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IFRS News

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News: New standards, interpretations, amendments and exposure drafts

Amendment to deferred tax accounting for investment property at fair value

The IASB has amended IAS 12, 'Income taxes', to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The current principle in IAS 12 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way that management expects to recover or settle the carrying amount of the entity's assets or liabilities. However, the IASB believes that entities holding investment properties that are measured at fair value sometimes find it difficult or subjective to estimate how much of the carrying amount will be recovered through rental income (that is, through use) and how much will be recovered through sale.

The IASB has therefore added another exception to the principles in IAS 12: the rebuttable presumption that investment property measured at fair value is recovered entirely by sale. This presumption is rebutted if the investment property is depreciable (for example, buildings and land held under a lease) and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale before the end of its economic life. The presumption cannot be rebutted for freehold land that is an investment property, because land can only be recovered through sale.

IFRS 1 amended: exemption for severe hyperinflation, and removal of fixed dates

The IASB has issued two amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'.

Severe hyperinflation

The first amendment creates an additional exemption when an entity resumes presenting financial statements in accordance with IFRSs after being subject to severe hyperinflation. The exemption allows an entity to elect to measure assets and liabilities held before the functional currency normalisation date at fair value; and to use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

Removal of fixed dates

The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004.

The second amendment change relates to financial assets or liabilities at fair value on initial recognition where the fair value is established through valuation techniques in the absence of an active market. The amendment allows the guidance in IAS 39 AG76 and IAS 39 AG76A to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter does not need to determine the fair value financial assets and liabilities for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.

Revenue recognition

The National Advisory Committee on Accounting Standards has approved a carve-out for IFRIC 15, 'Agreements for the Construction of Real Estate'. There has also been a 'carve-in' to bring such transactions directly into the scope of the CIAS equivalent to IAS 11, 'Construction contracts', in order to prevent this interpretation being required by way of the hierarchy in IAS 8, 'Accounting policies, changes in accounting estimates and errors'. Revenue will therefore be recognised on a percentage-of-completion method for all transactions involving the construction and sale of real estate.

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Wave of accounting change looming for preparers

The table below considers these challenges and some of the industries that are likely to be affected. This summary is based on information available as at December. The new standards and amendments are still in development, so the projects and their timetable for completion are subject to change. One thing is likely: many of the below are unlikely to appear when expected.

	Level of complexity	Implementation challenges	Industries/entities likely to be affected	Changes/areas of focus	Effective date
Classification and measurement – financial assets – IFRS 9 (issued November 2009)	High	Significant	Significant impact on financial institutions given the substantial amount of financial assets they hold; limited impact on other industries.	IFRS 9 replaces the multiple classification and measurement models for financial assets in IAS 39 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.	1 January 2013
Classification and Measurement – financial liabilities (issued October 2010)	Low	Low	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.	1 January 2013. Early adoption permitted; subject to EU endorsement.

Hedge accounting	High	Significant	Mainly non-financial institutions that apply hedge accounting. For example, energy and utility entities.	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, and 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 based on a dollar-offset approach. Fair value hedge accounting mechanics will change. Basis adjustment for cash flow hedges of non-financial hedged items is likely to be made compulsory – with recycling from equity instead of OCI.	No earlier than 1 January 2013
Impairment	High	Significant	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 post-ED discussions. How principles will be applied to trade receivables is also to be determined.	No earlier than 1 January 2014
Asset and liability offsetting	Low	Low	All entities that have derivative contracts; greatest impact on financial institutions.	The ED is expected to propose changes to address difference between IFRS and US GAAP. It may or may not allow more netting than under IAS 32 – unclear at this stage of discussions.	No earlier than 1 January 2013
Replacement of IAS 27	Medium	Low	All reporting entities (other than investment entities) that control one or more investees. Special attention to be given to SPEs. Mainly banks and other financial institutions.	The revised definition of control will focus on the need to have both power and variable returns before control is present. There will be extensive application guidance.	TBC

Disclosures unconsolidated entities	Low	Medium	Disclosures unconsolidated entities	The proposal will bring together in one standard the disclosures requirements related to subsidiaries, joint arrangements, joint ventures and associates.	TBC
Fair value measurement guidance	Low	Medium	All entities	It will replace fair value measurement guidance contained in individual IFRSs 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.	TBC
Leases	High	Significant	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. There are significant measurement issues where there are contingent rentals (that is, turnover based) or term extension options. The proposals will result in lease costs being higher in the early periods of the lease. They will also mean changes to [income statement?] profit and loss account presentation through amortisation of the right-of-use asset and interest on the lease liability compared to straight-line rental charges. A hybrid approach is being proposed for lessors, which results in new assets and liabilities being recognised (performance obligation method) or assets being removed from the balance sheet (derecognition approach). There are similar measurement issues in respect of contingent rentals and term extensions.	TBC
Revenue recognition	High	Significant	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 proposed model requires revenue to be recognised when an entity satisfies a performance obligation to its customer. Identifying performance obligations in a contract will 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 estimated.	TBC

			the past may be more significantly affected than others.		
Liabilities (IAS 37 amendments)	Medium	Medium	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.	No earlier than 1 January 2012
Income taxes	High	Significant	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 a tax return.	TBC

Tools, practice aids and publications

- A comparison of IFRS and US GAAP - September 2010
- Practical guide to leasing: overhauling lease accounting
- Deferred tax on certain assets at fair value: proposed amendment to IAS 12
- Revenue recognition – full speed ahead – “Latest installment: a joint IASB/FASB Exposure Draft”

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This newsletter has been prepared as a guide to topics of current financial reporting interest. In the interests of brevity and clarity detailed information may be omitted which nevertheless may be directly relevant to a particular entity. Action should not, therefore, be taken on the basis of this Accounting briefing alone.

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