

IFRS news

IFRS Foundation tracks global adoption of IFRS

In this issue:

- 1 **IFRS adoption**
IFRS foundation reports on global adoption of IFRS
- 2 **IFRS 9 deliberations**
Comment letters are in on FASB and IASB proposals
- 4 **Cannon Street Press**
IASB Revenue project
Revenue joint transition resource group
Rate regulation consultative group
Post-implementation reviews
Conceptual Framework roundtables
- 6 **Questions and answers**
'I' for income statements
- 8 **The bit at the back...**

For further information or to subscribe, contact us at corporatereporting@uk.pwc.com or register online.

The IFRS Foundation makes progress charting the global adoption of IFRS with the publication of IFRS profiles for all G20 jurisdictions.

The IFRS foundation published initial findings from its project to assess the global adoption of IFRS. Following the release, Hans Hoogervorst, Chairman of the IASB, addressed the question 'are we there yet?'¹ He called the results 'both fascinating and very encouraging' but acknowledged there is more to do. This includes getting the remaining large economies on board and keeping the focus on consistent application by those who have adopted.

The facts

The IFRS Foundation surveyed 66 jurisdictions (including all of the G20) about IFRS adoption. This was the first phase of a larger project to assess global adoption of IFRS. The results were described by Michel Prada, Chairman of the IFRS Foundation Trustees, as illustrating 'remarkable progress'. You can make your own judgment based on the facts below.

Extract from 'IFRS Foundation chart progress towards global adoption of IFRS' 5 June 2013

Of the 66 jurisdictions that responded to the survey:

- 95 per cent have made public commitments supporting IFRSs as the single set of financial reporting standards suitable for global application.
- 80 per cent have already adopted IFRSs as a requirement for all or nearly all companies whose securities are publicly traded, while most of the remaining jurisdictions have made significant progress toward use of IFRSs.
- Jurisdictions that have adopted IFRS have made very few modifications to IFRSs, while the few that were made are generally regarded as temporary steps in the jurisdiction's plans to adopt IFRSs. Furthermore, in almost all cases, the IASB has active projects on its agenda that will result in an updated version of the Standard to which the jurisdiction has made modifications.
- More than half of jurisdictions have either already adopted the IFRS for SMEs or are planning to do so in the near future.

Consistency and the IASB's role

Consistency continues to be one of the primary concerns about a single set of global standards. The IASB argued that it is not their job to manage uniform application of IFRS. They do, however, acknowledge their contribution to the effort and continue to progress the initiatives on how the IASB might

contribute to consistency, as outlined by Hans earlier this year.²

- Principle-based standards – Standards that can be applied, audited and enforced consistently require engagement with regulators and local standard setters. The formation of the Accounting Standards Advisory Forum in April is a step in the right direction.

¹Are we there yet?
Charting the world's progress towards global accounting standards
Hans Hoogervorst, Hong Kong, 5 June 2013

²The search for consistency in financial reporting
Hans Hoogervorst, E&Y, Cass Business School, 17 January 2013

- Post-implementation reviews – The IASB published a feedback statement on the IFRS 8 review in July. The IFRS 3 review is ongoing. See page 5.
- IFRS Interpretations Committee (IC) – The IFRS foundation has completed a two-year review of the IC. The revised responsibilities should give the IC the tools it needs to address diversity in practice and be more responsive.
- More educational materials – The IASB continues to explore this as a potential solution to practice issues. IFRS 13 education material was released in December 2012. Guidance on materiality was proposed following the Discussion Forum on disclosures.

Adoption in the United States

The adoption of IFRS in the US continues to be the ‘elephant in the room’. The last official word from the SEC was in 2012. It is unclear when or whether a decision to move to IFRS will be made. Although a mandatory (or voluntary) change to IFRS for US public companies is no longer in the foreseeable future, the need for US preparers and investors to be ‘financially bilingual’ is now a reality.

US investors continue to look overseas for investment. Recent estimates suggest that over \$6 trillion of US capital is invested in foreign securities. The US markets also remain open to non-US companies that use IFRS. There are currently over 450 non-US filers with market capitalisation in the multiple of trillions of US dollars who use IFRS without reconciliation to US GAAP. Preparers need to use IFRS, for example, for cross-border, merger-and-acquisition, and capital-raising activities.

There is no doubt that rest of the world will continue to watch the US but IFRS is gaining momentum in other large countries. For example, the Financial Service Authority in Japan is working on increasing the number of listed companies using IFRS in the next few years.

What is next?

The IFRS foundation has only taken the first step in its assessment of the global adoption to IFRS. The project being led by Paul Pacter, former Board member, is in the early stages. Eventually, the IFRS foundation hopes to have a profile for every jurisdiction that has adopted IFRSs, or is on a programme toward adoption of IFRSs.

IFRS 9: The comments are in

The IASB and FASB consider responses to the recent exposure drafts by the IASB and FASB on the revised guidance for financial instruments accounting.

Both the IASB and FASB are reviewing comments received on their exposure drafts (ED) on the classification and measurement and impairment of financial instruments. The IASB will continue to redeliberate the proposals including some joint sessions with the FASB. Whether convergence will be achieved is unclear but pressure on both boards to work together continues.

Classification and measurement

The IASB classification and measurement model was originally published in November 2009 (for financial assets) and October 2010 (for financial liabilities). In

late 2011, the IASB decided to consider limited amendments to the model, one objective being to reduce differences from the FASB model. The joint efforts were successful in achieving a broadly converged approach for debt investments. Some differences were not addressed, however, such as differences in the accounting for equity investments.

What was said

The IASB's proposal comprising limited amendments generally received support. The majority of respondents supported adding a fair value through other comprehensive income (FVOCI) category to

the amortised cost and fair value through profit or loss categories for debt investments. Of the majority, about half agreed in principle with introducing the FVOCI category but would propose something different from the IASB ED (for example, classify simple loans and receivables at amortised cost and other simple debt investments in FVOCI).

Most respondents to the IASB ED welcomed the limited changes to the contractual cash flow characteristics test that instruments must meet to qualify for amortised cost or FVOCI. However, many felt the proposals do not go far enough in addressing common application questions.

The majority of respondents to the FASB's ED supported the goal of reduced complexity, but many believed it would not be achieved under the proposal. Most of the concerns related to the contractual cash flow characteristics test and whether it would inappropriately restrict the type of debt investments that qualify for amortised cost or FVOCI. The level of concern was surprising. This had not been raised under IFRS 9 and as a result, the IASB's ED only sought feedback on specific application issues rather than the test as a whole.

Impairment

The proposals

The IASB and FASB proposals represent potentially significant changes to current practice. Both models move away from the existing practice of recording losses as they are incurred and instead focus on the recording of allowances based on expected losses. While there are some similarities, the proposals do not achieve convergence.

The IASB's model, known as the credit deterioration model, requires the asset to have experienced a significant deterioration in credit risk prior to recording a lifetime of expected credit losses. For those assets that have not experienced a significant deterioration in credit, this model would limit an allowance to 12 months of expected credit losses.

The FASB's model, known as the current expected credit loss (CECL) model, would require entities to recognise an allowance for all expected credit losses on debt instruments. Under this model, there would be no threshold to meet prior to recording the full amount of expected credit losses.

What was said

The majority of respondents to the IASB's proposal supported the IASB's model which recognises credit losses based on deterioration in credit risk. However, respondents expressed the need to refine various aspects of the proposal, as well as provide implementation guidance to ensure consistent application.

Respondents on the FASB ED were split. By a 3-to-1 margin, financial statement users were supportive. But preparers were generally not supportive. They preferred either a model that requires a threshold to be met prior to recognition of all expected credit losses or requires the recognition of only some expected credit losses.

Both boards received feedback emphasising the importance of a converged model. However, the IASB heard that it should focus on timely completion of the project, even if it means convergence is not achieved.

The boards continue to discuss the extent to which their respective proposals would impact impairment levels under various scenarios. There is, however, much debate about the underlying data and assumptions used in each board's estimates.

What is next?

The effective date of IFRS 9 has already been pushed back and the new effective date is unclear. Many factors could affect that decision, including whether the IASB is convinced by the views of some that other changes are needed to IFRS 9, whether it wishes to align the effective date with the credit impairment model, and how much time constituents would need to implement the changes.

Cannon Street Press

IASB and FASB revenue project

The IASB and FASB (the ‘boards’) have reached agreement on the following areas of the revenue recognition project:

Constraint on variable consideration

The boards confirmed that revenue recognised from variable consideration will be constrained to the amounts that management is confident will not be subject to significant reversal. Management will assess its experience of similar types of performance obligations to determine whether revenue will be constrained.

The transaction price includes any minimum amount of variable consideration expected to be received (and subsequent changes to that amount) if management has predictive experience of the arrangement’s outcome and is confident that the amount will not be subject to significant reversal.

Consumer credit risk

The boards agreed to clarify the distinction between impairment and price concessions. Management will need to consider all relevant facts and circumstances to make this determination.

The transaction price will be reduced to reflect the expected concession, and any adjustments to that estimate will be recognised as an adjustment to revenue. Impairments of receivables, however, will be presented as an expense in a separate line item in the income statement.

Accounting for an arrangement that is not a ‘contract with a customer’

The boards confirmed that they will not provide guidance on asset derecognition or cost recognition for arrangements that are not in the revenue standard’s scope. Such arrangements will be reassessed at each reporting date. Once an arrangement meets the scope requirements, the revenue standard guidance will be applied. Revenue is recognised when there are no remaining performance obligations and either all of the consideration in the arrangement has been collected and is non-refundable or the contract is cancelled and consideration received is non-refundable.

The final standard is expected before the end of the year and will be effective on 1 January 2017. Early adoption will be allowed.

Revenue joint transition resource group

The IASB and FASB will form a joint transition resource group which will be responsible for advising the boards on interpretive issues arising from the implementation of the final converged standard on revenue recognition. The group will not issue guidance but it will provide information to help the boards determine if action is required to resolve diversity in practice.

The transition group is expected to include 10 to 15 specialists comprised of preparers, auditors, regulators, users, other stakeholders and board members. It is planned to operate for a limited period with the primary activity occurring before the transition date of 1 January 2017. Submissions to the group will be subject to guidelines issued by the boards. The issues will be debated in a public forum.

Rate regulation consultative group meeting

The Rate Regulation Consultative Group held its first meeting in July. The topics discussed included: interaction with other projects, responses to the request for information, user needs and scope. The scope of any proposed guidance is likely to attract significant comment as it did when the IASB first published an exposure draft on this topic in 2009.

The consultative group includes specialists with practical experience and is advising

the IASB on its Rate-regulated Activities research project. Rate regulators and securities regulators participate as observers.

The IASB began its discussions on this project in July by reviewing the feedback on the request for information. The board will continue its discussions on this topic in September. A discussion paper is expected by the end of the year.

IFRS 3 and IFRS 8 post implementation reviews

IFRS 8 – Segments

The IASB has issued a Feedback Statement on the post-implementation review of IFRS 8 Operating Segments. The IASB concluded that IFRS 8 was working as expected but identified some areas for further investigation particularly related to convergence with US GAAP.

This is the first review completed since such reviews were included in due process in 2007. The reviews will normally be completed two years after global application of a standard. Proposed actions are added to the board's agenda and then addressed through normal due process.

IFRS 3 – Business combinations

The IASB has also begun its post-implementation review of the business combinations standard (IFRS 3). The IASB will have look at changes made to IFRS 3 in both 2004 and 2008. The review will have two phases. The first phase will include targeted outreach and a formal request for information expected by the end of 2013. The second phase will include more extensive outreach. The review is expected to be completed in 2014 with publication of a feedback statement outlining any proposed actions.

Conceptual Framework roundtables

The IASB has announced a series of roundtable meetings on the Conceptual Framework. The meetings will provide preparers, auditors, users and other stakeholders an opportunity to share perspectives in connection with discussion paper released in July.

Each roundtable will cover measurement, the use of OCI and one other topic to be selected. Roundtables are currently planned in October and November in London, Toronto, Sao Paulo and Tokyo. Those interested in participating should contact the IASB before 10 September.

New IFRS publications out soon

PwC is updating the following accounting guidance for 2013 year ends:

- Illustrative IFRS consolidated financial statements for 2013 year ends
- IFRS disclosure checklist 2013
- IFRS pocket guide 2013
- Manual of accounting – IFRS 2014 (due for publication in December 2013)

You will be able to pre-order hard copies shortly from www.ifrspublicationsonline.com.

The publications will also be available electronically on PwC inform – visit inform.pwc.com for more information and to apply for a free trial.

IFRS 'ABC': I is for 'Income statements'



Hector Cabrera from PwC Accounting Consulting Services' Central team, discusses income statement presentation.

The income statement, of all the primary statements, probably receives the most focus from investors and preparers alike. One might assume that income statement presentation is simple and not controversial. However, there are a number of areas in which IFRS provides only limited guidance making income statement presentation a matter for ongoing debate. This article aims to describe the controversial areas, what we find in practice and the latest developments on the issue.

Structure and classification

IFRSs do not prescribe a format or a structure for income statements. IAS 1, however, specifies the six items that should be presented separately on the face of the statement.

- Revenue
- Finance costs
- Share of profits/losses of associates and JVs under the equity method
- Tax expense
- Post-tax profit/loss of discontinued operations including the gain/loss from disposal
- Profit or loss

IFRS includes other guidance such as how to group expenses, but there are still fewer requirements than might be expected given the focus on income statements. Other requirements in IAS 1 include:

- Present an allocation of the profit or loss attributable to the parent and the non-controlling interest;
- Do not present any gain or loss as an extraordinary item;
- Present analyses of expenses grouped by function or by nature either on the

face of the income statement or in the notes; and

- Additional line items, headings and sub totals should be shown on the face of the statement they are relevant to understanding the entity's financial performance.

These 'requirements' leave a window for innovators. In particular, additional line items, headings and sub totals continue to spark debate and in some cases, controversy. Subtotals for gross profit, operating profit and profit before tax are commonly used but in many cases they are adjusted to exclude the impact of specific transactions. Even more diversity exists in how entities define such measures as EBITDA.

This topic also receives regulator attention. European, US and Australian regulators have all issued specific guidance— some of which implies rules that are not explicitly stated in IFRS, for example, prohibiting use of the terms 'one-off' or 'non-recurring'.

Revenue or gain?

The Conceptual Framework (the 'Framework') says that income includes both revenues and gains. Revenues arise from the ordinary activities of an entity. Gains may or may not arise from ordinary activities. So what does this mean?

IAS 18 governs the accounting for revenue. It refers to revenues and reinforces the definition included of the Framework. IAS 18 applies to the sale of goods, the rendering of services and the use by others of an entity's assets yielding interest, royalties and dividends but the new revenue proposals (not yet finalised) only

address 'revenue from contracts with customers'. That leaves us with a reference to 'ordinary activities' in the Framework, but no definition.

Why does it matter? There is some specific guidance. Revenues should be presented 'gross' and separately on the face of the income statement. In practice, the sale of goods, services fees, royalties, dividends and interest are commonly classified as revenue. We also see the caption 'other income'. This is generally designed to include gains generated by the entity which do not arise from its 'ordinary activities'.

Some grey areas exist. For example, would income obtained by a retail chain on the sale of one of its stores be classified as revenue or other income? Where would a leasing entity classify the income from the sale of vehicles previously subject to operating leases?

Both cases relate to sales of items that have been previously classified as PPE and most classify these transactions as other income. But what if an entity commonly sells its stores or vehicles? Does this then represent an 'ordinary activity' that should be presented as revenue? There is no doubt that judgment is required and clear disclosure is important.

The IASB is set to begin a research project to review IAS 1, IAS 7 and IAS 8. The goal is to replace those standards. Defining such terms as 'operating activities' and 'ordinary activities' as well as providing more guidance on the presentation of the income statement might be considered.

P&L or OCI?

For years, there has been debate about how best to measure and report an entity's financial performance. Results are currently reported either within net income or other comprehensive income (OCI), the

sum of which comprises total comprehensive income.

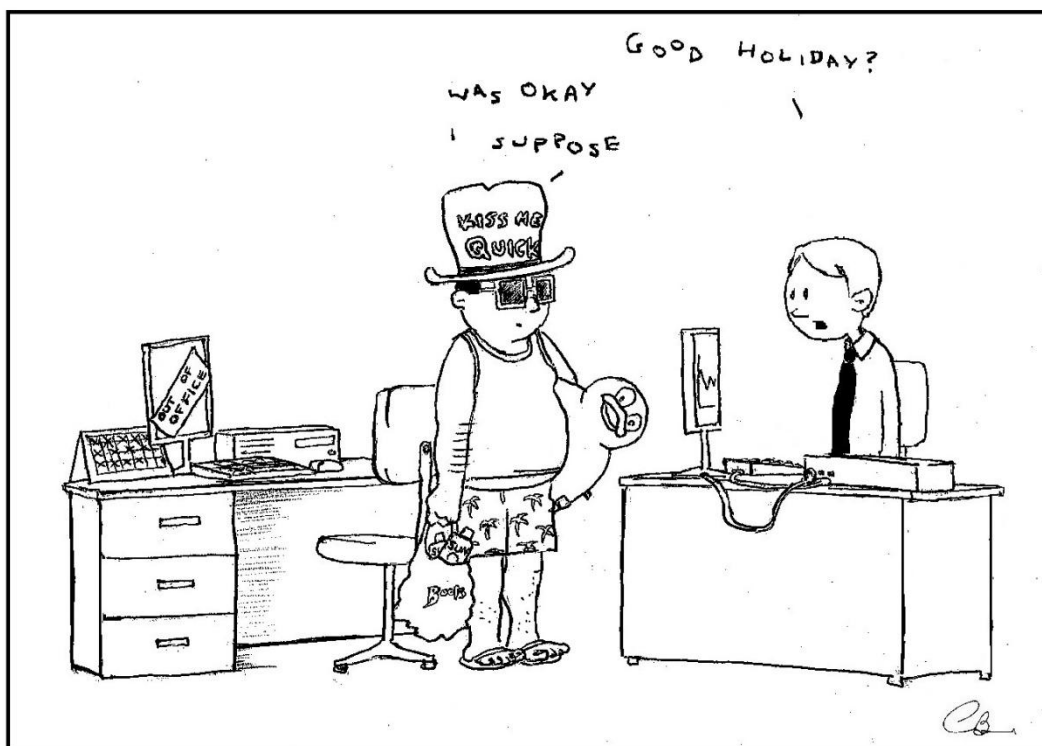
Fortunately, items that are to be classified in OCI are clearly identified in individual standards so complex judgement is not required. Most items of income and expense are included in profit or loss. This includes almost all amounts arising from cost-based measurements and most realised gains and losses. But there are other items, mostly unrealised gains and losses resulting from remeasurements that are included in OCI. Some items that are presented in OCI are eventually reclassified to profit and loss, known as 'recycling'. Some are not.

Profit and loss measures, rather than total comprehensive income, are currently the primary performance measures in most jurisdictions. However, there is no principle to determine which items should be recorded within net income. The 'other comprehensive income' category has therefore evolved over time to comprise a 'laundry list' of largely unrelated items for which initial recognition in net income was viewed as inappropriate.

What is an appropriate basis to define what is to be presented in OCI and which items are then recycled? Should it be based on the concept of realisation? Or the most relevant measures for performance? Or the business model, as it is approached by IFRS 9? Consensus on a single principle may not be achievable but reasonable criteria are needed to achieve some level of consistency.

In July 2013, the IASB issued the *Discussion Paper: A Review of the Conceptual Framework for the Financial Reporting* which is the first step towards issuing a revised Conceptual Framework. Among others, definition of what OCI means and when recycling is appropriate are being discussed.

The bit at the back.....



For further help on IFRS technical issues contact:

Business combinations and adoption of IFRS

mary.dolson@uk.pwc.com: Tel: + 44 (0) 207 804 2930

caroline.woodward@uk.pwc.com: Tel: +44 (0) 207 804 7392

Financial instruments and financial services

gail.l.tucker@uk.pwc.com: Tel: + 44 (0) 117 923 4230

jessica.taurae@uk.pwc.com: Tel: + 44 (0) 207 212 5700

tina.farington@uk.pwc.com: Tel: + 44 (0) 207 212 2826

Liabilities, revenue recognition and other areas

tony.m.debell@uk.pwc.com: Tel: +44 (0) 207 213 5336

richard.davis@uk.pwc.com: Tel: +44 (0) 207 212 3238

a.allocco@uk.pwc.com: Tel: +44 (0) 207 212 3722

IFRS news editor

Andrea Allocco

a.allocco@uk.pwc.com: Tel: +44 (0) 207 212 3722

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. It does not take into account any objectives, financial situation or needs of any recipient; any recipient should not act upon the information contained in this publication without obtaining independent professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2013 PricewaterhouseCoopers. All rights reserved. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.