

IFRS news

IASB seeks views on future work plan

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The IASB has issued a request for views (the ‘agenda consultation’) seeking input from stakeholders on the strategic direction of the IASB’s future work plan. This feedback will help the IASB prioritise standard-setting projects and balance its agenda over the next three years.

The agenda consultation, the first of its kind for public comment, will allow the IASB to gather input from stakeholders that are interested in shaping the IASB’s future agenda. The IASB has acknowledged the importance of striking the right balance between developing financial reporting and maintaining existing IFRS. Within these two categories, the IASB has identified five areas that might drive the work plan.

Developing financial reporting

The strategic priorities to continue developing financial reporting over the next three years might include:

- Updating/refining the conceptual framework (currently a joint project with the FASB) and developing principles for presentation and disclosure.
- Researching strategic issues for financial reporting so the IASB can anticipate future standard-setting needs.
- Finalising the priority projects currently underway, revisiting the deferred projects to determine the next priority and considering new projects/major amendments to address gaps in current IFRS literature.

Maintaining existing IFRS

The strategic priorities to maintain existing IFRS might include:

- Undertaking post-implementation reviews of new IFRSs and major amendments to promote the rigorous application of IFRS and better understand the operational issues arising from new standards.
- Responding to implementation needs for new or revised IFRSs. The IASB will be responsive for the new and upcoming IFRSs (many of which will come into effect in 2013 or later). The IFRS Interpretations Committee will continue to have responsibility for developing interpretations and proposing amendments through the annual improvements process.

What is being asked of stakeholders?

A large part of balancing the future work plan is to understand the financial reporting needs and challenges of stakeholders. The agenda consultation requests feedback in two broad areas:

- What should the IASB’s strategic priorities be, and how should it balance them over the next three years?

- What are the most pressing financial reporting needs for standard-setting action from the IASB?

The consultation includes a summary of projects originally added to the agenda but deferred, as well as new project suggestions. Stakeholders are requested to provide feedback on which projects should be reactivated, those that should be removed and other projects that should be considered.

Am I affected?

All stakeholders who have an interest in financial reporting should consider providing feedback to the IASB.

What do I need to do?

The comment deadline is 30 November. IASB members and staff will undertake a range of consultation activities with stakeholders during the comment period. The IASB will also continue seeking input from the IFRS Advisory Council and the IFRS Foundation Trustees.

A feedback statement is expected to be published in the second quarter of 2012 when the consultation process and the board's discussions are complete. The feedback will be used in the IASB's future agenda-setting process.

For more detail on the consultation, visit: <http://go.ifrs.org/agenda+consultation2011>.

Boards decide to re-expose lease accounting project

The IASB and FASB have announced that they will re-expose the lease accounting project by the end of this year. Marian Lovelace in PwC's Accounting Consulting Services in the UK looks at this and other decisions arising from recent meetings.

The boards have voted to re-expose their proposals for lease accounting in view of the changes they intend to make to the model proposed in last year's exposure draft. A revised ED for public comment is expected in the final quarter of this year.

Other issues tackled in this month's board meeting include:

- lessor accounting;
- presentation and disclosure;
- embedded derivatives; and
- accounting for variable lease payments based on a rate or index.

Re-exposure

The decision to re-expose the proposals will provide interested parties with an opportunity to comment on them, including all the changes the boards have made since the publication of the ED in August 2010.

The boards have not completed all their deliberations, but the decisions taken to date have been sufficiently different from those in the ED to warrant re-exposure. They intend to complete their deliberations, including consideration of the comment period, during the third quarter of this year and to publish a revised ED shortly after.

Lessor accounting

The boards tentatively agreed that all lessors should account for leases using a 'receivable and residual' approach (previously known as the 'derecognition approach'). A lessor would derecognise the underlying asset and replace it with a lease receivable and residual asset. If profit on the right-of-use asset transferred to the lessee is reasonably assured, the lessor recognises that profit at lease commencement. The residual asset is measured on an allocated cost basis (that is, based on the proportion of the underlying asset's fair value that is subject to the lease relative to the portion that is not).

For example, a lessor leases an asset to a lessee for approximately half of its useful life. At the commencement of the lease, the asset is carried at C100 but has a fair value of C120. The present value of the lease receivable is measured at C72, which is equivalent to 60% of the fair value of the asset. The residual asset is therefore measured initially at C40, being 40% of the carrying value. Profit of C12 is recognised, being the difference between the lease receivable of C72 and the derecognised portion of the asset of C60. The residual asset is accreted over the term of the lease using the rate charged in the lease.

Where profit is not reasonably assured, any profit is recognised over the lease term. The residual asset is measured at lease commencement as the difference between the receivable and the previous carrying amount of the leased asset. If the lease receivable is greater than the carrying amount of the leased asset, the difference between those two amounts is recognised as profit immediately. Using the same facts as the example above, the residual asset is recognised initially at C28, being the difference between the lease receivable and the previous carrying amount of the leased asset. The residual asset is accreted over the term of the lease to an amount equivalent to its carrying amount if it had been depreciated.

The boards agreed to retain the proposal to allow lessors a simplified accounting approach for leases with a maximum lease term of 12 months or less. Such short-term leases can be accounted for similarly to current operating lease accounting.

They also agreed to retain the scope exemption for investment property measured at fair value in accordance with IAS 40, 'Investment property'. However, the boards did not agree with the staff's recommendation to allow current operating lease accounting by lessors where it is impractical to determine the carrying amount of the leased portion of an asset, such as a multi-tenant property where the entire asset is measured at cost. This may be a significant issue for lessors that do not account for such assets at fair value under IAS 40.

Variable lease payments

The boards revisited the accounting for variable lease payments based on a rate or index. They tentatively agreed that such payments would initially be measured at the rate that exists at lease commencement. This means that, for example, leases with payments based on LIBOR would use a current spot rate; leases with payments based on a CPI index would use the absolute index at lease commencement and not the expected rate of change in that index. So a lease with fixed rental increases of 2% per annum as a surrogate for inflation will not be measured in the same way as a lease with rental increases based on changes to CPI, even if that index is predicted to increase at the same rate of 2% per annum.

In addition, management would need to reassess such variable lease payments, as these rates/indices change at each reporting period. The recognition of such changes would be in accordance with the proposals in the ED. For lessees, this is in profit or loss when they relate to a past or current accounting period; there would be an adjustment to the right-of-use asset where they relate to a future period. For lessors, all such changes will be recognised in profit or loss. The staff is to bring back a number of worked examples to a future meeting.

The boards will continue their discussion of this topic this month

Embedded derivatives

The boards agreed that a lessee or lessor will be required to assess whether the lease contract contains embedded derivatives, which would need to be accounted for in accordance with IAS 39 'Financial instruments: Recognition and measurement'.

Presentation and disclosure

The boards discussed and tentatively agreed on a presentation and disclosure package that attempts to balance user needs with the cost of providing such disclosure.

Cannon Street Press

IASB proposes to delay IFRS 9 effective date

The IASB has issued an exposure draft that proposes to delay the effective date of IFRS 9, 'Financial instruments', to annual periods beginning on or after 1 January 2015. The original effective date was for annual periods beginning on or after 1 January 2013.

This proposal is a result of the Board extending its timeline for completing the remaining phases of its project to replace IAS 39 (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project.

The ED confirms the importance of allowing entities to apply the requirements of all the phases of the project to replace IAS 39 at the same time. While not proposing any further changes to IFRS 9, the ED asks the additional question of whether any relief should be provided for requiring comparative information if an

entity adopts IFRS 9 early. Currently, entities that adopt IFRS 9 before 1 January 2012 are not required to restate prior periods. The ED does not propose to change that exception.

Am I affected?

Almost all entities have financial instruments and will therefore have to adopt IFRS 9 at some point in the future. This ED proposes to give additional time for entities to comply with its requirements.

What do I need to do?

The comment deadline is 21 October 2011. Management should consider if they wish to comment on the IASB's decision to extend the effective date and whether they would like relief from providing comparative information if they adopt early.

'Investment entities' to record investments at FVTPL?

The IASB has published an exposure draft on 'Investment entities'. The ED requires entities that meet the definition of an investment entity to record, with very limited exceptions, all investments at fair value through profit or loss (FVTPL). This includes investments in subsidiaries, associates and joint ventures.

An investment entity is defined as one that:

- has no substantive activities other than investing in multiple investments;
- explicitly commits to investors that its sole purpose is to invest for investment income, capital appreciation or both;
- issues units of investments that represent ownership in itself and are entitled to proportionate shares of its net assets;
- has significant ownership interests that are held by unrelated investors;

- manages substantially all of its investments and evaluates their performance on a fair value basis; and
- provides financial information about its investment activities to investors.

The ED requires an investment entity to measure its investments at FVTPL with very limited exceptions. This accounting does not extend to its parent (if any), which is still required to consolidate (rather than FVTPL) the subsidiaries of the investment entity.

The ED requires disclosures relating to:

- information on investments controlled (for example, name, country of incorporation);
- changes in the status of an investment entity (that is, when the entity becomes an investment entity and vice versa);

- financial or other support provided by investment entities to their investees that they were not previously required to provide, or intentions to provide such support;
- restrictions on ability to transfer funds between investment entities and their investments; and
- financial highlights such as per-share information, ratios, total return and capital commitments.

Am I affected?

Entities that are set up for investment purposes will be affected if they meet the definition of 'investment entities'.

What do I need to do?

Management should read the ED to determine the impact and consider commenting. The comment deadline is 5 January 2012.

Impairment – what do the regulators want to see?



Maarten Hartman

Is an entity capable of (at least) realising the book value of its assets? This is key when preparing financial statements; it has also been (and will continue to be) a focus for the regulators. Maarten Hartman from PwC's Accounting Consulting Services in The Netherlands looks at some of the impairment issues that are subject to the regulators' scrutiny.

The impairment testing of non-financial assets, based on IAS 36, 'Impairment of assets', and related disclosures are vital information for users of financial statements. The economic crisis has shown that growth is not a mathematical certainty. Management has had some freedom in the past about conveying its expectations for the future, but these expectations should be understandable and relevant to the 'outside world'.

Regulators have published information in recent years about impairment issues that they focus on in their examination of financial statements. Although information on impairments is getting better, the regulators believe there is still room for improvement. Some of the main findings of more than five jurisdictions around the world, and their required follow-up actions are outlined below.

The identification of CGUs

What do regulators say about the starting point of an impairment test – the identification of the cash-generating unit (CGU)? The carrying amount of groups of

CGUs at the level of which the goodwill is monitored should be disclosed, when significant. In practice, management might want to aggregate those amounts into reportable segments. This will trigger questions from the regulator, as this aggregation may not correspond to the level at which goodwill is monitored: at the highest, this is the operating segment before aggregation.

Under IFRS 8, 'Operating segments', goodwill is required to be allocated to operating segments (following an amendment to IFRS 8, this is now before aggregation into reportable segments). Entities that previously aggregated operating segments to determine the CGUs grouped for impairment testing of goodwill were required to disaggregate goodwill when the amendment became effective. As a result, there will be changes to the impairment testing of that goodwill; several regulators have recommended clear disclosure in the financial statements of the impact of reallocating goodwill. This is worth considering when there are significant changes in allocations of goodwill.

Goodwill and intangibles

The required disclosures are extensive, but they are also relevant to users, which is why entities have received comments about these from regulators. Regulators have particularly focused on the disclosures about goodwill and intangible assets with indefinite useful lives (IAS 36.134 and 135) and the facts and circumstances under which impairments are recorded (IAS 36.130).

Management should identify disclosures where the goodwill or intangible assets are significant relative to the entity's total carrying amount of goodwill or intangible assets. The first question the regulators might ask is how management has defined 'significant'.

Key assumptions applied

The requirement to provide the key assumptions used is not always easily satisfied. If management uses a discounted cash flow model applying the value-in-use approach, the key assumptions should be those to which the outcome is most sensitive. This might include the period over which management has detailed projected cash flows; the growth rate used to extrapolate cash flow projections beyond the detailed information; and the applied discount rate. Discussions that regulators have had with entities cover the following:

- Unusual and unexpected change in discount rate compared to the previous year;
- Use of historical growth rates compared with those used in the impairment projections;
- Unrealistically optimistic discount rates and growth rates;
- Same growth and discount rate for groups of CGUs with different profiles and historic performance; and
- Lack of key assumptions.

Sensitivity

If the impairment test itself does not result in an impairment, additional information may still be required – that is, if reasonably possible changes in the key assumptions would result in an impairment. In other words, there is little 'headroom'. Regulators

say that entities often fail to provide this information; and, where this information is given, it is often not presented in the way IAS 36 prescribes. The disclosure is typically expressed as 'a y change in the key assumption would result in an x impact on the calculation of the recoverable amount'. This still does not explain the sensitivity of the headroom. Regulators want management to identify, in accordance with IAS 36:

- The amount of the headroom;
- The value assigned to the key assumption; and
- The amount by which the value would change to eliminate the headroom.

A typical disclosure might be: 'If the applied discount rate was 0.2% higher, the recoverable amount would equal the carrying amount of the CGU's assets'; or 'If the terminal growth rate was 2.1% instead of the applied 2.5%, the available headroom would disappear'. Regulators may not be able to see detailed impairment calculations and cannot therefore identify whether the disclosure is required. However, when in the following year management records an impairment, regulators may want to see if such 'headroom' disclosure had been identified in the previous financial statements.

Actual impairments recorded

Most of the issues above relate to disclosure where no impairments are required. When impairments are accounted for, regulators find that the information provided is limited. One of the main concerns is the omission of disclosure of events and circumstances that lead to the recognition of each material impairment loss in respect of an individual asset or a CGU, and the reportable segment to which it belongs. Other information needed for an understanding of the impairment could also be improved, the regulators say.

Economic circumstances ahead

Regulators say that impairment disclosures have improved. But for the period ahead of us, it may not only be about disclosure but the accounting for actual impairments. The regulators are ready. Are you?

Transition issues from around the world – Nigeria



Berna Buys

This is the latest article in the series about issues affecting countries that are moving to IFRS. Berna Buys, from PwC's Capital Markets Group in South Africa, and Tony Oputa, from the firm's Conversion Advisory Group in Nigeria look at the impact on Nigeria of a number of financial reporting issues.

Many entities in Nigeria have started the process of converting to IFRS following the announcement of IFRS adoption by the Nigerian Accounting Standards Board (NASB) in 2010 (see the transition requirements in the box below). The process of converting to IFRS has proven challenging in many other territories around the world, and Nigeria is no different. While many of the issues encountered are universal, Nigeria faces challenges that are unique to its environment.

Consolidation scope

An area of significant difference between IFRS and Nigerian GAAP is the scope of consolidation. Although the definition of control under Nigerian GAAP is comparable to IFRS, the percentage voting power is regarded as the most significant factor in determining whether an entity has control. Other indicators, such as board representation, are often not considered to carry as much weight. In addition, there is no guidance in Nigerian GAAP on SPEs; in practice, these are not consolidated unless ownership interest exceeds 50%.

The Companies and Allied Matters Act (the Nigerian company law) also provides an

exemption from consolidation in instances where the subsidiary and holding companies' businesses are so different that they "cannot reasonably be treated as a single undertaking".

Accounting for associate undertakings in accordance with Nigerian GAAP is similar to IFRS. Significant influence is also presumed to exist under Nigerian GAAP when an entity holds a greater than 20% interest in the voting rights of the entity. However, other indicators are often not regarded as evidence of significant influence, and hence a number of investments that would be associates under IFRS are accounted for at cost.

Fair value accounting

More assets and liabilities are stated at fair value under IFRS compared to Nigerian GAAP. Accounting for certain financial instruments at fair value in accordance with IAS 39, or IFRS 9 if early adopted, is expected to have a significant impact. No equivalent standard in Nigerian GAAP exists for accounting for financial instruments; however, certain types of financial asset are covered by the definition of investments. The scope of the definition



Tony Oputa

Local background

- Nigerian GAAP comprises Nigerian Accounting Standards and the Nigerian Companies and Allied Matters Act.
- Nigerian Accounting Standards, consisting of 30 SAS standards, are broadly based on old IAS standards and contain some industry-specific guidance. Local practice applied to transactions not covered by explicit guidance in the SAS standards often vary.
- The roadmap for adoption of IFRS in Nigeria was announced by the Minister of Commerce and Industry in September 2010, based on the recommendation of the NASB and approved by the Federal Executive Council.
- All listed entities and significant PIEs are required to prepare their IFRS financial statements for periods beginning on or after 1 January 2012; all other PIEs will be required to prepare financial statements under IFRS for financial years beginning on or after 1 January 2013; and all other entities, for financial years beginning on or after 1 January 2014.
- Application of IFRS will require an increased level of judgement to be applied in comparison with Nigerian GAAP, which in many instances is more rules-based. This has raised concern among some entities, in that there may be divergence in practice when applying a principle-based accounting framework.

of investments under Nigerian GAAP is broad, as it covers all assets “acquired by an enterprise for the purpose of capital appreciation or income generation without any activities in the form of production, trade or provision of services”. This definition incorporates financial assets such as equity and debt investments but also includes investment property. Equity investments are often carried at cost, and long-term debt investments are measured on a basis comparable to amortised cost under Nigerian GAAP.

Accounting for certain assets and liabilities at fair value is an area of significant difference, and implementation is difficult. The lack of observable market prices and market inputs required for valuation techniques complicates the determination of fair value. In addition, market prices in Nigeria are typically wide-ranging.

Increased disclosure/transparency

Many more disclosures are required under IFRS than under Nigerian GAAP, bringing more transparent financial reporting to the market. Companies are often uncomfortable with this level of transparency, particularly as it relates to segment reporting and related-party disclosures. The guidance in Nigerian GAAP for segment reporting was derived from the old IAS 14 and requires entities to disclose segment information for business as well as geographical segments.

The Companies and Allied Matters Act requires entities to disclose loans, including balances at reporting date, and other transactions favouring directors and officers. No other definition of related parties or requirements to disclose transactions with related parties exist in Nigerian GAAP. The only other similar obligation to disclose ‘insider-related credits’ is imposed on entities regulated by the Central Bank of Nigeria (CBN). The CBN defines insider-related credits as: “transactions involving shareholders, employees, directors and their related interests”. The term ‘director’ includes the director’s wife, husband, father, mother, brother, sister, son and daughter and their spouses. The CBN’s disclosure requirements do not apply to credits

extended to employees under their employment scheme of service, or to shareholders whose shareholding and related interests are less than 5% of the bank’s paid-up capital at the end of the reporting period.

The identification of related parties for IFRS reporting purposes is proving difficult for many entities in Nigeria, particularly related entities that are controlled or jointly controlled by key management personnel and their close family members. For the purposes of IFRS reporting, key management personnel is defined as: “those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity”. Extracting information in respect of related-party transactions is also complex, as processes to identify these transactions did not previously exist.

Other areas of difference

Another significant area of difference is share-based payments. Nigerian GAAP does not provide any guidance on accounting for these transactions.

Measurement of PPE may also result in differences when an entity moves to IFRS. There is no guidance on the use of residual values in determining the depreciable amount under Nigerian GAAP, and componentisation of assets is not required.

IFRS – a moving target

One of the major challenges for Nigerian entities in preparing IFRS financial statements is the availability of data. Constructing the information required for IFRS reporting purposes is difficult, if not near impossible at times. IFRS is a moving target, and significant changes are expected over the next few years. While entities are coming to terms with the new data requirements and considering system changes, they will also need to be aware of these future IFRS changes. As a result, a number of entities are expected to early-adopt some of the new standards, such as IFRS 9.

Guidance for Oil & Gas sector on IFRS 11, 'Joint arrangements', and revenue exposure draft

We have published two supplements to our practical guides to the revenue exposure draft and the new joint arrangements standard for the Oil & Gas sector.

'Practical guide to IFRS: New guidance on accounting for joint arrangements – a significant issue for the oil and gas sector' looks at the entities that might be most impacted; three key areas under the new standard; examples of the key impacts in the oil and gas sector; and the potential business impact.

Visit pwc.com/ifrs to read more detail in our practical guide.

Revenue recognition in the oil and gas industry may at first glance appear to be a simple process, as it is based on the supply of commodities in exchange for consideration. However, there are a number of common complex arrangements that may be affected by the revenue project proposals.

'What do the revenue proposals mean to the Oil & Gas industry' takes a look at these and identifies some important areas where we are awaiting further clarification from the IASB's deliberations.

Visit pwc.com/ifrs to read more detail in our practical guide.

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