



BAKER TILLY INTERNATIONAL

Great Firms, Outstanding Network

INTERNATIONAL

International **INSIGHT**
May 2010

EDITORIAL

The International Accounting Standards Board (IASB) is working on a number of significant projects including revenue recognition and leasing. These will be covered in future issues.

In the meantime, the IASB continues to seek political acceptance for the changes that it has made to its constitution. This is against the background of a lack of progress on the G20's commitment to a single set of global accounting standards, although, as set out below, the Securities Exchange Commission (SEC) has issued a further paper.

The move to global accounting standards is seen as an important step in making financial markets around the world more transparent. There are still major difficulties for US adoption as a result of their legal treatment of accounting compliance which could lead to difficulties in applying principle based standards.

Many countries are now discussing the approach they should adopt for non-public interest entity financial reporting. The IASB's IFRS for SMEs is beginning to be accepted, with 15 countries already having introduced it and many more considering their position. This standard recognises that the primary target for IFRSs are public interest companies and that complex IFRS may not be the most appropriate form for other companies.

Paul Ginman

Chief operating officer, Baker Tilly International

AMENDMENTS TO STANDARDS

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

The IASB issued a minor amendment to the above standard allowing first-time adopters the same transitional exemptions allowed in recent amendments to IFRS 7 in respect of enhanced disclosures about fair value measurements and liquidity risk.

The amendment is effective from 1 July 2010 and early adoption is permitted.

IASB Concludes Annual Improvements Project

As part of the IASB's annual improvements project, a document containing amendments to several standards has been issued, completing the 2008 to 2010 annual improvements cycle. Significant changes affecting the accounting standards for presentation, measurement, or recognition purposes are summarised below.

Standard(s) Affected	Explanation of Changes	Effective Date
IFRS 1	<ul style="list-style-type: none"> Exemption for accounting policy changes under IAS 8 now extended to all changes in first year of adoption. The use of the revaluation amount as deemed cost when adopting IFRS, for revaluations reflected before the date of the first IFRS financial statements, has now been extended to cover event-driven fair value adjustments in the first period covered by IFRS financial statements. The implementation guidance now allows deemed cost at transition to be the carrying amount under the previous GAAP for items of property, plant and equipment, or intangible assets that were used in rate regulated activities even if the amount includes items that do not qualify for capitalisation under IFRS. Rate regulated activities were discussed in an exposure draft in July 2009 and cover situations where a regulator sets a price for goods and where the entity supplying the goods has the ability to recover or obligation to refund amounts to earn a specific return. 	1 January 2011
IFRS 3	<ul style="list-style-type: none"> The scope of the standard now covers transitional requirements for the recognition of contingent consideration from a business combination that occurred before the effective date of the current standard. Scope of measurement choice for non-controlling interests is now limited to the acquisition date fair value of present ownership instruments that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, unless other standards require a different measurement basis. Additional guidance on un-replaced and voluntarily replaced share-based payment awards. 	1 July 2010
IFRS 7	<ul style="list-style-type: none"> A number of additional clarifications of disclosures, which focus on the interaction between qualitative and quantitative disclosures. 	1 January 2011
IAS 1	<ul style="list-style-type: none"> Clarification regarding the statement of changes in equity, allowing changes in components of other comprehensive income to be reflected in either the statement of changes in equity or in the notes to the financial statements. 	January 2011
IAS 21, IAS 28, IAS 31	<ul style="list-style-type: none"> Numerous transitional requirements for amendments as a result of changes to IAS 27. (Refer to International INSIGHT, February 2008.) 	1 July 2010
IAS 34	<ul style="list-style-type: none"> Clarification of disclosures required within IAS 34 when considered in the light of changes to other standards, including IFRS 7. 	1 January 2011
IFRIC 13	<ul style="list-style-type: none"> Application guidance amended in respect of fair value of award credits. 	1 January 2011

EXPOSURE DRAFTS

Exposure Draft: Conceptual Framework for Financial Reporting

The IASB has published the above exposure draft as part of a joint project with the US Financial Accounting Standards Board (FASB) to develop a common conceptual framework. This exposure draft follows a 2008 discussion paper, incorporating comments received.

The exposure draft states the objective of general purpose financial reporting is “to provide financial information about the reporting entity that is useful in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided”.

The document goes on to provide a definition of the reporting entity as a “circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources [...]”

The exposure draft also discusses where a reporting entity exists, with reference to legal structures and consolidated accounts.

Comments are due by 16 July 2010.

Exposure Draft: Measurement of Liabilities in IAS 37 (Limited Re-exposure of Proposed Amendment to IAS 37)

Following on from a 2005 exposure draft, the IASB has released the above exposure draft focusing only on the measurement requirements for liabilities under IAS 37.

The document changes the measurement criterion from the current “best estimate of the expenditure required to settle the present obligation” to “the amount an entity would rationally pay to be relieved of an obligation”, defined as the lowest of:

- The present value of the resources required to fulfil the obligation, measured in accordance with the criterion, set out in an appendix to the standard
- The amount that the entity would have to pay to cancel the obligation
- The amount that the entity would have to pay to transfer the obligation to a third party.

The measurement criterion is an estimate taking into account expected outflows of resources and time values of money and the risk that the actual outflow of resources might ultimately differ from those expected. The appendix to the standard sets out detailed guidance on a number of elements of the calculation.

Comments were expected by 12 April 2010.

DISCUSSION PAPERS

Discussion Paper: Extractive Industries

The IASB has released a discussion paper aimed at analysing the financial reporting issues applicable to extractive activities and to identify a basis on which a financial reporting model may be developed. The project was conducted by a team consisting of Australian, Canadian, Norwegian and South African standard setters and the discussion paper represents their views, not the views of the IASB.

The current standard, IFRS 6: Exploration for and the Evaluation of Mineral Resources was intended to be an interim standard and is silent on a number of points. These include:

- Accounting for the development and production of minerals or oil and gas properties
- Specific disclosure requirements to help users assess the nature and extent of the risks involved in extractive activities.

IFRS 6 permits a continuation of the accounting policies from previous GAAP, which has resulted in the use of a variety of accounting treatments.

The discussion paper identifies four phases of extractive activities and identifies the need for guidance on accounting for each step. These are:

1. Exploration
2. Evaluation
3. Development
4. Production.

The discussion paper analyses the risks inherent in extractive industries through the four phases. There are four crucial issues raised:

1. Estimation and classification of quantities of minerals or oil and gas reserves
2. Accounting for minerals or oil and gas properties
3. Measurement of minerals or oil and gas properties
4. Disclosure of information about extractive activities.

Comments are expected by 30 July 2010.

US GAAP/IFRS CONVERGENCE

SEC Releases Comment Paper Supporting Convergence of US GAAP and IFRS

The US Securities Exchange Commission (SEC) has released a detailed comment paper and work plan outlining specific issues it will address before considering IFRS for US companies on either a voluntary or mandatory basis. These are:

- Determining whether IFRS are sufficiently developed and consistent in application
- Ensuring IFRS are set by an independent standard setter and for the benefit of investors
- Investor understanding and education regarding IFRS, and the differences to US GAAP
- Understanding whether US laws or regulations, beyond securities laws, would be affected by a change in accounting standards
- Understanding the impact on companies, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations and litigation contingencies
- Determining whether the people who prepare and audit financial statements are sufficiently prepared, through education and experience, to convert to IFRS.

The document expects a decision to be made in 2011 concerning adoption and that the earliest US issuers would report under such a system would be approximately 2015 or 2016.

LIST OF FINANCIAL REPORTING DEVELOPMENTS

New Standard Now Effective

IFRS 8: Operating Segments

Effective Date

Accounting periods beginning on or after 1 January 2009

New Standard

IFRS 9: Financial Instruments

Effective Date

Accounting periods beginning on or after 1 January 2013

Amended Standards

IAS 1: Presentation of Financial Statements

Effective Date

Accounting periods beginning on or after 1 January 2009

IAS 23: Borrowing Costs

Accounting periods beginning on or after 1 January 2009

IAS 24 (Revised 2009): Related Parties

Accounting periods beginning on or after 1 January 2011

IAS 32: Financial Instruments: Presentation and IAS 1: Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

Accounting periods beginning on or after 1 January 2009

IAS 32: Financial Instruments: Presentation – Classification of Rights Issues

Accounting periods beginning on or after 1 February 2010

IFRS 3: Business Combinations and IAS 27: Consolidated and Separate Financial Statements

Accounting periods beginning on or after 1 July 2009

IFRS 1: First-time Adoption of International Financial Reporting Standards and IAS 27: Consolidated and Separate Financial Statements

Accounting periods beginning on or after 1 July 2009

IFRS 2: Share-based Payments

Accounting periods beginning on or after 1 January 2009 and 1 January 2010

IFRS 7: Financial Instruments – Disclosures

Accounting periods beginning on or after 1 January 2009

IAS 39: Financial Instruments – Recognition and Measurement

Accounting periods beginning on or after 1 July 2009

Annual Improvements Project

Improvements to Standards 2009

Effective Date

Accounting periods beginning on or after 1 July 2009 or 1 January 2010

Improvements to Standards 2010

Accounting periods beginning on or after 1 July 2010 or 1 January 2011

Latest Interpretations

IFRIC 11: IFRS 2 Group and Treasury Share Transactions

Withdrawn as of 1 January 2010, incorporated into IFRS 2

IFRIC 8: Scope of IFRS 2

Withdrawn as of 1 January 2010, incorporated into IFRS 2

IFRIC 16: Hedges of a Net Investment in a Foreign Operation

Effective for accounting periods beginning on or after 1 January 2009

IFRIC 17: Distributions of Non-cash Assets to Owners

Effective for accounting periods beginning on or after 1 July 2009

IFRIC 18: Transfers of Assets from Customers

Effective for accounting periods beginning on or after 1 July 2009

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

Effective for accounting periods beginning on or after 1 July 2010

LIST OF FINANCIAL REPORTING DEVELOPMENTS (continued)

Amendments to Interpretations

Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Effective Date

Effective for accounting periods beginning on or after 1 July 2011

Current Proposals – Discussion Papers

Financial Instruments with Characteristics of Equity

Status

Exposure draft due second quarter 2010

Preliminary Views on Financial Statement Presentation

Exposure draft due second quarter 2010

Preliminary Views on Insurance Contracts

Exposure draft due second quarter 2010

Preliminary Views on Amendments to IAS 19 Employee Benefits

Project discontinued

Preliminary Views on Revenue Recognition in Contracts with Customers

Exposure draft in due second quarter 2010

Leases: Preliminary Views

Exposure draft due second quarter 2010

Credit Risk in Liability Measurement

Project to be incorporated into other IASB projects

Extractive Industries

Comments due 16 July 2010

Current Proposals – Exposure Draft

Consolidated Financial Statements

Status

Revised standard expected fourth quarter 2010

Investments in Debt Instruments

Project incorporated into IFRS 9

Discontinued Operations: Proposed Amendments to IFRS 5

Final amendment expected second quarter 2010

Simplifying Earnings per Share, Proposed Amendments to IAS 33

Project delayed until later in 2010

Joint Arrangements

Final standard expected second quarter 2010

Income Taxes

Project on hold

Fair Value Measurement

Final standard expected fourth quarter 2010

De-recognition (Proposed Changes to IAS 39 and IFRS 7)

Final standard expected third quarter 2010

Financial Instruments: Amortised Cost and Impairment

Comments due by 30 June 2010

Measurement of Liabilities in IAS 37

Comments being analysed

Conceptual Framework for Financial Reporting

Comments due by 16 July 2010



Disclaimer

Baker Tilly International is a worldwide network of independent accountancy and business advisory firms united by a commitment to provide exceptional client service. Baker Tilly International provides no professional services to clients but acts as a member services organisation. Baker Tilly International Limited is a company limited by guarantee and is registered in England and Wales.

International **INSIGHT** is designed for the information of users. Every effort has been made to ensure that at the time of preparation the information contained is accurate. Information within International **INSIGHT** is not designed to address a particular circumstance, individual, or entity. Users should not act upon it without seeking professional advice relevant to the particular situation. No responsibility for loss, however arising, to any person acting or refraining from acting as a result of any material in this publication will be accepted by Baker Tilly International Limited.

© 2010 Baker Tilly International Limited, all rights reserved.

Baker Tilly is a trademark of the UK firm, Baker Tilly UK Group LLP, used under licence.

WorldHeadquarters

2 Bloomsbury Street
London WC1B 3ST
United Kingdom

T. +44 (0)20 7314 6875

F. +44 (0)20 7314 6876

E. info@bakertillyinternational.com

www.bakertillyinternational.com