements should evaluate how the requirements of the new standard will affect the way they account for their existing or new joint arrangements. The accounting may have a significant impact on entities' financial results and financial position, which should be clearly communicated to stakeholders as soon as possible.

Management should also carefully consider the planned timing of their adoption. If they wish to retain the current accounting for existing arrangements, now is the time to consider how the terms of these arrangements can be reworked or restructured to achieve this.

Disclosure of interests in other entities – IFRS 12

The IASB has issued IFRS 12, 'Disclosure of interests in other entities', as part of the group of five new standards that address the scope of the reporting entity.

IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10, 'Consolidated financial statements', and IFRS 11, 'Joint arrangements'; it replaces the disclosure requirements currently found in IAS 28, 'Investments in associates'. IAS 27 is renamed 'Separate financial statements' and now deals solely with separate financial statements. The existing guidance and disclosure requirements for separate financial statements are unchanged.

Effective date

Annual periods beginning on or after 1 January 2013. Early adoption is permitted.

EU adoption status

Adopted by the European Commission on 29 December 2012 for accounting periods on or after 1 January 2014.

What are the key provisions?

IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

To meet this objective, disclosures are required in the following areas.

Significant judgements and assumptions

Significant judgements and assumptions made in determining whether the entity controls, jointly controls, significantly influences or has some other interests in other entities include:

- an assessment of principal-agent relationships in consolidation;
- determination of the type of joint arrangement; and
- any override of presumptions of significant influence and control when voting rights range from 20% to 50%, and exceed 50%, respectively.

Interests in subsidiaries

This includes information about:

- group composition;
- interests of non-controlling interests (NCI) in group activities and cash flows, and information about each subsidiary that has material NCI, such as name, principal place of business and summarised financial information;
- significant restrictions on access to assets and obligations to settle liabilities;
- risks associated with consolidated structured entities, such as arrangements that could require the group to provide financial support;
- accounting for changes in the ownership interest in a subsidiary without a loss of control? a schedule of the impact on parent equity is required;
- accounting for the loss of control – detail of any gain/loss recognised and the line item in the statement of comprehensive income in which it is recognised; and
- subsidiaries that are consolidated using different year ends.

Interests in joint arrangements and associates

Detailed disclosures include:

- the name, country of incorporation and principal place of business;
- proportion of ownership interest and measurement method;
- summarised financial information;
- fair value (if published quotations are available);
- significant restrictions on the ability to transfer funds or repay loans;
- year-ends of joint arrangements or associates if different from the parent's; and
- unrecognised share of losses, commitments and contingent liabilities.

Interests in unconsolidated structured entities

Detailed disclosures include:

- the nature, purpose, size, activities and financing of the structured entity;
- the policy for determining structured entities that are sponsored;
- a summary of income from structured entities;
- the carrying amount of assets transferred to structured entities;
- the recognised assets;
- liabilities relating to structured entities and line items in which they are recognised;
- the maximum loss arising from such involvement; and
- information on financial or other support provided to such entities, or current intentions to provide such support.

Who is affected?

All entities that have interests in subsidiaries, associates, joint ventures or unconsolidated structured entities are likely to face increased disclosure requirements.

What do affected entities need to do?

Management should consider whether it needs to implement additional processes to be able to compile the required information.

Fair value measurement – IFRS 13

IFRS 13, 'Fair value measurement', explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements.

The project converges IFRS and US GAAP on how to measure fair value, but there will continue to be differences in certain respects, including when fair value measurements are required and when day 1 gains and losses can be recognised.

Effective date

Annual periods beginning on or after 1 January 2013. Early adoption is permitted.

EU adoption status

Adopted by the European Commission on 29 December 2012.

What are the key provisions?

The guidance in IFRS 13 does not apply to transactions within the scope of IFRS 2, 'Share-based payment', or IAS 17, 'Leases', or to certain other measurements that are required by other standards and are similar to, but are not, fair value (for example, value in use in IAS 36, 'Impairment of assets').

Definition of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value of a liability therefore reflects non-performance risk (that is, own credit risk).

Principal or most advantageous market

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal market is the market with the greatest volume and level of activity for the asset or liability that can be accessed by the entity.

Market participant assumptions

Fair value is measured using the same assumptions and taking into account the same characteristics of the asset or liability as market participants would. Fair value is a market-based, not entity- specific measurement.

Highest and best use

For non-financial assets only, fair value is determined based on the highest and best use of the asset as determined by a market participant.

Bid and ask prices

The use of bid prices for asset positions and ask prices for liability positions is permitted if those prices are most representative of fair value in the circumstances, but it is not required.

Fair value hierarchy

Fair value measurements are categorised into a three-level hierarchy, based on the type of inputs to the valuation techniques used, as follows:

- level 1 inputs are quoted prices in active markets for items identical to the asset or liability being measured. Consistent with current IFRS, if there is a quoted price in an active market (that is, a Level 1 input), an entity uses that price without adjustment when measuring fair value;
- level 2 inputs are other observable inputs; and
- level 3 inputs are unobservable inputs, but that nevertheless must be developed to reflect the assumptions that market participants would use when determining an appropriate price for the asset or liability.

Each fair value measurement is categorised based on the lowest level input that is significant to it.

Disclosures

The guidance includes enhanced disclosure requirements that could result in significantly more work for reporting entities. These requirements are similar to those in IFRS 7, 'Financial instruments:

Disclosures', but apply to all assets and liabilities measured at fair value, not just financial ones.

The required disclosures include:

- information about the hierarchy level into which fair value measurements fall;
- transfers between Levels 1 and 2; and
- methods and inputs to the fair value measurements and changes in valuation techniques.

Additional disclosures for Level 3 measurements that include a reconciliation of opening and closing balances, quantitative information about unobservable inputs and assumptions used, a description of the valuation processes in place, and qualitative discussion about the sensitivity of recurring Level 3 measurements.

Who is affected?

Almost all entities use fair value measurements and will therefore be subject to the new requirements. Some changes may be required (for example, bid/ask spread and inclusion of own credit risk) to those fair value measurements today, which will largely affect financial institutions and investment entities. However, there are enhanced disclosure requirements that will be required by all entities.

What do affected entities need to do?

Preparers should begin by evaluating the nature and extent of the fair value measurements that they are currently required to make under IFRS. Management will need to determine which, if any, of the measurement techniques used will have to change as a result of the new guidance, and what additional disclosures will be necessary.

New interpretations

Stripping costs in the production phase of a surface mine – IFRIC 20

IFRIC 20, 'Stripping costs in the production phase of a surface mine', sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body.

Effective date

Annual periods beginning on or after 1 January 2013. Early adoption is permitted. An entity that has been expensing all production period stripping will begin capitalising from the date of adoption of the interpretation. IFRC 20 also amends IFRS 1, 'First- time adoption of IFRS'. First-time adopters would be allowed to apply the transition provisions with an effective date of the later of 1 January 2013 and the transition date.

EU adoption status

Adopted by the European Commission on 29 December 2012.

What is the objective and scope?

Stripping costs incurred once a mine is in production often provide benefits for current production and access to future production. The challenge has always been how to allocate the benefits and then determine what period costs are versus an asset that will benefit future periods. The IFRIC was developed to address current diversity in practice. Some entities have judged all stripping costs as a cost of production, and some entities capitalise some or all stripping costs as an asset.

IFRIC 20 applies only to stripping costs that are incurred in surface mining activity during the production phase of the mine. It does not address underground mining activity or oil and natural gas activity. Oil sands, where extraction activity is seen by many as closer to that of mining than traditional oil and gas extraction, are also outside the scope of the interpretation.

The transition requirements of the interpretation may have a significant impact on a mining entity that has been using a general capitalisation ratio to record deferred stripping. Existing asset balances that cannot be attributed to an identifiable component of the ore body will need to be written off to retained earnings.

What are the key provisions?

IFRIC 20 addresses the following issues:

Is the definition of an asset met?

Stripping activity may create two types of benefit: (i) inventory produced and (ii) improved access to the ore. An entity should assess whether the benefits of the stripping activity fall within either of those categories. The benefit of improved access to the ore will qualify as a non-current asset only when:

(a) it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;

(b) the entity can identify the component of the ore body for which access has been improve; and

(c) the costs relating to the improved access to that component can be measured reliably.

When should the asset be recognised?

Stripping costs that relate to inventory produced should be accounted for as current production cost in accordance with IAS 2, 'Inventories'. Stripping costs that generate a benefit of improved access and meet the above definition of an asset should be accounted for as an addition to or enhancement of an existing asset (stripping activity asset); it is not an asset in its own right. The capitalised costs are classified as tangible or intangible according to the nature of the existing asset.

How should the stripping activity asset be measured initially?

The stripping activity asset should initially be measured at the direct costs incurred. These costs include haulage, waste transportation, materials consumed, costs of machinery employed, labour and fuel. An allocation of directly attributable overhead costs may also be made.

It may be difficult to separate the costs incurred that create the future benefit (stripping activity asset) and the costs related to current period inventory production. Entities will allocate total costs between the inventory produced and the stripping activity asset using a relevant production measure. The production measure is calculated for the identified component of the ore body and used to identify the extent to which the additional activity has created an asset. IFRIC 20 provides examples of such measures, including volumes of waste extracted compared with expected volumes for given production levels.

Entities currently using 'stripping ratios' may find the new requirements similar to their existing approach, although the basis of the ratio will be the identified component and not the full life-of-mine.

How should the stripping activity asset be measured subsequently?

The stripping activity asset is carried at cost or revalued amount (per IAS 16, 'Property, plant and equipment') less depreciation or amortisation and impairment losses. It is depreciated or amortised in a rational and systematic manner over the useful life of the relevant identified component of the ore body. This is expected to be shorter than the useful life of the mine in most cases. The units-of-production method is applied unless another method is more appropriate.

Who is affected?

All surface mining companies applying IFRS will be affected by the interpretation. An entity that has been expensing all production period stripping will begin capitalising from the date of adoption of the interpretation.

Any existing stripping cost asset balances at the date of transition are written off to opening retained earnings unless they relate to an identifiable component of the ore body.

IFRC 20 also amends IFRS 1, 'First-time adoption of IFRS'. First-time adopters would be allowed to apply the transition provisions with effective date at the later of 1 January 2013 or the transition date.

What do affected entities need to do?

Existing IFRS preparers may be most interested in the transition provisions in the interpretation.

Annual improvements project 2011

The table below identifies the more significant changes to the standards arising from the 2009 to 2011 annual improvements project and the implications for management.

Effective date

See final column in table below.

EU adoption status

Not adopted by the European Commission at the time of going to print.

Standard/ interpretation	Amendment	Practical implications	Effective date
Amendment to IFRS 1, 'First time adoption of IFRS'	The amendment clarifies that an entity may apply IFRS 1 more than once under certain circumstances.	• An entity that previously applied IFRS but then stopped is permitted but not required to apply IFRS 1 when it recommences applying IFRS. • The IFRS 1 provisions are designed to ease the process of transition to IFRS. For an entity that was previously an IFRS preparer, applying IFRS 1 as if no IFRS financial statements had ever been prepared may be more burdensome than simply resuming the preparation of IFRS financial statements. The amendment permits a choice of whether to apply IFRS 1. • To avoid abuse, the amendment requires management to disclose why it stopped preparing IFRS financial statements and why it has resumed.	Applies retrospectively for annual periods beginning on or after 1 January 2013. Early adoption is permitted.
Amendment to IFRS 1, 'First time adoption of IFRS'	The amendment clarifies that an entity can choose to adopt IAS 23, 'Borrowing costs', either from its date of transition or from an earlier date.	From whichever date the entity chooses to adopt IAS 23: • Borrowing costs under previous GAAP are not restated; and • IAS 23 applies to borrowing costs on qualifying assets that were under construction at the date of transition, irrespective of whether borrowing costs were capitalised under previous GAAP.	Applies retrospectively for annual periods beginning on or after 1 January 2013. Early adoption is permitted.

Standard/ interpretation	Amendment	Practical implications	Effective date
Amendment to IAS 1, 'Presentation of financial statements'	The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet either: • As required by IAS 8, 'Accounting policies, changes in accounting estimates and errors'; or • Voluntarily.	• When an entity produces an additional balance sheet as required by IAS 8, the balance sheet should be as at the date of the beginning of the preceding period – that is, the opening position. No notes are required to support this balance sheet. • When management provides additional comparative information voluntarily – for example, statement of profit and loss, balance sheet – it should present the supporting notes to these additional statements.	Applies retrospectively for annual periods beginning on or after 1 January 2013. Early adoption is permitted.
Amendment to IFRS 1 as a result of the above amendment to IAS 1	• The consequential amendment clarifies that a first-time adopter should provide the supporting notes for all statements presented.	• A first-time adopter should provide supporting notes for its transition balance sheet.	Applies retrospectively for annual periods beginning on or after 1 January 2013. Early adoption is permitted.
Amendment to IAS 16, 'Property, plant and equipment'	• The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.	• The previous wording of IAS 16 indicated that servicing equipment should be classified as inventory, even if it was used for more than one period. Following the amendment, this equipment used for more than one period is classified as property, plant and equipment.	Applies retrospectively for annual periods beginning on or after 1 January 2013. Early adoption is permitted.
Amendment to IAS 32, 'Financial instruments: Presentation'	• The amendment clarifies the treatment of income tax relating to distributions and transaction costs.	• Prior to the amendment, IAS 32 was ambiguous as to whether the tax effects of distributions and the tax effects of equity transactions should be accounted for in the income statement or in equity. • The amendment clarifies that the treatment is in accordance with IAS 12. So, income tax related to distributions is recognised in the income statement, and income tax related to the costs of equity transactions is recognised in equity.	Applies retrospectively for annual periods beginning on or after 1 January 2013. Early adoption is permitted.

Standard/ interpretation	Amendment	Practical implications	Effective date
Amendment to IAS 34, 'Interim financial reporting'	The amendment clarifies the disclosure requirements for segment assets and liabilities in interim financial statements.	• The amendment brings IAS 34 into line with the requirements of IFRS 8, 'Operating segments'. • A measure of total assets and liabilities is required for an operating segment in interim financial statements if such information is regularly provided to the CODM and there has been a material change in those measures since the last annual financial statements.	Applies retrospectively for annual periods beginning on or after 1 January 2013. Early adoption is permitted.

PwC's IFRS and corporate governance publications and tools 2012/2013

IFRS for SMEs publications

IFRS for SMEs – pocket guide

Provides a summary of the recognition and measurement requirements in the 'IFRS for small and medium-sized entities' published by the International Accounting Standards Board in July 2009.

Similarities and differences – a comparison of 'full IFRS' and IFRS for SMEs

A 60-page publication comparing the requirements of the IFRS for small and medium-sized entities with 'full IFRS' issued up to July 2009. An executive summary outlines some key differences that have implications beyond the entity's reporting function.

IFRS for SMEs – Illustrative consolidated financial statements

Realistic set of financial statements prepared under IFRS for small and medium-sized entities, illustrating the required disclosure and presentation based on the requirements of the IFRS for SMEs published in July 2009.

Investor view

PwC's Investor view series aims to provide preparers of corporate reports with insights and observations gleaned from our ongoing dialogue with the investment community.

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Survey of what investment professionals and corporate management require to assess performance.

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Trends in use of non-GAAP income measures in IFRS financial statements.

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Survey of corporate entities and investors, and PwC insights on how to simplify and enhance communications.

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PwC survey of investors' and analysts' perspectives on accounting for and reporting of financial instruments. See the full list at **pwc.com/corporate reporting.**

Corporate governance publications

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Law and regulations* – applicable companies legislation on accounting, auditing and other areas

Auditing* – auditing standards, exposure drafts, discussion papers and other guidance

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