Mazars' newsletter on accounting standards

Beyond the GAAP

No. 58 – July August 2012

Editorial

Despite the uncertainty over whether the US will eventually adopt IFRS, the IASB is continuing to make progress on its current major projects.

Deliberations are ongoing and the IASB is planning to publish exposure drafts on leases, impairment of financial assets (phase 2 of the *Financial Instruments* project) and limited amendments to the rules on classification and measurement (phase 1 of the *Financial Instruments* project) by the end of the year.

The new standard on revenue recognition is set for publication at the start of 2013 and the standard on hedge accounting is expected at the end of 2012.

Finally, the IASB has launched its first post-implementation review of a standard, namely IFRS 8 – *Operating segments.*

Happy reading!

Michel Barbet-Massin Edouard Fossat

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News

US adoption of IFRS: Trustees deplore SEC's silence

On 13 July 2012, the SEC published its final report on the work plan for the adoption of IFRS by the United States ("*Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers*").

The report comprises staff observations and analysis of the IASB's structure and activities, the robustness of the IFRS framework, and the potential impact of incorporating IFRS into the US system. Notably, the report does not provide any details or recommendations on the possible future adoption of IFRS by the US. The report can be accessed on the SEC's website via the following link: http://www.sec.gov/spotlight/globalaccountingstandards/ifrs-work-plan-final-report.pdf

In response, the Trustees of the IFRS Foundation issued a statement on 15 July 2012 in which they expressed their regret that the report was not accompanied by an action plan by the SEC for the adoption of IFRS. Their comments are available on the IASB's website at the following link: http://www.ifrs.org/Alerts/Governance/ResponseUSSECstaffreport.htm

➲ Recognition of employee benefit plans with a promised return on contributions: IFRS IC reconsiders draft interpretation

The IFRS Interpretations Committee (formerly the IFRIC) decided at its July meeting to reconsider this draft interpretation, referred to as project D9. The 2005 project was never completed, and in the end, the issues were not addressed in the revision of IAS 19 as originally planned.

At the recent meeting, the Committee reviewed the work and feedback produced in 2005.

The Committee provisionally decided to work on drafting a limited-scope interpretation, which would deal with both post-employment benefits and other long-term benefits.

The scope of the proposed interpretation would include employee benefit plans where the employer has a legal or constructive obligation to pay further contributions in the event that fund does not hold sufficient assets, if the employee benefit plan promises the following:

- a guaranteed return on actual or notional contributions; or
- any other guarantee based on the value of one or more underlying assets.

The staff will develop proposals on the measurement of this type of obligation for the Committee's next meeting in September.

We will make sure to keep you updated on the progress of the draft interpretation over the coming months.

➲ IFRS 8: IASB launches first post-implementation review

On 19 July 2012, the IASB published a Request for Information on the implementation of IFRS 8 – Operating segments.

The purpose of this document is to get feedback from the preparers and users of financial statements on the implementation of IFRS 8:

- Has the standard been implemented in the way that was intended when it was published?
- What difficulties were encountered during implementation?
- What were the costs?

This is the first time that the IASB has carried out a post-implementation review, as part of its new due process requirements.

The purpose of the exercise is to ensure that recently-published standards are monitored.

The procedure applies to important amendments and standards and should in theory take place two years after the mandatory effective date.

Following this first post-implementation review, the IASB will decide whether to:

- continue to monitor the implementation of IFRS 8, in the event that the results of the review are inconclusive;
- retain the standard in its current form, if the review has not identified any major problems; or
- revise IFRS 8 in order to remedy any problems identified.

Comment letters responding to the Request for Information should be sent to the IASB by 16 November 2012.

The Request for Information is available on the IASB's website via the following link:
http://www.ifrs.org/Current-Projects/IASB-Projects/PIR/IFRS-8/Documents/IFRS8OperatingSegments.pdf

➲ IFRS IC continues deliberations on accounting issues resulting from restructuring of Greek government bonds

This month, the IFRS Interpretations Committee considered whether paragraph AG5 of IAS 39 is restricted to instruments purchased on a secondary market, or whether it is also applicable to instruments purchased directly from the issuer at the issue date.

Readers will remember that paragraph AG5 permits expected credit losses to be taken into account, in exceptional circumstances, when determining the effective interest rate of the newly purchased instrument.

This rule applies to assets which are "purchased" with significant incurred credit losses. It is frequently used in banking operations focusing on investment in impaired assets.

IFRS

The IFRS IC confirmed that the paragraph is not restricted to instruments purchased on the secondary market and that it may, in certain situations, be applied from the date of issue.

In taking up this position, the IFRS IC has confirmed that it is technically possible to apply AG5 to an exchange transaction such as that carried out on Greek government bonds.

However, the Committee refused to comment specifically on this transaction, pointing out that judgement was necessary in order to determine whether paragraph AG5 of IAS 39 could be applied, and all the facts and circumstances needed to be taken into account.

➲ The IASB updated its work plan

The IASB updated its work plan once again in July 2012.

The main changes from the plan reported in the June 2012 issue of Beyond the GAAP are as follows:

- IFRS 9 – General hedge accounting: the publication of the review draft, which was originally timetabled for the second quarter of 2012, has been postponed to the third quarter.

  This will be incorporated into IFRS 9 in the fourth quarter of the year.
- Revenue Recognition: the IASB's work plan now includes a target date for the publication of the final standard on revenue recognition. It is expected in the first half of 2013 (whereas at the start of the redeliberations, the staff had planned to release it in the first quarter).
- Post-implementation reviews: as discussed previously in this issue, the first post-implementation review has been launched, on IFRS 8. The IASB will consider the comments received during the first quarter of 2013. The review of IFRS 3 is scheduled for launch in the last quarter of 2012.

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European matters

➲ EFRAG and ASB recommend effect analysis to improve standards development process

On 17 July 2012, the EFRAG and the ASB (Accounting Standards Board, the UK standard setter) published a Position Paper entitled *Considering the Effects of Accounting Standards*, which proposes improvements to the process of developing and implementing standards with a view to strengthening the credibility of the standard setter.

The EFRAG and the ASB believe that "effect analysis" of new standards should be taken into account throughout the standards development process, from the agenda proposal stage to development of the final standard.

The EFRAG and the ASB have limited their recommendations to sketching out a broad framework for effect analysis of new standards.

They recommend adding the following four steps to the standards development process:

- Step 1: Draw up a complete effect analysis plan, explaining the intended outcomes of the new standard at the agenda proposal stage;
- Step 2: Encourage input on expected effects when due process documents are published;
- Step 3 : Produce a document summarising all inputs from stakeholders, and make this document publicly available;
- Step 4: Assess the actual effects in the post-implementation review.

The standard setter can build on this to develop a detailed methodology for effect analysis of new standards.

The EFRAG and the ASB have notified the IASB that they are willing to contribute to this.

This document and the accompanying Feedback Statement are available on the EFRAG website via the following link: http://www.efrag.org/Front/n1-973/NewsDetail.aspx

➲ EFRAG, ANC and FRC publish Discussion Paper on disclosures in the notes

On 12 July 2012, the EFRAG, the ANC (the French standard setter) and the FRC (Financial Reporting Council) published a joint Discussion Paper entitled *"Towards a Disclosure Framework for the Notes"*, which is now open for comment.

The authors of the Discussion Paper wanted to make a contribution to the discussions under way at both the IASB and the FASB with a view to developing a framework for disclosures in the notes.

The aim is to ensure that all and only relevant information is disclosed in an appropriate manner, and to prevent extraneous detail from obscuring key information in the notes.

The authors believe that in order to develop a general framework for disclosures in the notes, it is necessary to:

- Clarify the purpose of the notes;
- Develop principles for identifying information that should be included in the notes;
- Reconsider the form of disclosure requirements: objectives-based requirements rather than a detailed list;
- Strengthen the application of the materiality principle;
- Articulate the key features of effective communication that can be applied to the notes.

The Discussion Paper also proposes a set of key principles which represent the essential qualities of an effective disclosure framework.

Comments should be sent to the EFRAG, the ANC and the FRC by 31 December 2012.

The document is available on the ANC, FRC and EFRAG websites. The link to the EFRAG site is below: http://www.efrag.org/Front/p169-2-272/Proactive---A-Disclosure-Framework-for-the-notes-to-the-financial-statements.aspx

A Closer Look

Recent progress on *Financial Instruments* project (IFRS 9)

The IASB made significant progress on the first two phases of the IFRS 9 project in its June and July meetings. It will soon be ready to publish exposure drafts on impairment (Phase 2) and on limited amendments to classification and measurement (Phase 1).

In addition, on 20 July 2012 the IASB reached some decisions on the transition requirements for all phases of the project.

In the article below, Beyond the GAAP sets out the IASB's latest tentative decisions on the *Financial Instruments* project.

➲ Impairment of financial assets (Phase II of IFRS 9)

Loan commitments and financial guarantees included in the scope of the *Impairment* project

The IASB has tentatively decided that the proposed impairment model should apply to loan commitments and financial guarantee contracts to which IAS 37 (on provisions) applies currently.

As regards loan commitments, the Boards added the following clarifications:

- This refers to instruments that create a present legal obligation to extend credit;
- When estimating expected losses over the lifetime of the commitment:
  - the lifetime of the commitment is the maximum contractual period over which the entity is exposed to credit risk;
  - the usage behaviour of the beneficiary shall also be taken into account.

The IASB reached the following tentative decisions relating to both types of contract (financial guarantees and loan commitments):

- Impairment relating to these instruments shall be recognised separately in the statement of financial position as a liability;
- The discount rate for the expected losses shall take account of the risk-free rate at the impairment date as well as the risks specific to the cash flows in question (unless these risks have already been taken into account when estimating expected losses);
- The *Impairment* project will not affect the recognition of revenue from these instruments.

Relationship between calculation of interest revenue and impairment

An entity holding financial assets which are subject to the general impairment model and which are credit-impaired at the reporting date shall recognise interest revenue calculated on the carrying amount of the assets net of the impairment allowance at the reporting date.

This evaluation shall be carried out at each reporting date and applied to the following accounting period.

Impairment of financial assets reclassified from fair value through profit or loss to amortised cost or fair value through other comprehensive income

These financial assets should be treated as if they were newly purchased at the date of reclassification.

Transition requirements

When initially applying the new impairment model, the classification of an asset in one of the three "buckets" must take account of any deterioration in the credit quality of the asset since initial recognition.

Readers will remember that assets move out of bucket 1 in the event that:

- there has been a more than insignificant deterioration in the credit quality of the asset since initial recognition in the statement of financial position (information on the asset's credit risk history is needed here); and
- it is "at least reasonably possible" that contractual cash flows may not be recovered.

However, the IASB has proposed an exemption from these transition requirements: if obtaining information on the credit risk history would incur excessive costs or effort, the asset may be classified solely on the basis of the second criterion when initially applying the new model.

Disclosures in the notes

The Boards also made progress in their discussions on disclosures to be made in the notes.

They have identified numerous quantitative and qualitative disclosure requirements, particularly as regards the procedure for estimating expected losses.

IASB makes the running, FASB drags its feet

At the July meetings, the two Boards continued to develop the proposed impairment model for financial instruments.

The FASB stated that it had consulted with certain stakeholders on the issues discussed to date. These individuals had identified a need for clarification on the procedure for estimating expected losses, particularly for assets classified in bucket 1.

The chair of the FASB said that it would not be possible for the FASB to publish an exposure draft on impairment of financial instruments until these requests for clarification had been addressed.

The IASB expressed concern regarding this hesitation on the part of the FASB, but is still planning to publish its own exposure draft in the fourth quarter of 2012. In response, the FASB reaffirmed its intention to publish an exposure draft as soon as possible after the IASB.

➲ Return to phase 1 of IFRS 9 – *Classification and Measurement*

The key elements of the IASB's most recent tentative decisions are presented below.

Clarification on the scope of the "fair value through profit or loss" option

Readers will remember that, under IFRS 9 (2010), debt instruments, which would normally be recognised at amortised cost, may in certain circumstances be optionally measured at fair value through profit or loss.

At the 13 June 2012 meeting, the IASB confirmed that this option (subject to the same conditions) would also be available to debt instruments meeting the definition of the "fair value through other comprehensive income" category, which was reintroduced at the May meeting (see Beyond the GAAP N°56, May 2012).

Accounting procedure for reclassifications

As stated in the May 2012 issue of the Beyond the GAAP, the IASB has decided to retain the current IFRS 9 criteria for reclassification of financial assets from one category to another.

Accounting consequences of a reclassification linked to a change in business model

IFRS 9 already has specific requirements relating to the accounting consequences of reclassification to and from the "Amortised cost" and "Fair value through profit and loss" categories (cf. § 5.6).

As a result, the IASB only discussed the effects of reclassifications to and from the "Fair value through other comprehensive income" category.

- When assets are reclassified from fair value through other comprehensive income (FVOCI) to fair value through profit or loss (FVPL), the amounts accumulated in OCI are "recycled" to profit or loss and the assets continue to be measured at fair value;
- When assets are reclassified from FVPL to FVOCI, any changes in fair value after the reclassification date are recognised in OCI. The financial assets continue to be measured at fair value in the statement of financial position;
- When assets are reclassified from amortised cost to FVOCI, the financial assets are remeasured at fair value on the reclassification date and any difference between the amortised cost and the fair value is recognised in OCI;
- When assets are reclassified from FVOCI to amortised cost, the financial assets are measured at fair value on the reclassification date. However, the amounts accumulated in OCI are derecognised through OCI with an offsetting entry against the financial asset balance. As a result, the financial assets will be measured at the value they would have had if they had always been classified in the amortised cost category. This accounting treatment differs from that stipulated in IAS 39 for reclassifications from the available for sale (AFS) category to one of the categories measured at amortised cost.

Disclosures on reclassifications to be provided in the notes

The IASB has decided to extend the requirements of IFRS 7 (cf. § 12B to § 12D) to include reclassifications to or from the FVOCI category.

Transition requirements for the limited amendments to IFRS 9

The IASB had already decided to relax the conditions stipulated in IFRS 9 (2010) for classification of debt instruments in the "Amortised cost" category (see Beyond the GAAP N° 53, February 2012), while retaining the requirement that these instruments must have contractual cash flows which are solely payments of principal and interest (P&I).

At the meeting on 20 July 2012 (without the FASB), the IASB confirmed that these amendments would be applicable retrospectively.

In cases where it is impracticable to analyse contractual cash flows in line with the amended IFRS 9, the instrument shall be classified in line with the contractual cash flow criteria set out in IFRS 9 (2010). This is also applicable retrospectively.

However, specific disclosures will be required in the notes for such instruments (until they exit the entity's statement of financial position).

➲ Transition requirements for IFRS 9

- Entities which have already opted for early adoption of IFRS 9 (2009) and/or IFRS 9 (2010):
  - must revoke FVO (fair value option) elections prior to initial application of the limited amendments to IFRS 9, if there is no longer a need for them (e.g. if the accounting mismatch no longer exists under the new classification and measurement regime);
  - will be permitted to apply the FVO to certain instruments if this avoids new accounting mismatches created by the requirements of the amendments;
  - may continue to apply a previous version of IFRS 9 (i.e. the 2009 and/or 2010 version) if they have already opted for early adoption, until the mandatory effective date of IFRS 9 (currently expected to be 1 January 2015).
- Once all the phases of the project have been finalised, it will no longer be possible for entities to opt for early adoption of previous versions of IFRS 9.
- Early application of the entire standard will be permitted once all the phases of the project have been finalised.
- The IASB has also confirmed the current IFRS 9 requirements on comparative information (introduced by the December 2011 amendment): there is no longer a requirement to restate comparative information on the classification and measurement of financial instruments for periods preceding the adoption of IFRS 9. However, the Board stated that entities will still have the option of providing restated comparative information, on condition that reliable, unbiased information can be obtained on the conditions during these past periods.

Finally, the IASB announced in the webcast of its online conference on 30 and 31July that the *Macro hedging* phase will no longer form part of the IFRS 9 project, and instead will have a whole new standard devoted to it. The current IAS 39 requirements on portfolio hedging will remain in force until the new standard is published.

For more information, the webcast is available via the following link:
http://www.ifrs.org/Meetings/LiveupdateFinInst.htm

Revenue recognition project: redeliberations have begun!

As announced in the June 2012 issue of Beyond the GAAP, the IASB and FASB began joint redeliberations on the revenue recognition project in July. The redeliberations follow comments from stakeholders on the second exposure draft on the subject, which was published in November 2011.

The following issues were discussed at the meeting:

- identifying separate performance obligations;
- performance obligations satisfied over time;
- licences and rights to use;
- identifying losses resulting from onerous performance obligations.

It should be emphasised that the decisions presented below are still tentative. They will not be definitive until the IASB publishes the final standard, which is expected to happen in the first half of 2013.

Having said that, stakeholders will be relieved to discover that the IASB and FASB are currently planning to remove from the future standard all the proposals on identifying losses resulting from onerous performance obligations. Instead, the requirements of IAS 37 for onerous contracts will be applicable to all contracts with customers which fall within the scope of the future revenue recognition standard.

> *The accounting treatment for onerous contracts will thus be identical to current requirements*

Identifying separate performance obligations

The two Boards clarified the rules on identifying separate performance obligations.

In July 2012, the two Boards (tentatively) decided:

- to retain the concept of a distinct good or service, which determines whether a separate performance obligation must be recognised in situations where a contract involves the transfer of more than one good or service;
- to improve the criteria in the future standard which determine whether or not a good or service is "distinct";
- to remove the simplification option in paragraph 30 of the exposure draft, which permitted an entity to recognise several goods or services as a single performance obligation "if they have the same pattern of transfer to the customer".

What determines whether a good or service is "distinct"?

In practice, a promise to a customer to transfer a good or service (or a group of goods or services) should only be recognised as a separate performance obligation if:

- the promised good or service is "capable of being distinct" because the customer can benefit from the good or service either in isolation or by combining it with other readily available resources; and if
- the promised good or service is distinct "within the context of the contract" because the good or service is not highly dependent on, or closely related to, other goods or services in the contract.

The assessment of whether a good or service is "distinct" must be supported by indicators, which will be added to the final standard.

Below, we have listed the indicators as stipulated in the July 2012 IASB Update, word for word:

- *"The entity does not provide a significant service of integrating the good or service (or bundle of goods or services) into the bundle of goods or services that the customer has contracted. In other words, the entity is not using the good or service as an input to produce the output specified in the contract.*
- *The customer was able to purchase or not purchase the good or service without significantly affecting the other promised goods or services in the contract.*
- *The good or service does not significantly modify or customise another good or service promised in the contract.*
- *The good or service is not part of a series of consecutively delivered goods or services promised in a contract that meet the following two conditions:*
  - *the promises to transfer those goods or services to the customer are performance obligations that are satisfied over time (in accordance with paragraphs 35 of the 2011 ED); and*
  - *the entity uses the same method for measuring progress to depict the transfer of those goods or services to the customer."*

Removal of the simplification option which permitted an entity to recognise several goods or services as a single performance obligation "if they have the same pattern of transfer to the customer".

This option provoked numerous questions from commenters.

Although it was generally correctly understood as referring to distinct goods or services transferred to the customer simultaneously, there were questions as to the Boards' intentions for contracts involving consecutive transfer of repeated services (e.g. a two-year office cleaning contract which stipulates that the office will be cleaned every working day) or of homogenous goods (e.g. a contract for providing a predetermined quantity of energy each day at a fixed price, over a two-year contract).

The final indicator given above for determining whether a good or service is distinct within the context of a given contract ("The good or service is not part of a series of consecutively delivered goods or services") resolves the practical difficulties in dealing with situations where goods or services are transferred consecutively.

A new practical simplification is proposed for situations where two conditions are met: the transfer of goods and services occurs on a continuous basis over time, and the entity uses the same method to measure progress for all the goods and services.

Moreover, the staff felt that there was no need for a practical simplification for distinct goods or services that are transferred simultaneously, whether or not they are related, and that practical solutions would come about naturally and evolve over time.

It should be noted that the staff did not exclude the possibility, in practice, of recognising a single performance obligation for distinct goods and services transferred simultaneously, if they have the same pattern of transfer to the customer.

➲ Performance obligations satisfied over time

Analysis of stakeholders' comments revealed generally positive reactions to the list of criteria in § 35 of the exposure draft, used to determine when revenue should be recognised over time. However, these criteria also needed some refining. In July 2012, the IASB and the FASB (tentatively) decided to:

- retain the criterion set out in paragraph 35(a) of the exposure draft, according to which the entity's performance must create or enhance an asset (e.g. work in progress) which the customer takes control of as it is created or enhanced. This criterion will primarily apply to construction contracts (e.g. when an entity builds a house on land owned by the customer);

- combine the sub-criteria set out in paragraphs 35(b)(i) “the customer simultaneously receives and consumes the benefits of the entity’s performance as the entity performs” and 35(b)(ii) “another entity would not need to substantially re-perform the work the entity has completed to date if that other entity were to fulfil the remaining obligation to the customer”. This will eliminate the confusion that was created by juxtaposing the two sub-criteria. The combined criterion will apply to “pure service” contracts;
- link the criterion of no alternative use more closely with the sub-criterion in paragraph 35(b)(iii) of the exposure draft, namely the entity’s right to payment for performance completed to date. This would make it easier for stakeholders to conclude that control of the promised good or service is transferred to the customer on a continual basis over time, in the event that the other criteria have not already led to this conclusion.

The Boards also decided to clarify the following points in the final standard:

- Demonstrating the right to payment: this right should be enforceable. In order to assess whether this is the case, an entity should take account of the terms of the contract with the customer, as well as any legislation or legal precedent that could override these contractual terms;
- The concept of “alternative use”: this must be assessed at the start of the contract and the entity must assess whether it could easily reallocate the partially completed asset to another customer throughout the production process.

Licences and rights to use

Following comments from stakeholders, the staff recommended that the Boards should rework the guidance on contracts which include the transfer of a licence or right to use.

In practice, the following questions need to be considered:

- Has the entity promised to transfer other goods or services to the customer in addition to the licence?
- If yes, is the licence distinct from the other goods or services promised in the contract? and
- When the entity transfers a distinct group of goods or services including a licence, at what point does control transfer to the customer, allowing revenue to be recognised? (i.e. is control transferred over time, or at a given moment?)

The two Boards requested the staff to carry out further analysis and put the topic on the agenda for a future meeting.

Identifying losses resulting from onerous performance obligations

As noted in the introduction to this section, this issue was met with general disapprobation from stakeholders from the start of the project, and saw a significant U-turn from the two Boards in July 2012. They decided to reject the staff recommendation that the final standard should include a requirement to identify and measure losses resulting from contracts with customers.

Thus, 12 members of the IASB (out of 15) disagreed with the staff recommendation. The FASB’s veto was less striking, with a small majority disagreeing (4 out of 7). The FASB also said that it would consider the possibility of undertaking a separate project to develop new guidance on onerous contracts.

For practical purposes, the two Boards decided to retain the current requirements, namely IAS 37 for IFRS and “subtopic 605-35, Revenue Recognition-Construction Type and Production-Type Contracts” for US GAAP.

Leases: continued redeliberations

In our June 2012 issue, we set out the Boards' latest decisions, which represent a significant turnaround from the original proposals for a new leases standard.

Readers will remember that the Boards finally recognised that there are two types of lease:

- Leases which involve recognising decreasing expenses over the lifetime of the lease (amortisation expense on the right of use asset, usually straight-line + decreasing interest expense for reimbursement of the lease liability) – *Interest and Amortisation approach* (I&A);
- Leases which involve recognising straight-line lease expenses over the lifetime of the lease – *Single Lease Expense approach* (SLE).

Building on this new basic principle, the Boards discussed the following issues, among others:

- Lessee accounting: presentation and disclosures in the notes
- Lessor accounting: measuring the leased asset in the event of early termination of the lease

Lessee presentation

The Boards' decisions, as presented below, only relate to leases for which a straight-line lease expense is recognised over the lifetime of the lease (SLE).

Statement of financial position

The lessee must:

- either present the right of use and the lease liabilities (i.e. the obligation to make lease payments) as separate line items in the statement of financial position;
- or, if they are not presented separately, disclose the respective amounts of the right of use and the lease liabilities in the notes, as well as indicating in which line items they are included.

The right of use must be presented in the statement of financial position as if the underlying asset (i.e. the leased asset) were owned by the lessee.

Statement of cash flows

Lease payments shall be classified within operating activities.

The purchase of the right of use is deemed to be a non-cash transaction as defined in IAS 7, so will not affect the statement of cash flows.

Lessee disclosures

The lessee should disclose the following in the notes:

- A maturity analysis which sets out the future undiscounted cash flows relating to leases;
- A reconciliation of these amounts to the total debt (lease liabilities) recorded in the statement of financial position for leases;

- A reconciliation of the opening and closing balances of lease liabilities for the period (including the impact of discounting, i.e. the interest expense) for I&A leases;
- A reconciliation of the opening and closing balances of lease liabilities for the period (including the impact of discounting, i.e. the interest expense) for SLE leases;
- A reconciliation of the opening and closing balances of right of use assets for the period, for both I&A and SLE leases, broken down by type of leased asset.

Finally, the disclosure requirements on lease costs incurred in the reporting period only relate to variable payments that are not taken into account when measuring the lease liability.

➲ Lessor accounting: measuring the leased asset in the event of early termination of the lease

For leases recognised using the receivable and residual approach, the lessor should re-recognise the leased asset in the statement of financial position and measure it as follows in the event that the lease is terminated prematurely:

- the carrying amount of the lease receivable, plus
- the carrying amount of the net residual asset.

How should an investor account for contributing a subsidiary to a joint venture?

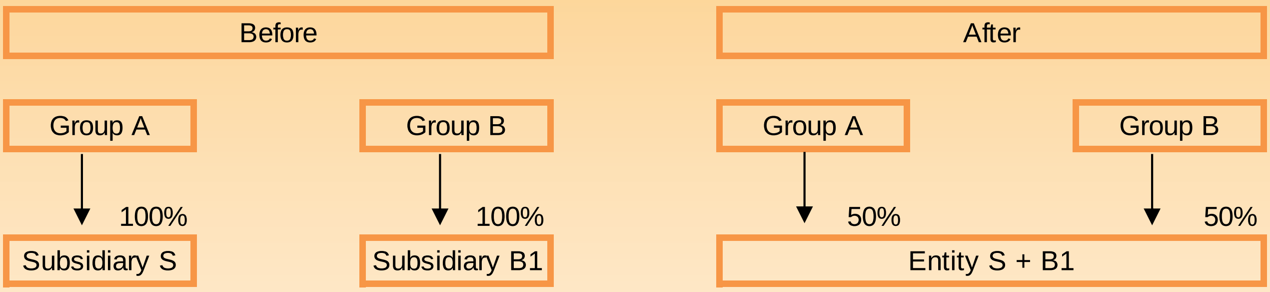
Accounting for an investor's contribution of a subsidiary to a joint venture is not straightforward under the current IFRS, and it is thus helpful that the IFRS Interpretations Committee (formerly the IFRIC) recently addressed this subject.

Beyond the GAAP reviews the issues below, and sets out the Committee's latest thoughts on the subject.

➲ A reminder of the issues

When a group contributes a subsidiary to a jointly controlled entity, should the investor recognise full gains or losses, or should it only recognise gains or losses to the extent of the interest attributable to the other partner in the jointly controlled entity?

Illustrative example



Should the investor recognise 50% or 100% of gains or losses?

The emphasis placed on loss of control by the new IFRS 3R and IAS 27R standards has led to an inconsistency with the accounting treatment of contributions to a joint venture:

- According to interpretation SIC 13 – *Jointly Controlled Entities – Non-monetary contributions by venturers*, the gain or loss from selling an asset to a joint venture must be recognised in the consolidated accounts of the venturer to the extent of the interest now owned by the other venturer(s).
- On the other hand, the IASB states that loss of control is a major event and it is therefore necessary to remeasure any retained portion at fair value through profit or loss (cf. IAS 27R.34 / IFRS 10.25).

The IASB has acknowledged that there is an inconsistency between SIC 13 and IAS 27R (cf. December 2009 Board meeting).

Thus, as things stand currently, it would appear that both options (partial gain or loss vs. total gain or loss) are possible.

However, the IASB has stated its intention of modifying the standards in order to uphold the principle set out in SIC 13 (i.e. recognising a partial gain or loss, cf. the December 2009 issue of IASB Update).

➲ Recent developments

As discussed above, interpretation SIC 13 limits the gain or loss recognised for the sale of a non-monetary asset to a jointly controlled entity.

At the start of 2012, the IFRS Interpretations Committee (formerly the IFRIC) was asked whether or not a business, as defined in IFRS 3, met the definition of a non-monetary asset.

At its May 2012 meeting, the Committee examined the following three options:

1. Account for all contributions to a jointly controlled entity in line with IAS 27 / IFRS 10 (i.e. total gain or loss)
2. Account for all contributions which meet the definition of a business (as defined in IFRS 3) in line with IAS 27 / IFRS 10 (i.e. total gain or loss), while other contributions are accounted for in line with SIC 13 (i.e. partial gain or loss)
3. Account for all contributions in line with SIC 13 (i.e. partial gain or loss)

The majority of the Committee members felt that the first approach was the most suitable from a conceptual point of view, but this would mean addressing numerous practical issues, which would take time (and would therefore delay the resolution of the inconsistency).

As a result, the Committee opted for the second alternative. Under this option, the principles introduced in IFRS 3R / IAS 27 – which involve recognising the total gain or loss when control is lost – would only apply to transfers of businesses, not to transfers of isolated assets.

The long-term goal, bearing in mind the effective dates of new standards and the time necessary to modify existing standards, is to change IAS 28 (2011 version, incorporating SIC 13) and IFRS 10.

The Board will discuss this issue at its September 2012 meeting.

➲ Publication

Publication of a new issue of *Mazars Insights*

The *Beyond the GAAP* team has just published a new issue of *Mazars Insights*, entitled "IFRS 13 "Fair Value Measurement" – Key points of the new standard in 40 questions and answers".

It explains some of the key concepts involved in fair value, including the following:

- the concept of the exit price, which may cause practical difficulties in measuring some assets and liabilities at initial recognition; and
- the concept of measuring fair value from the point of view of a market participant, as opposed to measurement based on the intentions or characteristics of the entity which owns the asset or liability to be measured.

It uses concrete examples to demonstrate the issues raised by these concepts, and draws on the views of our experts in the actuarial, banking, property, transaction services and insurance fields to set out the likely effects of IFRS 13 in practice.

This new issue of *Mazars Insights* will be available on our website www.mazars.com, under the 'Our Expertise' tab.

➲ Frequently asked questions

IFRS

- Accounting for service concession arrangements: the construction and operation of infrastructure
- Sale and leaseback of real estate complexes
- Sale of 50% of a subsidiary to a third party: what level of control is retained? What are the accounting consequences of this sale?
- Measurement of biological assets

Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

IASB	Committee	EFRAG
16 - 20 July 2012	10 - 11 July 2012	23 - 25 July 2012
24 - 28 September 2012	18 - 19 September 2012	5 - 7 September 2012
25 - 16 October 2012	13 - 14 November 2012	3 - 5 October 2012

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The drafting of the present edition was completed on 21 August 2012
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