New pronouncements likely to affect 2012–2015 reporting obligations

Below is an analysis of the known accounting changes that are likely to affect entities' accounts between now and 2015. Some of these changes represent a significant challenge for those involved in financial reporting in the energy and resources industry. Although some standards are applicable only to specific industries, most changes will affect the majority of entities.

Changes to be implemented	Who will it affect?	Summary of the change – action needed	Impact	Effective date	Status
Impacts 2011 and 2012 financial statements					
Amendments arising from the annual improvements project (refer to enclosed pages)	All entities.	Introduces numerous changes. Various impacts. Talk to your usual PwC contact for more information.	Medium	1 July 2010 and 1 January 2011	Complete
Amendments to IFRS 1 – removal of fixed dates for first-time adopters	Limited impact, as it only applies to first time adopters of IFRS	There are two amendments. 1 To require first-time adopters to apply the derecognition requirements of IFRS for financial assets and liabilities prospectively from the date of transition, rather than from 1 January 2004; 2 To allow the guidance regarding the use of valuation techniques in measuring the fair value of financial assets or liabilities to be applied prospectively from the date of transition.	Low	1 July 2011	Complete
Amendments to IFRS 1 – severe hyperinflation	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.	Low	1 July 2011	Complete
Deferred tax: Recovery of underlying assets	All entities holding investment properties, measured at fair value in territories where the capital gains tax rate is different from the income tax rate (eg, Singapore, Australia, New Zealand, Hong Kong)	Introduces 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 amendment introduces a rebuttable presumption that investment properties 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 that are measured on an ongoing basis using the fair value model. Entities will be affected if there are different tax bases for their investment properties depending on the matter of recovery and the entities are currently assuming recovery through use.	Low	1 January 2012	Complete

Changes to be implemented	Who will it affect?	Summary of the change – action needed	Impact	Effective date	Status
Financial statement presentation – presentation of other comprehensive income	All entities	The amendment requires profit or loss and other comprehensive income (OCI) to be presented either in a single continuous statement or in two separate but consecutive statements. There is little noticeable change from the current requirements. However, the format of the OCI section is required to be changed to separate items that might be recycled from items that will not be recycled. The changes do not affect the measurement of net profit or earnings per share; however, they change the way the results are presented in OCI.	Low	1 January 2012	Complete
Impacts 2013 and 2014 financial statements					
Financial instruments - hedge accounting	All entities that engage in risk management activities regardless of whether they currently use hedge accounting.	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 derivatives in aggregated exposures, e.g. aluminium component in aluminium can. 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. Fair value hedge accounting mechanics will change. Basis adjustment for cash flow hedges of non-financial hedged items is likely to be made compulsory.	High	1 January 2015*	Final standard expected in Q3 2011
Joint arrangements IFRS 11	Significant impact on some industries, such as oil and gas and property.	A distinction has been made between joint ventures and joint operations. The standard requires 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. The option to apply the proportional consolidation method when accounting for jointly controlled entities has been removed. 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 in certain circumstances is similar to the accounting that might have applied using proportionate consolidation under the current IAS 31.	High	1 January 2013	Complete
Amendments arising from the fourth annual improvements project (affects 2013 and 2014 reporters)	All entities.	Introduces numerous changes. Various impacts. Talk to your usual PwC contact for more information.	Medium	1 January 2013	Exposure draft expected in Q3 2011
Consolidation - Disclosure of involvement with other entities IFRS 12	Disclosures – unconsolidated entities	IFRS 12 bring together in one standard the disclosure requirements related to subsidiaries, joint arrangements, joint ventures and associates.	Medium	1 January 2013	Complete
Consolidation - Replacement of IAS 27 IFRS 10	All reporting entities (other than investment entities) that control one or more investees. Special attention to be given to special purpose entities.	The revised definition of control focuses on the need to have both power and variable returns before control is present. There is extensive application guidance.	Medium	1 January 2013	Complete
Classification and measurement – financial	Significant impact on financial	IFRS 9 replaces the multiple classification and measurement models for financial assets in IAS 39	Low	1 January 2015*	Complete

Changes to be implemented	Who will it affect?	Summary of the change – action needed	Impact	Effective date	Status
assets – IFRS 9 (issued November 2009)	institutions given the substantial amount of financial assets they hold; limited impact on other industries.	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.			
Classification and measurement – financial liabilities (issued October 2010)	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.	Low	1 January 2015*	Complete
Financial instruments - asset and liability offsetting	All entities that have derivative contracts; greatest impact on financial institutions.	Under the proposals, an entity would be required to offset (ie present as a single net amount in the statement of financial position) a recognised financial asset and a recognised financial liability when it has an unconditional and legally enforceable right of set-off and intends either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously (the offsetting criteria). The proposals clarify that the offsetting criteria apply whether the right of set-off arises from a bilateral arrangement or from a multilateral arrangement (i.e. between three or more parties). The proposals also clarify that a right of set-off must be legally enforceable in all circumstances (including default by or bankruptcy of a counterparty) and its exercisability must not be contingent on a future event.	Low	1 January 2015*	Final standard expected in Q3 2011
Financial instruments - impairment	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 current discussions. How principles will be applied to trade receivables is also to be determined.	Low	1 January 2015*	Re exposure or review draft expected in Q3/Q4 2011
Fair value measurement guidance IFRS 13	All entities	Fair value measurement guidance contained in individual IFRSs will be replaced 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.	Low	1 January 2013	Complete
Post employment benefits (including pensions)	All entities with defined benefit obligations.	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 removal of: • the 'corridor and spreading approach'; • the expected return on assets from the measurement of pension expense; • flexibility regarding where components of pension expense are recognised in the income statement (ie, interest cost as a component of finance cost).	Low	1 January 2013*	Complete

Changes to be implemented	Who will it affect?	Summary of the change – action needed	Impact	Effective date	Status
		In addition, a separate amendment defines termination benefits and the related recognition requirements more precisely; it also clarifies the distinction between termination benefits and post-employment benefits. The amendments specify the accounting for voluntary and involuntary termination benefits.			
Active projects with unkown application date					
Leases	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.	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. The lease term would include optional renewal periods that have a 'significant economic incentive' for an entity to exercise to extend the lease. Variable lease payments that are based on a rate or an index would be considered in measuring the lease asset and liability, however usage or performance-based contingencies would not be considered unless the variable lease payments are, in substance, fixed lease payments. Lessor accounting under discussion	Medium	TBC	Re-exposure or review draft expected in Q3 2011 and the final standard expected in H1 2012
Revenue recognition	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 may 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 assured.	Medium	TBC	Re-exposure or review draft expected in Q3 2011 and the final standard expected in H1 2012
Consolidation - Investment companies	Investment companies	The ED is expected to require an investment company to report investees that it controls at fair value through profit or loss rather than consolidate those investees.	Low	TBC	Exposure draft expected in Q3 2011
Insurance contracts	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 remeasured 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.	Low	TBC	Re-exposure or review draft expected in Q4 2011 and the final standard expected in H1 2012
Other changes in progress that have an unknown application date					
Emissions trading schemes	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 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.	High	TBC	Project has been put on hold; to be reviewed later in 2011
Extractive activities	All mining and oil & gas entities with upstream activities (from junior miners to large integrated oil majors).	Change the accounting and disclosure of all stages of upstream mining and oil & gas activities; from capitalisation of exploration costs, through to detailed disclosure of proved and probable reserve volumes and values on a disaggregated basis.	High	TBC	Project has been put on hold; reconsider for future agenda in 2011

Changes to be implemented	Who will it affect?	Summary of the change – action needed	Impact	Effective date	Status
Non financial liabilities (IAS 37 amendments)	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: • 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.	High	TBC	Project has been put on hold; to be reviewed later in 2011
Financial instruments with characteristics of equity	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'.	Medium	TBC	Project has been put on hold; to be reviewed later in 2011
Income taxes	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 tax return.	Medium	TBC	Project has been put on hold; to be reviewed later in 2011
Rate regulated activities	Rate regulated entities.	Clarifies the treatment of assets and liabilities arising from rate regulation.	Medium	TBC	Project has been put on hold; reconsider for future agenda in 2011
Earnings per share (convertibles amendment to IAS 33)*	Entities that report earnings per share information.	Restatement of earnings per share numbers.	Low	TBC	Project has been put on hold; yet to decide whether to resume.
Financial statement presentation – replacement of IAS 1 and IAS 7	All entities	The new proposals will replace the existing standards on financial statement presentation, IAS 1 *Presentation of financial statements* and IAS 7 *Statement of cash flows*.	Low	TBC	Project has been put on hold; to be reviewed later in 2011

* Likely effective date

Remember to disclose the impact of standards issued but not yet applicable (IAS 8 para 30). Entities must disclose the impact of new accounting standards or interpretations that have been issued but not yet applied by the entity. To state compliance with IFRS, this disclosure should also cover pronouncements issued by the IASB or IFRIC that have not yet been adopted by the national standard-setter.