In a joint declaration at the end of November, the IASB and FASB stated that they will henceforth focus all their efforts on the projects which they deem essential to achieving the convergence targets set by the G20 for June 2011. The two Boards will therefore pump their resources into the joint projects on financial instruments, revenue recognition, leases, presentation of OCI and fair value measurement over the coming weeks. Other priorities for the IASB include the projects on insurance contracts and consolidation. The IASB’s work plan has subsequently been updated to reflect these decisions. In this issue, we present the major changes made from the October 2010 work plan.

Enjoy your reading!

Michel Barbet-Massin
Jean-Louis Lebrun

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**Highlights**

- **IFRS News**
- **European matters**

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**A Closer Look**

- IASB updates work plan - again
- Revision of IAS 37 on liabilities: IASB postpones discussions until H2 2011

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**Events and FAQs**

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**News**

**IFRS Blue Book for 2011**

In order to meet users’ needs, the IFRS Foundation introduced, since last year, two volumes of IFRSs:

- the IFRS Red Book: this volume contains all the standards and accompanying documents issued by the IASB as of 1 January N, including those with an effective date after 1 January N;
- the IFRS Blue Book: this volume contains all the standards and accompanying documents that are mandatory as of 1 January X – i.e. all the requirements for the current year.

The IFRS Foundation also publishes “A Guide through IFRS”. This volume contains the full consolidated text and accompanying documents issued by the IASB as at 1 July with extensive cross-references and other annotations.

The 2011 Blue Book has just been published and contains all official pronouncements that are mandatory on 1 January 2011 (according to the IASB).

Anyone who wishes the consolidated text of all the IFRS published as of 1 January 2011 (including those with an effective date after this) will have to wait for the new version of the IFRS Red Book, which is to be published in March 2011.
Presentation of other comprehensive income: a win for stakeholders

At a joint meeting, the IASB and FASB have finally decided to retain the option of presenting other comprehensive income either in a single continuous statement (together with profit or loss) or in a separate statement immediately after the statement of profit or loss.

This option is a new addition to US GAAP, but has existed under IAS 1 since 1 January 2009. The key stakeholders, notably preparers, have thus won their battle, although some users of financial statements were arguing that more emphasis should be placed on other comprehensive income.

The IASB has also confirmed the tentative decision made in the exposure draft to require companies to distinguish between items of OCI that will be reclassified (e.g. the fair value reserve for cash flow hedge) and items of OCI that will never be reclassified (e.g. actuarial gains and losses).

The amended IAS 1 is expected to be published at the beginning of next year and will become mandatory (under the IASB standards) for financial years beginning on or after 1 January 2013 at the earliest (with possible retroactive application).

Actuarial gains and losses: Board plumps for a choice of presentation

The Board has continued with its ongoing discussions relating to the proposals to amend the accounting requirements for defined benefit plans under IAS 19.

In November 2010, the Board decided to continue offering companies a choice on whether to present all actuarial gains and losses in profit or loss, or directly in other comprehensive income with no subsequent reclassification. This decision contradicts the proposal originally made in the exposure draft.

The Board has also confirmed that service cost and finance cost should be presented separately. However, contrary to the exposure draft, the amended standard will not require that the former must be presented in profit or loss and the latter as part of finance cost.

Lastly, the Board decided to retain the distinction between “post-employment benefits” and “long-term employee benefits”, whereas the exposure draft suggested merging the two categories. The measurement, presentation and disclosure requirements for long-term employee benefits will thus remain the same as under IAS 19.

Put options written over non-controlling interests: IFRS Interpretations Committee keeps control (with a broader mandate)

In September 2010, the Committee published a tentative wording for rejection relating to the treatment of changes in the carrying amount of a financial liability for a put option, written over shares held by non-controlling interests, in the consolidated financial statements (cf. Beyond the GAAP September 2010). Having failed to reach a consensus, the Committee decided to seek the views of the IASB, as part of its ongoing project on financial instruments with characteristics of equity.

In the meantime, this project has been deferred until after June 2011 (cf. Beyond the GAAP October 2010) and in November the IASB therefore gave the green light for the Committee to address the issue directly and propose solutions to the current diversity of practices within a reasonable time period. This work may result in the publication of amendments to standards, rather than merely an interpretation of existing standards.

At its November meeting, the Committee acknowledged the difficulty of the task: numerous comment letters were received following the publication of the tentative wording for rejection in September 2010, which stated that these puts should be treated in accordance with IAS 39 (i.e. by recognising changes in the carrying amount in profit or loss).

While waiting for this work to be completed, we believe that the accounting treatments used at the 31 December 2009 closing of accounts may be retained at 31 December 2010.
The IASB staff has stated that it plans to bring the accounting treatment of macro-hedging into line with banks’ risk management policies, that focus on stabilising the net interest margin.

With this in mind, the Board has decided to focus on the potential advantages of a bottom layer approach, as opposed to a proportional approach.

- Under the current requirements, if the entity chooses to hedge a proportion of the portfolio, the hedged items is defined as a proportion of the total portfolio. If the portfolio is reduced by a given amount, the hedging relationship is also proportionately reduced.
- In contrast, under a bottom layer approach, the hedging relationship is maintained as long as there is enough of the hedged item compared to the amount of the hedging instrument. This ensures a more stable hedging relationship.

As background information it should be noted that the EC’s “carve-out” is specifically aimed at permitting European entities to apply the bottom layer approach. The outcome of this debate will thus be subject to close scrutiny.

Impairment of financial instruments: new exposure draft due in early 2011

The Board has continued to discuss the various methods of estimating the impairment of financial instruments based on expected losses. In the November meeting, the Board tentatively decided that:

- expected losses should be estimated based on the lifetime expected losses of the financial instrument;
- all available information – historical data, current economic conditions and supportable forecasts of future economic conditions – should be taken into account when estimating the amount of expected losses.

Future discussions will address the point at which losses should be recognised in the financial statements. This is a key issue, and is complicated by the fact that the FASB favours immediate recognition of losses whereas the IASB would prefer losses to be spread over the lifetime of the instrument. The two Boards announced their intention of reaching a compromise.

Finally, it should be noted that the IASB has decided to publish a new exposure draft on the “Impairment” section of the IAS 39 project. While the guiding principle of the first exposure draft (“expected losses”) has been retained, the Board felt that the changes made at the operational level, following analysis of the comment letters, necessitated a second exposure draft. This will be published in early 2011.

Hedge accounting: exposure draft due any day

The exposure draft on the general hedge accounting model is expected to be published in mid-December 2010. The comment period for this exposure draft will be limited to three months, in line with the ambitious target of publishing the final amendments to IFRS 9 by 30 June 2011.

In the interim, the Board continued to discuss macro-hedging during November 2010, and an exposure draft focusing on this subject is expected in the second quarter of 2011.
**EFRAG and IASB meet to discuss current projects**

EFRAG and the IASB met on 12 November 2010 to discuss the major projects which the IASB is planning to complete by June 2011. The discussion revolved around the following subjects:

- revenue recognition;
- leases;
- hedge accounting;
- financial instruments;
- consolidation;
- insurance contracts.

The meeting also emphasised the need to publish high-quality standards, over and above the short-term aim of convergence with US GAAP.

A summary of the main messages expressed by the EFRAG delegation is available via the following link: [http://www.efrag.org/files/News%20related%20documents/EFRAG-IASB_joint_meeting_12_November%20final.pdf](http://www.efrag.org/files/News%20related%20documents/EFRAG-IASB_joint_meeting_12_November%20final.pdf)

**Financial Statement Presentation: EFRAG extends comment period**

In October 2010, the IASB and FASB decided to postpone the publication of the Financial Statement Presentation exposure draft until after June 2011, as they wish to benefit from future discussions with stakeholders (cf. Beyond the GAAP October 2010). The exposure draft was originally scheduled for early 2011.

In view of this decision, EFRAG has extended the deadline for comments on EFRAG’s paper on the IASB’s staff draft of the ED Financial Statement Presentation (published in October 2010) until 30 April 2011.

As a reminder, the EFRAG’s paper sets out EFRAG’s preliminary views and raises questions on the IASB’s tentative decisions (as included in the IASB’s staff draft of the ED Financial Statement Presentation published in July 2010).

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The IASB updated its work plan on 29 November 2010, in view of the joint declaration with the FASB regarding the target date of June 2011 set by the G20 for convergence.

Given the amount of work still to be done on top-priority projects, the IASB has decided to postpone some projects until after June 2011, thus amending the previous work plan published on 12 October:

- joint IASB and FASB projects which require significant deliberation after June 2011 include: financial statement presentation (the replacement of IAS 1 and IAS 7); financial instruments with characteristics of equity; emissions trading schemes; and the “reporting entity” section of the Conceptual Framework project;
- consolidation exemption for investment companies: the final standard is now expected towards the end of 2011 (rather than by 30 June 2011 as previously stated);
- projects that the IASB is conducting on its own: the projects on liabilities (IAS 37 amendments), income taxes and annual improvements have also been postponed.

In the interim, the IASB’s staff will therefore focus primarily on the joint projects relating to financial instruments, revenue recognition, leases and consolidation.

As regards financial instruments, the exposure draft on hedge accounting was published on 9 December 2010. This is the last document published by the IASB this year. The impairment phase of the project to replace IAS 39 is far from being completed, as the IASB has to re-expose new proposals, in an exposure draft scheduled for the first quarter of 2011. As regards measurement and recognition of financial instruments, the FASB needs to bridge the gap between its current proposals and those stipulated by the IASB in the newly-published IFRS 9. The two Boards acknowledge that this will not be an easy task.

As for revenue recognition, the IASB and FASB staffs now have to analyse nearly 1000 comment letters! An initial overview shows that the proposals have met with several criticisms, primarily relating to the principle of when revenue is to be recognised (i.e. when the transfer of control has taken place). Other criticisms relate to the need to distinguish between the various performance obligations within a contract.

The leases project will be discussed again following the exposure draft comment period, that closes on 15 December 2010. As the stakeholders have had a lot to say on this subject, yet again the task will not be easy for the IASB and the FASB...

Finally, the IASB is not expected to publish the new standard on consolidation until the first quarter of 2011, whereas the previous work plan had scheduled it for the end of 2010. The new IFRS should bring about significant convergence with US GAAP, particularly as regards structured entities. It should be noted that the few weeks’ delay will also have an impact on the publication of the forthcoming standard on joint arrangements (the replacement of IAS 31), as the IASB wishes to publish both documents simultaneously.
Revision of IAS 37 on liabilities: IASB postpones discussions until H2 2011

According to the IASB’s new work plan, published on 29 November, work on the liabilities project is not considered to be a priority. The Board is not expected to resume work on this project until the second half of 2011 (that confirms the information provided in the November IASB Update).

The IASB is also expected to reintroduce the concept of “probable obligation”, in the sense of whether it is more likely than not that an obligation exists.

The current IAS 37 stipulates that an entity must recognise a provision if it is “more likely than not” that an obligation exists, and that it is “more likely than not” that an outflow of resources will be necessary.

This tentative decision of the Board should, in practice, make it easier to implement the new standard.

As noted in our study on this project (cf. our January 2010 issue, “Liabilities Project – Key points in 25 questions & answers”, question 8), the “probability of outflows” criterion was often used in practice to assess whether a provision should be recognised when it was difficult to judge whether or not an obligation existed (e.g. litigation).

Many comment letters pointed out this difficulty in ascertaining whether an entity had an obligation in the case of litigation.

Where litigation has resulted in a court case, the Board has tentatively concluded that an entity is more likely than not to have a liability if either: the case runs its course (i.e. it is not thrown out in the early stages of the proceedings) or the entity is likely to settle out of court.

On the other hand, the Board has confirmed that it wishes to remove the “probability of outflows” criterion (one of the most harshly criticised proposals of the project, cf. question 5 of our study mentioned above). However, it acknowledges that there is a need for further discussion on this subject and a clearer explanation of the reasons for its removal.

The staff will publish a paper covering these various aspects on the IASB website, so that stakeholders can comment on the proposals.

In any case, the Board has stated that the project as a whole will be re-exposed once the various issues have been discussed again.
Events and FAQ

Events/publications

Seminars on “Current developments in IFRS”

Mazars’ Technical Department will host a number of seminars throughout 2010 dedicated to current developments in IFRS. The last seminar, organised by Francis Lefèbvre Formation in Paris, will be held on 10 December 2010.

To register, please contact Francis Lefèbvre Formation – www.flf.fr, +33 (0)1 44 01 39 99.

Frequently asked questions

IAS/IFRS

- When should a provision for restructuring be recognised?
- Factoring: in what circumstances does it give rise to derecognition?
- Merger of entities under common control.
- Unconditional right to avoid delivering financial assets and recognition of a put option written over non-controlling interests.

Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

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