

IFRS news

Convergence timetable has shifted

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The IASB and FASB announced last month that they are extending the target date for completing their joint priority projects from June 2011 to the end of this year. The target projects are revenue, leases, financial instruments and insurance contracts.

The boards have received significant feedback on each of these projects, and many stakeholders expressed concern over the boards' ability to deliver high-quality standards by June 2011.

Explaining the reason for the delay in their [podcast](#) last month, IASB chairman Sir David Tweedie and FASB chairman Leslie Seidman emphasised the importance of producing high-quality standards. They also acknowledged the critical role of evaluating and incorporating stakeholder feedback.

Progress report

The boards followed this announcement with a [report](#) updating their progress on the convergence agenda. Noteworthy actions since their last progress report issued in November 2010 include the following:

- The boards are due to complete a number of projects in the next few weeks. Joint standards on fair value measurement and presentation of other comprehensive income will be released shortly. In addition, the IASB will issue new standards on consolidated financial statements (including disclosures), joint arrangements and post-employment benefits.

- The boards continue to prioritise their efforts on the revenue, leasing and financial instrument projects. In addition, they will continue to give priority to their joint project on insurance. The boards are on the same track for revenue and leasing, although their timing may differ for financial instruments and insurance. See the detail below.

Next steps

The next steps for the priority joint convergence projects as laid out in the progress report are as follows:

- **Revenue and leasing** – the boards will consider whether to re-expose the proposals once they finalise their redeliberations. If re-exposure is not considered necessary, the draft standards will be made available via the boards' websites for review and for consultation with the parties most affected by the proposals. The draft standards will also be subject to a 'fatal flaw' review process. The boards will consider the feedback received from these steps and either finalise the standards or consider whether additional work or re-exposure is necessary.
- **Financial instruments** – the FASB plans to finalise its deliberations on classification and measurement in the third quarter and consider whether re-exposure is necessary. The IASB has already finalised its classification and measurement phase set out in IFRS 9. However, it plans to expose the

modified FASB approach to seek views from constituents.

The IASB will continue to deliberate its hedging proposals over the next few months. The FASB will meanwhile participate in the discussions and determine whether to move forward with the new IASB approach to hedge accounting. The FASB timing on hedge accounting is not yet clear.

The boards are working side by side on impairment. They plan to decide on a basic impairment approach in the next couple of months and then consider whether re-exposure is necessary. They

also expect to finalise the joint proposals on balance sheet offsetting in the third quarter.

- **Insurance** – the boards are deliberating the insurance project jointly, but the IASB is a step closer to issuing a final standard. The boards aim to complete their deliberations on the major issues in June 2011, but further discussions are likely to carry on into the second half of 2011. The IASB is planning to release a final standard by the end of 2011. The FASB plans to issue an exposure draft by the end of 2011, with a view to finalising the standard in 2012.

Leasing and revenue updates

PwC is publishing updates on the revenue and leasing projects as part of our programme of regular communications that bring you the latest IFRS developments. Click on these links to view the latest '[Straightaways](#)' and '[Practical guides](#)' on these topics, or visit www.pwc.com/ifrs and see 'IFRS updates' in the left-hand navigator. You can also sign up to receive updates every two weeks by email. [Click here](#) to do so, or email us at corporatereporting@uk.pwc.com

The IASB and FASB continued discussing the revenue and leasing projects last month. Summaries are provided below.

Leasing

The boards discussed the following key re-deliberation issues.

Definition of a lease

The boards confirmed that a lease is defined as 'a contract in which the right to use a specified asset (the underlying asset) is conveyed, for a period of time, in exchange for consideration'. They tentatively decided to revise the guidance for distinguishing a service from a lease. A specified asset will be defined as an identifiable asset as opposed to an asset of certain specificity. The board also agreed that physically distinct portions of a larger asset – for example, a floor of a building – can be a specified asset. Non-physically distinct portions, such as capacity in a pipeline, are not specified assets.

The boards tentatively decided that the description of control should be consistent with the revenue recognition project and

include guidance on separable assets. A contract would convey the right to control the use of an underlying asset if the customer has the ability to direct the use, and receive the benefit from use, of a specified asset throughout the lease term.

Variable lease payments

The boards tentatively agreed that variable lease payments that are usage- or performance-based would not be considered in measuring the lease asset and liability unless the variable lease payments are, in substance, fixed lease payments. This reverses their tentative decision in February 2011 to include performance and usage contingencies that are reasonably assured to be paid. The earlier tentative decision to include all contingencies that are based on a rate or an index remains unchanged.

Profit or loss recognition pattern – lessees

The boards made a tentative decision that, while all leases would be on the balance sheet, the pattern of profit and loss recognition would be different for those that are financing in nature versus those that are other-than-financing in nature. Finance leases would retain the front-

loaded expense recognition pattern in the ED, categorised in two line items: depreciation and interest expense. Leases that are other-than-financing in nature would have a straight-line recognition pattern in the profit or loss, categorised in one line described as rental expense. It was tentatively decided that, for other-than-finance leases, the liability to make lease payments and the right of use asset should be initially measured at the present value of lease payments. The liability would subsequently be measured using the effective interest method proposed in the ED; however, the amortisation of the right-of-use asset would be the difference between the straight-line amount and the interest expense amount, such that depreciation is effectively the balancing figure to obtain straight-line profit and loss recognition. The boards also tentatively agreed that the indicators used to distinguish between these two categories would be the same indicators currently contained in IAS 17, 'Leases'.

Some IASB board members still favour one model for all leases. The staff will therefore bring back both lessee profit and loss recognition and lessor accounting for an education session before the next meeting, where both issues will be re-deliberated.

Lessor accounting (education session only)

The boards want to bring back two approaches to lessor accounting if a dual lessor model is adopted (one approach similar to the current IAS 17 accounting for lessors; a second approach similar to the performance obligation approach and derecognition approach in the ED but with a net presentation on the balance sheet where the performance obligation approach is used). They have also asked for the derecognition approach to be brought back for discussion.

Revenue

The boards last month reached the following tentative decisions.

Determining the transaction price

The transaction price is the consideration to which the entity is entitled, including variable or uncertain consideration. It is a probability-weighted estimate or the most likely amount of the cash flows the entity expects to receive.

Allocating the transaction price

The transaction price is allocated to separate performance obligations using the relative stand-alone selling price. A residual technique may be used when there is significant variability or uncertainty in the stand-alone selling price of one or more performance obligations.

Variable or uncertain consideration

Revenue is only recognised when the transaction price is 'reasonably assured' of being received. It is not recognised when the customer can avoid paying (for example, some sales-based royalties) and when the entity has no predictive experience with similar contracts.

Contract costs

Fulfilment costs are in the scope if they are not addressed by other guidance (for example, set-up costs). They are capitalised if they are directly related to a contract (or anticipated contract), generate or enhance the entity's resources and are expected to be recovered.

Licences

There is no distinction between exclusive and non-exclusive licences. Licences are evaluated using the same principles as other items based on when the customer obtains control.

Customer put options

Arrangements where a customer can require the seller to repurchase an asset are accounted for as a lease if the arrangement represents a right to use the asset over time.

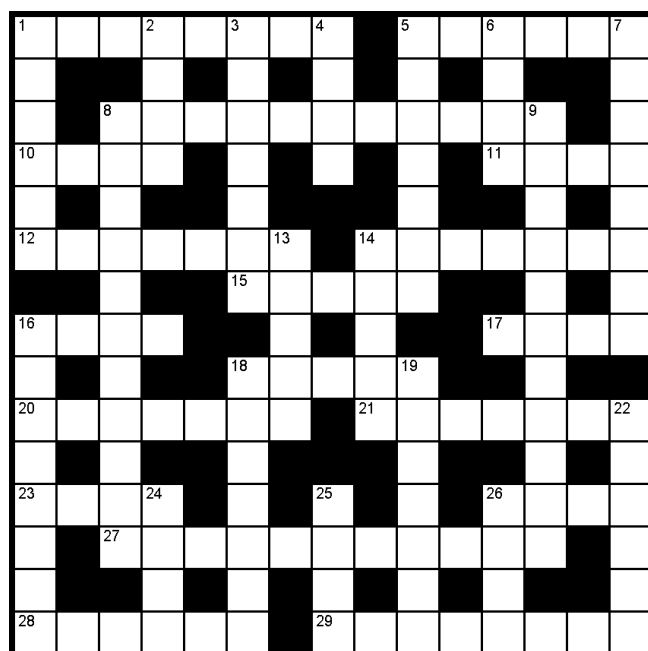
IFRS news crossword

Across

- 1 Movement of money in and out of business (4,4)
- 5 Tax is levied on this (6)
- 8 Offer to buy out another company (8,3)
- 10 Infringement of a right; or to be wrong – in French (4)
- 11 First wife of Jacob (Old Testament) (4)
- 12 Organiser of a business (7)
- 14 Unplaced runner in horse race (4-3)
- 15 Valentino ____, Italian motorcyclist (5)
- 16 Business transaction (4)
- 17 Common skin disease during adolescence (4)
- 18 Amount of unds obtainable from insurance to secure against loss (5)
- 20 Express choice in favour at election (4,3)
- 21 Having made a legally valid will (7)
- 23 Disastrous destiny (4)
- 26 It its not equity, it must be ____ (4)
- 27 Without legal force it is not binding (4,3,4)
- 28 Delivery-note with a parcel (6)
- 29 Assurance that product will meet certain specifications (8)

Down

- 1 Established habit or practice (6)
- 2 Qualifying race (4)
- 3 To tell an untruth over (3,4)
- 4 Ridge moving across water's surface (4)
- 5 Person from Tel Aviv, for example (7)
- 6 Wire wound spirally (4)
- 7 Where shares or commodities are bought and sold (8)
- 8 Unit of account for many items (11)
- 9 Did this to fixed assets (11)
- 13 Helicopter blade (5)
- 14 Balance sheet item (5)
- 16 Distribution of profits (8)
- 18 Two lines of verse (7)
- 19 Hangover cure during prohibition (7)
- 22 Company or legal person (6)
- 24 English expression, "Where there's ____, there's brass" (4)
- 25 Building material for igloos (4)
- 26 Operatic prima donna (4)



Solutions below

Illustrative interim financial information 2011

PwC has published its illustrative set of condensed interim financial information, which reflects standards and interpretations mandatory for an entity with an annual period beginning on or after 1 January 2011.

It also includes a disclosure checklist, an overview of IAS 34, 'Interim financial reporting', and an appendix with

example disclosures for first-time adopters and early adopters of IFRS 9, 'Financial instruments'.

To order hard copies, speak to your PwC contact, [click here](#) or visit www.ifrspublicationsonline.com. PDFs are available for download from our website pwc.com/ifrs or by [clicking here](#).

Crossword solutions

ACROSS: 1 Cash flow 5 Income 8 Takeover bid 10 Tort 11 Leah 12 Manager 14 Also-ran 15 Rossi 16 Deal 17 Acne 18 Cover 20 Vote for 21 Testate 23 Doom 26 Debt 27 Null and void 28 Docket 29 Warranty.
DOWN: 1 Custom 2 Heat 3 Lie over 4 Wave 5 Israeli 6 Coil 7 Exchange 8 Transaction 9 Depreciated 13 Rotor 14 Asset 16 Dividend 18 Couplet 19 Reviver 22 Entity 24 Muck 25 Snow 26 Diva.



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