In June, the IASB was once again busy, with the publication of amendments to IAS 1, the standard IAS 19R and the fourth annual improvements exposure draft (after a pause in 2010). The IASB also announced the publication of a second exposure draft on the revenue recognition project, so that the definitive standard is now expected in 2012, though no precise date has been given. Finally, the impairment proposals in the IFRS 9 project will be the subject of a fresh call for comments. To think that only a few weeks ago these definitive standards were still expected by 30 June 2011!

Enjoy your reading!
The IASB published amendments to IAS 1

On 16 June 2011 the IASB published amendments to IAS 1 as part of a joint project with the FASB. These amendments change a number of rules on the presentation of other comprehensive income.

The option to present comprehensive income in one or two statements (i.e. a profit or loss statement, followed immediately by a statement of comprehensive income) is maintained in the final version of the text, despite the fact that the exposure draft had proposed to abolish this option.

The amendments to IAS 1 concern:

- the change of name of the statement of comprehensive income (terminology which was, and will remain, optional): The term ‘statement of profit or loss and other comprehensive income’ will be used in future. In practice, preparers will be able to continue to use the terms used at the time that the notion of comprehensive income came into use (1 January 2009).
- the grouped presentation of the components of other comprehensive income:
  - on the one hand, presentation of elements which will not be subsequently reclassified in profit or loss;
  - on the other hand, presentation of elements which will be subsequently recycled in profit or loss.
  The proportion in the result of associates and joint ventures recognised under the equity method must be allocated to one or the other of these two categories, depending on the nature of the underlying income element.
- the presentation of the tax impact associated with each item of other comprehensive income:
  Where an entity chooses to present the amounts before tax, the total amount of tax presented must in the future be separated into the part relating to items which will never be subsequently reclassified in profit or loss and that relating to other items. The new version of IAS 1 retains the option to present items of OCI either before tax or net of tax.

The effective date of these amendments will be 1 July 2012 (early application possible) subject to endorsement by the European Union.

The SME Implementation Group (SMEIG) publishes its first Q & A

The role of the SMEIG is to encourage the international adoption of the IFRS for SMEs and to monitor their implementation.

The SMEIG’s two main tasks are:
- the development of proposed implementation guidance on IFRS for SMEs in the form of questions and answers (non-mandatory guidance), and
- making recommendations to the IASB on the need to amend the IFRS for SMEs.

The implementation guidance has now been launched with the publication on 24 June of the first Q & A:

*Use of the IFRS for SMEs in a parent’s separate financial statements.* May a parent entity which has no public accountability apply IFRS for SMEs in its separate financial statements, when that parent entity itself is part of a group establishing consolidated accounts under full IFRS?

The SMEIG answered that entities with no public accountability may apply IFRS for SMEs. To determine whether a parent entity may apply IFRS for SMEs in its separate statements, it must assess at its own level whether it has public accountability (i.e., without considering whether other group entities have, or the group as a whole has, public accountability).

Publication of the amended IAS 19

On 16 June 2011 the IASB published an amended version of IAS 19 on employee benefits. This marks the completion of a project begun in 2006, with a discussion paper in March 2008 and an exposure draft in April 2010.

Substantial amendments made to the standard concern:
- the actuarial gains and losses: the amended standard states that actuarial gains and losses must be recognised immediately in OCI;
- the past services cost: the amended standard states that past services cost must be recognised immediately in profit or loss, whether or not the rights have been definitively acquired;
- the disclosures requirements for defined benefit plans: the amended standard required providing better information about the characteristics of defined benefit plans and the risks that the entity is exposed to through participation in those plans.
The amended version comes into effect for financial years beginning on or after 1 January 2013 (retrospective application, with the option of early application) subject to endorsement by the European Union. Beyond the GAAP will present the detailed contents of the revised IAS 19 in a future edition.

**IASB to publish a new exposure draft on the impairment of financial assets in September 2011**

In May 2011 the IASB and the FASB set up a joint working group charged with developing alternative approaches to the proposal on the impairment of financial assets presented in the January 2011 supplementary document.

In June 2011 the working group presented the two boards with a new ‘three-bucket’ expected loss approach to impairment. In line with the approaches in the initial exposure draft and the supplementary document, the approach is based on an expected loss model. The impairment model seeks to reflect the general pattern of deterioration of credit quality of financial assets. The different phases of the deterioration in credit quality are divided into three ‘buckets’ that determine the amount of impairment.

- **Bucket 1**: Assets evaluated collectively for impairment that do not meet the criteria of Buckets 2 or 3. This would include loans that have suffered changes in credit loss expectations as a result of macroeconomic events that are not particular to the financial assets;
- **Bucket 2**: Assets affected by an event that could lead to possible future defaults. The information available does not allow the specific identification of the expected losses on the instruments in this bucket. This therefore applies to the impairment of a portfolio;
- **Bucket 3**: Assets for which an event has been identified indicating that credit losses are expected to occur. In this bucket, individual assets are impaired.

The boards have decided to continue to develop the ‘three-bucket’ approach proposed by the working group.

In addition, the boards decided that the allowance balance of Buckets 2 and 3 should be estimated based on the remaining lifetime expected loss of the financial assets.

They also asked the staff to:

- pursue an approach for Bucket 1 with an overall objective of recognising an impairment allowance equal to losses expected to occur in the next twelve months based on initial expectations plus the full amount of any changes in expected credit losses. They directed the staff to consider how to operationalise the approach;
- develop criteria and application guidance to clarify the three buckets, notably to determine when a financial asset should be transferred from one bucket to another.

The IASB aims to continue its deliberations in July with a view to publishing a new exposure draft, or a review draft, on the impairment of financial assets in September 2011.

**The IASB may propose to postpone the effective date of IFRS 9 to 1 January 2015**

The first part of the new IFRS 9 published in 2009 on the classification and measurement of financial assets set forth mandatory application for annual reporting period beginning on 1 January 2013.

The basis of conclusions for IFRS 9 suggests that the IASB intends to propose a single effective date for all phases of the project to revise IAS 39. It also indicated that the Board might postpone the effective date for IFRS 9 to bring it into line with the application date for the future standard on insurance contracts.

Noting that the original timetable for the impairment, hedging and insurance contract projects was not feasible, and after taking into consideration the stakeholders’ comments received during the consultation on dates of application, the IASB staff is recommending the postponement of the effective date for IFRS 9 to annual reporting periods beginning on 1 January 2015. The Board expects to reach a decision on this proposal during July 2011.

**Revenue Recognition project to be re-exposed**

On 15 June 2011 the IASB and the FASB announced that a new draft standard in the form of an exposure draft would be published on revenue recognition.
The draft will be published during the third quarter of 2011. There will be a comment period of four months. The definitive standard is therefore unlikely to be published before mid-2012, given the time necessary to analyse the comment letters.

It should be remembered that the tentative decisions taken in the first half of 2011 during the boards’ redeliberations have substantially amended the definitions and principles which had been proposed in the initial draft published in June 2010.

Redeliberations of offsetting financial assets and financial liabilities

The IASB and the FASB have continued their redeliberations of the offsetting of financial assets and financial liabilities in the light of the responses to the exposure draft, for which the comment period ended on 27 April 2011.

The boards have analysed the following three approaches:

- **Alternative 1** - This approach requires a right of set-off that is exercisable both in the normal course of business and in bankruptcy, insolvency, or default and intention to settle a financial asset and financial liability net or simultaneously. This approach is similar to the model set out in the exposure draft;

- **Alternative 2** - This approach requires a right of set-off that is legally enforceable in the normal course of business and intention to settle a financial asset and financial liability net or simultaneously. This approach is similar to the existing model in IAS 32;

- **Alternative 3** - This approach requires a right of set-off that is only enforceable in bankruptcy, insolvency, or default of one of the counterparties. It also introduces an exception for derivative instruments which would allow offsetting of derivatives and cash amounts recognised as collateral when these amounts are recognised with the same counterparty under a master netting agreement. The boards also considered an alternative which would limit the exception for offsetting derivative instruments to only collateralised derivatives with daily variation margin postings.

All IASB members supported Alternative 1. Four members of the FASB supported Alternative 3, and three supported Alternative 1.

The IASB updates its work plan

On 30 June 2011, the IASB once again updated its work plan. This reflects the decisions taken by the two boards on the active joint projects.

The work plan indicates that:

- the revenue recognition project will be re-exposed during Q3, as decided by the two boards on 15 June;
- the lease and insurance projects will either be re-exposed, or will be subject to a Review draft in Q3 and Q4 2011, respectively;
- The exposure draft on investment entities will be published during Q3 2011.

As for the Financial Instruments project, the work plan now indicates that:

- the Impairment phase will either be re-exposed, or will be subject to a Review draft in Q3 or Q4 2011;
- the General Hedge Accounting project is expected during Q3 after a ballot stage;
- the exposure draft on macro-hedging is now expected during Q4;
- the final version of the asset and liability offsetting phase will be published during Q3 2011 after a ballot stage.

1 It will be remembered that the IASB has divided the consolidation project into two parts. The first part related to the general principles of consolidation, and resulted in the publication of IFRS 10 and IFRS 12 on 12 May 2011. The second part, which will be the subject of a forthcoming exposure draft, will address investment companies and the consolidation exemption which will apply to them.

2 It will be remembered that the IASB opted to divide its hedge accounting project into a first part on general hedge accounting and a second part on macro-hedging.
On 12 May 2011 the IASB published all of the final standards on consolidation, joint ventures and disclosures, including IFRS 10 Consolidated Financial Statements. Beyond the GAAP presents this new standard in 15 Q & As.

**When was IFRS 10 published, and what is its effective date?**

IFRS 10 Consolidated Financial Statements was published on 12 May 2011 and will be of mandatory application to annual periods beginning on or after 1 January 2013 (for European groups, subject to endorsement by the European Union). Early application is authorised provided that the whole consolidation package is applied at the same time (i.e. IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28).

However, if an entity voluntarily decides to provide, in advance, some of the disclosures required by IFRS 12, it will not be obliged to apply the whole of IFRS 12 and the other consolidation standards.

IFRS 10 provides a single definition of control and will replace IAS 27 on consolidated financial statements and SIC-12 on special purpose entities.

IAS 27R, Consolidated and Separate Financial Statements, now only contains the measures to be applied in accounting for interests in subsidiaries, jointly controlled entities and associated entities where an entity presents separate financial statements established under IFRSs.

**What is the new definition of control?**

Under IFRS 10:

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In practice, an investor has control over an entity if all the following conditions are fulfilled:

- the investor has power over the investee (see question 3),
- the investor has exposure, or rights, to **variable returns** from its involvement with this investee (see question 12); and
- the investor has the ability to use its power over the investee to affect the amount of the returns. (i.e. the link between control and variable returns, see question 14).

The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

**How is “power” defined?**

In IFRS 10, power means the current ability to direct the entity’s returns significantly:

An investor has power over an investee when the investor has existing rights that give it the current ability to direct the activities that significantly affect the investee’s returns (relevant activities).
IAS 27 defines control as “the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities”.

Therefore, the definition of control in IFRS 10 suggests that power derives from rights and that an entity need not have exercised its power to direct the activities in order to control that entity (the power to direct activities alone is necessary).

The notion of power also refers to “relevant activities”, that is to say the activities that significantly affect the investee’s returns:

Relevant activities are activities of the investee that significantly affect the investee’s returns.

In some cases, relevant activities are directly linked to the occurrence of a specific event (for example managing receivables held by an entity upon default).

The exercise of power thus presupposes the ability to determine the relevant activities, the way decisions about the relevant activities are made and the rights the investor and other parties have in relation to the investee.

Where power over the relevant activities is shared by several entities (either because the entities include several significant activities, or because the management of the relevant activities evolves over time), the investor that is able to most affect returns is presumed to control the entity (upon condition that these activities significantly affect the returns of the entity).

What elements must be considered in determining the level of power over the entity’s relevant activities?

The rights to be considered include:

- existing and potential voting rights,
- agreements with other investors (including proxy votes),
- rights to appoint / remove members of the investee’s key personnel (i.e. the personnel who have the ability to direct the relevant activities),
- rights to appoint or remove another entity that directs the relevant activities;
- contractual rights to direct activities (e.g. in the case of a management contract).

The standard also mentions the case in which the relevant activities of the entity are in reality subject to direction by a government, court, administrator, receiver, liquidator or regulator, in which event the investor that has a majority of voting rights cannot exercise power over the entity.

IFRS 10 introduces the notions of substantive rights (see question 5), that is to say rights which can be exercised in practice, and protective rights, which are solely designed to protect the interests of their holders under particular circumstances.

The investor should examine the right it holds as well as those benefiting other parties.

In practice, it will generally be a matter of assessing whether the voting rights are determining (see question 6) or not (see question 9) for exercising power.

Generally, where an entity has a range of activities which affect the returns, and the substantive decision-making is required continuously, it will be voting or similar rights that give an investor power, either individually or in combination with other arrangements.
What elements must be analysed in practice to determine the substantive nature of the rights?

For a right to be substantive, the holder must have the practical ability to exercise that right when decisions on the relevant activities are taken.

Determining whether rights are substantive requires professional judgement, taking into account several factors including:

- Whether there are any barriers (economic, legal, etc.) that prevent the holder (or holders) from exercising the rights, e.g.:
  - financial penalties and incentives in the event of the exercise of the rights,
  - an exercise or conversion price that creates a financial barrier to the exercise of the rights,
  - a very limited period of time to exercise the right,
  - legal or regulatory constraints (e.g. in the case of a foreign investor),

- When the exercise of rights requires the agreement of other parties. In practice, the substantive nature of the rights is inversely proportional to the number of parties concerned (the greater the number of parties, the more difficult it will be to obtain their consent).

- The fact that the holder of the rights would benefit from the exercise of those rights. For example, in the case of potential voting rights, it is necessary to consider the exercise of the instrument and the existence of any significant synergies (in the event of the exercise of the rights), as the notion of ‘returns’ is broader than that of benefits (see question 12).

What should be done in practice when the voting rights are determining for exercising power?

The analysis of rights is potentially simple when power results from the exercise of voting rights (and no other factors such as associated arrangements, potential voting rights, etc. complicate the situation), but it may be necessary to examine all the facts and circumstances before exercising judgement in more complex situations.

Apart from the most straightforward cases, where the majority of voting rights conveys control, IFRS 10 (a) clarifies the fact that de facto control exists in IFRS (see question 7) and (b) changes the way in which potential voting rights are taken into account in analysing control (see question 8).

How is de facto control defined?

IFRS 10 makes it clear that the condition of power will be fulfilled if the investor has the ability in practice to direct the relevant activities of the entity unilaterally even without a majority of the voting rights.

To determine whether it has the practical ability to direct the activities of the entity, the investor must consider:

- the relative size of the investor’s holding and the dispersion of holdings of the other investors,
- potential voting rights held by the investor or other parties
- rights arising from other contractual arrangements
all the additional facts and circumstances that indicate the investor has, or does not have, the current ability to
direct the relevant activities at the time that decisions are made, including voting patterns at previous
shareholders' meetings.

The more voting rights an investor holds, and the more other investors would be necessary to outvote the investor, the more
likely the investor is to have the current ability to direct the relevant activities.

When no conclusion can be reached on the basis of the first three indicators, all the facts and circumstances must be
considered.

In this case the investor must consider (a) the indicators for assessing its practical ability to direct the relevant activities
of the entity (see question 10) and, where appropriate, (b) the additional indicators (see question 11).

Thus, although these indicators are generally applied to structured entities, they can nevertheless be used in the case of
'traditional' entities.

How to account for purchase options and other ‘potential voting rights’?

The existing IAS 27 requires that potential voting rights (i.e. purchase options and other instruments which are
immediately exercisable) be taken into account to determine the percentage of control (a ‘mechanical’ application,
taking no account of the financial capacity of the group or of its intentions).

Under IFRS 10, only potential substantive voting rights (see question 5) must be taken into account.

When assessing control, an entity considers whether its power from holding options or convertible instruments to obtain
voting rights, taken in conjunction with other facts and circumstances, gives it the power to direct the activities of
another entity.

To do so, it is necessary to consider:

- the reasons for the creation of these instruments (including the investor’s initial motives),
- the terms and conditions of the instruments (exercise price, exercise periods, etc.)
- the benefits which the investor might derive from the exercise of these instruments (economies of scale,
synergies etc.)

The practical application of this sensitive issue is likely to lead to much debate, particularly given how much is left to
individual judgement.

The Board further believes that, because as many elements need to be taken into account, changes in market
conditions (e.g. the market value of securities) should not normally lead to any change in the conclusion as to the
existence of control over the entity.

What elements should be taken into consideration to assess power when voting rights
are not relevant?

IFRS 12 uses the notion of structured entity to define entities in which voting or similar rights are not an important factor in
determining control of the entity in question (for example, where voting rights relate to administrative tasks and the
activities are directed via contractual arrangements).

The elements to be taken into account include a series of indicators for assessing the practical ability of the investor to
direct the relevant activities of the entity (see question 10), and two additional indicators which are considered less
important.
What are the main indicators for assessing the investor’s practical ability to direct the relevant activities of the entity?

To determine whether the investor has the practical ability to unilaterally direct the relevant activities of the entity, the following series of indicators should first be examined:

- the investor can, without having the contractual right to do so, appoint the key personnel who have the ability to direct the relevant activities,
- The investor can, without having the contractual right to do so, cause the entity to enter into significant transactions for the benefit of the investor,
- The investor can dominate the nominations process for electing members of the investee’s governing body or can obtain proxies from other holders of voting rights,
- The investee’s key management personnel are related parties of the investor,
- The majority of the members of the investee’s governing body are related parties of the investor.

Failing the main indicators above, what are the additional indicators?

When the examination of this first series of indicators does not lead to a conclusion, it will be necessary to consider (a) whether there is a special relationship between the investor and the investee and (b) whether the investor is particularly exposed to the variable returns of the entity.

To determine whether the investor has a special relationship with the investee, suggesting that the investor has more than a passive interest in the investee, other indicators must be considered (though these remain less important than the first series):

- The entity’s key personnel who have the ability to direct the relevant activities are current or previous employees of the investor,
- The investee’s operations are dependent on the investor:
  - because the entity depends on the investor for a significant portion of its funding, for its technology, for its supplies of raw materials, etc.,
  - because the investor guarantees a significant portion of the investee’s obligations,
  - because the investor controls assets such as licences or trademarks that are critical to the entity’s operations,
  - because the investee depends on the investor for key personnel,
- A significant portion of the entity’s activities either involve or are conducted on behalf of the investor,
- The investor’s exposure from its involvement with the entity is disproportionately greater than its voting or other similar rights.

In practice, using this second series of indicators in assessing control may be particularly tricky insofar as the standard states that the existence of a special relationship is not necessarily reflected in power over the entity.

Finally, IFRS 10 states that power and exposure to returns are usually closely linked. Therefore, having a large exposure to variability of returns is an indicator that the investor may have power (but this indicator remains less important than the first series of indicators).

In the case of structured entities, the obligation to re-examine the level of control at regular intervals is a significant constraint, given the considerable scope for judgement (as compared with ‘traditional’ entities), and the difficulty of conducting the analysis.
How are “returns” defined?

Returns vary with the activities of the entity and may be positive or negative (or alternately positive and negative); the legal nature of the returns is of little importance. In IFRS 10 returns are defined in a very broad sense and include:

- Dividends (and other forms of distribution by a subsidiary) and changes in the value of the subsidiary,
- Income from services, access to cash, tax benefits, etc.,
- Returns that are not available to other shareholders (economies of scale, synergies, sourcing scarce products, etc.).

So in practice a fixed-yield bond is considered to expose its bearer to variables returns because the bearer is subject to the credit risk of the entity for the payment of interest. Similarly, fixed fees for managing an asset are also considered to be variable returns.

Does the notion of exposure to variable returns assume a certain level of exposure?

The notion of exposure to variable returns is not dependent on a given threshold. Unlike the SIC 12 interpretation, which refers to the majority of risks and rewards, IFRS 10 sets no threshold above which consolidation is required.

As indicated above, control does assume some positive or negative exposure to variable returns, but the board did not want to introduce a threshold (no ‘bright lines’).

Despite the absence of an ‘official’ threshold, the examples given nevertheless give some indication of the level at which the question seriously arises.

In practice, the examples of a fund manager provided seem to implicitly assume that a holding of 20% of an entity is sufficient to consider that the condition of exposure to variable returns is fulfilled.

How should an investor’s ability to use its power to influence its right/exposure to variable returns be assessed? (i.e. the link between power and returns)

In practice, when a party is able to direct the relevant activities of the entity (so that the condition of power is fulfilled), the following elements should be considered to determine whether the party is acting as a principal (on its own account and in its own interest) or as an agent (on behalf of a third party):

- The scope of its powers,
- The rights of other parties,
- The method of remuneration,
- The exposure to variability of returns (due to its interests in the entity other than its remuneration)

The link between power and returns does not mean that the fraction of returns accruing to the investor must precisely reflect its power, but simply that the parent company must have the capacity to influence the returns of the entity for itself.
What are arrangements for first application of IFRS 10?

As indicated above (see question 1), this new standard will be effective for annual periods beginning on or after 1 January 2013 (for European entities, subject to endorsement by the European Union). Earlier application is permitted so long as the whole ‘consolidation package’ is applied at the same time.

In principle, application will be retrospective.

However, where retrospective application is impractical (in the sense of IAS 8 - that is to say, when the entity cannot apply it despite its best efforts), special provisions have been set out.

In the case of a first consolidation, IFRS 10 authorises the use of a ‘deemed acquisition date’, being the beginning of the earliest period for which application of IFRS 3 is practicable (which may be the period of first application of the standard). IFRS 3 should therefore be applied at the deemed acquisition date. However, if the entity is not a business (in the sense of IFRS 3), no goodwill may be recognised.

In the event of deconsolidation, IFRS 10 must be applied at the deemed date of loss of control, being the beginning of the earliest period for which application of IFRS 10 is practicable (which may be the period of first application of the standard).
On 22 June 2011, the IASB published its exposure draft of proposed amendments to IFRSs. Seven proposed amendments relating to five standards are therefore open to comment until 21 October 2011.

The exposure draft can be consulted at: [http://www.ifrs.org/NR/rdonlyres/BA37664E-3AE4-4C16-ADC3-E3E59CDA6091/0/EDImprovementsIFRSsJune11.pdf](http://www.ifrs.org/NR/rdonlyres/BA37664E-3AE4-4C16-ADC3-E3E59CDA6091/0/EDImprovementsIFRSsJune11.pdf).

**Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards**

The IASB proposes to amend IFRS 1, First-time Adoption of International Financial Reporting Standards, at the following two points:

**Repeated application of IFRS 1**

This amendment aims to answer the question, “If an entity applied IFRS 1 during a previous reporting period (for example, to meet listing requirements) and has not presented consolidated IFRS financial statements subsequently (for example, because of delisting), is it required to apply IFRS 1 again if it wishes or is obliged to publish statements which are compliant with IFRSs?”

The IASB proposes to amend IFRS 1 to clarify that an entity is required to apply IFRS 1 when the entity’s most recent previous annual financial statements do not contain an explicit and unreserved statement of compliance with IFRSs, even if the entity has applied IFRS 1 in a previous reporting period.

**Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before transition date**

This amendment aims to answer the question, “Should a first-time adopter retain, restate or eliminate, in the opening statement of financial position, the borrowing costs relating to qualifying assets capitalised in accordance with the previous GAAP (i.e. even if the capitalisation principles in this earlier standard were inconsistent with the principles set out in IAS 21R)?”

The IASB proposes to amend IFRS 1 to clarify that:

- a first-time adopter who has capitalised borrowing costs relating to qualifying assets in accordance with its previous GAAP before the date of transition to IFRSs may carry forward without adjustment the amount previously capitalised in the opening statement of financial position; and
- borrowing costs incurred after the date of transition that relate to qualifying assets under construction at the date of transition are to be accounted for in accordance with IAS 23R.

**Amendments to IAS 1, Presentation of financial statements**

The IASB proposes to amend IAS 1, Presentation of financial statements, at the following two points:

**Clarification of requirements for comparative information**

The IASB proposes to amend IAS 1 to clarify the requirements for comparative information when an entity presents more than one comparative period as required by IAS 1.
This may occur to meet the requirements of a local regulator. It will therefore be made clear that it is not necessary to produce a complete set of financial statements when an entity voluntarily presents financial statement beyond the minimum comparative information requirements (for example, if the entity voluntarily presents the comprehensive income statement N-2, it is not obliged to present a statement of financial position for the same period, etc.) It will also indicate that additional comparative financial statements, presented voluntarily, must be IFRS compliant, which means that these additional financial statements must be adjusted if there has been a change in accounting principles, retrospective retreatments or reclassifications.

Changes to reflect the Conceptual Framework for Financial Reporting
The publication in September 2010 of the first two chapters (1 and 3) of the new Conceptual Framework for Financial Reporting marked the adoption of a new definition of the objective of financial statements. However, this publication did not lead to an amendment of IAS 1 to reflect the new objective of financial statements. The proposed amendment aims to repair this omission.

 Amendment to IAS 16 Property, Plant and Equipment
To resolve an inconsistency in IAS 16 regarding the classification of servicing equipment, the IASB proposes to clarify that this equipment should be classified as property, plant and equipment when it is used during more than one period and as inventory otherwise.

 Amendment to IAS 32 Financial Instruments: Presentation
To resolve an inconsistency between IAS 12, Income Taxes and IAS 32, Financial Instruments: Presentation, the IASB proposes to amend IAS 32 to clarify that income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction should be accounted for in accordance with IAS 12.

 Amendment to IAS 34, Interim Financial Reporting
The IASB proposes to amend IFRS 34 to enhance consistency with IFRS 8, Operating Segments. The proposed amendment clarifies that total assets for a particular reportable segment need to be disclosed in the notes to the interim financial reporting if the following two conditions are met:

- this information is regularly provided to the chief operating decision maker, and
- there has been a material change in the total assets for that segment since the last annual financial statements.

This amendment is consistent with the amendment to IFRS 8 in the 2009 annual improvements which has been applicable since 1 January 2010. Since this amendment, an entity has not been obliged to present an indicator for the total assets in each reportable segment unless these amounts are regularly provided to the chief operating decision maker (this information was previously obligatory).

 Transitional arrangements and effective date
At this stage, the IASB proposes that the effective date of these amendments should be 1 January 2013.
In August 2010, the IASB and the FASB jointly issued a draft standard on leases. In response to the many comment letters received, the Boards have presented an ambitious road map of subjects to be re-addressed before the final publication of the standard. (see Beyond the GAAP, January to May 2011).

Deliberations on the leases project are continuing. It should be remembered that the decisions so far taken are tentative.

During June 2011, the redeliberations of the IASB and the FASB related to:

- clarifications of lessee accounting;
- lessor accounting;
- sub-leases;
- short-term leases

**Clarifications of lessee accounting**

**Foreign exchange differences**

The boards tentatively decided that foreign exchange differences related to the liability to make lease payments should be recognised in profit or loss, consistently with foreign exchange guidance in existing IFRSs.

**Impairment of the “right of use” asset**

The boards decided to reaffirm the proposal in the exposure draft to refer to existing guidance in IFRSs (i.e.: IAS 36) on the impairment of the right-of-use asset.

**Revaluation approach**

The IASB decided to reaffirm the proposals in the Leases exposure draft allowing revaluation of the right-of-use asset using the revaluation model (a model little used in practice). It will be remembered that this accounting model, which is an alternative to the cost model, is set out in IAS 16 and IAS 38 (standards on tangible and intangible assets).

**Residual value guarantees**

The ED states that lease payments due from the lessee as residual value guarantees should be taken into account in measuring the lease asset (the right-of-use) and the lease liability (the obligation to make lease payments) unless these guarantees are provided by third party (someone other than the lessee).

The boards discussed the subsequent measurement of residual value guarantees:

- The amounts included in the measurement of the lessee’s right-of-use asset should be amortised consistently with other elements of the right-of-use asset:
  - commencement of amortisation: date of commencement of the lease;
  - duration of amortisation: the lease term, or the useful life of the underlying asset if shorter;
  - method of amortisation: the method of amortisation should reflect the pattern in which the economic benefits of the right-of-use asset are consumed. If this pattern cannot be determined reliably, a straight-line amortisation method should be used.

- The amounts taken into account in measuring the debt (i.e. the obligation to make lease payments) should be reassessed when events or circumstances indicate that they have been changed significantly;
The change in the measurement of the liability should be recognised:

- in net income to the extent that those changes relate to current or prior periods;
- as an adjustment to the asset (the right-of-use) to the extent those changes relate to future periods.

If the entity is unable to allocate these changes between past and future periods, the total change would be allocated to future periods and therefore recognised as an adjustment to the right-of-use asset.

**Lessor accounting**

The IASB and the FASB have continued their discussions of lessor accounting and are considering a single accounting model applicable to all leases, the right-of-use approach (single lessee model). Under this approach, the lessor would recognise a lease receivable and a residual asset at lease commencement.

At a future meeting, the boards will consider:

- when, under the right-of-use model, it is appropriate for a lessor to recognise profit; and
- whether there should be distinct lessor models for (a) a lease of a portion of an asset and (b) a lease of an entire asset.

The boards did not make any decisions, even tentatively, about lessor accounting at this meeting.

**Subleases**

The boards decided that the head lease and the sublease should be accounted for as separate transactions.

An intermediate lessor, as a lessee in a head lease arrangement, should account for its assets and liabilities arising from the head lease in accordance with the accounting model applicable to lessees.

An intermediate lessor, as a lessor in a sublease arrangement, should account for its assets and liabilities arising from the sublease in accordance with the accounting model applicable to lessors.

**Short-term leases**

The boards again discussed the accounting for short-term leases and came to the following tentative decisions:

- short-term lease: a lease with, a maximum term not exceeding 12 months, renewal options included;
- recognition by lessee:
  - recognition of lease payments on a straight-line basis over the lease term;
  - optionally, the lessee may account for short-term leases in accordance with general accounting principles (i.e. recognition of a lease asset and a lease liability).
- lessor accounting will be discussed at a later meeting.
- disclosures:
  - the amount of the rental expense recognised in the current period;
  - the extent to which that expense is expected to be representative of rental expense in future periods.

The boards will continue to discuss disclosures at a future meeting.
IMA France conferences

On Tuesday 12 July 2011, Laurence Rivat, a Deloitte partner, and Jean-Louis Lebrun, a Mazars partner, both members of the IFRS Interpretations Committee (formerly IFRIC), will jointly chair a breakfast debate in partnership with IMA France on recent developments in the IASB’s standards interpretation body.

You can register for these events (taking place in Paris) on the IMA France web site (www.ima-france.com).

Frequently asked questions

IFRS

- Revenue recognition on sales of services: agent or principal?
- How should you treat a free share allocation plan subject to performance conditions in determining the diluted earnings per share?
- How should you apply the measurement provisions to a group held for sale under IFRS 5, when the carrying value of the non-current assets of the group do not allow the allocation of the entire expected loss on disposal?

Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

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