IFRS news

In this issue:

1 IAS 19 amendment brings major change

3 **IAS 1 amendment**
Presentation of OCI

4 **Revenue project**
Proposals to be re-exposed

5 **Cannon Street press**
Improvements project
IASB/IFRIC appointments
XBRL taxonomy

6 **Viewpoint**
Moving to IFRS – progress or not?

7 **Contacts**

IAS 19 amendment brings significant change

The IAS 19 amendment could have a significant impact on a number of performance indicators and might increase the volume of disclosures.

The IASB has issued an amendment to IAS 19, 'Employee benefits', which makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.

The changes will affect most entities that apply IAS 19. They could have a significant impact on a number of performance indicators and might also increase the volume of disclosures.

The key changes are outlined below.

Recognition of actuarial gains and losses (remeasurements)

'Actuarial gains and losses' are renamed 'remeasurements' and will be recognised immediately in 'other comprehensive income' (OCI). Actuarial gains and losses will no longer be deferred using the corridor approach or recognised in profit or loss; this is likely to increase balance sheet and OCI volatility. Remeasurements recognised in OCI will not be recycled through profit or loss in subsequent periods.

Recognition of past service cost/ curtailment

Past-service costs will be recognised in the period of a plan amendment; unvested benefits will no longer be spread over a future-service period. A curtailment now occurs only when an entity reduces significantly the number of employees. Curtailment gains/losses are accounted for as past-service costs.

Measurement of pension expense

Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the finance charge and expected return on plan assets, and will increase benefit expense for most entities. There will be no change in the discount rate, which remains a high-quality corporate bond rate where there is a deep market in such bonds, and a government bond rate in other markets.

Presentation in the income statement

There will be less flexibility in income statement presentation. Benefit cost will be split between:

(i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and

(ii) finance expense or income. This analysis can be in the income statement or in the notes.

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Disclosure requirements

Additional disclosures are required to present the characteristics of benefit plans, the amounts recognised in the financial statements, and the risks arising from defined benefit plans and multi-employer plans. The objectives and principles underlying disclosures are provided; these are likely to require more extensive disclosures and more judgement to determine what disclosure is required.

Distinction between 'short-term' and 'other long-term' benefits

The distinction between short- and long-term benefits for measurement purposes is based on when the payment is expected, not when the payment can be demanded. An obligation may be measured as a long-term benefit and presented as a current liability if the entity expects to settle the obligation after more than one year but does not have the unconditional right to defer settlement for more than one year.

Treatment of expenses and taxes relating to employee benefit plans

Taxes related to benefit plans should be included either in the return on assets or the calculation of the benefit obligation, depending on their nature. Investment management costs should be recognised as part of the return on assets; other costs of running a benefit plan are recognised as period costs when incurred. This should reduce diversity in practice but might make the actuarial calculations more complex.

Termination benefits

Any benefit that has a future-service obligation is not a termination benefit. This will reduce the number of arrangements that meet the definition of termination benefits. A liability for a termination benefit is recognised when the entity can no longer withdraw the offer of the termination benefit or recognises any related restructuring costs. This might delay the recognition of voluntary termination benefits.

Risk or cost sharing features

The measurement of obligations should reflect the substance of arrangements where the employer's exposure is limited or where the employer can use contributions from employees to meet a deficit. This might reduce the defined benefit obligation in some situations. Determining the substance of such arrangements will require judgement and significant disclosure.

Effective date and transition

The amendment is effective for periods beginning on or after 1 January 2013. Earlier application is permitted. The amendment should be applied retrospectively in accordance with IAS 8, 'Accounting policies, changes in accounting estimates and errors', except for changes to the carrying value of assets that include employee benefit costs in the carrying amount.

Am I affected?

These changes will affect most entities that apply IAS 19. The changes could significantly change a number of performance indicators, including EBITDA, EPS and balance sheet ratios. They might also significantly increase the volume of disclosures.

What do I need to do?

Management should determine the impact of the revised standard and any changes in benefit classification and presentation.

Management should consider the effect of the changes on any existing employee benefit arrangements and whether additional processes are needed to compile the information required to comply with the new disclosure requirements.

Management should also consider the choices that remain within IAS 19, including the possibility of early adoption, the possible effect of these changes on key performance ratios and how to communicate these effects to analysts and other users of the accounts.

IASB amends IAS 1 for presentation of OCI

The proposal for entitles to present profit or loss and OCI in a single statement of comprehensive income has been withdrawn; IAS 1 will still permit profit or loss and OCI to be presented in a single statement or in two consecutive statements.

The IASB has issued an amendment to IAS 1, 'Presentation of financial statements', that changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income.

The board originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn; IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements.

The amendment does not address which items should be presented in OCI and the option to present items of OCI either before tax or net of tax has been retained.

Key provisions

The amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled – such as revaluation gains on property, plant and equipment – will be presented separately from items that may be recycled in the future – such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

The title used by IAS 1 for the statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income'. However, IAS 1 still permits entities to use other titles.

Am I affected?

The amendment is effective for annual periods beginning on or after 1 July 2012. Early adoption is permitted and full retrospective application is required.

All entities with gains and losses presented in OCI are affected by the change to the presentation of OCI items.

What do I need to do?

Management should confirm that reporting systems are able to capture the information needed to implement the revised presentation of OCI items, and update the systems where necessary.

Practical guides to 'joint arrangements' and 'consolidation'

IFRS 10 introduces new guidance on control and consolidation. It combines the concepts of power and exposure to variable returns to determine whether control exists. Control exists under IFRS 10 when the investor has power, exposure to variable returns and the ability to use that power to affect its returns from the investee.

Management will need to evaluate the impact of the new standard in its assessment of the entities they are required to consolidate. Changes to the composition of the group could arise and impact key investor metrics (including debt covenants) such as gearing, liquidity and profitability ratios. Visit pwc.com/ifrs to read more detail in our practical guide.

IFRS 11 represents an overhaul of the existing accounting for joint arrangements. The principles-based approach seeks to provide investors with greater clarity about an entity's involvement in joint arrangements by requiring the entity to recognise the contractual rights and obligations arising from the joint arrangement in which it participates.

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

IASB and FASB to re-expose proposed revenue standard

The boards have agreed that re-exposure of the revenue standard will ensure a transparent process for the project. The revised ED will include questions on the more significant changes from the June 2010 ED.

The IASB and FASB are to re-expose the proposed revenue standard, pushing the expected timeline for issuing a final standard into 2012. The boards reaffirmed that a retrospective application transition method will be required but that 'transition reliefs' will be provided to reduce the burden on preparers.

Industry concerns also got attention from the boards. The FASB separately deliberated whether to retain certain revenue guidance for rate-regulated entities and whether to exempt non-public entities from certain disclosure requirements.

Re-exposure

The boards agreed that re-exposure will ensure a transparent process for the project. The revised ED will include questions on the more significant changes from the June 2010 ED. These questions are expected to address:

- Performance obligations satisfied over time (service arrangements);
- Presentation of the effects of credit risk adjacent to revenue;
- The 'reasonably assured' constraint on revenue recognition; and
- Applying the onerous test.

The boards will also ask whether the requirements are presented clearly and whether it is operational. The ED is expected to be released in August or September 2011 and will have a 120-day comment period.

Transition requirements

The boards tentatively decided that an entity could transition to the new standard using either full or 'limited' retrospective application. This would reduce the burden on preparers by:

- not requiring the restatement of contracts that begin and end within the same prior accounting period;
- allowing the use of hindsight in estimating variable consideration;
- not requiring the onerous test to be performed in comparative periods unless an onerous contract liability was recognised previously; and
- not requiring disclosure of the maturity analysis of remaining performance obligations in the first year of application.

Disclosure of a qualitative assessment of the likely effect of applying the reliefs is required.

Telecoms industry

The boards discussed whether to modify the proposed standard for concerns raised by the telecoms industry. They concluded that the revenue model should be applied consistently by all industries.

Who's affected?

Any final standard is not expected to be effective before 2015 at the earliest.

The proposal will affect most entities that apply IFRS. Entities that currently follow industry-specific guidance should expect the greatest impact.

What's next?

The target date for issuing a final standard has been extended from December 2011 to September 2012. The exposure draft is expected in August or September 2011 and will have a 120-day comment period.

Cannon Street Press

IASB publishes exposure draft on improvements project 2011

The IASB has published an exposure draft on the 2011 annual improvements project, with amendments that would affect five standards. Proposed amendments affect IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. The proposed amendments are seemingly minor changes. However, if you are affected, the impact could be significant.

The amendments would be expected to apply for annual periods beginning after 1 January 2013. The comment period closes on 21 October 2011.

- *IFRS 1, 'First-time adoption of IFRS':* First-time IFRS adopters should retain the capitalised borrowing costs determined under previous GAAP at the transition date. IAS 23, 'Borrowing costs', applies to the treatment of subsequent borrowing costs.

- *IFRS 1, 'First-time adoption of IFRS':* An entity that previously applied IFRS but has ceased to do so is required to apply IFRS 1 again when it re-commences application of IFRS.

- *IAS 1, 'Presentation of financial statements' :* The amendment clarifies the minimum requirements for comparative information; it also clarifies that the required comparative information in paragraphs 38 to 40 of IAS 1 is part of a complete set of financial statements.

- *IAS 1, 'Presentation of financial statements':* The amendment replaces the objective of financial statements in IAS 1 with the objectives of financial reporting in the revised Conceptual Framework.

- *IAS 16, 'Property, plant and equipment':* An entity classifies servicing equipment as property, plant and equipment (PPE) if it is used during more than one period. If used for a shorter period, it is classified as inventory. The amendment also removes the requirement for spare parts and servicing equipment used only in connection with an item of PPE to be classified as PPE.

- *IAS 32, 'Financial instruments: Presentation':* The amendment removes the conflict between IAS 32 and IAS 12, 'Income taxes', on how to treat income tax on distributions and transaction costs associated with equity instruments. It clarifies that the income tax consequences of these items are to be accounted for in accordance with IAS 12.

- *IAS 34, 'Interim financial reporting':* An entity reporting under IAS 34 would only disclose segment assets in interim financial reports if that amount is regularly provided to the chief operating decision-maker. The proposed amendment is to align the disclosure requirements in IAS 34 with IFRS 8, 'Operating segments'.

Appointments at the Interpretations Committee

New appointments and re-appointments have also been made, at the IFRS Interpretations Committee. Joanna Perry, Luca Cencioni, Jean Paré, Margaret Smyth and Scott Taub have been reappointed for a further three-year term . The new appointments are:

- Charlotte Pissaridou, managing director, head of accounting policy for Europe, Middle East and Africa – Goldman Sachs in the UK; and
- Kazuo Yuasa, general manager, IFRS office, Corporate Finance Unit – Fujitsu in Japan.

Draft IFRS taxonomy enhancements for reporting 'common practice'

The IFRS Foundation has published an exposure draft of the 'IFRS taxonomy 2011 interim release: common-practice concepts' (deadline for comments: 2 August). The proposed interim release contains tags for the IFRS taxonomy that reflect common IFRS disclosures. The supplementary tags aim to enhance the comparability of financial information; they are consistent with IFRSs and with the XBRL 'architecture' in the 'IFRS taxonomy 2011.'

Once these initial common-practice tags are finalised, entities will be able to apply them to line items in their primary financial statements and to notes and accounting policies with fewer entity-specific tags. Reducing the need for entity-specific and jurisdiction-specific tags might help reduce divergence in reporting practice. The next part of the process will involve the detailed analysis of disclosures within notes to financial statements and identifying common reporting practice in these note disclosures.

The supplementary tags will be consolidated into the IFRS Taxonomy 2012.

Moving to IFRS: progress or not?

There have been some interesting recent developments in countries that are considering transition to IFRS: the SEC is due to decide later this year whether/when and how to incorporate IFRS into the US financial reporting system; Japan's Financial Services Minister implied that Japan might defer its move to IFRS from 2014 until 2016; and India is silent over its plans, despite having passed their original proposed transition date. PwC's global chief accountant John Hitchins takes a personal view.

The SEC's staff paper issued in May put forward a transition plan for converging IFRS with US GAAP over a five to seven year period that is essentially an endorsement approach. The US would aim to avoid differences between 'full IFRS' and 'US-endorsed IFRS', but the FASB could modify or supplement IFRS in rare instances. The paper stresses that the SEC has not yet decided to follow this approach but requests constituents' views on this and other approaches by 31 July 2011. If you have a view please do respond.

John Hitchins

The staff paper has provoked very different responses. Some recognise the difficulty in persuading US firms of the benefit of moving to IFRS. A 'softly softly' approach over a period of years may gradually win those companies over. Others want to avoid further 'endorsement' processes – or think that if the US has a rigorous endorsement process, Europe or other regions should toughen their own approval process. I am not in favour of multiple layers of endorsement and exceptions, as this can slow the process even further; but I understand that accepting it in the US may be the only way to reach the ultimate goal of a single set of global IFRS standards. It

would be helpful, though, if those US companies that would like to move to IFRS in one go were allowed to early-adopt on a voluntary basis.

If the US adopts this approach, what impact is this likely to have on other IFRS adopters? I have previously mentioned that several territories are unlikely to commit to full adoption of IFRS until the US announces its decision. Japan, India and China are cases in point where the US timetable may be influencing the completeness or speed of adoption.

India made a commitment to the G-20 in 2008 that it would converge with IFRS by April 2011. But the standards are still not included in the legal framework; so, although there has been no formal announcement of delay, lobbying by Indian companies seems to have had the desired effect for them. The converged Indian Accounting Standards published so far also have numerous carve-outs and carve-ins – so maybe a further delay will allow time for these exceptions to be eliminated.

In June, a statement from Japan's financial services minister implied they were considering a delay in adoption of IFRS. Japan's business community have been asking for an extension while they try to deal with the aftermath of the Great East Japan Earthquake. At the moment we understand that no such decision has been made and that the FSA will make a decision about transition in 2012 as originally proposed. So a short transition may still be a possibility but, I am sure, the suggestion of a lengthy transition period in the US and requests for delays from big businesses must be having an effect on Japanese thinking.

I hope the SEC makes a decision this year as promised so that other transitioning territories can get some more clarity. Of course, they may want to wait until final leasing, financial instruments and revenue standards are issued. If that is the case we still have a long way to go.

This was first published as John's IFRS blog. To sign up to receive IFRS blog notifications, email on-line.presence@uk.pwc.com

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