The IASB published no fewer than six new standards in May: five relating to consolidation, and one on fair value measurement. This issue of Beyond the GAAP includes a study of IFRS 11 Joint Arrangements. Since the publication of exposure draft ED 9 in 2007, there has been a lot of concern about the IASB’s decision to abandon proportionate consolidation. IFRS 11 ratifies this decision... but only for “joint ventures” as defined in the new standard. Companies will therefore need to rethink their joint arrangements if they want to continue using a method similar to proportionate consolidation... which is still permitted for “joint operations”!

Enjoy your reading!

Michel Barbet-Massin

Jean-Louis Lebrun

Appointments to the IFRS Interpretations Committee

On 3 June, the Trustees of the IFRS Foundation (the oversight body of the IASB) announced the appointment of two new members to the IFRS Interpretations Committee (formerly the IFRIC):

- Charlotte Pissaridou (Goldman Sachs International, United Kingdom) was appointed for a three-year term, replacing Jean-Louis Lebrun, a Mazars partner, whose second term comes to an end on 30 June this year;
- Kazuo Yuasa (Fujitsu Limited, Japan) has been appointed initially for a one-year term, replacing Takatsugu Ochi, who was appointed as a member of the IASB in February 2011. Mr. Yuasa will take up this role on 1 July 2011.

The Trustees also announced that Joanna Perry, Luca Cencioni, Jean Paré, Margaret Smyth and Scott Taub have been reappointed for a further three-year term, after their current term comes to an end on 30 June this year.
**IFRS 13 Fair Value Measurement published**

On 12 May 2011, the IASB published IFRS 13 *Fair Value Measurement*.

It is mandatory from 1 January 2013. The new standard:

- defines fair value;
- sets out a framework for measuring fair value; and
- requires disclosures about fair value measurements.

Beyond the GAAP will provide further details of the new standard in a future issue.

**Final standards on consolidation published**

On 12 May 2011, the IASB published the final standards on consolidation:

- IFRS 10 *Consolidated Financial Statements* replaces the part of IAS 27 which dealt with consolidated financial statements, and SIC-12. It sets out the principles for drawing up consolidated accounts for entities which control one or more other entities;
- IFRS 11 *Joint Arrangements* replaces IAS 31 and SIC-13. It sets out the accounting principles for agreements which establish joint control over an operation (“joint operation”) or an entity (“joint venture”);
- IFRS 12 *Disclosure of Interests in Other Entities* brings together all the disclosures required when an entity has investments in subsidiaries, joint arrangements, associates and unconsolidated structured entities;
- IAS 27 *Separate Financial Statements* now contains only the principles for recognising an entity’s investments in subsidiaries, jointly controlled entities and associates in the entity’s separate financial statements;
- IAS 28 *Investments in Associates and Joint Ventures* sets out the accounting principles for investments in associates and “joint ventures” as defined in IFRS 11.

Remember that these standards are mandatory from 1 January 2013. Early application of the entire package is permitted (in Europe, this is subject to adoption by the European Union).

This issue contains a study of IFRS 11, entitled, “Is this really the end for proportionate consolidation?”

**Redeliberations on Hedge Accounting exposure draft**

The Board has continued with its redeliberations on the Hedge Accounting exposure draft, which closed for comment on 9 March 2011. The discussions revolved around the need to clarify the effectiveness criteria used in the exposure draft: “other than accidental offsetting”, “unbiased result” and “minimising expected hedge ineffectiveness”.

Comment letters pointed out that the proposed effectiveness requirements were based on new concepts which were not defined clearly enough in the exposure draft. This raises the possibility that interpretations of these criteria may lead to outcome that contradict the objective of the exposure draft.

Specifically, some comment letters pointed out that the terms “unbiased result” and “minimising expected hedge ineffectiveness” may require entities to use the “perfect” instrument (i.e. one which perfectly replicates the characteristics of the hedged item) rather than, for example, a more liquid and less expensive hedging instrument which would comply with the entity’s risk management policy.

The Board tentatively decided to remove the proposed umbrella terms (“other than accidental offsetting”, “unbiased result” and “minimising expected hedge ineffectiveness”) and instead to refer more directly to the underlying concepts with additional guidance.

The term “other than accidental offsetting” comprises the following two concepts:

- There is an economic relationship between the hedged item and the hedging instrument, which gives rise to offset;
The impact of credit risk on the level of offsetting between the hedging instrument and the hedged item may reduce or modify the level of offsetting. The Board proposes replacing the terms “unbiased result” and “minimising expected hedge ineffectiveness” as follows:

- Designation of a hedging relationship shall be based on an economic hedge;
- An entity shall not designate a hedging relationship such that it reflects an imbalance between the hedged item and the hedging instrument that would create ineffectiveness, in order to achieve an accounting outcome that is inconsistent with the purpose of hedge accounting.

**Impairment of financial instruments**

The IASB and the FASB considered the following four options for the next stage of the impairment of financial instruments project:

- to finalise the approach developed by the IASB before the start of convergence discussions (recognition of expected losses over the average life of the portfolio for the “good book” and immediate recognition of all expected losses for the “bad book”);
- to finalise the approach developed by the FASB before the start of convergence discussions (recognition of losses expected to occur in the foreseeable future);
- to develop a new model, taking into account the feedback from the two Boards’ initial proposals and the model presented in the supplementary document.

The two Boards tentatively decided to choose the fourth option. A dedicated working group of Board members and senior staff from both the IASB and the FASB has been formed to develop proposals to be presented to the two Boards in the near future. The two Boards restated their commitment to working together to develop a common solution. The working group is expected to present its preliminary conclusions to the Boards at the June 2011 meetings.

**Contingent pricing of PPE and intangible assets**

At its meeting on 5 and 6 May 2011, the IFRS Interpretations Committee (formerly the IFRIC) decided to postpone its work on the contingent pricing of PPE and intangible assets project (see Beyond the GAAP, January 2011) until the IASB has completed its discussions on the accounting for variable payments as part of the redeliberations on the leases project.

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To coincide with the preparation of interim financial reports, Beyond the GAAP presents an overview of the IASB’s most recent publications. For each text, we clarify whether it is mandatory for this closing of accounts, or whether early application is permitted, based on the stage of the European adoption process.

As a reminder, the following principles govern the first application of IASB’s standards and interpretations:

- IASB’s draft standards cannot be applied as they are published standards.
- IFRIC’s draft interpretations may be applied if the two following conditions are met:
  - The draft does not conflict with currently applicable IFRSs;
  - The draft does not modify an existing interpretation which is currently mandatory.
- Standards published by the IASB but not yet adopted by the European Union may be applied if the European adoption process is completed before the interim financial reports have been approved by the relevant authority (i.e. usually the board of directors).
- Interpretations published by the IASB but not yet adopted by the European Union at the end of the interim financial reporting period may be applied unless they conflict with standards or interpretations currently applicable in Europe.

It should also be noted that under IAS 34 “Interim Financial Reporting”, the changes in accounting policies required for 2011 by new standards must also be disclosed in the interim financial reporting published during the course of the year.

**Update on the European adoption process for standards and amendments published by the IASB**

<table>
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<tr>
<th>Standard</th>
<th>Subject</th>
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<tr>
<td><strong>IAS 32 amendment</strong></td>
<td>Amendment on classification of rights issues</td>
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<tr>
<td><strong>IAS 24R</strong></td>
<td>Revision of the standard on related party disclosures: clarification of the current definition and removal of inconsistencies, partial exemption of disclosures concerning transactions between enterprises which are fully or jointly controlled or under significant influence by the same “State”</td>
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<tr>
<td>Standard</td>
<td>Subject</td>
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<td><strong>Annual improvements</strong></td>
<td>Annual improvements to various standards (text published by the IASB in May 2010)</td>
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<td><strong>IFRS 7</strong></td>
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<tr>
<td><strong>IAS 12</strong></td>
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<td><strong>IFRS 9</strong></td>
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<td><strong>IFRS 12</strong></td>
<td>Disclosure of Interests in Other Entities</td>
<td>01/01/2013 Early application permitted</td>
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<td>Not permitted but an entity may voluntarily provide information required by IFRS 12 (in addition to information required by current standards)</td>
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<td>Awaiting adoption by the EU</td>
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Update on the European adoption process for interpretations published by the IFRS Interpretations Committee

<table>
<thead>
<tr>
<th>Interpretation</th>
<th>Subject</th>
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<tr>
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<tr>
<td>IFRIC 19</td>
<td>Extinguishing financial liabilities with equity instruments</td>
<td>1/07/2010 Early application permitted</td>
<td>24 July 2010</td>
<td>Mandatory</td>
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</tbody>
</table>
The IASB has been saying for several years that it plans to abandon proportionate consolidation for joint ventures under joint control. It has finally put this into practice, with the May publication of IFRS 11 Joint Arrangements.

Thus, joint ventures must be recognised in the IFRS accounts using the equity method as of 1 January 2013 (subject to the adoption of IFRS 11 by the EU).

One key result of this change will be that the revenue generated by these entities will no longer appear in the joint venturers’ consolidated profit or loss. This is particularly concerning for European companies whose international development (particularly in Asia) often involves this type of entity.

However, things are more complicated than they may seem at first glance…

What is the context to the publication of IFRS 11?

The IASB has simultaneously published three new standards (IFRS 10, IFRS 11 and IFRS 12) as well as two revised standards (IAS 27 and IAS 28).

IFRS 10 deals with the consolidation of subsidiaries and other structured entities under the reporting entity’s control. It replaces the portion of IAS 27 which dealt with consolidated financial statements, and SIC-12, which dealt with the consolidation of special purpose entities. Significantly, IFRS 10 includes a new definition of control, which could have non-negligible effects on the scope of consolidation.

IFRS 11 deals with the accounting treatment of joint arrangements (entities under joint control) and replaces IAS 31. It should be noted that the definition of joint control draws on the new definition of control set out in IFRS 10. However, for most industrial and commercial businesses, this should not affect which entities are defined as falling under joint control. Under IFRS 11, the definition of joint control is still based on the existence of a contractual agreement and the unanimous consent of the parties sharing control. However, further details are provided on the concept of “collective control” and on the activities on which unanimous consent is required (namely, the relevant activities).

IFRS 12 deals with the disclosures required in the notes to the financial statements on subsidiaries, joint arrangements and arrangements over which the entity has significant influence, and unconsolidated structured entities. It therefore replaces the principles previously included in IAS 27, IAS 31 and IAS 28.

The revised IAS 27 now only includes the principles for recognising an entity’s investments in subsidiaries, joint ventures and associates in the entity’s separate financial statements, drawn up in accordance with IFRS.

IAS 28 has undergone some limited revisions. It still deals with the recognition of associates using the equity method. IFRS 11 refers back to this standard for the recognition of joint ventures using the equity method.

All these standards are effective for reporting periods commencing on or after 1 January 2013 (subject to their adoption by the EU).

Finally, it should be noted that venture capital companies (and other mutual funds, trusts, etc.) are still permitted to recognise their investments in joint arrangements or arrangements over which the entity has significant influence using fair value. However, things may change as the IASB pursues its investment entities project (an exposure draft is expected in June 2011).
The flowchart below, which is taken from the IASB’s “Project Summary and Feedback Statement” (available free of charge on the IASB’s website\(^1\)), depicts the interaction between IFRS 10, IFRS 11, IFRS 12 and IAS 28.

**Interaction between IFRSs 10, 11, 12 and IAS 28**

What does IAS 31 say currently?

As a reminder, IAS 31 currently distinguishes between two broad types of joint arrangements: those which are structured through separate entities, in which the parties own shares (joint ventures) and those which are not structured through separate entities, in which the parties have direct and joint rights over assets and operations (jointly controlled assets and operations).

Joint ventures may be recognised in the financial statements using either the equity method or proportionate consolidation. For jointly controlled assets and operations, the parties recognise their share of the assets, liabilities, revenues and expenses.

Thus, the structure of the arrangement is the only driver of the accounting under the current standard (i.e. whether or not the arrangement is structured through a separate entity).

The IASB believes that IAS 31 has two major weaknesses:

- the accounting is based on the structure of the arrangement rather than its substance;
- the option of recognising joint ventures using either the equity method or proportionate consolidation results in a lack of comparability among financial statements.

The flowchart below, which is taken from the IASB’s “Project Summary and Feedback Statement”, sets out the weaknesses of the current standard according to the IASB.

The weaknesses of IAS 31

The structure of the arrangement was the only driver for the accounting; this together with the existence of an accounting option for jointly controlled entities resulted in inconsistencies in the accounting.

What are the key principles of IFRS 11?

The key innovation in IFRS 11 is to base the recognition of joint arrangements on their substance, i.e. on the parties’ rights and obligations to the joint arrangement. IFRS 11 provides a decision tree for analysing rights and obligations based on the legal form of the arrangement, the contractual agreements between the parties and the purpose of the arrangement.

The flowchart below, which is taken from the IASB’s “Project Summary and Feedback Statement”, sets out the accounting principles under IFRS 11.

IFRS 11

The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement.

* Separate vehicle is a separately identifiable financial structure, including separate legal entities or entities comprising by some, regardless of whether those entities have a legal personality.
Each arrangement must be analysed to determine whether it is a joint venture or a joint operation. When the parties have a right to a net asset, the arrangement is a joint venture and is recognised using the equity method. When the parties have rights to assets and obligations for liabilities, it is a joint operation and the parties recognise their share of the assets, liabilities, revenues and expenses.

The flowchart below, which is taken from IFRS 11, shows the elements to be taken into account when assessing whether a separate vehicle is a joint venture or a joint operation.

**Classification of a joint arrangement structured through a separate vehicle**

- **Legal form of the separate vehicle**
  - Does the legal form of the separate vehicle give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement?
    - Yes
    - No

- **Terms of the contractual arrangement**
  - Do the terms of the contractual arrangement specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement?
    - Yes
    - No

- **Other facts and circumstances**
  - Have the parties designed the arrangement so that:
    (a) its activities primarily aim to provide the parties with an output (ie the parties have rights to substantially all of the economic benefits of the assets held in the separate vehicle) and
    (b) it depends on the parties on a continuous basis for settling the liabilities relating to the activity conducted through the arrangement?
      - Yes
      - No

**What will change when IFRS 11 comes into effect?**

Some separate vehicles will be classified as joint operations, rather than joint ventures as they are currently. This is not merely a semantic change, as it will mean that these entities will be accounted for using a method similar to proportionate consolidation. However, the IASB acknowledges that the percentage share of assets, liabilities, revenues and expenses recognised in the accounts could differ from the percentage interest that would potentially have been used for proportionate consolidation.
“Transparent” entities which do not have a legal personality should therefore be classified as joint operations, along with some entities which only manufacture for the parties to the joint arrangement in specified proportions. In contrast, “autonomous” legal entities which bear their own risks and which have their own customers should be classified as joint ventures.

The changes will thus fall into three categories, depending on which option the entity currently uses to account for joint ventures:

- Entities which own joint ventures (as defined in IFRS 11) which are currently accounted for using proportionate consolidation shall henceforth account for them using the equity method.
- Entities which own legally separate vehicles which are classified as joint operations (as defined in IFRS 11), and which are currently accounted for using the equity method, shall henceforth account for them by recognising their share of the assets, liabilities, revenues and expenses directly.
- Entities which own legally separate entities which are classified as joint operations (as defined in IFRS 11), and which are currently accounted for using proportionate consolidation, shall henceforth account for them by recognising their share of the assets, liabilities, revenues and expenses directly (this percentage may be different from the percentage interest used for proportionate consolidation).

What disclosures are required in the notes?

Key elements to be provided in the notes to the financial statements (drawn up in line with IFRS 12) include the following:

- details of the key joint arrangements (nature of activities, place of business, percentage investment, any restrictions, etc.);
- summarised financial information for each joint venture which is individually material to the entity, and an overall summary for all the other joint ventures (on the basis of the IFRS accounts of the joint venture);
- plus, information on joint ventures should also include off-balance-sheet commitments and contingent liabilities, shares of unrecognised losses, the fair value of listed stocks, etc.

What are the rules for initial application?

The rules for initial application of IFRS 11 require a simplified retrospective restatement to be carried out at the beginning of the first comparative period presented, thus a priori 2012.

If an entity is changing from proportionate consolidation to the equity method, the equity accounting value is equal to the aggregate carrying amounts (as of 1 January of the first comparative period) of the assets and liabilities as recognised using the proportionate consolidation method (including goodwill). An impairment test in accordance with IAS 28 must be carried out on this initial equity accounting value, and any impairment is recognised directly as an adjustment to retained earnings at the beginning of the first comparative period.

If an entity is changing from the equity method to accounting for its share of the assets and liabilities, it derecognises the equity accounting value and recognises its share of the assets and liabilities (including goodwill) at the beginning of the first comparative period. If the share of assets and liabilities is higher than the equity accounting value, the difference is offset against goodwill relating to the investment as appropriate and the remaining balance adjusted against retained earnings. If the share of assets and liabilities is lower than the equity accounting value, the difference is adjusted against retained earnings.

Entities therefore only have a short period of time in which to analyse their joint arrangements and work out how this new standard will affect their IFRS accounts. Unless the EU decides to postpone the adoption of IFRS 11!
In August 2010, the IASB and the FASB jointly published an exposure draft on leases. In response to a flood of comment letters, the two Boards set out an ambitious roadmap of the subjects to be discussed again before publication of the final standard (see Beyond the GAAP, January to April 2011).

Keeping up with the redeliberations on leases is proving something of a challenge. This month, the Boards reconsidered some of the tentative decisions reached in March and April, rendering them null and void.

This U-turn affects:

- the lessee accounting model, particularly the turnaround on straight-line profit or loss recognition for “other-than-finance leases”;
- the proposed simplification of short-term leases.

Another interesting point is that the May redeliberations addressed the lessor accounting model for the first time. However, at the present stage of discussions, the accounting model for lessors remains unconfirmed. We will have to wait until the two Boards have completed further discussions to get a clearer picture of the new lessor accounting model.

**Lessee accounting**

The Boards have reconsidered their tentative decision from last month, which proposed different approaches for profit or loss recognition depending on whether the lease was classified as a “finance lease” (non-straight-line profit or loss) or an “other-than-finance lease” (straight-line profit or loss) – see Beyond the GAAP, April 2011.

In the end, the Boards reaffirmed the proposals set out in the exposure draft, namely a single accounting model and profit or loss recognition approach, irrespective of the type of lease.

Under this approach, the lessee must:

- initially recognise a liability to reflect its obligation to make lease payments and an asset to reflect its right of use, both measured at the present value of the payments to be made as defined in the contract;
- subsequently measure the liability using the effective interest rate method (by recognising decreasing interest expenses);
- amortise the right-of-use asset in such a way as to reflect the consumption of the future economic benefits derived from the use of the asset (usually straight-line amortisation).

Thus, the lessee shall recognise an increasing net profit over the duration of the contract (non-linear profit).

At a future meeting, the Boards will further discuss the following:

- the presentation and disclosures in the notes (amortisation of the right-of-use asset, interest expenses on the liability, total lease expenses and future cash outflows);
- short-term contracts. The Boards plan to study the different options for devising a simplified model for short-term leases and those with a non-material financing component.
**Lessor accounting**

In May, for the first time, the Boards discussed the accounting treatment to be used by lessors.

The Boards considered whether it was necessary to retain two separate accounting models for different types of lease, or whether it would be better to develop a single accounting model mirroring that used for lessee accounting.

The Boards did not reach a decision on this point, which they will address in more detail at a future meeting.

The May discussions on the various potential accounting models for lessors are still at a very early stage, so it is not currently possible to give a detailed account.

At this stage, it seems more appropriate to sketch out the broad emerging themes, which are as follows:

- if a single model were used, the Boards tentatively decided that it would be a “partial derecognition” model;
- if two models were retained, it is not yet clear which model would be used in addition to the derecognition model (a “performance obligation” model or an IAS 17-style operating lease model?).

**Short-term leases**

In its redeliberations last March, the Boards stated that both lessees and lessors would be permitted to not recognise assets and liabilities related to short-term leases (i.e. leases with a maximum duration of 12 months from the contract start date, including possible renewals).

This month, the Boards announced that they wanted to reopen discussions on short-term leases. The tentative decisions reached in March are thus null and void.

The Boards stated that they would examine ways of simplifying the accounting treatment of short-term contracts and those with a non-material financing component at a future meeting.

**Contractual modifications and changes in circumstances after the date of inception of the lease**

The Boards provided the following clarifications:

- any substantive change to the terms of the contract (after the date of inception of the lease) means that the modified contract shall be accounted for as if it were a new contract;
- any change in circumstances which would affect the initial assessment of whether the contract is, or contains, a lease means that the assessment must be repeated in order to determine whether or not the contract is, or contains, a lease.
  As we understand it, the lessor and the lessee shall apply (or cease to apply, as appropriate) the standard on leases at the date of the change.
- a change in circumstances other than a modification of the terms that would affect whether a lease transfers the risks and rewards should not change the accounting approach.
The concept of significant economic incentive

As explained in Beyond the GAAP, February and March 2011, the decision as to whether or not to take into account lease payments resulting from the renewal of a lease or exercise of a purchase option is contingent on the existence or otherwise of a “significant economic incentive” for a lessee to exercise such options.

This concept is key, as it affects the duration of the contract and whether or not the exercise price of the options should be included in the measurement of lease payments.

In May, the Boards clarified that the following three factors should be considered together:

- **contract-based factors** – such as lease payments which are significantly lower during the renewal period than during the original period; a large financial penalty for early termination of the contract; preferential purchase options; etc.
- **asset-based factors** – such as significant improvements made to the asset during the contract by either the lessee or the lessor, which have a significant economic value at the date of renewal or exercise of the purchase option, etc.
- **entity-based factors (i.e. relating to the lessee)** – such as the entity’s past actions, management intentions, etc.

The Boards also stated that this assessment should be carried out subsequently in the event that assets and liabilities related to the lease are remeasured.

Discount rate

Remember that this rate should be assessed at the start date of the contract, i.e. the date on which the lease begins.

This month, the Boards considered in what circumstances the discount rate should be reassessed during the contract. The Boards tentatively decided that:

- the discount rate should not be reassessed during the course of the contract as long as the lease payments remain unchanged;
- the discount rate may need to be reassessed in certain situations if the lease payments change during the contract.
As part of a joint project with the FASB, the IASB published an exposure draft on Revenue from Contracts with Customers in June 2010. After analysing the comment letters received, the two Boards have drawn up an ambitious schedule for further discussion of various issues.

The decisions taken by the two Boards, described below, have not yet been put to a formal vote. At this stage they are tentative decisions, but are expected to form the basis for the final standard.

It should be remembered that the tentative decisions taken in previous months (see previous issues of Beyond the GAAP) have already significantly modified the definitions and principles set out in the exposure draft, bringing them closer to current revenue recognition practice.

It should also be noted that the IASB has postponed the publication date of the final standard until the fourth quarter of 2011.

In May, the two Boards continued their redeliberations on the following issues:

- Presentation and disclosures;
- Presentation of contract assets and liabilities;
- Disaggregation of revenue;
- Reconciliation of the opening and closing balance of contract assets and liabilities;
- Disclosure of remaining performance obligations;
- Disclosures about assets from contract acquisition or fulfilment costs;
- Amortisation and impairment of assets arising from contract acquisition or fulfilment costs;
- Recognition of an asset from contract acquisition costs;
- Onerous contracts.

**Presentation and disclosures**

The two Boards decided to retain the presentation and disclosure proposals from the exposure draft, with the following amendments and clarifications:

The seller should disclose sufficient information on its contracts with customers so that users of the financial statements can understand the amount, timing and level of uncertainty of revenue arising from ordinary activities and the cashflows relating to these contracts. The following information should be included:

- a disaggregation of revenue from ordinary activities over the period;
- a reconciliation of the total opening balance and total closing balance of contract assets and liabilities; and
- details of remaining performance obligations, plus additional information on onerous performance obligations.
Presentation of contract assets and liabilities

Readers will remember that, according to the exposure draft, if the seller satisfies its obligation to provide goods or services to the customer before the customer satisfies its obligation to pay for them, the seller shall present the contract as a contract asset. Conversely, if the customer satisfies its obligation before the seller, the seller shall present the contract as a contract liability.

The Boards clarified that an entity could use different terms for “contract assets” and “contract liabilities”.

The two Boards restated that the seller should present an unconditional right to consideration as a receivable, rather than as a contract asset. This receivable would then be accounted for in line with IAS 39 / IFRS 9.

Disaggregation of revenue

According to the exposure draft, the seller should disaggregate revenue from ordinary activities into the categories which best depict how the amount, timing and level of uncertainty of revenue from ordinary activities and cashflows are affected by economic factors.

The two Boards decided that:

- the standard is not expected to prescribe specific categories, but should provide a clear principle for identifying appropriate categories, with examples;
- this disaggregation may be provided either in the statement of comprehensive income or in the notes to the financial statements;
- the impairment loss allowance for customers’ credit risk would not need to be disaggregated into the different categories.

Reconciliation of the opening and closing balance of contract assets and liabilities

The two Boards stated that additional line items should be included in the reconciliation if these items are necessary for understanding the changes.

Disclosure of remaining performance obligations

The seller should disclose the amount of the transaction price that is allocated to remaining performance obligations (i.e. the revenues yet to be recognised) for contracts which have both:

- an original expected duration of more than one year; and
- several performance obligations which require a transaction price to be allocated to each performance obligation.

The seller should also explain when it expects to recognise these amounts as revenue, either on a quantitative basis by period (e.g. less than one year, one to three years, etc.) or by using both quantitative and qualitative information.
Disclosures about assets from contract acquisition or fulfilment costs

These costs include the costs of acquiring a contract and the costs incurred in fulfilling a contract (other than those which meet the definition of an asset, such as inventory and fixed assets).

For each period, the seller should provide a reconciliation of the carrying amount of assets arising from the costs of acquiring or fulfilling a contract, by category (e.g. acquisition costs, pre-contract costs, set-up costs). Additions, amortisation, impairments and impairment losses reversed should be presented separately.

Qualitative disclosures should be provided on the method used to calculate the amortisation for the period, together with explanations of impairment losses reversed.

Amortisation and impairment of assets arising from contract acquisition or fulfilment costs

The two Boards confirmed that the seller shall amortise the asset on a systematic basis consistent with the pattern of transfer of goods or services to which the asset relates. The Boards clarified that the asset may relate to goods or services to be provided to the same customer under future contracts (as in the case of renewal options).

The seller should recognise an impairment loss to the extent that the carrying amount of the asset exceeds the amount of consideration which the seller expects to receive in exchange for the goods or services to which the asset relates, minus the costs yet to be incurred.

Recognition of an asset from contract acquisition costs

The Boards decided that in practice, acquisition costs relating to contracts with a duration of less than one year could be recognised in expenses.

Onerous contracts

The Boards tentatively decided to limit the onerous test to long-term contracts. In addition, the costs to be taken into account for the onerous test are the lower of:

- the costs that relate directly to satisfying the performance obligations;
- any amounts that the seller would have to pay to cancel the contract.

In other words, the two Boards have reconsidered their previous tentative decisions on the subject.

In June 2011, the two Boards will continue with their redeliberations on the following subjects:

- transition and effective date;
- practical application of the model to some industries (e.g. telecommunications).
Events and FAQ

Events/publications

Seminars on “Current developments in IFRS”

Mazars’ Technical Department will host a number of seminars throughout 2011 dedicated to current developments in IFRS. These seminars, organised by Francis Lefebvre Formation, will be held on 24 June, 23 September and 9 December 2011.

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

Conférences IMA France

On Tuesday 21 June 2011, Isabelle Sapet, a Mazars partner and Carole Masson, a Mazars Senior Manager, will jointly chair a breakfast debate in partnership with IMA France on half-yearly accounts.

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

- Distribution of non-cash assets under common control : what accounting treatment should be used?
- Mergers: identifying and accounting for environmental liabilities;
- Accounting for share purchase warrants;
- The hedging relationship of a net tax exposure.

Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

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The drafting of the present edition was completed on 17 June 2011

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