

IFRS News

Emerging issues and practical guidance*

October 2009

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Taking a deep breath on financial instruments

There has been significant activity on financial instruments as the IASB responds to the financial crisis. Jessica Taurae of PricewaterhouseCoopers LLP's (PwC) Accounting Consulting Services central team takes stock of what has happened and what is still to come.

The Board has a challenging timetable to replace the financial instruments standard (see *timeline on page 2*). It is holding weekly meetings for the foreseeable future to meet it.

1. Impairment

The Board decided last month to go ahead with an exposure draft (ED) on the expected loss model (in contrast to the current "incurred loss" model), following feedback from its June 2009 request for information. It will prepare a draft that "articulates a clear objective and emphasizes principles, reinforced by concise application guidance." There will be an expert advisory panel to provide input on the operational aspects of applying the expected cash flow approach, including ways to simplify the application of the effective interest method.

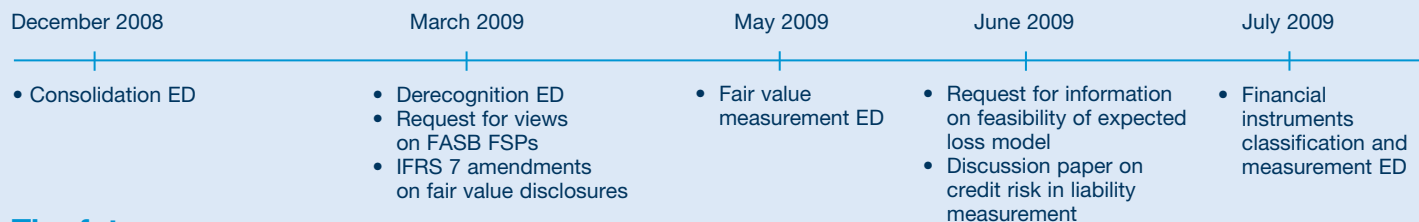
The Board will continue to clarify certain aspects of the measurement objective over the next few weeks. This includes point-in-time versus through-the-cycle-estimates, expected value versus most probable value and the use of entity specific versus market data. An ED is expected later this month. Many respondents indicated that two to three years' lead time would be required to put systems in place to address this new model. The ED is likely to have a comment period of at least six months; the final standard is likely to have an extended period of time for transition before the mandatory effective date to allow sufficient time for implementation.

2. Classification and measurement

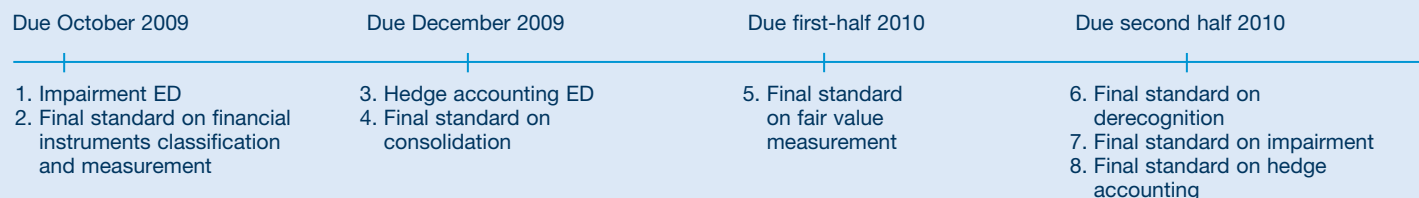
The 60-day comment period for the July 2009 ED closed last month. The IASB received nearly 250 response letters from a broad range of constituents. It is holding weekly meetings with the expectation of issuing a final standard on classification and measurement later this month; early adoption will be permitted.

The overwhelming majority of respondents were supportive of a mixed measurement model. They also agreed that amortized cost provides useful information for particular instruments in specific circumstances. However, they expressed concern over the lack of a clear principle for basic loan features and the requirement that these financial instruments are managed on a contractual yield basis. The Board has, therefore, started redeliberating where the cut between fair value and amortized cost should be.

The past...



The future...



The other main issues that the IASB will redeliberate before it finalizes this phase of the replacement to IAS 39 are:

- Scope – Should financial liabilities be included before the debate on own credit risk is resolved?
- Embedded derivatives – Should the guidance be retained for financial liabilities?
- Distressed debt purchases – When are such assets eligible for amortized cost?
- Subordinated debt issued by SPVs – When are such assets eligible for amortized cost?
- Equities – When are changes in fair value recognized in other comprehensive income; whether to permit dividends to be recognized in profit and loss, to recycle realized gains and losses on sale; and whether to remove the cost exemption for unquoted equities?
- Reclassifications – whether to require, permit or prohibit when the business model of an entity changes
- Transition – simplification, especially in first-year of adoption

3. Hedge accounting

The Board started discussing the proposed approach to the hedge accounting last month. It expects to issue an ED in December 2009. The staff is working under the following guidelines:

- Replacing fair value hedge accounting with an approach that is similar to cash flow hedge accounting
- Simplifying the existing cash flow hedge accounting model
- Addressing general hedge accounting before considering the implications on portfolio hedge accounting
- Considering separately any implications on hedge accounting for net investments

4. Consolidation

The ED comment period ended in March 2009. The Board began redeliberations of the ED in July 2009. Further discussions are expected this and next month; a final standard is due by the end of this year. The issues to discuss are:

- The control model, including protective and participating rights

- Activities of the entity
- Returns
- Agency relationships
- Sharing of power
- Involvement in the design of the entity

The unique aspects of investment companies continue to present challenges to the Board. There is ongoing discussion about how to articulate the control principle for investment companies. The Board is also considering if investment companies should measure controlled investments at fair value rather than traditional consolidation. A more principles-based approach to the disclosure requirements is also in the works.

5. Fair value measurement

The Board published an ED in May 2009 of an IFRS on fair value measurement. It is largely consistent with the FASB's SFAS 157, Fair Value Measurements, including related FASB guidance. The ED is also consistent with the report published by the IASB's Expert Advisory Panel on measuring fair value in inactive markets. Comments were due by end of September 2009.

The Board is reviewing the comment letters and holding roundtables next month. It is likely to begin its redeliberations in January 2010, with the expectation of issuing a final standard in the first half of 2010.

6. Derecognition

The IASB began discussing the feedback on the ED last month. There was a clear steer from constituents that the proposed model was not the preferred route. The Board will be discussing ways forward in its meeting this month, with the expectation of issuing a final standard in the second half of 2010.

Credit risk in liability measurement

The Board considered a preliminary summary of the responses to the discussion paper, Credit Risk in Liability Measurement, last month. The responses will be considered in the finalization of the classification and measurement phase of the replacement to IAS 39 project.



Meet the standard setters

Three new board members joined the IASB in July for five-year terms. Their backgrounds – banking, regulatory and analyst – bring some more variety to the 14-strong team. IFRS News looks at the qualifications of Amaro Luiz de Oliveira Gomes, Patrick Finnegan and Patricia McConnell to see what they will bring to the standard setting process over the next five years.

Amaro Luiz de Oliveira Gomes

Amaro Luiz de Oliveira Gomes joins the Board from the Central Bank of Brazil, where he was head of financial system regulation.

Mr. Gomes played a leading role in the adoption of IFRS in Brazil. He oversaw the introduction of IFRS for regulated financial institutions and has served as a member of the Brazilian Comitê de Pronunciamentos Contábeis and the Steering Committee for Accounting Convergence–Brazil (Comitê Gestor da Convergência no Brasil).

He has been active in promoting international regulatory co-operation, serving on the Accounting Task Force of the Basel Committee on Banking Supervision from 2004 to 2009. He also represented the Central Bank of Brazil in the MERCOSUR Sub-Group IV – Financial Services Integration, as coordinator of the Commission on Financial Services and the Sub-Commission on Accounting Issues.

Mr. Gomes has also been involved in the convergence of Brazilian prudential regulation with international standards and best practices, such as the implementation of the 25 Core

Highly qualified – Where do the Board members come from?

IASB member	Professional background	IASB member	Professional background
Steven Cooper	<ul style="list-style-type: none"> Analyst (USB Investment Bank) 	Prabhakar Kalavacherla (PK)	<ul style="list-style-type: none"> Practice (KPMG audit partner, specialising in technology and biotechnology)
Philippe Danjou	<ul style="list-style-type: none"> Regulatory (Autorité des Marchés Financiers (AMF)) Practice (Andersen partner) 	Jim Leisenring	<ul style="list-style-type: none"> Regulatory (FASB)
Jan Engstrom	<ul style="list-style-type: none"> Industry (chief financial officer at Volvo Bus Corporation, Volvo do Brasil and Volvo Truck Corporation) 	Warren McGregor	<ul style="list-style-type: none"> Practice (founding member of boutique accounting practice, Stevenson McGregor) Regulatory (CEO of the Australian Accounting Research Foundation)
Patrick Finnegan	<ul style="list-style-type: none"> Regulatory (CFA Institute Centre for Financial Market Integrity) Analyst (Moody's) Practice (Deloitte partner) 	Patricia McConnell	<ul style="list-style-type: none"> Analyst (Bear Stearns & Co.) Regulatory (Standards Advisory Council, the IASC, the CFA Institute's Corporate Disclosure Policy Council and the New York Society of Security Analysts)
Bob Garnett (non-voting IFRIC chairman)	<ul style="list-style-type: none"> Industry (executive vice-president for Anglo American) Practice (Andersen partner) Venture capital (head of investment management operations at Southern African venture capital group) 	John Smith	<ul style="list-style-type: none"> Practice (Deloitte and Touche partner) Regulatory (formerly part-time IASB member; IFRIC member, SIC member; IASC member)
Gilbert Gelard	<ul style="list-style-type: none"> Industry (chief accounting officer for publishing and media group, and oil and gas group) Regulatory (French Professional Institute; French representative on IASC Board; member of French accounting standard setter, CNC) 	Tatsumi Yamada	<ul style="list-style-type: none"> Practice (ChuoAoyama Audit Corporation partner (PricewaterhouseCoopers)) Regulatory (member of Business Accounting Deliberation Council; the Executive Committee of the IASC; and the Japanese delegation at the Board of IASC)
Amaro Luiz de Oliveira Gomes	<ul style="list-style-type: none"> Industry (banking) Regulatory (member of the Brazilian Comitê de Pronunciamentos Contábeis and the Steering Committee for Accounting Convergence–Brazil) 	Zhang Wei-Guo	<ul style="list-style-type: none"> Regulatory (China Securities Regulatory Commission and IOSCO) Academic (head of the Department of Accounting at Shanghai University of Finance & Economics)

Principles for Effective Banking Supervision and Basel II. He participated in several regulation and policy forums, including the Policy Development Group of the Basel Committee on Banking Supervision, representing the Association of Supervisors of Banks of the Americas.



Patrick Finnegan

Patrick Finnegan was previously director of the Financial Reporting Policy Group at the not-for profit organization, CFA Institute Centre for Financial Market Integrity (CFA Institute). He led a team at CFA Institute (which represents 100,000 investment professionals) responsible for providing user input into the standard-setting activities of the IASB, FASB and other

regulatory bodies.

He has also coordinated the work of the CFA Institute's Corporate Disclosure Policy Council, which reviews and comments on financial reporting policy initiatives around the world.

Mr. Finnegan previously worked at Moody's Investors Service as managing director of the Corporate Finance Group and senior analyst in Moody's Financial Institutions Group. Before that, he

worked for Deloitte as a partner, providing audit services primarily for insurance companies and conducting financial due-diligence services for private equity firms. He also worked for the American Institute of Certified Public Accountants as a technical manager and for the U.S. Securities and Exchange Commission as a staff accountant.



Patricia McConnell

Patricia McConnell is a former senior managing director in equity research and accounting, and a tax policy analyst for Bear Stearns & Co. Ms. McConnell was one of the leading analysts in the United States on accounting-related issues. Institutional Investor magazine ranked her the leading analyst in the United States on accounting

and tax matters for 16 consecutive years from 1991 to 2006.

She has long been an active in accounting standard setting activities, as a member of the IASB's Standards Advisory Council, the IASC, the CFA Institute's Corporate Disclosure Policy Council and the New York Society of Security Analysts.

Similarities and differences – two comparisons now out

Comparison of IFRS and US GAAP

The 2009 edition of IFRS and US GAAP: Similarities and Differences is now available. The 220-page comparison helps companies develop a broad understanding of the major differences between IFRS and US GAAP and an understanding of the level of change on the horizon.

It provides a description of the similarities and differences between the reporting methods; subsequent impact on companies; commentary and insight on recent and proposed guidance; an overview of the IFRS for SMEs; a report on the US GAAP codification project; and updates incorporating authoritative standards and interpretive guidance issued up to June 30, 2009.

Hard copies can be ordered through your PwC contact; the PDF can be downloaded at www.pwc.com/usifrs.

Comparison of IFRS for SMEs and “full IFRS”

This 60-page publication compares the requirements of the IFRS for small- and medium-sized entities with full IFRS issued up to July 2009. It includes an executive summary outlining some key differences that have implications beyond the entity's reporting function and encourages early consideration of what IFRS for SMEs means to the entity.

Also in PwC's series of publications on IFRS for SMEs are IFRS for SMEs – pocket guide 2009 and IFRS for SMEs – Illustrative financial statements. All are available for to download from pwc.com/ifrs.







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