In this Issue ...

Lease classification to remain – what are some possible implications?

Since 2006, the IASB\(^1\) and the FASB\(^2\) (the Boards) have been discussing the accounting for leases. The Boards published a joint exposure draft (ED) in August 2010 and began re-deliberations in early 2011 to address feedback received on it. Learn more about the Boards’ recent decision to retain lease classification (although in a different form), which is expected to be included in the revised ED along with some of some potential implications.

IFRS Foundation publishes analysis of the SEC staff’s final report on IFRS

The IFRS Foundation published its staff analysis, Report to the Trustees of the IFRS Foundation - IFRS Foundation staff analysis of the SEC\(^3\) Final Staff Report addressing issues such as IFRS as global accounting standards; the IASB as a global standard-setter, and the challenges for US transition. Read more about the findings and views of the IFRS Foundation staff.

Spotlight on Canada: IFRS adoption in Canada

IFRS has been mandatory for publically accountable entities in Canada since 2011, but remains optional for private enterprises. The decision to adopt IFRS has had a far-reaching impact in Canada and all those involved with accounting and financial reporting have had to invest time and effort into understanding IFRS. Read more about the challenges faced and lessons learned on Canada’s adoption of IFRS.

IFRS project update

Find out which projects the IASB and the IFRS Interpretations Committee are currently discussing.

Resources

Look here for an up to date list of our recent publications.

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\(^1\) The International Accounting Standards Board

\(^2\) The US Financial Accounting Standards Board

\(^3\) The US Securities and Exchange Commission
Lease classification to remain - what are some possible implications?

Since 2006, the IASB and the FASB (the Boards) have been discussing the accounting for leases. They published a joint exposure draft (ED) in August 2010 and began redeliberations in early 2011 to address feedback received on the ED. Based on changes made as a result of the feedback, the Boards decided to issue a revised ED, which is expected in the first quarter of 2013.

Even though the leases proposal has been through many changes, the primary objective of the project has remained consistent. Hans Hoogervorst, Chairman of the IASB, commented at Ernst & Young’s 2012 IFRS Seminar in Russia, “All we ask is that [lease] transactions are accounted for in a way that is transparent to investors. It seems odd to me that investors must guess what a company’s liabilities from leasing are, even though management has this information at its fingertips.” 4 Mr Hoogervorst’s remarks reflect the Boards’ primary objective to increase the visibility of leases to financial statement users by requiring that lease-related assets and liabilities are recorded on lessees’ balance sheets.

We take a look at the Boards’ June 2012 decision to retain lease classification (although in a different form), which is expected to be included in the revised ED. We also discuss some of the possible implications of these new classifications.

How would leases be classified?

According to the proposal, lessees and lessors would differentiate between two types of lease, which we refer to as ‘straight-line lease’ and ‘accelerated lease’. A lease would be classified based on whether the lessee acquires and consumes more than an insignificant portion of the underlying asset over the lease term. To simplify the assessment, the Boards proposed using a practical expedient based on the nature of the underlying asset.

Under the practical expedient, leases of property (i.e., land, a building, or a part of a building) would be classified as straight-line leases, unless:

► The lease term is for the major part of the economic life of the underlying asset

Or

► The present value of fixed lease payments accounts for substantially all of the fair value of the underlying asset

Leases of assets other than property (e.g., equipment) would be classified as accelerated leases, unless:

► The lease term is an insignificant portion of the economic life of the underlying asset

Or

► The present value of fixed lease payments is insignificant relative to the fair value of the underlying asset

While the practical expedient helps simplify the determination of lease classification, the classification of some lease arrangements may not be straightforward. For example, it is not clear whether leases of certain assets, such as a lease of a telecommunication tower or a pipeline, could be treated as a lease of property. Indeed, the IFRS Interpretations Committee (the Committee) is currently discussing this very issue because differing views exist. The Committee is debating whether telecommunication tower is property within the scope of IAS 40 Investment Property or equipment within the scope of IAS 16 Property, Plant and Equipment. The question arises because a tower could have similar characteristics to property, in that spaces are rented to lessees, but lacks the traditional features of property.

In addition, to assess the conditions for the exceptions to the practical expedient, lessees would need to estimate the economic life and the fair value of the leased asset to evaluate the degree of consumption. However, even after making these estimates, the lease classification would not necessarily be straightforward for some leases. In a recent webcast, 5 the IASB and FASB staffs gave examples of a 30-year lease of commercial property for which the economic life was 40 years and a 5-year lease of a time charter vessel for which the economic life was also 40 years. In both cases, the IASB and FASB staffs indicated the classifications of the leases may not be clear. This is because the meaning of ‘insignificant’, ‘major part’ and ‘substantially all’ have not been specifically defined in the exception conditions. As such, these assessments could require considerable judgement, as well as processes and controls to make sure that arrangements are evaluated consistently.

It should also be noted that, generally, the revised proposal would allow, but not require, lessees and lessors to apply current operating lease accounting to leases that have a maximum possible lease term of 12 months, including any renewal options.

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What are some of the impacts for lessees?

Under the revised proposal, regardless of how a lease is classified, lessees would initially record a lease as a right-of-use asset with a corresponding lease liability on the balance sheet at the same amount. However, the subsequent measurement of the right-of-use asset and the lease expense recognition pattern would differ according to the type of lease.

For accelerated leases, lessees would separately amortise the right-of-use asset (generally on a straight-line basis) and recognise interest expense for the accretion of the liability. Because interest expense generally decreases over time, lessees would recognise total lease expense on an accelerated basis.

This pattern is consistent with the treatment of finance leases under current lease accounting and similar to financed purchases of non-financial assets.

For straight-line leases, lessees would recognise expense on a straight-line basis over the lease term, similar to current operating lease accounting, and accretion of the liability using the effective interest method. Lessees would determine the change in the right-of-use asset by subtracting the accretion of the lease liability from the straight-line expense. Total expense for straight-line leases would be presented as a single line item (e.g., lease expense) on the income statement.

Under IFRS, depreciation or amortisation of an asset is computed in a pattern that reflects the way the asset's future economic benefits are expected to be consumed by the entity, which is generally straight-line. Although lease classification would have the same conceptual basis as the amortisation (i.e., based on the lessee's expected consumption of the asset), the manner in which the right-of-use asset would be amortised in a straight-line lease is unlike that used for any other asset.

The right-of-use asset would be amortised based on the calculated difference between the periodic straight-line expense and the accretion of the liability, a 'plug'. Some concerns have been expressed about this outcome since it is not consistent with existing asset amortisation. The Boards proposed this method of amortisation to address concerns raised by some lessees about the front-loading of expense that resulted from their proposal in 2010.

Moreover, the right-of-use asset recognised for a straight-line lease would be more likely to become impaired than the right-of-use asset recognised for an accelerated lease. The right-of-use asset for a straight-line lease would generally have a larger book value during the earlier periods of the lease compared with the right-of-use asset for an accelerated lease. This is because, for a straight-line lease, the larger accretion of the lease liability at the beginning of the lease would result in a smaller reduction of the leased asset. This could cause the asset to have an inflated value, which may increase the likelihood of impairment.

In addition, the straight-line approach would not reduce, but could even add to, the record-keeping burden for lessees since they would have to perform additional calculations, including the straight-line amount, the periodic accretion of the liability and the difference for each period.

Comparison of proposed lessee model with current accounting

Table 1 below compares the classification of leases under current IFRS with the classification that would most likely apply under the revised proposal given the nature (i.e., property or other than property) of the underlying asset. However, not all leases would be classified as shown. In addition, other proposed changes would affect the income statement.

<table>
<thead>
<tr>
<th>Current</th>
<th>Proposed model</th>
<th>Effect on income statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property (land, buildings, part of a building)</td>
<td>Operating Straight-line lease</td>
<td>Generally similar</td>
</tr>
<tr>
<td>Finance</td>
<td>Accelerated lease</td>
<td>Generally similar</td>
</tr>
<tr>
<td>All other leases (e.g., vehicles and equipment)</td>
<td>Operating Accelerated lease</td>
<td>Acceleration of expense; separate presentation of amortisation and interest</td>
</tr>
<tr>
<td>Finance</td>
<td>Accelerated lease</td>
<td>Generally similar</td>
</tr>
</tbody>
</table>
What should lessors consider?

The revised proposal would also affect the financial statements of lessors, but the major impact would not be from straight-line leases. The Boards decided that lessors with straight-line leases would use current operating lease accounting and they would not derecognise the leased assets.

On the one hand, this would lessen the burden on lessors who currently have operating leases that would be classified as straight-line leases under the revised proposal. On the other hand, for those lessors that currently have operating leases that would be classified as accelerated leases, the proposal would have a dramatic effect on their financial statements. Rather than rental income and depreciation expense, which are generally recognised on a straight-line basis today, these companies would recognise upfront profit or loss and interest income.

Even for companies that currently apply finance lease accounting, the proposed accounting for accelerated leases (referred to as the receivable and residual approach) would change the timing of revenue recognition. Under the receivable and residual approach, the lessor essentially sells a portion of the leased asset and records a receivable. The portion of the leased asset that is not deemed sold remains on the books as a residual asset. Lessors would recognise upfront profit or loss only on the portion of the leased asset that is sold. Unlike current finance lease accounting, the amount of profit initially recognised under the receivable and residual approach could be reduced because profit on the residual asset is not recognised.

Deferred profit on the residual asset would be part of the carrying value of the residual asset that would be derecognised only when the underlying asset is subsequently sold or re-leased.

Even though straight-line leases would be accounted for in a similar manner to current operating leases (and there are some similarities in the accounting for accelerated leases and current finance leases under IFRS), there could still be some significant business implications that lessors need to consider. Lessors would need to estimate the fair value of the leased asset at lease commencement as well as the residual value at the end of the lease term. These fair value estimates could have increased significance under the proposal for those leases that were accounted for as operating leases under IFRS but which would be subject to the receivable and residual approach under the proposal. Under IFRS, these fair values are used primarily to determine the lease classification and the discount rate in the lease. Under the proposal, the fair value of the leased asset at the beginning of the lease term would not only affect the classification of the lease, but it would also affect the amount of profit or loss initially recorded for leases subject to the receivable and residual approach. In addition, the estimated residual value at the end of the lease term would affect the amount of interest income recognised over the term of the lease. Revised processes for arriving at these estimates may be required due to their increased significance.

<table>
<thead>
<tr>
<th>Current Description</th>
<th>Proposed Model</th>
<th>Effect on Financial Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property (land, buildings, part of a building)</td>
<td>Operating</td>
<td>Generally similar</td>
</tr>
<tr>
<td>Operating</td>
<td>Operating</td>
<td>Lower profit upon commencement</td>
</tr>
<tr>
<td>Finance</td>
<td>Receivable and residual approach</td>
<td>Residual asset reduced by deferred profit</td>
</tr>
<tr>
<td>All other leases (e.g., vehicles and equipment)</td>
<td>Receivable and residual approach (assuming practical expedient exception conditions not met)</td>
<td>Introduces profit unevenness</td>
</tr>
<tr>
<td>Operating</td>
<td>Receivable and residual approach</td>
<td>Balance sheet composition changes some tangible assets to financial assets (i.e., receivable)</td>
</tr>
<tr>
<td>Finance</td>
<td>Receivable and residual approach</td>
<td>Lower profit upon commencement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Residual asset reduced by deferred profit</td>
</tr>
</tbody>
</table>
Comparison of proposed lessor model with current accounting

Table 2 compares today’s accounting with the approach that lessors would most likely apply under the revised proposal. Other changes could occur from adoption of the proposed standard, such as determination of the lease term and reassessment.

Going forward

In a recent survey published by Ernst & Young, it was estimated that the leases proposal under the ED in 2010 would have an impact on nearly all of the companies surveyed. It noted that “the projected operating lease payments disclosed in the financial statements were 4% of the companies’ total assets and 7% of their total liabilities … this amount can be used to assess the rough magnitude of the proposed standard [on lessees’ balance sheets].” Since most companies would be affected by the proposal, management should analyse the possible impact of the revised proposal and, if they have concerns, to comment on the revised ED when it is issued.

For more information on the leases project, the following publications can be found on www.ey.com/ifrs:

- Applying IFRS: Leases project on the brink of re-exposure
- IFRS Practical Matters: Boards re-examine lessor accounting
- IFRS Practical Matters: New accounting standard for lessees: Are we there yet?

IFRS Outlook November 2012

IFRS Foundation publishes analysis of the SEC staff’s final report on IFRS

In July 2012, the US SEC published its final staff report on the Work Plan for the Consideration of Incorporating IFRSs into the Financial Reporting System for U.S. Issuers (the SEC Staff Report). This represents an important milestone for the SEC in its consideration of the incorporation of IFRS into the US financial reporting framework. The purpose of the SEC Staff Report was to inform the SEC commissioners on whether, and if so, how, IFRS should be incorporated into the US financial reporting system.

The IFRS Foundation’s staff analysis, Report to the Trustees of the IFRS Foundation - IFRS Foundation staff analysis of the SEC Final Staff Report (IFRS Foundation Report) addresses some of the issues discussed in the SEC Staff Report. Several of the issues identified in the SEC Staff Report have been, or are currently being, addressed in ongoing initiatives as a result of the Trustees’ Strategy Review. In the IFRS Foundation Report, IFRS Foundation staff refuted some of the SEC Staff’s findings on the funding and oversight of the IASB.

As the IASB’s convergence programme with the FASB comes to an end, the need for the IASB to develop a more formal, cohesive and collective arrangement with National Standard-Setters (NSSs) has become more pressing. The Accounting Standards Forum (the Forum) will be established in 2013 for this purpose. From the IASB’s perspective, it is clear that the US’s contributions to the Forum would weigh significantly if the US were to employ an endorsement approach to the use of IFRS. IFRS Foundation staff acknowledges and welcomes several of the recommendations made in the SEC Staff Report, but it supplements and, in some instances, refutes the findings and observations made by the SEC staff. We outline some of the key issues addressed by the IFRS Foundation report below.

The SEC Staff Report noted constituents’ concerns that the IASB’s objectivity could be undermined by outside political influence. The IFRS Foundation staff acknowledges the fine line between being responsive to feedback and being subject to undue political influence and believes the ongoing strengthening of the IFRS Foundation and IASB’s governance structures should further protect their independence. In addition, the Foundation staff believes that the creation of the Monitoring Board, the heterogeneous nature of the IFRS community, and the internationally and professionally diverse composition of the IASB, would all help to dilute undue pressure from any one jurisdiction or special interest group.

The SEC Staff Report also raised concerns about a number of issues, including: the continued reliance by the IFRS Foundation on the large public accounting firms; fewer than 30 countries contributing to the funding of the IFRS Foundation; and the Trustees’ lack of success in obtaining funding from the US for the portion allocated to the US. In response, the IFRS Foundation staff notes that 69 countries provide funding to the Foundation, with the largest contributions to the Foundation’s budget coming from European countries and the European Union. In addition, the issue of the lack of funding from the US is a matter for the US authorities, and not something over which the IFRS Foundation can exercise any influence.

The IFRS Foundation staff acknowledges the fine line between being responsive to feedback and being subject to undue political influence.

In addition, the Foundation staff believes that the creation of the Monitoring Board, the heterogeneous nature of the IFRS community, and the internationally and professionally diverse composition of the IASB, would all help to dilute undue pressure from any one jurisdiction or special interest group.

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7 See our publication IFRS Developments, Issue 36: SEC staff issues its final report on IFRS
9 See our publication IFRS Developments, Issue 24: IFRS Foundation announces changes to its governance
The SEC Staff Report noted that IFRS guidance is limited in a number of areas, such as accounting for common control transactions, and lacking altogether for certain industries, such as the insurance and extractive activities. The IASB has identified such areas during its consultation on its future agenda and has established these as priorities as a result. The combined efforts of the agenda consultation process, the annual improvements process and the work of the IFRS Interpretations Committee (the Committee) will allow for improvements to be made over time.

In response to the observation in the SEC Staff Report that the Committee could address issues in a more timely manner, the IFRS Foundation staff noted that the Trustees’ Strategy Review conducted earlier this year\(^{10}\) included a review of the efficiency and effectiveness of the Committee, and that their recommendations, published in May 2012, have since been fully implemented.

One of the SEC staff’s recommendations was for the IASB to extend its involvement with NSSs in processes such as the development of a new standard. In response to this recommendation, the IASB has begun preparatory work to establish the Forum, to further strengthen and formalise its connection with NSSs and regional bodies and to enable the IASB to better engage with NSSs and regional bodies collectively.

The importance of achieving greater consistency in the enforcement of IFRS in order to fully realise the benefits of a single set of global accounting standards is noted in the SEC Staff Report. The IFRS Foundation staff agrees with this. The Foundation staff believes that, if the SEC decides to incorporate IFRS, enforcement in the US will remain the sole responsibility of the SEC, and it will not be possible for any outside influence to be exercised on US standards of enforcement.

The SEC Staff Report discusses a range of issues related to incorporating IFRS into US GAAP that are specific to the US and can only be addressed by US authorities in their operating environment. Regarding the methods of incorporation of IFRS, the IFRS Foundation staff notes that the endorsement approach is used by the majority of IFRS jurisdictions, which is an important ‘sovereignty circuit-breaker’ to ensure that international rules do not automatically form a part of national law. On the implementation of IFRS, the IFRS Foundation staff has not found evidence of a jurisdiction that has successfully adopted IFRS using a gradual standard-by-standard approach. The Foundation staff notes that jurisdictions that had initially considered this approach decided to follow the ‘big bang’ approach instead. The Foundation staff believes that it is both technically challenging and costly for preparers to go through a protracted period of gradually applying new standards.

The findings of the IFRS Foundation staff suggest that the costs of transition, based on the experience of other jurisdictions, while not insignificant, have not been prohibitive overall. The findings further suggest that with the US following the convergence programme, the reduced differences should translate into lower transition costs and the costs of implementing the new converged standards (such as those for revenue and leases) would be borne by US preparers regardless of whether the US moves to IFRS or retains US GAAP. In addition, a recent study commissioned by the IFRS Foundation that found considerable benefits arising from the adoption of IFRS has been omitted from the SEC Staff Report.

The Foundation staff believes that some of the US’s concerns regarding cost of transition in the current economic environment and the extent of consistent application of IFRS by preparers and regulators are to do with process and enforcement, which other countries have successfully addressed, rather than fundamental issues of accounting.

The multiple challenges that the SEC staff reported regarding the adoption of IFRS have already been encountered by various IFRS jurisdictions over the years. Michel Prada, Chairman of the IFRS Foundation trustees commented, “The IFRS Foundation staff analysis ... complements the findings of the SEC Staff Report with academic research as well as the experiences of other jurisdictions that have already completed their own transitions to IFRSs. Accordingly, the analysis should also be of use to other jurisdictions that are evaluating whether and how to adopt IFRSs. While acknowledging the challenges, the analysis conducted by the IFRS Foundation staff shows that there are no insurmountable obstacles for the adoption of IFRSs by the United States, and that the US is well placed to achieve a successful transition to IFRSs, thus completing the objective repeatedly confirmed by the G20 leaders.”

In our view, much has been achieved over the last ten years, in particular, the issue of several converged standards, such as segment reporting, fair value measurement and business combinations. We welcome the fact that the Boards are continuing to work jointly on the revenue recognition and leasing projects, and urge both Boards to ensure that further divergence be kept to a minimum.
Spotlight on Canada: IFRS adoption in Canada

Overview
Publically accountable entities (PAEs) in Canada have been required to prepare and issue consolidated financial statements in accordance with IFRS beginning the fiscal year ended 31 December 2011. IFRS adoption for PAEs is one of the many changes that took place in the accounting landscape in Canada in 2011. A new accounting framework, developed by the Canadian Accounting Standards Board (the AcSB), was also required for private enterprises, with an option to adopt IFRS. The extension of the option to adopt IFRS to private enterprises has enlarged the pool of IFRS constituents in Canada. As a result, the decision to adopt IFRS has had a far-reaching impact. All of those involved with accounting and financial reporting - preparers, regulators, accounting & auditing professionals, standard setters, analysts, investors and others - have had to invest time and effort into understanding IFRS.

Nevertheless, public companies in Canada that are also SEC registrants are permitted to apply US GAAP instead of IFRS in their financial statements filed with the Canadian securities regulators. As a result, a number of such public companies continue to prepare, or have opted to apply US GAAP. In this article, we take a closer look at the Canadian conversion experience, the challenges encountered and lessons learned.

Reasons for the change and the adoption process
The decision to adopt IFRS in Canada was influenced by the global nature of many Canadian businesses and the belief held by many that a Canadian-specific reporting framework put Canadian PAEs at a disadvantage when competing for capital on a global scale. Canada accounts for only a small percentage of the world’s capital markets and the use of a globally accepted accounting framework should reduce the cost of capital by increasing access to international capital markets and reducing long-term compliance costs.

The majority of entities in Canada that adopted IFRS have now issued their first set of annual IFRS financial statements, but there still remain a number of significant public entities that have yet to report for the first time under IFRS. Most notably, the large Canadian banks that transitioned on 1 November 2011 are expected to issue their first annual IFRS financial statements for the fiscal year ended 31 October 31 2012, in December 2012.

In September 2012, the AcSB released its annual report for the 2011-12 year (the AcSB report), which included a reflection on its IFRS adoption strategy. The AcSB report notes, “The preparation of the 2011 calendar year-end financial statements and the preceding quarter-end interim reports generally went smoothly. Significant efforts by preparers and auditors were required in some entities to address last-minute issues, but the changeover had no discernible effect on the normal operation of Canada’s capital markets.”

Challenges faced in adopting IFRS
Many of the challenges faced by the Canadian entities are similar to those encountered in other jurisdictions during their transition process, including changes to IT systems and resource constraints. Despite a significant lead time between the decision to convert and the mandatory date of transition, resources were constrained as the economic downturn resulted in resources and attention being diverted to other more pressing matters in the critical period leading up to Canada’s transition date.

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Another challenge that was also common to other jurisdictions that have adopted IFRS, was the need to contain the natural bias towards the previous Canadian GAAP in the interpretation of the requirements of IFRS. There are similarities and differences between IFRS and the previous Canadian GAAP. The similarities arise because the two sets of standards are based on similar conceptual frameworks, with similar style and form of the individual standards. Areas of accounting that are substantially similar include inventories, segment reporting, and many aspects of financial instruments. However, there are also numerous significant differences. For example, impairment provisions are determined and measured differently under each of the two frameworks. Generally, impairment is triggered more often under IFRS and cannot be reversed under previous Canadian GAAP. Another area of difference is the derecognition of financial assets – under IFRS the eligibility criteria include a risk and reward assessment that is significantly different from the legal transfer-focused criteria under previous Canadian GAAP. These and other differences gave rise to significant transition adjustments for entities in Canada.

Although many entities are now reporting under IFRS, the challenges of IFRS adoption still continue. The AcSB report mentioned some of the challenges, which are outlined in Table 1.

Table 1: IFRS adoption challenges noted in the AcSB’s report and our observation of measures taken by the IFRS Foundation:

<table>
<thead>
<tr>
<th>Challenges noted in AcSB report</th>
<th>Measures taken by the IFRS Foundation</th>
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<tbody>
<tr>
<td>Accounting for rate-regulated entities:</td>
<td></td>
</tr>
<tr>
<td>“The most problematic issue arises from the lack of any specific guidance in IFRSs for reporting the effects of rate regulation. The interpretation of existing IFRSs applied to circumstances commonly prevailing in Canada’s rate-regulated industries results in information that is widely considered not to be useful to investors, lenders and other financial statement users.”</td>
<td>To address this issue, the IASB is in the process of considering developing a plan for a standards-level project for rate-regulated activities, including whether the project should include the publication of a discussion paper and whether an interim IFRS should be developed in the shorter term.</td>
</tr>
<tr>
<td>In March 2012, the AcSB decided to extend by one year the deferred IFRS transition date for entities with rate-regulated activities.</td>
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</tr>
<tr>
<td>Investment entities:</td>
<td></td>
</tr>
<tr>
<td>“Canadian investment companies are not yet reporting on an IFRS basis. Early in the process of preparing for IFRSs, the AcSB identified a significant concern about having to change the accounting for investment companies’ controlled investees. It asked the IASB to undertake a project to revise IFRSs so as to continue fair value reporting for all investments of an investment entity, and built a compelling case for doing so.”</td>
<td>In October 2012, the IASB issued an amendment to IFRS 10 Consolidated Financial Statements to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments.</td>
</tr>
<tr>
<td>Role of IFRS Interpretations Committee:</td>
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<tr>
<td>“The AcSB was not satisfied with the operations of the Interpretations Committee over the past few years because of its failure to provide much helpful guidance in the application of IFRSs.”</td>
<td>The trustees of the IFRS Foundation have undertaken a review of the efficiency and effectiveness of Committee in order to address the need for consistent application of IFRS. The trustees have taken steps in response to findings of the review.</td>
</tr>
</tbody>
</table>

Reactions to IFRS adoption and lessons learned

The IFRS adoption process has proved to be lengthy and a considerable strain on resources for many entities. Despite these difficulties and the other challenges noted above, post-IFRS transition, many entities continue to believe that adopting IFRS was the best route towards the goal of having a high-quality, globally accepted accounting framework for PAEs in Canada.

Entities in Canada are already gearing up for another round of significant accounting change with the mandatory adoption of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IFRS 13 Fair Value Measurement and the revised version of IAS 19 Employee Benefits in 2013 and the suite of changes to come when IFRS 9 becomes effective in 2015.

One of the less obvious benefits of the efforts expended on IFRS adoption and, pending the further changes to IFRS, has been the focus on accounting standards and their interpretation and application for financial reporting in general. This has led to a more in-depth understanding of accounting standards and financial statements by a broad cross-section of users and other constituents and will, undoubtedly, have a positive impact on the quality of financial reporting for years to come.
# IFRS update

## What’s new?

The following table shows new publications issued by the IASB since the last edition of *IFRS Outlook*.

<table>
<thead>
<tr>
<th>Project</th>
<th>Publication</th>
</tr>
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<tbody>
<tr>
<td>Amendment to IFRS 10 Consolidated Financial Statements</td>
<td>On 31 October 2012, the IASB issued an amendment to IFRS 10 to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9. More information on the amendment can be accessed at: <a href="http://www.ifrs.org/Current-Projects/IASB-Projects/Consolidation/IE/Pages/Investment-entities.aspx#">www.ifrs.org/Current-Projects/IASB-Projects/Consolidation/IE/Pages/Investment-entities.aspx#</a></td>
</tr>
<tr>
<td>Exposure draft – Annual Improvements to IFRSs 2011–2013 Cycle</td>
<td>On 20 November 2012, the IASB issued for public comment an exposure draft of proposed amendments to four IFRS standards under its annual improvements project. The project provides a streamlined process for dealing efficiently with a collection of narrow scope amendments to IFRS. The proposed amendments reflect issues discussed by the IASB in the project cycle that began in 2011. The exposure draft is open for comment for 90 days, with comments closing on 18 February 2013, and can be accessed at: <a href="http://www.ifrs.org/Alerts/ProjectUpdate/Pages/Annual-Improvements-Exposure-Draft-November-2012.aspx">www.ifrs.org/Alerts/ProjectUpdate/Pages/Annual-Improvements-Exposure-Draft-November-2012.aspx</a></td>
</tr>
<tr>
<td>Exposure Draft Equity Method: Share of other Net Asset Changes</td>
<td>On 22 November 2012, the IASB issued for public comment an exposure draft <em>Equity Method: Share of Other Net Asset Changes</em>, which proposes limited scope amendments to IAS 28 Investments in Associates and Joint Ventures (2011) to include guidance on how an investor accounts for its share of the changes in net assets of an associate or joint venture that are not recognised in profit or loss or other comprehensive income of the investee. The exposure draft is open for comment period of 120 days, and closes on 22 March 2013 and can be accessed at: <a href="http://www.ifrs.org/Open-to-Comment/Equity-Method-Share-of-Other-Net-Asset-Changes/Pages/Open-for-comment-Exposure-Draft-Equity-Method-November-2012.aspx">www.ifrs.org/Open-to-Comment/Equity-Method-Share-of-Other-Net-Asset-Changes/Pages/Open-for-comment-Exposure-Draft-Equity-Method-November-2012.aspx</a></td>
</tr>
<tr>
<td>Invitation to Comment: Proposal to Establish an Accounting Standards Advisory Forum</td>
<td>On 1 November 2012, the IFRS Foundation published for public comment <em>Invitation to Comment: Proposal to Establish an Accounting Standards Advisory Forum</em> containing proposals to create a new advisory group to the IASB, consisting of national accounting standard-setters and regional bodies with an interest in financial reporting. The creation of such an advisory group was one of the main recommendations in the Trustees’ strategy review, published in February 2012. The document is open for comment until 17 December 2012 and can be accessed at: <a href="http://www.ifrs.org/The-organisation/Governance-and-accountability/Documents/ASAF-Consultation-Paper-November-2012.pdf">www.ifrs.org/The-organisation/Governance-and-accountability/Documents/ASAF-Consultation-Paper-November-2012.pdf</a></td>
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<tr>
<td>IFRS for Small and Medium-sized Entities (IFRS for SMEs)</td>
<td>The IASB published October 2012 <em>IFRS for SMEs Update</em>. This is a staff summary of news relating to IFRS for SMEs and can be accessed at: <a href="http://www.ifrs.org/IFRS-for-SMEs/Pages/Update.aspx">www.ifrs.org/IFRS-for-SMEs/Pages/Update.aspx</a></td>
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Current discussions

The Boards continue to re-deliberate key projects, including: insurance; revenue; and financial instruments: classification and measurement, impairment and macro hedging. The IASB deliberated on a number of topics, including: accounting for the sale or contribution of assets between an investor and its associate or joint venture (proposed amendments to IFRS 10 and IAS 28), acquisition of an interest in a joint operation (proposed amendments to IFRS 11), the conceptual framework, and insurance.

The Committee met on 13-14 November 2012 to deliberate a number of issues, including:

► The accounting for variable payments for the separate acquisition of property, plant and equipment and intangible assets
► The accounting for employee benefits in the nature of contribution-based promises
► The accounting for different aspects of restructuring Greek government bonds
► The accounting for regulatory assets and liabilities
► The valuation of biological assets using the residual method
► The measurement of net defined benefit obligations with employee contributions
► Proposals for annual improvements 2010-2012 cycle, including: aggregation of operating segments; reconciliation of the reportable segments’ assets to the entity’s assets; valuation of short-term receivables and payables and recognition of deferred tax assets for unrealised losses
► Draft interpretation on levies
► Disclosure requirements about assessment of going concern
► Reissuing previously issued financial statements
► Determining the discount rates for measuring post-employment benefit obligations
► The accounting for mandatory purchase of non-controlling interests in business combinations

Updates from the IASB and the IFRS Interpretations Committee meetings can be found at www.ifrs.org/Updates.

IASB work plan

The IASB updated its work plan on 25 November 2012. Key changes to the work plan include:

► A new project deliberating revenue-based methods of depreciation under IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (splitting it out from the annual improvements 2011-2013 cycle), with a separate exposure draft targeted to be issued by the end of 2012.
► IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors project on effective date and transition has been withdrawn from the work plan and the issues arising from the project would be dealt with as part of the project on conceptual framework.
► Financial instruments - impairment - target date for issue of an exposure draft is first quarter of 2013 (previously last quarter 2012)
► IAS 28 project, equity method - introduction of a target date for the proposed amendments in the third quarter of 2013.

The work plan can be accessed at www.ifrs.org.
Resources

The following is a list of IFRS publications issued since the last edition of IFRS Outlook. The publications are all available at www.ey.com/ifrs.

**IFRS Developments Issues 41-47**

**Issue 41: IFRS 9 classification and measurement – IASB deliberations are now substantially complete**

This issue summarises the tentative decisions made by the IASB in September 2012 to propose amendments to IFRS 9 to allow an entity to apply the requirements for the presentation of fair value gains or losses attributable to changes in its own credit risk, without the need to early adopt IFRS 9 in its entirety.

**Issue 42: Put options written on non-controlling interests – our views**

This issue outlines our views on the proposals made by the IFRS Interpretations Committee in a recently issued draft interpretation on how a parent entity should account for a put option written on the shares of a subsidiary that is held by non-controlling interest shareholders.

**Issue 43: IFRS Foundation publishes analysis of the SEC staff’s final report on IFRS**

This issue summarises the findings and the views of the IFRS Foundation staff published in their *Report to the Trustees of the IFRS Foundation – IFRS Foundation staff analysis of the SEC Final Staff Report* addressing issues such as IFRS as global accounting standards, the IASB as a global standard setter and the challenges for US transition.

**Issue 44: Investment entities final amendment – exception to consolidation**

This issue summarises the amendment to IFRS 10 *Consolidated Financial Statements* to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity and requiring investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9.

**Issue 45: Annual Improvements to IFRS 2011-2013 cycle**

This issue summarises the proposals in the IASB’s *Annual Improvements to IFRS 2011-2013 Cycle* exposure draft that contain proposed changes to four standards, including: IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 3 *Business Combinations*, IFRS 13 *Fair Value Measurement* and IAS 40 *Investment Property*.

**Issue 46: The Boards progress on revenue recognition re-deliberations**

This issue summarises the Boards’ joint re-deliberations in November 2012 of the revenue recognition exposure draft, including on topics such as: collectability, constraint on revenue and licence arrangements.

**Issue 47: The IASB proposes limited amendments to IFRS 9 classification and measurement model**

This issue summarises the main amendments proposed in exposure draft *Classification and Measurement Limited Amendments to IFRS 9 (2010)*.

**IFRS Developments for Media & Entertainment and Technology: The Boards explore a new direction on licence arrangements**

This issue summarises the Boards' tentative decisions, during their joint meeting on revenue recognition in November 2012, to explore a new approach for the accounting of licences in response to concerns raised during the consultation process from constituents across multiple sectors such as Media & Entertainment and Technology.

**Applying IFRS**

**Applying IFRS: Fair Value Measurement**

This edition takes a closer look at the new set of requirements for measuring fair value under IFRS 13 *Fair Value Measurement*, effective from 1 January 2013.
Other Publications

IFRS Core Tools

This issue of our IFRS Core Tools comprises:

► IFRS Update for the financial year ending 31 December 2012
► Good Group (International) Limited – Illustrative financial statements for the year ended 31 December 2012
► International GAAP® Disclosure Checklist (September 2012)

Our IFRS Core Tools are designed as a set of practical building blocks that are free and provide a comprehensive basis for clients and our client-service teams to keep up with the changing landscape of IFRS. The tools are updated as of 30 September 2012 and reflect the changes for the year ending 31 December 2012.

Insurance Accounting Alert October 2012: Boards discuss recognition of acquisition costs in the pre-coverage period and accounting for insurance contracts at transition, IASB discussed exposure

This edition summarises the Boards’ joint re-deliberations in September 2012 on the IASB’s Exposure Draft, Insurance Contracts and the FASB’s Discussion Paper, Preliminary Views on Insurance Contracts. Topics discussed included, accounting for acquisition costs in the pre-coverage period and insurance contracts at transition. The IASB agreed to re-expose the proposed insurance contracts standard.

Insurance Accounting Alert November 2012: IASB and FASB continue to deliberate the insurance contracts standard

This edition summarises the Boards’ re-deliberations on the premium allocation approach as a result of the decision to allow changes in the insurance contract liabilities attributable to interest rate changes to be recorded in other comprehensive income.
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