IFRS news

Taking stock – progress update on key IASB projects

In this issue:

The comment period for the revenue recognition re-exposure ended last month, so this seems like a good moment to take a look at the progress of the IASB's priority projects – revenue, leasing, financial instruments (all of these being convergence projects with the FASB) and insurance.

Revenue

The comment period for the updated exposure draft, 'Revenue from contracts with customers', closed last month, but comments continue to stream in. Over 330 letters have been received, most supporting the boards' continued efforts. That said, some respondents have expressed concerns with some of the proposals. Common themes include lack of clarity on how to identify separate performance obligations, performing the onerous assessment at the performance obligation level, and the volume of disclosures. Public roundtables are scheduled to take place this month, and the boards are likely to begin redeliberations in May. It is not clear when a final standard will be issued; however, the boards have indicated the effective date will be no earlier than 2015.

Leasing

The boards have made significant progress on several key redeliberation issues but have yet to reach consensus on two remaining areas: subsequent expense recognition for lessees and the approach for lessor accounting. There was general agreement at the February meeting that the front-loading of expenses should be addressed for lessees, but the boards could not agree on a solution. The staff will consult further with constituents about the operationality and usefulness of the different solutions for users.

There has been some discussion of lessor accounting, but there is a concern about the proposed scope exemption for all investment properties. The boards will consider lessor accounting at the same time as they consult on lessee accounting. The staffs are expected to report back to the boards during quarter 2. This latest development has introduced a further delay to the project, and a revised exposure draft is not expected until the second half of 2012.

Financial instruments

IFRS 9 is being addressed in three phases:
(1) classification and measurement;
(2) impairment; and
(3) hedging.

The IASB agreed in late 2011 to consider limited modifications to IFRS 9 for classification and measurement. This is an opportunity to work with the FASB to eliminate the differences between the two models, consider interaction with the insurance project and address application issues. An exposure draft is expected in the second half of 2012.

Impairment is still being re-deliberated and is expected to be re-exposed in the second half of 2012.

A staff draft of the hedging proposals is expected in quarter 2, with a final standard in the second half of 2012.

Insurance

The boards have designed a building-block model to measure insurance liabilities. They have reached key decisions on each of these building blocks. They have still to complete deliberations on certain topics, such as the unbundling of non-insurance components in a contract, residual margin, the use of other comprehensive income, review of the unit of account, presentation/disclosures and transition issues.

The boards are also assessing whether and how any differences between the IASB and the FASB can be reconciled.

A revised exposure draft or final review draft is targeted for the second half of 2012. The date for the final standard, according to the IASB, is 'to be confirmed'. Click here for more PwC updates on latest developments in this project, or click on the 'IFRS' tab at www.pwc.com/insurance .

Cannon Street Press

IFRS 1 amendment

The IASB has amended IFRS 1, 'First-time adoption of IFRS', to provide relief from the retrospective application of IFRSs in relation to government loans.

The new exception requires first-time adopters to apply the requirements in IFRS 9, 'Financial instruments', and IAS 20, 'Accounting for government grants and disclosure of government assistance', prospectively to government loans that exist at the date of transition to IFRSs. This will give first-time adopters the same relief as existing preparers. It means a first-time adopter can use its previous GAAP carrying amount for government loans on transition to IFRS.

The exception applies to recognition and measurement only. Management should use the requirements of IAS 32, 'Financial instruments: Presentation', to determine whether government loans are classified as equity or as a financial liability.

The amendment applies to annual periods beginning on or after 1 January 2013. Earlier application is permitted.

What's new for 2012 year-ends?

Our practical guide to the new IFRS standards and interpretations that come into effect for 2012 year ends is now available.

The IASB is working on a number of significant projects that are likely to affect 2015 year ends, but there are relatively few amendments to standards for 2012 and a number of small changes coming from the annual improvements process (our guidance on the improvements project will be added to this publication once the IASB publishes the final improvements project in May).

Eight new and revised standards are not yet mandatory but can be early adopted (yet to be endorsed for application in the EU).

Click here to view the 'Practical guide to new IFRSs for 2012' or find it under 'IFRS updates' on pwc.com/ifrs. Hard copies will be available after the improvements project is added.

IFRS quiz: share-based payments

How much do you know about share-based payments? Can you easily identify and account for them, or do you phone a friend? Test yourself against PwC's share-based-payments specialist, Eniko Konczol, with this quiz about identifying, classifying, recognising and measuring share-based payments. If you need to do some some background reading first, a good place to start is our topic summary on share-based payments.

Identifying share-based payments is not as straightforward as you might expect. It is broader than simply giving shares or share options to employees. IFRS 2 was issued in 2004, but some entities still struggle with its application. You need to understand the basics if you are going to account for them properly. The following questions help you to assess your knowledge.

Q1: Assess the following statements on the scope of IFRS 2 as 'true' or 'false':

(a) A transaction with an employee in his/her capacity as a shareholder of the entity is not a share-based payment transaction in the scope of IFRS 2.

(b) A share-based payment transaction may be settled by another group entity (or a shareholder of any group entity) on behalf of the entity receiving or acquiring the goods and services. However, a written agreement between all the parties involved is needed for the transaction to be in the scope of IFRS 2.

(c) Management has to identify the goods or services received in order to account for the issue of shares as a share-based payment transaction under IFRS 2.

(d) A transaction is in the scope of IFRS 2 if an entity acquires services by incurring a liability to transfer cash to the supplier of those services for amounts that are based on the value of equity instruments of the entity.

Q2: How you classify a share-based payment has an impact on how you measure it. What are the possible classifications for share-based payment transactions under IFRS 2?

(a) Share-settled, share option-settled, cash-settled.

(b) Equity-settled, cash-settled, share-based payment transactions with a settlement choice.

(c) Entity-settled, group-settled.

(d) Vested, not-vested.

Q3: When should you recognise the expense for an equity-settled share-based payment transaction that requires service from an employee to earn the award?

(a) When the parties have a shared understanding of the arrangement.

(b) During the period when the services are received.

(c) At the end of the required service period.

(d) When the shares are provided to the employee or when the options are exercised by the employee.

Q4: The grant date is important for measuring equity-settled share-based payment transactions because it is the measurement date. On 15 March 2010, the entity explained the key terms, including vesting conditions of its new equity-settled share-based payment plan. The awards vest on 15 March 2012. The remuneration committee approved the plan only upon vesting. When is the grant date?

(a) 15 March 2010.

(b) 15 March 2012.

Q5: The vesting period is the period during which all the vesting conditions in a share-based payment arrangement are satisfied (and during which the expense is recognised). How long is the vesting period if management grants equity-settled share options to its employees that are forfeited if the employees leave within *two years, and can be exercised between three years and five years after the grant date?*

(a) It is an equity-settled share-based payment, therefore it vests immediately.

(b) Two years.

(c) Three years.

(d) Five years.

Q6: An entity grants 1,000 equity-settled share options to its employees on 1 January 2011. The options vest over two years: half at the end of the first year and half at the end of the second year. This is often referred to as 'tranched' or 'graded' vesting. How much should management charge to profit or loss in the first year if all the awards are expected to vest? The fair value of the options on 1 January 2011 (grant date) is C10.

(a) Zero (the awards are not yet vested).

(b) 500 x C10 = C5,000.

(c) (500 + 250) x C10 = C7,500.

Q7: How should management account for a share-based payment where the counterparty may choose the settlement method?

(a) As a compound instrument. The value of the debt instrument is established first, and the equity component is measured at the difference between that amount and the value of the entire instrument.

(b) It depends on the entity's past practice. If its past practice is cash settlement, it should recognise a liability; otherwise, the award is classified as equity.

(c) The entity cannot avoid the cash payment, so the entire award is presented as a liability.

Q8: How should management account for the cancellation of an equity-settled share-based payment during the vesting period?

(a) It reclassifies the previously accumulated entries within equity.

(b) No reclassification is necessary, and no further entries are required.

(c) The cancellation is an acceleration of vesting, and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised in profit or loss immediately.

Q9: One year after granting unvested shares to the employees, management increases the vesting period from three to six years. This is a modification to the award that is not beneficial to the employee (requiring the employees to work longer to earn the award). Assume that there are no changes in other assumptions. How much expense should be charged to profit or loss in year two if the charge in year one was C100?

(a) C50 because the vesting period has doubled, so the annual charge is halved.

(b) C100 because the modification is non-beneficial, so management should continue to account for the original grant as if the modification had not occurred.

(c) (C300-C100)/5=C40 because the remaining charge should be spread over the remaining vesting period.

(d) Zero because the cumulative charge at the end of year two should be C100 (=C300/6 x 2), so no expense should be charged in year 2.

Q10: How should a share-based payment be classified in a subsidiary's separate financial statements if the parent company grants its own shares to the employees of the subsidiary, and the subsidiary has no obligation to settle the award?

(a) The share-based transaction is not recorded in the separate financial statements because it is granted by the parent, and there is no need for classification at the subsidiary's level.

(b) Equity-settled, as the subsidiary has no obligation to settle in cash.

(c) Cash-settled if the subsidiary expects to reimburse the parent.

(d) Cash-settled, as the parents grants its own (and not the subsidiary's) shares.

Answers

Question 1: A and D – IFRS 2 paragraphs 2-6 define the scope of the standard and refer specifically to (a) and (d). The statements in (b) and (c) are false. Under (b), there is no need for a written three-party agreement if the share-based transaction is settled by another group entity. Under (c), other circumstances might indicate that goods or services have been (or will be) received even in the absence of specifically identifiable goods or services.

Question 2: B – IFRS 2 distinguishes between equity-settled and cash-settled share-based payment transactions and also identifies a third category of share-based payment transactions with a settlement choice. This last one can be further split into two subgroups, depending on which party has the settlement choice. Getting the classification right is key because it drives the measurement of the award.

Question 3: B – IFRS 2 requires the expense to be recognised when the services are provided.

Question 4: B – IFRS 2 states that having a shared understanding of the terms of the share-based payment transaction is not sufficient to have a grant date. If the transaction is subject to an approval process, the grant date is the date when the approval is obtained. Even though the award does not have a grant date until vesting is confirmed, an expense should be recognised over the two-year service period because the employees are working in expectation of receiving the award.

Question 5: B – The share-based payment has a two-year service vesting condition (that is, the employee has to remain in the employment of the entity for two years). The vesting period is therefore two years, and the related expense will be recognised during this period. The limitation on when the option can be exercised is a post-vesting restriction, which affects the value of the award but not the vesting period.

Question 6: C – IFRS 2 requires the expense to be calculated separately for each tranche over the vesting period for that tranche. That will result in the expense being front-loaded. The answer is C500 x 10 for the first tranche plus C250 x 10 for the second tranche.

Question 7: A – It is a compound instrument. The entity's past practice, referred to in answer (b), should be considered if the entity not the counterparty has the settlement choice.

Question 8: C – The recognition of the charge is accelerated if an award is cancelled.

Question 9: B – The entity should continue to account for the original grant as if the modification had not occurred when a modification is not beneficial.

Question 10: B –The subsidiary should account for the award as an equity-settled share-based payment because it has no obligation to settle the award.

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