

IFRS news

IASB issues exposure draft on hedge accounting

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Implications



Sandra Thompson

Sandra Thompson in the Accounting Consulting Services team in the UK and Jessica Taurae in the ACS Central Team look at the impact of the proposals to change hedge accounting.

What is the issue?

The rules on hedge accounting in IAS 39 have frustrated many preparers, as the requirements have not been well linked with common risk management practices. The detailed rules have at times made achieving hedge accounting impossible or very costly, even when the hedge has been an economically rational risk management strategy. Users have also found the current distinction between achieving hedge accounting or not as meaningless; they have often struggled to fully understand an entity's risk management activities based on its application of the hedge accounting rules. The IASB is addressing several of these concerns in this third phase of its efforts to replace IAS 39 with IFRS 9.



Jessica Taurae

Key provisions

Hedge effectiveness tests and eligibility for hedge accounting

The exposure draft (ED) proposes relaxing the requirements for hedge effectiveness assessment and consequently the eligibility for hedge accounting. Under IAS 39 today, the hedge must both be expected to be highly effective (a prospective test) and be demonstrated to have actually been highly effective (a retrospective test) with 'highly effective' defined as a 'bright line' quantitative test of 80-125%. The ED replaces this with a requirement for the hedge to be designated so as to be neutral and unbiased, and in a way that minimises expected ineffectiveness. This could be demonstrated qualitatively or quantitatively, depending on the characteristics of the hedge. For example, a qualitative test might be sufficient in a simple hedge where all the critical terms match. Some type of quantitative analysis – such as that required under current rules

– would need to be performed in highly complex hedging strategies. The 80-125% ‘bright line’ rule would be removed; however, hedge ineffectiveness must still be measured and reported in profit or loss.

Hedged items

A number of changes are proposed to the rules for determining what can be designated as a hedged item. The proposed changes primarily remove restrictions that today prevent some economically rational hedging strategies from qualifying for hedge accounting. For example, the ED proposes that risk components can be designated for non-financial hedged items provided the risk component is separately identifiable and measurable. This is good news for entities that hedge non-financial items for a commodity price risk that is only a component of the overall price risk of the item, as it is likely to result in more hedges of such items qualifying for hedge accounting.

The ED would also make the hedging of groups of items more flexible, although it does not cover macro hedging – this will be the subject of a separate exposure draft in 2011. Treasury management teams commonly group similar risk exposures and hedge only the net position (for example, the net of forecast purchases and sales in a foreign currency). Such a net position cannot be designated as the hedged item under IAS 39 today. The ED proposes that this be permitted if it is consistent with an entity’s risk management strategy. However, if the hedged net positions consist of forecasted transactions, all

hedged transactions have to relate to the same period.

Hedging instruments

The ED relaxes the rules on using purchased options and non-derivative financial instruments as hedging instruments. For example, under the current hedging rules, the time value of purchased options is recognised on a mark-to-market basis in net income, which can create significant volatility in profit or loss. In contrast, the ED views a purchased option as similar to an insurance contract such that the initial time value (that is, the premium generally paid) will be recognised in profit or loss – either over the period of the hedge if the hedge is time related, or when the hedged transaction affects profit or loss if the hedge is transaction related. Any changes in the option’s fair value associated with time value will only be recognised in ‘other comprehensive income’ (OCI). This should result in less volatility in profit or loss for these types of hedges.

Presentation and disclosure

The ED changes the presentation of fair value hedge accounting. The hedged item will no longer be adjusted for changes in fair value attributable to the hedged risk. Instead, those fair value changes will be presented as a separate line item in the balance sheet. The changes of the fair value of the hedging instruments will be presented in OCI on a gross basis. Any ineffectiveness is then reported in profit or loss. All hedge accounting results are then reflected in the same statement (OCI). The new presentation disclosure requirements

are designed to give the user of the financial statements better information about how the entity’s risk management activities relate to its use of hedge accounting and hedge effectiveness.

Am I affected?

All entities that engage in risk management activities may be affected by the changes regardless of whether or not they use hedge accounting today. It may be beneficial for entities to revisit their risk management strategies that currently do not achieve hedge accounting to see if they will now be permitted. The impact of the new eligibility criteria – unbiased hedging relationships – may make it necessary to evaluate existing hedge accounting strategies that work today and consider whether they will continue to be eligible.

The new requirements are proposed to be effective for accounting periods beginning on or after 1 January 2013, with earlier application permitted. However, the IASB has recently issued a discussion paper on effective dates and transition, the results of which may impact the IASB’s decision on the ultimate timing of IFRS 9 application.

What do I need to do?

The comment letter period ends on 9 March 2011; a final standard is expected mid-2011. Management should assess the implications of the proposals on existing hedging strategies and consider commenting on the ED to ensure its views are considered.

Cannon Street Press

Request for views on effective dates for new standards

The IASB and FASB are seeking views on the effective dates of the major projects due for completion next year in order to reduce the implementation burden for preparers. The IASB will consider the needs of jurisdictions already using IFRSs and those planning to do so. The projects covered by the request for views include the second and third phases of financial instruments, revenue from contracts with customers, insurance contracts and leases.

The IASB might amend effective dates of other projects depending on responses received to its consultation – for example, the ‘consolidation’ and

‘joint arrangements’ projects and the first phase of IFRS 9, ‘Financial instruments’. It will also consider the impact of effective dates proposed in other projects such as ‘financial statement presentation’ and ‘financial instruments with the characteristics of equity’.

The IASB is asking financial statement users, preparers and auditors to provide feedback about the expected time and effort involved in properly adapting to the proposed standards; and the implementation timetable and sequence of adoption that facilitates cost-effective management of changes.

The IASB's questions in the request for views focus on four main issues:

- Preparing for and transitioning to the new standards.
- The implementation approach and timetable.
- International convergence considerations.
- Considerations for first-time adopters of IFRSs.

All current and future IFRS reporters are likely to be affected by the decisions reached following this consultation. The comment letter deadline is 31 January 2011. We encourage preparers to respond to the request.

Guidance on management commentary

The IASB has issued a non-mandatory practice statement to help entities present a narrative report, often referred to as ‘management commentary’. This is the information that management might choose to provide users of their financial statements to explain the entity’s financial position, financial performance and cash flows. It explains management’s objectives and its strategies for achieving those objectives.

The focus of management commentary will be specific to each entity. The IASB’s practice statement provides a broad framework of principles, qualitative characteristics and elements that might be used to provide users of the financial report with decision-useful information.

Entities that are not currently required to provide management commentary and now elect to do so will be able to apply the new practice statement.

Entities that currently provide management commentary in accordance with local legislation or listing requirements are unlikely to be affected.

Entities that elect to apply the non-mandatory practice statement should review any existing management commentary to identify and include some or all of the features required by the practice statement.

Amendment to deferred tax accounting for investment property at fair value

The IASB has 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. The current principle in IAS 12 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. However, 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.

The IASB has therefore added another

exception to the principles in IAS 12: the rebuttable presumption that investment property measured at fair value is recovered entirely by sale. This presumption 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 before the end of its economic life. 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 investment property measured at fair value is excluded.

The amendments are 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'.

All entities holding investment properties measured at fair value in territories where the capital gains tax 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 many cases, there is 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.

IFRS 1 amended: exemption for severe hyperinflation, and removal of fixed dates

The IASB has issued two amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'.

Severe hyperinflation

The first amendment creates an additional exemption when an entity resumes presenting financial statements in accordance with IFRSs after being subject to severe hyperinflation. The exemption allows an entity to elect to measure assets and liabilities held before the functional currency normalisation date at fair value; and to use that fair value as the deemed cost of those assets and liabilities 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.

The amendment is effective from annual periods beginning on or after 1 July 2011. Earlier application is permitted. For more information, see our 'Straight away' guidance: [IASB amends IFRS 1](#).

The amendment is expected to have a

limited impact, because the exemption 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 quarter one of 2009; the amendment is unlikely to apply in other territories.

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

The second amendment eliminates 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.

Removal of fixed dates

The IASB has also 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 change 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.

The amendment is effective from annual periods beginning on or after 1 July 2011. Earlier application is permitted. For more information see our 'Straight away' guidance: [IASB amends IFRS 1](#).

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.



Ian Farrar



Niranjan Raman

Transition issues from around the world – India

This is the first article in a series about issues affecting countries that are moving to IFRS. Ian Farrar and Niranjan Raman in PwC India look at some IFRS 1 application issues arising locally, challenges around revenue recognition and determining the useful life of fixed assets.

First time adoption – additional optional exemption

IFRS 1, 'First-time adoption' (Ind AS 41 in India) provides an optional exemption from the requirement to present comparative information in the year of adoption. In the first financial statements prepared using CIAS, management may voluntarily present the comparative information under CIAS, although this is not mandatory.

An entity that opts not to present the comparative information under Ind AS 41 should present a reconciliation of equity at the balance sheet date between IFRS and previous GAAP (as if previous GAAP had continued), in addition to the more usual reconciliation of equity at the date of transition. This exemption provides welcome relief to preparers in India. It will, however, impair users' ability to understand the entity's year-on-year performance.

Revenue recognition

The National Advisory Committee on Accounting Standards has approved a carve-out for IFRIC 15, 'Agreements for the Construction of Real Estate'. There has also been a 'carve-in' to bring such transactions directly into the scope of the CIAS equivalent to IAS 11, 'Construction contracts', in

Local background

- Indian GAAP has been derived from IFRS for a number of years; significant tailoring for the local market has resulted in a lack of comparability with other reporting frameworks.
- India has been on the path to join the growing IFRS community since 2006, with the hope that it will allow Indian companies to reap the rewards of increased access to global capital.
- The transition from Indian GAAP to Converged Indian Accounting Standards (CIAS), based on IFRS, takes a phased approach. The first phase of transition to CIAS covers large companies (both listed and private) and companies, irrespective of size, that have issued securities that are listed outside India. They must move to IFRS from 1 April 2011 (as most companies in India have a 31 March year end).
- The accounting framework is specified in the Companies Act. The convergence process is intended to align the Companies Act requirements with IFRS rather than simply adopting IFRS as the national GAAP. The convergence programme involves the introduction of new IFRS-based standards into the Companies Act where these are absent from existing Indian GAAP – for example, business combinations, financial instruments and accounting for service concession contracts; new standards have been proposed in these areas.
- Some existing accounting standards, such as revenue recognition and leases, provide less detailed guidance than IFRS, though the underlying principles are often consistent. The limited guidance sometimes results in diversity of interpretation and application in practice. Some local practices may differ from the manner in which IFRS is typically interpreted. These accounting standards are therefore being amended in order to align the CIAS with IFRS.
- The extent of 'exceptions' or 'carve-outs' from full IFRS in the exposure drafts issued by the Institute of Chartered Accountants in India were relatively minor and may enable many companies reporting under CIAS to be able to claim compliance with both CIAS and IFRS (in all material respects). Nevertheless, the existence of exceptions/carve-outs is significant. They demonstrate that CIAS were not to be identical to IFRS and have lead to increasing calls for additional exceptions or carve-outs in the drafting of CIAS from preparers and industry groups.

order to prevent this interpretation being required by way of the hierarchy in IAS 8, 'Accounting policies, changes in accounting estimates and errors'. Revenue will therefore be recognised on a percentage-of-completion method for all transactions involving the construction and sale of real estate.

IAS 18, 'Revenue', incorporates guidance to assist in its application to various aspects of revenue recognition, such as determining whether an entity is acting as a principal or as an agent, accounting for transfers of assets from customers, and requirements for customer loyalty programmes. Indian GAAP does not contain similar guidance. Accounting practices have therefore developed over time in certain industries that differ from the manner in which the same underlying principles are applied under IFRS.

Specific areas where the timing or measurement of revenue recognition will need to be reconsidered as part of the convergence with IFRS include:

- when the entity has continuing managerial involvement in assets 'sold';
- analysing contracts that contain multiple elements; and
- accounting for customer loyalty schemes.

Useful lives of fixed assets

The minimum rates of depreciation to be charged by a company have been defined in the Companies Act based on certain asset categories. The accounting literature in Indian GAAP has historically required preparers to estimate useful life of assets subject to these minimum rates. The review of residual value and useful lives at each balance sheet date is not required in Indian GAAP, although it is allowed. Evidence suggests that most preparers default to these minimum rates.

It is proposed that similar guidance will be provided in the Companies Act, with a list of 'indicative' estimated useful lives instead of the minimum rates of depreciation as at present. For

example, the 'indicative' useful life suggested for factory buildings is 30 years; for computers and data processing units it is six years; for motor cars it is five years; for furniture it is 10 years, etc.

The inclusion of 'indicative' useful lives could be considered as being at odds with the requirement for management to use judgement to determine, and annually review, useful lives of property, plant and equipment. However, it is hoped that rigorous application of IAS 16's principles will prevent these indicative rates again becoming the de facto useful lives.

Is 'almost' converged good enough?

Indian companies are certainly feeling the pain of convergence, as IFRS presents a sea change from existing GAAP. Will they be able to reap the promised rewards of greater access to cheaper capital, despite the multiple carve-outs and exceptions? Only time will tell.

Accounting for Blessings this Christmas

Whether shrimp or turkey
Cold or warm your feast
Whether grilled or roasted
Seafood, bird or beast.

When you pause this
Christmas
Blessings you should count
Contemplate your brothers
In whose lives debts mount.

Consolidate your interests
In the ones you love
Be they subs or parents
On earth or above.

Reconfirm assumptions
Of life's expectancy
Focus less on assets
As you trim your tree.

Discount obligations
From underfunded plans
Made by those whose
fortunes
Were lost to others' hands.

Fam-i-lies restructured
Struggling to find joys
Needing more each other
Rather than more toys.

Nature's force impairing
Communities displaced
Paths we might have
trodden
There but for God's grace.

Exercise good judgement
Measuring your lot
Count your blessings wisely
Others in your thought.

Christian, Jew and Muslim,
Sikh or otherwise
Kindness show each other
Peace and compromise.

May your sheets all balance
Whether classified
Parties where related
Lovingly abide.

May your acts and efforts
Generate goodwill
Whether bathed in sunshine
Or frosty winter's chill.

**Tom Quinn, partner in
ACS in the UK**



Barry Johnson



Lisa Dang

Wave of accounting change looming for preparers

Barry Johnson and Lisa Dang of PwC’s Accounting Consulting Services in the UK assess the practical implications of implementing the next wave of new standards. It is likely to require all hands on deck.

The IASB is expected to publish a significant number of new IFRSs and amendments over the next year or so. The level of complexity and the operational challenges will vary from standard to standard but may be severe. Management’s ability to cope with this wave of change will vary depending on the entity’s circumstances and, in some cases, the industry in which it operates. The IASB has acknowledged the strain this is likely to put on management and

systems. The IASB’s request for views has been published on how to schedule the effective dates of the new standards. See ‘Request for views on effective dates for new standards’ on p3 of this edition of *IFRS news*. (Deadline for comments: 31 January 2011.)

The table below considers these challenges and some of the industries that are likely to be affected. This summary is based on information available as at December. The new standards and amendments are still in development, so the projects and their timetable for completion are subject to change. One thing is likely: many of the below are unlikely to appear when expected.

	Estimated publication date				Level of complexity	Implementation challenges	Industries/entities likely to be affected	Changes/areas of focus	Effective date
	2010 Q4	2011 Q1	2011 Q2	2011 H2+					
Financial crisis-related projects – financial instruments (IAS 39 replacements)									
Classification and measurement – financial assets – IFRS 9 (issued November 2009)					High	Significant	Significant impact on financial institutions given the substantial amount of financial assets they hold; limited impact on other industries.	IFRS 9 replaces the multiple classification and measurement models for financial assets in IAS 39 with a model that has only two classification categories: amortised cost and fair value. There is no separation of embedded derivatives. The classification model is driven by the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Two of the existing three fair value options become obsolete; the remaining fair value option condition in IAS 39 is carried forward – that is, management may still designate a financial asset as at fair value through profit and loss on initial recognition if this significantly reduces an accounting mismatch. In addition, IFRS 9 prohibits reclassifications between the two categories except when the entity’s business model changes.	1 January 2013

	Estimated publication date				Level of complexity	Implementation challenges	Industries/entities likely to be affected	Changes/areas of focus	Effective date
	2010 Q4	2011 Q1	2011 Q2	2011 H2+					
Classification and measurement – financial liabilities (issued October 2010)	IFRS				Low	Low	Almost exclusively financial institutions	The recognition and measurement guidance is unchanged from IAS 39. An additional presentational requirement has been added for liabilities designated at fair value through profit and loss (FVTPL). Where such a designation is made, the liability will be recorded on balance sheet at its full fair value. However, the fair value movement taken to the income statement excludes the effect of credit risk; this is recorded in other comprehensive income (OCI) (unless recognising own credit in OCI creates an accounting mismatch). There will be no subsequent reclassification of the amounts in OCI to profit or loss.	1 January 2013. Early adoption permitted; subject to EU endorsement
Impairment			IFRS		High	Significant	All entities, but greatest impact on financial institutions.	There is an 'expected loss' impairment approach. Revenue/interest income is reduced for expected losses. Expected losses are reassessed. When losses will be recorded and how changes in expectations will be accounted for are part of the post-ED discussions. How principles will be applied to trade receivables is also to be determined.	No earlier than 1 January 2014
Hedge accounting	ED				High	Significant	Mainly non-financial institutions that apply hedge accounting. For example, energy and utility entities.	The proposals are more permissive than current IAS 39. Hedge accounting will be based on internal risk management. It will introduce the concept of an optimal or unbiased hedge, which is the hedge ratio that produces the least ineffectiveness. Hedge effectiveness testing will only be required prospectively; it can be qualitative or quantitative, depending on entity's risk management techniques and expected sources of ineffectiveness. More items will qualify as hedged items – for example, certain groups and net positions, and the time value of options will be allowed to be deferred in OCI. All hedge ineffectiveness will be measured and recognised in the income statement based on a dollar-offset approach. Fair value hedge accounting mechanics will change. Basis adjustment for cash flow hedges of non-financial hedged items is likely to be made compulsory – with recycling from equity instead of OCI.	No earlier than 1 January 2013
Asset and liability offsetting	ED				Low	Low	All entities that have derivative contracts; greatest impact on financial institutions.	The ED is expected to propose changes to address difference between IFRS and US GAAP. It may or may not allow more netting than under IAS 32 – unclear at this stage of discussions.	No earlier than 1 January 2013

	Estimated publication date				Level of complexity	Implementation challenges	Industries/entities likely to be affected	Changes/areas of focus	Effective date
	2010 Q4	2011 Q1	2011 Q2	2011 H2+					
Consolidation									
Replacement of IAS 27	IFRS				Medium	Low	All reporting entities (other than investment entities) that control one or more investees. Special attention to be given to SPEs. Mainly banks and other financial institutions.	The revised definition of control will focus on the need to have both power and variable returns before control is present. There will be extensive application guidance.	TBC
Disclosures – unconsolidated entities	IFRS				Low	Medium	Disclosures – unconsolidated entities	The proposal will bring together in one standard the disclosures requirements related to subsidiaries, joint arrangements, joint ventures and associates.	TBC
Investment companies	ED		IFRS		Low	Medium	Investment companies	An investment company will be required to report investees that it controls at fair value through profit or loss rather than consolidate those investees.	TBC
Fair value measurement guidance		IFRS			Low	Medium	All entities	It will replace fair value measurement guidance contained in individual IFRSs with a single, unified definition of fair value; it will also contain authoritative guidance on the application of fair value measurement in inactive markets. There are likely to be significant additional disclosures where fair values are used.	TBC
Memorandum of understanding projects									
Financial statement presentation									
Presentation of OCI		IFRS			Low	Low	All entities	Management is likely to be required to present net income and OCI, either in a single continuous statement or in two separate but consecutive statements. There is little noticeable change from the current requirements. However, management will be required to change the format of the OCI section to separate items that might be recycled from items that will not be recycled. The proposed changes will not affect the measurement of net profit or earnings per share; however, they will change the way the results are presented.	TBC

	Estimated publication date				Level of complexity	Implementation challenges	Industries/entities likely to be affected	Changes/areas of focus	Effective date
	2010 Q4	2011 Q1	2011 Q2	2011 H2+					
Replacement of IAS 1 and IAS 7 (including discontinued operations)			ED		Medium	Medium	All entities under IFRS and US GAAP (other than not-for-profit entities and entities applying 'IFRS for small and Medium-sized entities).	<p>The project's main proposals are to:</p> <ol style="list-style-type: none"> 1. achieve coherence across all the primary statements by separately presenting operating, investing and financing activities, as well as income tax and discontinued operations; 2. disaggregate items in each primary statement, considering their function, nature and measurement basis, with some disaggregation included in the notes; 3. disaggregate operating cash receipts and payments, and provide a reconciliation of profit or loss from operating activities to cash flows from operating activities; 4. analyse changes in assets and liabilities (including net debt); and 5. disclose re-measurement information. <p>The project also aims to develop a common definition of discontinued operations and require common disclosures related to disposals of an entity's components.</p>	TBC
Leases			IFRS		High	Significant	<p>Some entities will be affected more than others, but this is likely to impact most companies significantly because of the number of operating leases that are used in practice. It will also have a significant impact on the leasing industry generally.</p>	<p>For lessees, the proposals will result in all leases being included in the balance sheet, not just finance leases as currently under a right-of-use model. There are significant measurement issues where there are contingent rentals (that is, turnover based) or term extension options. The proposals will result in lease costs being higher in the early periods of the lease. They will also mean changes to income statement presentation through amortisation of the right-of-use asset and interest on the lease liability compared to straight-line rental charges.</p> <p>A hybrid approach is being proposed for lessors, which results in new assets and liabilities being recognised (performance obligation method) or assets being removed from the balance sheet (derecognition approach). There are similar measurement issues in respect of contingent rentals and term extensions.</p>	TBC

	Estimated publication date				Level of complexity	Implementation challenges	Industries/entities likely to be affected	Changes/areas of focus	Effective date
	2010 Q4	2011 Q1	2011 Q2	2011 H2+					
Revenue recognition			IFRS		High	Significant	The ED proposed significant conceptual changes that will affect most entities and is expected to fundamentally alter the way some entities recognise revenue. Entities that have followed industry-specific guidance in the past may be more significantly affected than others.	The proposed model requires revenue to be recognised when an entity satisfies a performance obligation to its customer. Identifying performance obligations in a contract will require significant judgement. Another challenge is to determine when performance obligations should be combined and when they should be separated. Greater use of estimates is expected. The transaction price will include variable or contingent consideration when such amounts can be reasonably estimated.	TBC
Joint ventures		IFRS			Low	Medium	Significant impact on some industries, such as oil and gas and property.	A distinction will be made between joint ventures and joint arrangements. The proposals require the accounting to reflect the contractual rights and obligations agreed by the parties. Therefore, a venturer recognises the individual assets to which it has rights and the liabilities for which it is responsible regardless of the legal form of the joint arrangement. If a venturer only has a right to a share of the outcome of the activities of the joint arrangement (that is, a joint venture), this interest is recognised using the equity method. Under the proposals, accounting for joint arrangements is not driven by the legal form in which the activities take place. The accounting that applies to a joint arrangement might in certain circumstances be similar to the accounting that might have applied using proportional consolidation under the current IAS 31.	TBC
Post-employment benefits (including pensions)		IFRS			Medium	Low	All entities	There is likely to be significant change to the recognition, measurement and presentation of defined benefit pension expense. Some of the key changes might include: <ol style="list-style-type: none"> 1. the removal of 'corridor and spreading approach'; 2. prohibiting recognising actuarial gains/losses immediately in the income statement; 3. removing the expected return on assets from the measurement of pension expense; this and the assumed interest costs on liabilities will be replaced with a new method of calculating finance costs based on the net unfunded liability; 4. removing flexibility regarding where components of pension expense are to be recognised in the income statement (that is, interest cost should be recognised as a component of finance cost); and 5. additional disclosures. 	TBC

	Estimated publication date				Level of complexity	Implementation challenges	Industries/entities likely to be affected	Changes/areas of focus	Effective date
	2010 Q4	2011 Q1	2011 Q2	2011 H2+					
Post-employment benefits (continued)								In addition, a separate proposal seeks to define termination benefits and the related recognition requirements more precisely; it also clarifies the distinction between termination benefits and post-employment benefits. The amendments will specify the accounting for voluntary and involuntary termination benefits.	
Financial instruments with characteristics of equity		ED		IFRS	High/Medium	Significant	All entities	The purpose is to develop a better way to distinguish instruments that are equity from those that are liabilities. Either a new model will be developed to determine what constitutes equity and liabilities, or additional guidance will supplement the guidance currently in IAS 32, 'Financial instruments: Presentation'. Deliberations will recommence in the second half of 2011.	TBC
Other projects									
Insurance contracts			IFRS		High	Significant	Insurers and other entities that issue contracts with insurance risk	The proposals are likely to result in increased volatility in the income statement and significant changes in the presentation of the income statement. All insurance contracts may use a current measurement model of the present value of expected cash flows to fulfil the obligation, where estimates are re-measured at each reporting period. Except for certain short-duration contracts, this measurement model is based on the building blocks of discounted probability-weighted cash flows, a risk adjustment and a residual margin to eliminate any initial profit.	No earlier than 1 January 2013
Emissions trading schemes				ED	Medium	Significant	Entities that participate in emissions trading schemes. This is likely to impact entities other than just those in the energy and utility sector, as these types of schemes start to be applied to entities more generally.	The objective is to provide comprehensive guidance on the accounting for emissions trading schemes. The main issues are considering the recognition and measurement of the assets and liabilities in an emissions trading scheme – in particular, how to account for the recognition of assets and liabilities when an entity receives emission allowances from the scheme administrator for no monetary consideration.	TBC

	Estimated publication date				Level of complexity	Implementation challenges	Industries/entities likely to be affected	Changes/areas of focus	Effective date
	2010 Q4	2011 Q1	2011 Q2	2011 H2+					
Liabilities (IAS 37 amendments)				ED	Medium	Medium	Industries likely to be affected include: pharma, energy and utilities, mining and professional services.	This project has been running for more than five years, but a final IFRS is still some way off. The project's main area of focus is measurement, although some changes to recognition have also been proposed. Some claim that the existing IAS 37 measurement requirements are unhelpful, given that very few provisions can practically be 'settled or transferred' at the reporting date. However, the IASB's proposals so far have been heavily criticised. The most controversial proposals include: <ul style="list-style-type: none"> the addition of risk margins in measurement; the use of expected values in measuring binary outcome scenarios; the inclusion of profit in the measurement of provisions; and the removal of the 'probability of outflow' criterion from the recognition guidance. 	No earlier than 1 January 2012
Narrow-scope improvements									
Amendments to IFRS 1 – removal of fixed dates for first-time adopters	IFRS				Low	Low	Limited impact, as it only applies to first-time adopters of IFRS	There are two amendments: <ol style="list-style-type: none"> to require first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004; 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. 	TBC
Amendments to IFRS 1 – severe hyperinflation	IFRS				Low	Medium	Limited impact, only affects entities whose functional currency was subject to severe hyperinflation.	The amendment creates an additional exemption when an entity resumes presenting financial statements in accordance with IFRSs after being subject to severe hyperinflation. It allows an entity to elect to measure assets and liabilities at fair value and use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.	TBC
Deferred tax recovery of underlying assets	IFRS				Medium	Medium	All entities holding investment properties, property, plant and equipment or intangible assets measured at fair value in territories where the capital gains tax rate is different from the income tax rate (for example, Singapore, New Zealand, Hong Kong and South Africa)	Proposes an exception to the normal requirement in IAS 12 that measurement of deferred tax in respect of an asset depends on the asset's expected manner of recovery. The proposal introduces a rebuttable presumption that certain assets measured at fair value are recovered entirely by sale. The rebuttable presumption applies to the deferred tax liabilities or assets that arise from investment properties, property, plant and equipment or intangible assets that are measured on an ongoing basis using the fair value model or revaluation model.	TBC

	Estimated publication date				Level of complexity	Implementation challenges	Industries/entities likely to be affected	Changes/areas of focus	Effective date
	2010 Q4	2011 Q1	2011 Q2	2011 H2+					
Income taxes				ED	High	Significant	All entities	Proposals for the limited scope exposure draft are: 1. the introduction of an initial step to consider whether the recovery of an asset or settlement of a liability will affect taxable profit; 2. the recognition of a deferred tax asset in full and an offsetting valuation allowance to the extent necessary; 3. guidance on assessing the need for a valuation allowance; 4. guidance on substantive enactment; and 5. the allocation of current and deferred taxes within a group that files a consolidated a tax return.	TBC

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