Financial Reporting Release

Keeping your head above water…

Recent issues in financial reporting*

January 2010

In this Issue

Remember the Greek myth about Sisyphus? The king condemned by the gods to roll a huge rock up a steep mountain only to find that the rock would always roll back down again, forcing him to begin anew? That story came to mind in thinking about this edition of *Financial Reporting Release*. Like Sisyphus, it sometimes feels like we're doomed to endless replays of the same accounting debates …GAAP convergence, financial instruments, fair value, amortized cost, up and down we go. Still, hope springs eternal. Someday, maybe soon, we'll push a few of these rocks up to the top and they'll stay put for awhile.

In the meantime, check out where we are right now. Read, for instance, about the International Accounting Standards Board's (IASB) and Financial Accounting Standards Board's (FASB) dash to converge accounting standards by 2011 and the implications for Canadian companies transitioning to International Financial Reporting Standards (IFRS). Also about the new IFRS from the IASB on accounting for financial assets? Fair value, anyone?

Under those new financial asset rules, you still get to account for most loans and trade receivables at amortized cost. Is that a sigh of relief we hear? Stop! The IASB is proposing amendments that would bring accounting for loans and receivables a step closer to fair value. Ditto for non-financial liabilities. Also, revenue would be lower and impairment losses recognized faster compared to existing GAAP. We explain all here.

We haven't forgotten about Canadian developments, of course. Did you know that there are going to be five (or seven, depending on how you count) separate and distinct sets of accounting standards, each falling under the rubric, "Canadian GAAP"? Or that Canada is changing over to International Standards on Auditing (ISA) in 2010? There's no doubt about it. Life at the top of this particular hill certainly is going to be way different than it was.

And there you have it. All you need to know about where we're going and how we're getting there. Are we going up or down? Now, that's a question we'll leave for you to decide. Happy reading.

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IFRS in Canada

Mageeba: Do you know what I mean by a relatively free press, Mr. Wagner?
Wagner: Not exactly, sir, no.
Mageeba: I mean a free press which is edited by one of my relatives.
– Tom Stoppard, *Night and Day*

We know what you're thinking. You're thinking, "Enough, already, everybody and their dogs know that IFRS becomes Canadian GAAP in 2011. Give it a rest." And we will. Our focus today is not so much about timelines and migrating to IFRS as it is about the necessary changes to the Canadian accounting and securities systems to recognize the introduction of these standards.

There are two things you should know. The first is that the Accounting Standards Board (AcSB) has almost finished incorporating IFRS into the Canadian Institute of Chartered Accountants (CICA) Handbook. By the time you read this, we expect that IFRS officially will be part of Canadian GAAP. Ta dah! There are no surprises in the scope of its application – generally, IFRS is mandatory for publicly accountable enterprises and optional for everybody else.

The second thing is that the Canadian Securities Administrators (CSA) has issued a series of draft amendments to regulations to recognize the changeover to IFRS. The more significant proposals:

- Domestic issuers would prepare financial statements using Canadian GAAP for publicly accountable enterprises and disclose that the statements are in full compliance with IFRS as published by the IASB. Audit opinions would have to refer to IFRS and may refer to Canadian GAAP for publicly accountable enterprises.
- Issuers would have an extra 30 days to issue first-time IFRS interim financial statements in 2011.
- Canadian SEC registrants would continue to have the option of using US GAAP. Existing requirements to reconcile US to Canadian GAAP in initial years after changing to US GAAP would drop away in 2011.
- A private enterprise that goes public would have to prepare its current year's and comparative financial statements using IFRS. All jurisdictions other than Ontario have proposed relief for private companies from having to provide IFRS financial statements in business acquisition reports.

One thing hasn't changed – the AcSB and provincial securities commissions retain the final authority over financial reporting in Canada. Requiring companies to prepare financial statements in accordance with Canadian GAAP for publicly accountable enterprises but assert full compliance with IFRS reflects this authority because it allows for the possibility of Canadian standards diverging from IFRS some time down the road. Don't hold your breath, though. It's not happening any time soon. The AcSB's policy is to deviate from IFRS only if IFRS doesn't address unique Canadian circumstances and this is something that would happen only in rare and unusual situations.

Observation. We agree that Canada should retain final authority over local financial reporting, just in case, but have every confidence that IFRS, unabridged and unadorned, will meet the needs of Canadian markets. There'll be no need for partisan editing here, we think.

Canadian GAAP for Private Enterprises

I am sure that the human being and the fish can coexist peacefully.
– George W. Bush, Saginaw, Michigan, September 29, 2000

In the last issue of *Financial Reporting Release*, we reviewed the basic features of the accounting standards for private enterprises that the AcSB spent the last couple of years putting together. Those waiting impatiently for these new standards can rest easy. The AcSB issued the standards in December 2009. “PE GAAP”, as it’s now affectionately known, is mandatorily effective in 2011 for any Canadian private enterprise that decides that IFRS isn’t its cup of tea. PE GAAP is optional in 2009 annual financial statements.

Canadian GAAP for private enterprises derives from the current version of the CICA Handbook and features simplified standards and significantly reduced disclosures. The new rules carry forward and expand the number of options available for enterprises not to apply certain basic accounting principles that are mandatory for publicly accountable enterprises. For example, private enterprises can avoid:

- Consolidating subsidiaries;
- Accruing for deferred income tax liabilities; and
- Measuring some financial instruments at fair value.

Unlike existing GAAP, unanimous consent from owners is not a condition of applying options in PE GAAP.

The AcSB will undergo a comprehensive evaluation of PE GAAP in five years or so. If the standards do not meet the needs of private enterprises, the AcSB will revisit its strategy.

PE GAAP and IFRS fit together like… Well, actually they don’t fit together at all. It’s more a case of peaceful co-existence. Different strokes for different folks, or fish.

Observation. Some believe that PE GAAP is like cutting down a hockey stick so that your eight year-old can play too, but that characterization ignores a key premise that underlies this set of standards. That premise is that owner-managers, bankers and other insiders are the principal users of financial statements of private enterprises and, within certain limits, they can decide the accounting and disclosures they wish to see and still say that the financial statements are fair and in accordance with GAAP – PE GAAP, mind you, but GAAP nonetheless. The strength of this approach is that it allows for financial statements that provide more relevant information to specific users on a cost effective basis. The challenge is to ensure that users are appropriately considered when establishing an entity’s accounting policies and disclosures, and to understand the implications. We support the AcSB’s PE GAAP initiative and also its decision to undertake a comprehensive re-evaluation after a trial period. Experience may indicate it’s appropriate to consider converging more closely with IFRS for small- and medium-sized companies, or adopting IFRS altogether.

Canadian GAAP for Pension Plans

As the poet said, "Only God can make a tree", probably because it's so hard to figure out how to get the bark on. – Woody Allen

In previous issues of *Financial Reporting Release* we told you about the AcSB's proposed new GAAP framework for pension plans. The AcSB thinks a special set of standards, rather than IFRS, is necessary for pension plans. That's because the existing guidance in IFRS is, well, kind of dated. Adopting IFRS would be like trying to drive a Model T on a busy highway today…you might get where you're going, but then again, you might not.

The AcSB has proposed that pension plans should continue to apply the requirements in Section 4100 of the existing CICA Handbook, with some modifications. Under that proposal, plans would continue to measure investment assets at fair value, however a significant modification to Section 4100 would be that the plans must recognize their pension obligation as a liability on the balance sheet, although the proposals include no specific requirements for its measurement.

In December 2009, the AcSB announced that pension plans also would:

- Not consolidate investments in subsidiaries holding investment assets, including real estate subsidiaries;
- Not record balance sheet adjustments for inconsistencies between the measurement bases of investment assets and pension liabilities. These inconsistencies usually arise when pension assets are measured at fair value, whereas pension liabilities are measured at actuarial value;
- Follow guidance on such matters as financial statement presentation, materiality and comparatives;
- Apply principles in IFRS for the recognition, derecognition and disclosure of financial instruments, and measurement of fair value; and
- Establish other accounting policies affecting recognition or measurement by consistently applying applicable IFRS or PE GAAP.

The AcSB expects to finalize its standards by March 31, 2010, after another round of consultation. If you're thinking this might delay the timing of the move to the new standards, think again. 2011 is still the date.

Observation. We agree that providing a comprehensive accounting framework for pension plans is necessary in the absence of appropriate IFRS. For some plans, it will be a challenge to formulate new ways of communicating information about plan surpluses or deficits as seen through the eyes of management, given the prohibition against including actuarial value adjustments on the balance sheet. Maybe not quite as hard as something like growing a tree, but challenging nonetheless. Various approaches are possible, both within and outside of the financial statements and we encourage pension plans to consider alternatives with their advisors.

Canadian GAAP for Not-for-Profit Organizations

Rance: A search party must be organized. What have you in the way of dogs?
Prentice: A spaniel and a miniature poodle.
Rance: Let them be unleashed!
– Joe Orton, *What the Butler Saw*

Late last year, the AcSB and Public Sector Accounting Board (PSAB) invited constituents to comment on a proposed new accounting framework for not-for-profit organizations (NPOs) in the private and public sectors. In November 2009, after considering the feedback, the Boards announced that the reporting strategy for NPOs would not be sorted out for awhile yet and that establishing a new set of standards for use by 2011 wasn't a priority. Until a new reporting framework is found, NPOs will continue to apply the existing requirements.

The AcSB announced it will issue an exposure draft in the first quarter of 2010 proposing that NPOs apply one of the following three possible sets of financial reporting standards:

- IFRS, unmodified, even though IFRS was not developed with NPOs in mind and contains no specific guidance for them.
- The existing requirements for NPOs in the CICA Handbook, Section 4400, amended and supplemented by PE GAAP.
- Public sector GAAP for NPOs.

Public sector GAAP for NPOs hasn't been finalized either. The PSAB will propose that this public sector GAAP for NPOs be an amended version of existing Section 4400, supplemented by standards in the Public Sector Handbook.

The AcSB determined that three different sets of reporting standards are necessary because of significant differences in the types of NPOs, which range from local neighborhood groups to sophisticated billion dollar operations and from purely private to quasi public institutions.

Observation. While many think that existing NPO GAAP is just fine, thank you very much, leaving it alone just won't work. Existing NPO GAAP builds on the general standards in the CICA Handbook, and these will not be left in place forever. Sooner or later all GAAP for NPOs will have to connect to some other fundamental GAAP framework. We agree with the AcSB's decision not to rush to final solutions but rather to search and consider all alternatives. Send out the hunting dogs! We continue to believe that the alternative of a reporting framework that supplements IFRS with an amended version of Section 4400 is an approach worth pursuing, and is one that other countries have followed. While it might not be possible to label the result as IFRS, we don't think that should matter. In our mind, the task here isn't about global GAAP harmonization; it's about developing a meaningful and relevant framework for NPOs that have significant public accountability in Canada.

Auditing Standards in Canada

No man goes before his time – unless the boss leaves early. – Groucho Marx

One development that has flown a bit under the radar has been the decision by the Auditing and Assurance Standards Board in Canada to adopt ISAs. Heard about it yet?

The new standards apply for audits of financial statements for periods ending on or after December 14, 2010. While the decision to move to the new standards wasn't connected to IFRS, the rationale for the change is pretty much the same – it's more efficient and effective for everyone to be playing by the same set of rules. Unlike IFRS, the new auditing standards apply to all audits in Canada.

The shift will primarily affect auditors, of course, but it has broader implications. We summarize some of the more significant ones below.

- While those magic words "presents fairly in accordance with GAAP" will continue to appear in the standard audit report, the report will now have six paragraphs instead of the usual three. Among other things, the report will highlight that it's management's responsibility to prepare and fairly present the financial statements using such internal controls as management considers necessary for their preparation and to protect against fraud.
- When necessary, the report will include a "matter of emphasis" paragraph, designed to alert readers to matters such going concern and other important uncertainties, changes in accounting policies, and financial statement restatements.
- Auditors must formally assess the effectiveness of communications with audit committees and take appropriate action if they are considered deficient (e.g. communicate directly with the Board, scope limitation or withdrawal from the engagement).
- Audit reports can't be dated before the auditor has obtained appropriate audit evidence, including assertion of responsibility for the financial statements by the Board or other appropriate authority. This may result in the later dating of reports and require more co-ordination of audit committee and board meetings.
- Auditors can express an opinion using any acceptable financial reporting framework, including one established by a contract. Under existing Canadian auditing standards, expressing an audit opinion on a framework other than GAAP is very difficult.

Observation. All goods things must end. The case for moving from Canadian GAAS to common global auditing standards is persuasive. We encourage audit committees and senior management to work closely with their auditors to understand the specific implications of such a move on their entities.

Towards a Single Global GAAP

You begin to feel a strange euphoria … your body floats … Open your mind: we float together … each of us sharing the same thoughts …
– Mr. Spock, *Star Trek*, as he begins a Vulcan mind meld

When we last left this saga, the prospect of IFRS and US GAAP coming together to form a single global GAAP was kind of grim. There was push-back from Europe about continuing to change IFRS solely for the sake of US GAAP harmonization. We also had less than enthusiastic support in the US for IFRS. The IASB and FASB pulled in different directions in response to the financial crisis. And then the Chairman of the IASB highlighted the disenchantment in Europe and elsewhere about US influence over the IASB and its oversight. All quite troubling for anyone who believed the world would be better off with a single set of high quality, global accounting standards.

The picture has brightened somewhat over the last few months. In September 2009, the G20 called for the IASB and FASB to redouble their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard-setting processes. In November, the IASB and FASB reaffirmed their commitment to improve and harmonize standards in major areas by the middle of 2011. Also, the SEC is saying nice things about IFRS and promises soon to update their road map for making a decision whether to change US GAAP over to IFRS.

Why the middle of 2011 as the magic date for completing the convergence program? We see a number of reasons. First, having common standards in place would make it easier for the SEC to sell the change and minimize the US transition. There are also practical considerations – mid-2011 is the expiry date of the terms of a significant number of members on both Boards, including the IASB Chair who has said that finalization by mid-2011 is important for countries transitioning to IFRS in 2011. That won't be much help for Canada – IFRS reporting here begins in Q1 2011, not at year-end. If there is any good news for us, it's that standards introduced in 2010 and 2011 won't take immediate effect. As a general rule, we expect you'll have at least a year or two, perhaps even more, to implement the more complex standards after transitioning. But, change you must.

Observation. It may take a Vulcan mind meld to meet this aggressive timetable. Still, whatever it takes. Global GAAP improvement and convergence towards a single set of high quality, global accounting standards is the highest priority. We support the IASB and FASB's efforts to undertake this program on an expedited basis.

Major FASB- IASB Convergence Projects	Proposed Issue Date
Financial instruments	Q4 2010
Consolidations	Q3 2010
Derecognition	H2 2010
Fair value measurement	Q3 2010
Revenue recognition	H1 2011
Leases	H1 2011
Financial instruments with characteristics of equity	H1 2011
Financial statement presentation	H1 2011
Emission trading schemes	H1 2011
Insurance contracts	H1 2011

Financial Instruments

Compromise is when one person wants to rob a bank and the other person does not, and they compromise to rob a person outside the bank.
– Christopher Myers

In the last issue of *Financial Reporting Release*, we reviewed the draft proposals of the IASB to modify its financial instruments accounting rules. The IASB issued a final standard, IFRS 9, *Financial Instruments*, in November 2009. Who says standard-setters can't move fast?

As a general rule, IFRS 9 requires an entity to measure all financial assets within the scope of the standard at fair value and recognize changes in net income. There are only two exceptions:

- Basic loans, receivables and other similar assets which the entity is holding to collect the contractual cash flows in accordance with its business model. You can account for these at amortized cost.
- Changes in the fair value of equity investments not held for trading purposes. You can elect to recognize these changes in other comprehensive income ("OCI"). If you do, they stay there forever – there's no recycling to net income, even if you sell the investment. Dividends from post-acquisition earnings, however, always go to the income statement.

What about fair valuing financial liabilities? That question has been left for another day. Fair valuing liabilities gives the counter-intuitive result of an entity reporting a gain any time its own credit risk increases (if credit risk goes up, the fair value of the entity's debts and other liabilities will fall, even though the entity's obligation to pay is unaffected). These days, even hinting that you should be recognizing gains and losses for changes in your own credit risk is sufficient to set off a cascade of boos so loud as to make you wonder whether you're watching the Leafs.

The IASB rushed IFRS 9 out to keep a promise to the G20 to have a less complex standard on financial instruments available in time for 2009 annual reporting. Simplifications include eliminating some special measurement classifications and options: the need to identify and separately account for derivatives embedded in financial instruments, and having to make impairment assessments for equity investments.

IFRS 9 is not mandatorily effective until 2013. Remember though, if all goes according to plan, IFRS 9 will be overtaken in 2010 by a newly converged IASB-FASB financial instruments standard (see the preceding page). The FASB is toying with a different model under which financial assets would be measured at fair value, with changes in fair value recognized in net income except for those relating to loans and receivables. These can be recognized in OCI.

Observation. IFRS 9 is controversial. So much so that one member of the IASB has urged companies not to adopt the standard and, notwithstanding the G20's call for simpler standards, the EU has declined to accelerate its endorsement of the standard and thus allow EU companies to adopt it for 2009 annual reporting. What's the underlying issue that's exciting such passion? Briefly, the scope for the fair value measurement requirements and the need to recognize most changes in fair value in net income. It's difficult to see IFRS 9 surviving intact given, among other things, the financial instruments convergence project with the FASB. What the final outcome might be, no one knows. Only one thing is certain – whatever the result, not everyone is going to be happy. Indeed, such is the nature of the beast, it's at least even odds that no one will be pleased.

Loans and Trade Receivables, and Related Revenue

From a dog's point of view, his master is an elongated and abnormally cunning dog.
– Mabel Louise Robinson

IFRS 9, which we just discussed, permits an entity to continue to account for qualifying loans and other financial assets at "amortized cost" rather than fair value. While the amortized model has been part of GAAP for as long as we can remember, change is a' coming. The reason? Concern arising during the financial crisis that the model systematically overstates interest income and delays recognition of impairment losses way too late in the credit cycle.

Change may be upon you sooner than you think. In December 2009 the IASB issued an ED proposing a major overhaul of its amortized cost principles for loans. Under the proposals, you'd have to do the following:

- Generally, recognize interest income at the risk-free interest rate (e.g. Government of Canada T-bill rate) prevailing when you made the loan, not its contractual rate. Doing this, of course, will mean that the interest revenue you report in any period will be lower than the interest you're entitled to receive. The difference gets credited to the allowance for doubtful accounts. A cushion against future losses, you ask? Wash your mouth out with soap. GAAP don't have cushions.
- Re-measure a loan, and recognize a gain or loss in bad debt expense whenever there's a change in the loan's credit risk, up or down. This treatment applies even if the change doesn't signal a likely default (e.g. even a decline in the credit rating of the borrower from AA to A would produce a loss). Isn't this what happens when you account for loans at fair value? Yup, though the amount of the gain or loss would be different.

If you don't have any loans, don't feel too smug. The ED also would apply to short-term trade receivables, though usually on a simplified basis. To illustrate, if at the time you make a sale on credit your credit losses on trade receivables are running at 2% of sales, you would usually book revenue at 98% of the sales price and credit 2% to the allowance for doubtful accounts.

The proposals in the ED are complex, especially for financial institutions. The IASB has established an expert advisory panel that provides guidance on the operational aspects. Recognizing that implementation of the proposed approach will require significant lead time, the IASB also indicated that the new standard would not become mandatory until about three years after its issuance.

This proposal falls within the scope of the IASB–FASB project to converge financial instruments accounting standards. Be warned. The FASB has a different model for loans and receivables in mind, one that involves measuring all loans at fair value, parking differences between fair value and cost in OCI, and recognizing bad debt expense in net income based on management's best estimate of future cash collections.

Observation. A new vision of reality? Or just funny math? In the end, it's all a matter of perspective.

Provisions

In Vegas, I got into a long argument with the man at the roulette wheel over what I considered to be an odd number. – Steven Wright

Guess what we found on our desk on returning from the holidays in January? An ED from the IASB on measuring "provisions". A late present, perhaps?

Under existing IFRS, a "provision" is any liability with uncertain timing or amount whose measurement is not addressed by some other standard. Examples of provisions include warranties, asset retirement obligations, restructuring liabilities, and lawsuits that have been accrued because it's more likely than not the entity will have to pay.

In an earlier ED, the IASB proposed the removal of the minimum probability threshold for contingencies. All contingencies such as lawsuits have to be recognized regardless of the likelihood of payout. That ED remains on the table.

Under the latest ED, you would record provisions on the balance sheet at the discounted value of the future cash flows you expect will be required to settle the obligation, adjusted for the risk that cash flows will be different. Any change in expected cash flows, or the risk that they will vary, would cause a re-measurement of the liability. Interest on the liability would continue to be accrued each period at the prevailing market rate.

The latest proposal would change existing IFRS by adding the requirement to adjust expected cash flows for risk. This is done by scheduling out possible cash flows, assigning a probability of occurrence, and calculating their weighted average. For example, if there are only two possible cash flow outcomes, one for $100 with a probability of 60% and the other for $30 with a probability of 40%, risk adjusted cash flows are $72. You'd have to use $72 as the basis for measuring the liability even though it's certain the company won't pay this amount. This process will add further complexity to the measurement of provisions and, we suspect, will be especially difficult to apply for lawsuits and other highly uncertain contingencies.

Some types of provisions require settlement by the delivery of services rather than cash. In such circumstances, the entity has to accrue a liability based on the amount the entity would reasonably pay a contractor to undertake the service on its behalf. Because such payments necessarily include a contractor's profit margin, accruing a liability at this amount will result in the entity reporting a profit if it settles the liability by providing the services itself instead of hiring an outsider. Existing Canadian GAAP requires this treatment for asset retirement obligations, but not for warranties or other provisions.

Observation. Adjusting expected cash flows for the risk those expectations might not prove out, for changes in market rates of interest and hypothetical profit margins that an outsider would charge for work you intended to do yourself, produces a measure of the obligation's value at the balance sheet date. Not necessarily its fair value, mind you, but a current measure of value nonetheless. Setting aside implementation issues, something is gained and something is lost when making such adjustments. What's gained is an enhanced understanding of the current risks and uncertainties inherent in the obligation. What's lost is that the carrying value of a liability on the balance sheet no longer represents the future cash flows management expects the entity to incur to satisfy the obligation. A result which some think is very odd indeed.

Securities Commissions' Continuous Disclosure Reviews

I went to a general store. They wouldn't let my buy anything specific. – Steven Wright

The Canadian Securities Administrators (CSA), Ontario Securities Commissions (OSC), Autorité des marchés financiers (AMF) and Alberta Securities Commission (ASC) recently released the results of their continuous disclosure reviews in 2009. We see some recurring themes here, including improper or inadequate:

- Disclosure of related party transactions and significant accounting estimates;
- Revenue recognition and related disclosures; and
- Segmented information, including geographic information and information about customers.

Not surprisingly, there were also a few new concerns in 2009 related to current market conditions and recent accounting guidance, including:

- Inadequate disclosure about liquidity risk, capital management and risks associated with current economic conditions;
- Improper measurement and incomplete disclosure about fair value methods and assumptions; and
- Absent or incomplete disclosure about impairments and going concern issues.

Observation. While markets have recovered, the recovery is fragile and therefore it is of paramount importance to appropriately reflect the effects of current risks and uncertainties in financial statements and MDA. If there is one over-riding message in these reviews, it's that full and frank disclosure, not boiler-plate, is the key. Be specific, not general. This should be your motto.

Emerging Issues Committee Abstracts

I want to die like my father, peacefully in his sleep, not screaming and terrified like his passengers.
– Bob Monkhouse

The Emerging Issues Committee (EIC), we suspect, is on its last legs. Presumably, it will not be capable of lasting beyond Canada's move to IFRS in 2011. The following Abstracts may very well may be the EIC's last words. The AcSB has established the IFRS Discussion Group to consider issues arising from the application of IFRS in Canada and to recommend which ones the AcSB should refer to the IASB or its interpretative body, the International Financial Reporting Interpretations Committee.

EIC 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

This Abstract, which was issued last year, requires an entity to take into account its own credit risk as well as that of its counterparty in determining the fair value of an entity's derivatives and other financial instruments. In December 2009, the EIC amended this Abstract to say that private enterprises and other entities not following Section 3855, *Financial Instruments – Recognition and Measurement* don't need to apply it.

EIC 175, *Multiple Deliverable Revenue Arrangements*

This Abstract supersedes EIC 142. The purpose of the interpretations is to keep Canadian GAAP and US GAAP the same when recognizing revenue on a contract when the contract contains more than one product or service. The new Abstract requires a seller to allocate the contract price to all deliverables using the stand-alone selling prices of the individual deliverables. It also changes the level of evidence necessary to separate deliverables when more objective evidence of the selling price is not available. The Abstract may be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. Early adoption is permitted. Significant transition disclosures may be necessary.

Observation. The upshot of the transition provisions is that you can apply the new rules during 2010, but don't have to if you don't want to. In 2011, of course, for most enterprises, it will be a new ball game – IFRS or PE GAAP. There is no IFRS equivalent to EIC 175.

For more information …

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