

# IFRS news

Emerging issues and practical guidance\*

Issue 78 – October 2009



## Taking a deep breath on financial instruments

There has been significant activity on financial instruments as the IASB responds to the financial crisis. Jessica Taurae of PwC's Accounting Consulting Services central team takes stock of what has happened and what is still to come.

The Board has a challenging timetable to replace the financial instruments standard (see timeline [p2]). It is holding weekly meetings for the foreseeable future to meet it.

### 1. Impairment

The Board decided last month to go ahead with an exposure draft on the expected loss model (in contrast to the current 'incurred loss' model), following feedback from its June 2009 request for information. It will prepare a draft that 'articulates a clear objective and emphasises principles, reinforced by concise application guidance'. There will be an expert advisory panel to provide input on the operational aspects of applying the expected cash flow approach, including ways to simplify the application of the effective interest method.

The Board will continue to clarify certain aspects of the measurement objective over the next few weeks. This includes point-in-time versus through-the-cycle-estimates, expected value versus most probable value and the use of entity specific versus market data. An exposure draft is expected later this month. Many respondents indicated that 2-3 years' lead time would be required to put systems in place to address this new model. The ED is likely to have a comment period of at least six months; the final standard is likely to have an extended period of time for transition before the mandatory effective date to allow sufficient time for implementation.

### 2. Classification and measurement

The 60-day comment period for the July 2009 exposure draft closed last month. The IASB received nearly 250 response letters from a broad range of constituents. It is holding weekly meetings with the expectation of issuing a final standard on classification and measurement later this month; early adoption will be permitted.

The overwhelming majority of respondents were supportive of a mixed measurement model. They also agreed that amortised cost provides useful information for particular instruments in specific circumstances. However, they expressed concern over the lack of a clear principle for basic loan features and the requirement that these financial instruments are managed on a contractual yield basis. The Board has therefore started re-deliberating where the cut between fair value and amortised cost should be.

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**The past...**

December 2008	March 2009	May 2009	June 2009	July 2009
Consolidation exposure draft	<ul style="list-style-type: none"> <li>Derecognition exposure draft</li> <li>Request for views on FASB FSPs</li> <li>IFRS 7 amendments on fair value disclosures</li> </ul>	Fair value measurement ED	<ul style="list-style-type: none"> <li>Request for information on feasibility of expected loss model</li> <li>Discussion paper on credit risk in liability measurement</li> </ul>	Financial instruments classification and measurement ED

**The future...**

Due October 2009	Due December 2009	Due first-half 2010	Due second half 2010
<ol style="list-style-type: none"> <li>1. Impairment ED</li> <li>2. Final standard on financial measurement instruments classification and measurement</li> </ol>	<ol style="list-style-type: none"> <li>3. Hedge accounting ED</li> <li>4. Final standard on consolidation</li> </ol>	<ol style="list-style-type: none"> <li>5. Final standard on fair value</li> <li>7. Final standard on impairment</li> <li>8. Final standard on hedge accounting</li> </ol>	<ol style="list-style-type: none"> <li>6. Final standard on derecognition</li> </ol>

The other main issues that the IASB will re-deliberate before it finalises this phase of the replacement to IAS 39 are:

- Scope – should financial liabilities be included before the debate on own credit risk is resolved.
- Embedded derivatives – should the guidance be retained for financial liabilities.
- Distressed debt purchases – when are such assets eligible for amortised cost.
- Subordinated debt issued by SPVs – when are such assets eligible for amortised cost.
- Equities – when are changes in fair value recognised in OCI; whether to permit dividends to be recognised in p&l, to recycle realised gains and losses on sale; and whether to remove the cost exemption for unquoted equities.
- Reclassifications – whether to require, permit or prohibit when the business model of an entity changes.
- Transition – simplification, especially in first-year of adoption.

**3. Hedge accounting**

The Board started discussing the proposed approach to the hedge accounting last month. It expects to issue an exposure draft in December 2009. The staff are working under the following guidelines:

- Replacing fair value hedge accounting with an approach that is similar to cash flow hedge accounting.
- Simplifying the existing cash flow hedge accounting model.
- Addressing general hedge accounting before considering the implications on portfolio hedge accounting.
- Considering separately any implications on hedge accounting for net investments.

**4. Consolidation**

The ED comment period ended in March 2009. The Board began re-deliberations of the ED in July. Further discussions are expected this and next month; a final standard is due by the end of this year. The issues to discuss are:

- The control model, including protective and participating rights.
- Activities of the entity.

- Returns.
- Agency relationships.
- Sharing of power.
- Involvement in the design of the entity.

The unique aspects of investment companies continue to present challenges to the Board. There is ongoing discussion about how to articulate the control principle for investment companies. The Board is also considering if investment companies should measure controlled investments at fair value rather than traditional consolidation. A more principles-based approach to the disclosure requirements is also in the works.

**5. Fair value measurement**

The Board published an ED in May 2009 of an IFRS on fair value measurement. It is largely consistent with the FASB's SFAS 157, 'Fair value measurements', including related FASBs guidance. The ED is also consistent with the report published by the IASB's Expert Advisory Panel on measuring fair value in inactive markets. Comments were due by end of September. The Board is reviewing the comment letters and holding roundtables next month. It is likely to begin its re-deliberations in January 2010, with the expectation of issuing a final standard in the first half of 2010.

**6. Derecognition**

The IASB began discussing the feedback on the ED last month. There was a clear steer from constituents that the proposed model was not the preferred route. The Board will be discussing ways forward in its meeting this month, with the expectation of issuing a final standard in the second half of 2010.

**Credit risk in liability measurement**

The Board considered a preliminary summary of the responses to the discussion paper 'Credit risk in liability measurement' last month. The responses will be considered in the finalisation of the classification and measurement phase of the replacement to IAS 39 project.

## Meet the standard setters

Three new board members joined the IASB in July for five-year terms. Their backgrounds – banking, regulatory and analyst – bring some more variety to the 14-strong team. *IFRS news* looks at the qualifications of Amaro Luiz de Oliveira, Patrick Finnegan and Patricia McConnell to see what they will bring to the standard-setting process at over next five years.



**Amaro Luiz de Oliveira Gomes**

Amaro Luiz de Oliveira Gomes joins the Board from the Central Bank of Brazil, where he was head of financial system regulation.

Mr Gomes played a leading role in the adoption of IFRS in Brazil. He oversaw the introduction of IFRSs for regulated financial institutions and has served as a member of the Brazilian Comitê de Pronunciamentos Contábeis (CPC) and the Steering Committee for Accounting Convergence–Brazil (Comitê Gestor da Convergência no Brasil).

He has been active in promoting international regulatory co-operation, serving on the Accounting Task Force of the Basel Committee on Banking Supervision from 2004 to 2009. He also represented the Central Bank of Brazil in the MERCOSUR Sub-Group IV – Financial Services Integration, as co-ordinator of the Commission on Financial Services and the Sub-Commission on Accounting Issues.

Mr Gomes has also been involved in the convergence of Brazilian prudential regulation with international standards and best practices, such as the implementation of the 25 Core

### Highly qualified – where do the Board members come from?

IASB board member	Professional background	IASB board member	Professional background
Steven Cooper	Analyst (USB Investment Bank)	Jim Leisenring	Regulatory (FASB)
Philippe Danjou	<ul style="list-style-type: none"> <li>Regulatory (Autorité des Marchés Financiers (AMF)).</li> <li>Practice (Andersen partner).</li> </ul>	Warren McGregor	<ul style="list-style-type: none"> <li>Practice (founding member of boutique accounting practice, Stevenson McGregor).</li> <li>Regulatory (CEO of the Australian Accounting Research Foundation).</li> </ul>
Jan Engstrom	Industry (chief financial officer at Volvo Bus Corporation, Volvo do Brasil and Volvo Truck Corporation).	Patrick McConnell	<ul style="list-style-type: none"> <li>Analyst (Bear Stearns)</li> <li>Regulatory (Standards Advisory Council, the IASC, the CFA Institute's Corporate Disclosure Policy Council and the New York Society of Security Analysts).</li> </ul>
Patrick Finnegan	<ul style="list-style-type: none"> <li>Regulatory (CFA Institute Centre for Financial Market Integrity)</li> <li>Analyst (Moody's)</li> <li>Practice (Deloitte partner)</li> </ul>	John Smith	<ul style="list-style-type: none"> <li>Practice (Deloitte and Touche partner)</li> <li>Regulatory (formerly part-time IASB member; IFRIC member, SIC member; IASC member)</li> </ul>
Bob Garnett (non-voting executive IFRIC chairman)	<ul style="list-style-type: none"> <li>Industry (vice-president for Anglo American).</li> <li>Practice (Andersen partner).</li> <li>Venture capital (head of investment management operations at Southern African venture capital group).</li> </ul>	Tatsumi Yamada	<ul style="list-style-type: none"> <li>Practice (ChuoAoyama Audit Corporation partner (PricewaterhouseCoopers)).</li> <li>Regulatory (member of Business Accounting Deliberation Council; the Executive Committee of the IASC; and the Japanese delegation at the Board of IASC).</li> </ul>
Gilbert Gelard	<ul style="list-style-type: none"> <li>Industry (chief accounting officer for publishing and media group, and oil and gas group).</li> <li>Regulatory (French Professional Institute; French representative on IASC Board; member of French accounting standard setter, CNC).</li> </ul>	Zhang Wei-Guo	<ul style="list-style-type: none"> <li>Regulatory (China Securities Regulatory Commission and IOSCO).</li> <li>Academic (head of the Department of Accounting at Shanghai University of Finance &amp; Economics)</li> </ul>
Amaro Luiz de Oliveira Gomes	<ul style="list-style-type: none"> <li>Industry (banking)</li> <li>Regulatory (member of the Brazilian Comitê de Pronunciamentos Contábeis and the Steering Committee for Accounting Convergence–Brazil).</li> </ul>		
Prabhakar Kalavacherla (PK)	Practice (KPMG audit partner, specialising in technology and biotechnology).		

Principles for Effective Banking Supervision and Basel II. He participated in several regulation and policy forums, including the Policy Development Group of the Basel Committee on Banking Supervision, representing the Association of Supervisors of Banks of the Americas.



#### Patrick Finnegan

Patrick Finnegan was previously director of the Financial Reporting Policy Group at the not-for profit organisation, CFA Institute Centre for Financial Market Integrity. He led a team at CFA Institute (which represents 100,000 investment professionals) responsible for providing user input into the standard-setting activities of the IASB, FASB and other regulatory bodies.

He has also co-ordinated the work of the CFA Institute's Corporate Disclosure Policy Council, which reviews and comments on financial reporting policy initiatives around the world.

Mr Finnegan previously worked at Moody's Investors Service as managing director of the Corporate Finance Group and

senior analyst in Moody's Financial Institutions Group. Before that, he worked for Deloitte as a partner providing audit services primarily for insurance companies and conducting financial due-diligence services for private equity firms. He also worked for the American Institute of CPAs as a technical manager and for the US Securities and Exchange Commission as a staff accountant.



#### Patricia McConnell

Patricia McConnell is a former senior managing director in equity research and accounting, and a tax policy analyst for Bear Stearns & Co.

Ms McConnell was one of the leading analysts in the US on accounting-related issues. *Institutional Investor* magazine ranked her the leading analyst in the US on accounting and tax matters for 16 consecutive years from 1991 to 2006.

She has long been an active in accounting standard-setting activities, as a member of the IASB's Standards Advisory Council, the IASC, the CFA Institute's Corporate Disclosure Policy Council and the New York Society of Security Analysts.

## IFRS conference season starts in earnest

Two conferences addressing IFRS hot topics take place this month, in London and Paris. Find out more about the issues.

### 'Meet the Experts', London, 12-13 October 2009

PricewaterhouseCoopers annual conference, 'Meet the Experts', continues to provide a full agenda of discussion of IFRS and regulatory developments this year. The two-day event in London addresses changes to the standards and the implications. Attendees can hear first-hand the views of standard setters, regulators, analysts and financial statement users on how the IFRS and regulatory landscapes are changing.

Day one features, among other items:

- An update from FASB chairman Bob Herz, and IASB member Stephen Cooper.
- EFRAG's Technical Expert Group chairman Stig Enevoldsen on EFRAG and European endorsement activities.
- CFO for EMEA Deutsche Bank, Charlotte Jones, providing a user's view of accounting challenges today.
- IFRIC member Sara York Kenny on recent IFRIC activity.

There will also be an analysts' discussion on current financial reporting, featuring Peter Elwin, Head of Accounting and Valuation Research, JP Morgan Cazenove; Nick Anderson, Head of Equity Research, Insight Investment; Peter Reilly, Head of Capital Goods, Deutsche Bank Equity Research; and Sue Harding, European Chief Accountant, Standard & Poor's.

The second day focuses on practical issues, looking at the latest guidance issued by the IASB and the implications for reporters. The topics being covered are:

- Financial instruments and fair value accounting.
- Consolidation and derecognition.
- Income tax.
- IFRS for SMEs.
- Financial statement presentation.
- Liabilities.
- Revenue recognition.
- Leases.

The event takes place at the Hilton London Metropole on 12-13 October 2009. Discounts are available for PwC clients. For more information and to register, visit [www.meet-the-experts.org](http://www.meet-the-experts.org).

### 'Arrêté des comptes IFRS 2009 – Toutes Entreprises', Paris, 16 October 2009

PwC France's eagerly anticipated annual conference on IFRS takes place this month. The focus as usual is a practical approach to the more complex IFRS issues. 'Arrêté des comptes IFRS 2009 – Toutes Entreprises' (in association with

Acteo, the National Association of Finance Directors and Management Control (DFCG) and *Les Echos*) splits the challenges into three areas:

- Part I – requirements for 2009 accounts (new standards and interpretations; difficulties in applying the existing standards; and the effects of the crisis).
- Part II – options for 2009 accounts (issues to consider in the application of IAS 39 Phase 1, IFRIC 12 and IFRS 3 revised in 2009 accounts).
- Part III – the next ‘big bang’ (30-odd projects to be published between now and 2011 that will impact the financial statements (financial instruments, control, joint ventures, etc).

What are their main strategic and operational issues that should be integrated in decisions taken today?

The event will also host a roundtable, in which experts will be invited to discuss:

- The effect of the G20 on the IASB’s agenda – does the G20 have a short-term role to play in standard setting during the

financial crisis? What will its role be once the crisis is over?

- How can the level playing field between IFRS and US GAAP be managed from a technical and political point of view?

The panel of experts joining the roundtable discussion consists of Sophie Baranger of the Autorité des Marchés Financiers; Jean-Francois Lepetit of the Conseil National de la Compabilité; Philippe Danjou of the IASB; Patrice Marteau of Acteo, representing CAC 40 companies; Jérôme Haas from the Treasury; and Etienne Boris, Managing Director of PwC France.

“In this roundtable, we will be looking at some of the aspects of IFRS that are challenging preparers today,” said Claude Lopater, IFRS leader for PwC in France. “We expect to have some lively discussion along the way”.

The event takes place at La Defense, Paris, on 16 October 2009. A separate event for banks and insurers takes place on 22 October. Contact [olivier.scherer@fr.pwc.com](mailto:olivier.scherer@fr.pwc.com) for more detail.

## Similarities and differences – two comparisons now out

### Comparison of IFRS and US GAAP

The 2009 edition of *‘IFRS and US GAAP: Similarities and Differences’* is now available. The 220-page comparison helps companies develop a broad understanding of the major differences between IFRS and US GAAP and an understanding of the level of change on the horizon.

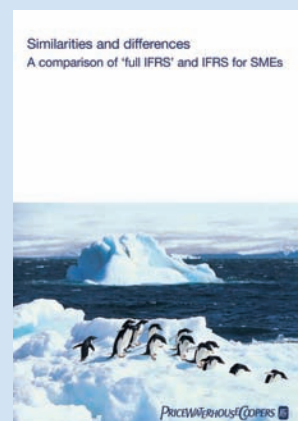
It provides a description of the similarities and differences between the reporting methods; subsequent impacts on companies; commentary and insight on recent and proposed guidance; an overview of the IFRS for SMEs; a report on the US GAAP codification project; and updates incorporating authoritative standards and interpretive guidance issued up to 30 June 2009.

Hard copies can be ordered through your PricewaterhouseCoopers contact; the PDF can be downloaded at [www.pwc.com/usifrs](http://www.pwc.com/usifrs).

### Comparison of IFRS for SMEs and ‘full IFRS’

This 60-page publication compares the requirements of the IFRS for small and medium-sized entities with ‘full IFRS’ issued up to July 2009. It includes an executive summary outlining some key differences that have implications beyond the entity’s reporting function and encourages early consideration of what IFRS for SMEs means to the entity.

Also in PwC’s series of publications on IFRS for SMEs are *IFRS for SMEs – pocket guide 2009* and *IFRS for SMEs – illustrative financial statements*. All are available for order from [cch.co.uk/ifrsbooks](http://cch.co.uk/ifrsbooks) or to download from [pwc.com/ifrs](http://pwc.com/ifrs)





**Should you have any technical questions, please do not hesitate to direct these to the following e-mail address: [ifrshelpdesk@pwc.be](mailto:ifrshelpdesk@pwc.be) and we will take care of them in the most appropriate way.**

**For further help you can also contact:**

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