Mazars' newsletter on accounting standards

Beyond the GAAP

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Editorial

Once again, year-end reporting has come around! Unfortunately, you might be tempted to say. As in 2011, it's not the new accounting texts which will make this a tricky exercise; it's the background of crisis. Yet again, much is expected of issuers in terms of the quality and clarity of their disclosures, in particular regarding the impairment of financial and non-financial assets, the discount rate of future pension liabilities, and provisions for risks and expenses. This is what emerges from ESMA's recommendations.

As for the IASB, apart from the new calls for comments, what primarily stands out is Hans Hoogervorst's forthright speech on the Leases project. Will it be enough to silence the critics?

Happy reading!

Michel Barbet-Massin — Edouard Fossat

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News

Public forum on the disclosure overload in financial statements

On 12 November 2012, the IASB announced that it will host a public forum to consider the disclosure overload in financial statements.

The forum, to be held in London on 28 January 2013, will bring together the various stakeholders - investors, preparers, auditors, regulators and standard-setters, users of financial statements and the IASB.

It will provide an opportunity for dialogue about how to improve the usefulness and clarity of disclosures in financial statements.

Commenting on this future event, Hans Hoogervorst, Chairman of the IASB said:

- that it was clear that financial statements are suffering from disclosure overload,
- that all the stakeholders needed to get together to discuss the way forward,
- that rapid progress was unlikely to be made.

For more details of this event, see the IASB press release at: http://www.ifrs.org/Alerts/PressRelease/Pages/IASB-hosts-public-forum-to-discuss-disclosure-overload.aspx

The IASB updated its work plan

On 4 December 2012, the IASB made the following changes to its work plan:

- *IFRS 9: Impairment*: the publication of the exposure draft, initially expected in Q4 2012, is now expected in Q1 2013;
- *IFRS 9: Classification and Measurement*: on 28 November 2012, the IASB published a new ED proposing limited amendments to IFRS 9;
- *IFRS 9: Hedge Accounting:* publication of the final standard has been delayed until Q1 2013;
- *Annual improvements 2011-2013*: the IASB has issued its draft 2011-2013 IFRS amendments, and expects to publish the final text in Q3 2013 (see below);
- *Annual improvements 2012-2014*: the IASB announced the publication of a project for the cycle 2012-2014 in Q3 2013;
- *IAS 28: Equity Method: Other Net Asset Changes* : the IASB has published a draft amendment to IAS 28 and expects to complete the project in Q3 2013 (for more details on this project see the Study below);
- *IAS 16/IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation:* on 4 December 2012, the IASB published a draft amendment intended to prohibit the use of a revenue-based depreciation or amortisation method. It expects to issue a definitive text in Q3 2013.

Publication of the 2011-2013 Cycle of *Annual improvements*

On 20 November 2012 the IASB published its draft IFRS improvements 2011-1213, accompanied by a call for comments by 18 February 2013.

The minor amendments proposed by the IASB relate to:

- IFRS 1, *First-time Adoption of International Financial Reporting Standard: Meaning of effective IFRSs*

  The IASB proposes to clarify that a first-time adopter has the choice between applying a currently effective IFRSs or a new IFRS that is not yet mandatory, provided that early application is permitted.

  The IASB also proposed to clarify that a first time adopter is required to apply the same version of IFRS throughout the period covered by its first IFRS financial statements.

- IFRS 3 *Business combinations: Exclusion of joint arrangements from the scope.*

  The IASB proposes to exclude the formation of all types of joint arrangements as defined in IFRS 11 from the scope of IFRS 3 (i.e. joint ventures and joint operations). This exclusion only applies to the financial statements of the joint venture or the joint operation itself.

- IFRS 13 – *Fair value measurement:* scope of paragraph 52 (portfolio exception)

  The IASB proposes to clarify that the portfolio exception (permitting an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis if the entity manages that group of assets and liabilities on the basis of its net exposure to either market risk or credit risk) applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities in IAS 32.

- IAS 40 *Investment Property*: Interactions between IFRS 3 *Business combinations* and IAS 40 when property is classified as investment property.

  The IASB proposes to clarify that judgement is required to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination within the scope of IFRS 3. The IASB does not regard IFRS 3 and IAS 40 as mutually exclusive. A separate analysis must be conducted to determine whether the transaction meets the definition of a business combination and whether the asset is an investment property as defined.

These amendments will be of mandatory application to current financial periods at 1 January 2014. Early application is permitted.

The exposure draft can be accessed on the IASB web site at: http://www.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/Exposure-Draft-and-comment-letters-Nov-2012/Documents/ED_Annual%20Improvements_web_with%20bookmarks.pdf

IFRS

Publication of investment Entity amendments

On 31 October 2012, the IASB published the final text of its Investment Entities project, in the form of amendments to IFRS 10 - *Consolidated Financial Statements,* IFRS 12 - *Disclosure of Interests in Other Entities* and IAS 27 - *Separate Financial Statements*.

These amendments are aimed at a particular category of entities which the IASB calls "Investment Entities", whose purpose is to make investments for capital appreciation, investment income, or both. The IASB expects these entities to include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds.

The amendments published provide an exception from the requirement to consolidate the entities they control, and instead require them to recognise their investments in subsidiaries at fair value in profit or loss.

The IASB has determined that these amendments should be of mandatory application to current financial periods at 1 January 2014. Early application is possible.

It should be remembered that the consolidation package, to which this amendment relates is expected to be endorsed in Europe by the end of the year, and that in June 2012 ARC approved the deferment of mandatory application to current financial periods at 1 January 2014.

The amendments which have just been published will therefore not be effective until 1 January 2014.

Leases project: IASB Chairman goes on the offensive

In recent weeks many voices have been raised against the future draft standard on leases.

During a speech delivered on 6 November 2012 at the London School of Economics and Political Science, the IASB's Chairman, Hans Hoogervorst, went on the offensive, urging national regulators and standard-setters to support the IASB-FASB joint project to bring greater transparency to the accounting treatment of leases.

Mr Hoogervorst noted that the existing accounting treatment was one of the main reasons why so much company's financing was off-balance sheet.

He also emphasised that measures to increase transparency in financial statements had often provoked orchestrated resistance by powerful lobbies.

However, over time these advances had come to be accepted and regarded as normal and generally recognised practices.

Mr Hoogervorst hoped that the praiseworthy efforts of the IASB and the FASB would be internationally acknowledged and supported so that the leases project could indeed come to fruition.

The speech can be accessed on the IASB web site at: http://www.ifrs.org/Alerts/Conference/Documents/HH-LSE-November-2012.pdf

Limited draft amendments to IAS 16 and IAS 38 on methods of depreciation or amortisation

On 4 December 2012, the IASB published a limited draft amendment to IAS 16 and IAS 38 intended to prohibit the use of revenue-based depreciation or amortisation methods.

The IASB considers that revenues reflect the economic benefits generated by the asset, rather than the expected pattern of consumption of the future economic benefits embodied in the asset. Additionally, methods based on revenues would not comply with the principles of depreciation and amortisation set out in IAS 16 and IAS 38, which are based on the consumption of economic benefits.

The draft amendment suggests that application should be retrospective, but gives no indicated of the anticipated effective date.

The final date for comments is 2 April 2013. The IASB's exposure draft can be consulted at: http://www.ifrs.org/Current-Projects/IASB-Projects/Depreciation-and-Amortisation/Exposure-Draft-and-comment-letters-[Dec-2012]/Documents/ED-Clarification-of-Acceptable-Methods.pdf

IFRS

➲ Reopening IFRS 9 phase 1, Classification and measurement: exposure draft published

On 28 November 2012, the IASB published an exposure draft of the future amendment to IFRS 9 which aims to modify some of the rules for the classification and measurement of financial assets (phase 1 of IFRS 9).

This exposure draft mainly aims to:

- clarify the application of the "principal and interest" criterion which has to be met in order to classify a financial asset in a category other than fair value through profit and loss;
- provide more practical examples of the activities that meet the definition of the "hold to collect" business model, under which a financial asset can be recognised at amortised cost;
- extend the scope of the fair value through OCI category to include financial assets that are "debt" instruments with contractual cash flow characteristics which meet the "principal & interest" criterion and are held within a business model in which assets are managed both in order to collect contractual cash flows and for sale. Note that the gains or losses on these assets recognised in OCI may be recycled in profit or loss when the assets are derecognised. The recyclable nature of amounts initially recognised in OCI does not however extend to equity instruments.

Stakeholders' comments are invited until 28 March 2013.

➲ Impairment of financial assets (Phase II of IRFS 9/ Impairment) – final deliberations

In November 2012 the IASB held several meetings on the impairment of financial assets, one of which was devoted to the presentation of the FASB model known as the 'Current Expected Credit Loss Impairment Model'.

However, the IASB still wishes to finalise the impairment model which emerged from the compromise with the FASB (for more details, see Beyond the GAAP no 60).

Other sessions have therefore focused on the finalisation of this approach.

The main decision taken by the IASB during these meetings has been to amend the criterion which triggers the recognition of lifetime expected losses.

According to the new version of the general model, an asset would be reclassified out of the bucket 1 once a significant deterioration in credit quality since initial recognition has been identified.

To facilitate the operational management of this approach, the IASB has tentatively decided on a number of simplifications:

- Assets considered as "Higher credit quality assets" at the time of acquisition will be transferred outside the first bucket 1 when their quality deteriorates to below 'investment grade'. The term 'investment grade' will not be used in the final standard. Instead, specific application guidance will be added to clarify the criterion. We understand that this proposal of the IASB aims to refocus the analysis on the changes in the likelihood of default.
- Assets which are **30 days past due** will be assumed to fulfil the conditions for transfer the bucket 1. If this assumption were to be rebutted, disclosures explaining this decision would be required.

The IASB noted that it has now completed the technical discussions, and that it expects to publish an exposure draft on the new impairment model during the first quarter of 2013.

Standards and interpretations applicable at 31 December 2012

Now that accounts are being finalised for 31 December 2012, Beyond the GAAP presents an overview of the IASB's most recent publications. For each text, we clarify whether it is mandatory for this closing of accounts, or whether early application is permitted, based on the EU endorsement status report (Position as at 9 November 2012).

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

- IASB's draft standards cannot be applied as they do not form part of the published standards.
- IFRS IC's draft interpretations may be applied if the two following conditions are met:
  - The draft does not conflict with currently applicable IFRSs;
  - The draft does not modify an existing interpretation which is currently mandatory.
- Standards published by the IASB but not yet adopted by the European Union may be applied if the European adoption process is completed before the date when the financial statements are authorised for issue, by the relevant authority (i.e. usually the board of directors).
- Interpretations published by the IASB but not yet adopted by the European Union at the end of the reporting period may be applied unless they conflict with standards or interpretations currently applicable in Europe.

It should also be noted that the financial statement disclosures of an entity applying IFRSs must include the list of standards and interpretations published by the IASB but not yet effective that have not been early applied by the entity. In addition to this list, the entity must provide an estimate of the impact of the application of those standards and interpretations.

Situation of European Union adoption process for standards and amendments published by the IASB

Standard	Subject	Effective date according to the IASB	Date of publication in the OJEU	Application status on 31 December 2012
IFRS 7	Disclosures of transfers of financial assets [1]	**1/07/2011** Early application permitted	**23 November 2011**	**Mandatory**
IFRS 9	Financial Instruments (standard intended to gradually replace the provisions of IAS 39)	**01/01/2015** Early application permitted	Endorsement postponed	**Not permitted**
IFRS 13	Fair Value Measurement	**1/01/2013** Early application permitted	ARC vote 01/06/2012 Endorsement expected in Q4 2012	**Not permitted [2]**

[1] For more details, see "Beyond the GAAP No 56.

[2] Except if the European adoption process is completed before the date when the financial statements are authorised for issue

A Closer Look

Standards	Subject	Effective date according to the IASB	Date of publication in the OJEU	Application status on 31 December 2012
IFRS 10	Consolidated Financial Statements	**01/01/2013** Early application permitted	ARC vote 01/06/2012 Mandatory to financial year starting on 01/01/2014. Early application permitted Endorsement expected in Q4 2012	**Not permitted** [1]
IFRS 11	Joint Arrangements	**01/01/2013** Early application permitted		**Not permitted** [1]
IFRS 12	Disclosures of interests in Other Entities	**01/01/2013** Early application permitted		**Not permitted but an entity may voluntarily provide information required by IFRS 12** (in addition to information required by current standards).
IAS 27R	Separate Financial Statements	**1/01/2013** Early application permitted		**Not permitted** [1]
IAS 28R	Investments in Associates and Joint Ventures	**1/01/2013** Early application permitted		**Not permitted** [1]
Amendments to IAS 12	Recovery of Underlying Assets	**1/01/2012** Early application permitted	ARC vote 01/06/2012 Endorsement expected in Q4 2012	**Not permitted** [1]
Amendments to IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters	**1/07/2011** Early application permitted		**Possible**
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income	**1/07/2012** Early application permitted	**6 June 2012**	**Not permitted**
Amendments to IAS 19	Employee Benefits	**1/01/2013** Early application permitted	**6 June 2012**	**Permitted**

[1] *Except if the European adoption process is completed before the date when the financial statements are authorised for issue*

Standard	Subject	Effective date according to the IASB	Date of publication in the OJEU	Application status on 31 December 2012
Amendments to IFRS 1	Government Loans	**1/01/2013** Early application permitted	ARC vote 05/10/2012 Endorsement expected in Q1 2013	**Permitted**
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities	**1/01/2013** Early application permitted	ARC vote on 01/06/2012 Endorsement expected in Q4 2012	**Permitted**
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities	**1/01/2014** Early application permitted		**Not permitted [1]**
Improvements to IFRS (2009-2011)	Annual improvements to various standards (text issued by the IASB on 17 May 2012).	**01/01/2013** Early application permitted	ARC vote 25/10/2012 Endorsement expected in Q1 2013	**Permitted[2]**
Amendments to IFRS 10, IFRS 11 and IFRS 12	Transition Guidance	**01/01/2013** Early application permitted	ARC vote 30/10/2012 Endorsement expected in Q1 2013	**Not permitted [1]**
Amendments to IFRS 10, IFRS 11 and IFRS 12	Investment Entities	**01/01/2014** Early application permitted	Awaiting endorsement by the EU (expected in Q3 2013)	**Not permitted**

[1] *Except if the European adoption process is completed before the date when the financial statements are authorised for issue*

[2] *If the amendment is a clarification of an existing standard and is not in contradiction with current standards*

➲ Situation of the European Union adoption process for interpretations published by the IFRS Interpretations Committee

Interpretation	Subject	Effective date according to the IASB	Date of publication in the OJEU	Application status on 31 December 2012
IFRIC 20	Stripping Costs in the Production Phase of o Surface Mine	**01/01/2013** Early application permitted	ARC vote 01/06/2012 (Endorsement expected in Q4 2012	**Permitted**

A Closer Look

What are the ESMA recommendations for the 2012 reporting period?

On 12 November 2012, ESMA published its recommendations for 2012. Once again, these recommendations arrive against a background of crisis which has led the European regulator to highlight the following subjects:

- impairment of non-financial assets;
- financial assets (exposure, impairment etc.);
- discount rates to be applied when measuring post-employment benefit obligations;
- provisions that fall within the scope of IAS 37.

Beyond the GAAP presents the main recommendations to be taken into account at the 2012 year-end.

Financial Instruments

Sovereign debt

Since the eruption of the Greek crisis, investors have paid close attention to the impact of exposure to sovereign debt. In 2011, ESMA published recommendations for the treatment of sovereign debt in IFRSs.

The European regulator now repeats these recommendations, stressing the following aspects:

- The provision of country by country disclosures, detailing the gross and net exposure;
- The presentation of exposure to non-government counterparties by type (banks, local authority, etc.);
- Clarifying the impact of credit derivatives (CDS) on risk management and distinguishing instruments sold from instruments purchased.

Financial instruments subject to risk

Because of the current environment, the European regulator attaches particular importance to the transparency of entities' disclosures on risk-bearing financial instruments.

Entities must provide disclosures enabling investors to evaluate:

- the significance of financial instruments for the entity's financial position and performance;
- the nature and extent of the risks arising from these financial instruments and how the entity manages those risks.

ESMA requires the rigorous application of IRFS 7, including:

- Disclosures by class of financial instruments (IFRS 7 paragraph 6);
- For each significant risk exposure, quantitative and qualitative disclosures reflecting the nature of the risk and the evaluation of the financial instruments (IFRS 7 paragraph 6);
- A detailed analysis of the concentrations of the risks identified, indicating for each the factors of concentration and the amount of the associated exposure.

Impairment of financial assets

European enforcers have observed divergent practices in the indices of the loss of value of financial assets, in particular:

- the application of the 'significant or prolonged' criteria used for the determination of the decline in value of an equity instrument classified as held for sale;
- the evaluation of impairment and the disclosures provided by financial institutions when a loan is renegotiated with customers experiencing a period of financial stress.

ESMA recommends entities to:

- Clarify the criteria applied to determine a 'significant or prolonged' loss of value, and provide explicit disclosures in the event of modification, indicating its impact;
- Provide quantitative and qualitative information about debts which are renegotiated in the accounts of the lending institutions.

➲ Impairment of non-financial assets

The regulator notes that current economic situation increases the likelihood that the recoverable value of non-financial assets will be less than their carrying value. Similarly, the market value of a significant number of quoted companies has fallen below their book value.

Furthermore, assessing future cash flows requires considerable judgement, and is subject to higher levels of uncertainty.

In general, when value in use is determined, European regulators noted a lack of sufficiently CGU-specific qualitative and quantitative disclosures.

ESMA therefore recommends entities to:

- Provide less aggregated disclosures;
- Indicate the key assumptions used, as well as the consistency of those assumptions with past experience;
- Include a sensitivity analysis for each key assumption where necessary.

➲ Post-employment benefits

What rate should be used in the year-end accounts to discount post-employment benefit obligations?

The rate used to discount post-employment benefit obligations must be determined by reference to market yields at the end of the reporting period based on high quality corporate bonds.

This concept of high quality corporate bonds has always been interpreted as corresponding to a rating of AA or higher, although this is not established in any official IFRS text (US GAAP interpretation).

Because of the current economic situation, high quality corporate bond rates have changed significantly, and the ratings of many corporate entities have been downgraded.

Against this background, the question arose of what the concept of high quality corporate bonds meant, and whether the reference to high quality corporate bonds could include the bonds of entities with a lower rating than previously (i.e. AA or above).

A Closer Look

This issue has been put before the IFRS IC, which began its deliberations at its November 2012 meeting. However, it has as yet issued no opinion, and has indicated (IFRIC Update of November) that discussions will continue during its forthcoming sessions.

Pending the completion of this work, ESMA recommends that in the 2012 year-end accounts:

- entities should not change their approach to determining discount rates;
- they should disclose the way in which the discount rate was determined.

These recommendations also seem to be in line with the IFRS IC's thinking.

What disclosures should be given by entities that have not opted for early application of IAS 19R?

IAS 19 Revised will be applicable to reporting period beginning as of 1 January 2013. Where entities have not opted for early application of a new standard, which has been published but which is not yet effective, IAS 8 requires them to provide a description of the expected impact of first application on the financial statements (unless this impact is unknown, or cannot reasonably be estimated).

In its recommendations, ESMA:

- states that it expects that this quantitative information will be provided in the 2012 IFRS financial statements; and
- notes that the main effects of this standard relate to the elimination of the corridor, changes in the assessment of interest revenues from plan assets and how service cost is accounted for.

➲ Provisions that fall within the scope of IAS 37

The measurement of provisions involves significant judgement and is subject to higher levels of uncertainty today.

There is a strong link between provisions and the risks an entity is subject to. Hence, the quality of disclosures on provisions is a key aspect for the transparency of the financial statements.

ESMA notes that disclosures on provisions often provide only aggregated qualitative and quantitative information.

In its recommendations, the regulator calls for entities to:

- Adapt the disclosures required by IAS 37 to reflect the risks attached to the entity's activities;
- Avoid boilerplate wording and provide a sufficient level of detail to present the financial consequences of risks that are dissimilar in nature (for example, avoiding providing significant amounts without detail under an 'Others' category);
- Be as transparent as possible on the uncertainties attached to the judgements involved in these assessments.

Proposed amendments to IAS 28: Share if Other Net Asset Changes

On 22 November 2012, the IASB published a draft amendment to IAS 28, aiming to clarify the investor's accounting treatment of its share of other net asset changes in the investee.

➲ IAS 28 is clear as to the accounting treatment of some components...

IAS 28 is clear as to the accounting treatment of some components, such as:

1. The investee's gains or losses

In the investor's accounts, after taking account of both valuation adjustments (based on the fair value of the investee's assets at the acquisition date) and restatements for homogeneity, the investment in an associate is increased or decreased to recognise the investor's share of the profit or loss of the investee (on the line "Share of profit of associates").

2. The other components accounted for in equity (by the investee)

In the investor's accounts, the investment in an associate is increased/decreased by the investor's share in the investee's OCI (preferably on specific lines, e.g. "Share of other comprehensive income of associates")

> Examples include changes in the fair value of assets held for sale (AFS), the revaluation of tangible or intangible assets, foreign exchange translation differences, actuarial gains and losses linked to pension obligations, etc.

3. The distribution of dividends by the investee

In the investor's accounts, this leads to a decrease in investment in an associate equal to the amount of cash received.

➲ ... while the treatment of other components is less clear...

However, other components impact the equity of the investee, without any clear guidance in the standard of the accounting treatment applicable in the investor's accounts.

These components include:

- the purchases (or issues) of shares by the investee;
- the operations carried out by the investee with the non-controlling interests in its own subsidiaries (purchase of non-controlling interests, or sale of shares in subsidiaries to minority shareholders);
- Changes in equity linked to shared-based transactions, that is to say, the corresponding entry (in equity) of the IFRS 2 expense.

In other words, IAS 28 does not set out a clear counterpart for changes other than the investee's result, other comprehensive income and the dividend distributed by the investee.

… which has led the IASB to propose the following changes:

The IASB proposes:

- To confirm that the investor must take account of the various components affecting its share in the investee's net position;
- To recognise, in the investor's equity, its share of the changes in the equity of the investee that are linked with the other aspects listed above.

> *Example (drawn from the amendment)*
>
> An investor has a 30% investment in X and has significant influence over X. X issues additional shares to parties other than the investor.
>
> X's net assets rise from 1000 to 1500; while the investor's share of X decreases to 25% (the investor retains significant influence over the investee).
>
> Net share in assets before: 30% x 1000 = 300
>
> Net share in assets after: 25% x 1500 = 375
>
> The increase of 75 must be recognised in equity in the investor's accounts.

As a corollary, the draft proposes to eliminate the proportional recycling, in profit or loss, of the components accounted for in other comprehensive income (OCI) in the event of a reduction in the percentage held.

It should be remembered that in July 2009, as a result of this specific guidance for OCI, the IFRIC had considered that the dilution of the investment should be accounted for in profit or loss.

- To reclassify in profit or loss, when significant influence is lost, the amounts previously accounted for in equity (i.e. a mechanism analogous to recycling foreign exchange translation differences, changes in the fair value of shares held for sale (AFS), etc., when control of a subsidiary is lost).

An intense debate in the IASB

The IFRS IC initially considered (see IFRIC Update of March 2012) that reductions in the percentage held should be accounted for in profit or loss. This approach was consistent with the position already taken on this same subject in July 2009.

Given the complexity of the subject, due to the wide range of causes of changes in the investee's equity, the IFRS IC suggested restricting the scope of the amendment.

In June and July 2012, the Board of the IASB rejected both:

- the restricted nature of the amendment, wanting to treat all changes uniformly, however caused;
- the proposal for recognition in profit or loss, considering that recognition in equity was preferable.

The main aim of the Board seems to have been to find a tentative solution to this issue, and to put an end to diverse practices.

The arguments put forward were insufficiently convincing by one member of the Board, who disagreed with the project and stated that the amendment was inconsistent with various aspects of IFRSs.

➲ What are we to think?

The amendments put forward by the IASB have the merit of setting out a simple accounting treatment applicable to all the changes in the equity of the investee which are not the result of operations, or of components recognised in OCI.

However, we may wonder about the relevance of a single accounting approach to situations as diverse as, for example, shared-based payments by the investee or unequally subscribed capital increases.

Were the IASB's proposal to be confirmed, it would also have the effect of:

- amending the very widespread existing practice of accounting for dilutions in profit or loss, in the same way as reductions in the percentage held after a partial disposal of the equity-accounted shares;
- creating a new type of equity recyclable in profit or loss, which does not correspond with the components initially accounted for in Other Comprehensive Income.

Given the discussions that have already been held in the IFRS IC and the Board, it is reasonable to assume that this draft will attract many comments.

The final date for comments is 22 March 2013. The draft amendment suggests that application should be retrospective, but gives no indication of the anticipated effective date.

On-going joint redeliberations on Revenue Recognition

In November 2012, as part of the redeliberations on this project, and with a view to publication of the final standard during the first half of 2013, the IASB and the FASB returned to two subjects on which the two Boards had been unable to reach a decision:

- constraining the cumulative amount of revenue recognised;
- collectibility.

Constraining the cumulative amount of revenue recognised

The two Boards have tentatively decided (unless, during the drafting process of the final standard, it becomes apparent that such a decision will result in unintended consequences) to move this constraint to step 3 as presented in the draft standard (i.e. determination of the transaction price) rather than step 5 as suggested in the November 2011 exposure draft (i.e. constraint applied when – or as – the entity fulfils a performance obligation, that is to say, when revenue is recognised).

The two Boards believe that this decision will have no impact on either the amount of revenue recognised or the timing of revenue recognition.

The two Boards have also clarified that the objective of the constraint on revenue recognition is for an entity to recognise revenue at an amount that should not be subject to significant downward adjustments that might arise from subsequent changes in the estimate of the amount of variable consideration to which the entity is entitled.

This assessment, based on the entity's experience, is qualitative and should be made considering the relevant facts and circumstances. The level of confidence that an entity would need to achieve to recognise revenue should be 'relatively high' for an entity to recognise revenue for variable consideration.

Collectibility

On the topic of collectibility, the two Boards have finally opted to affirm the general principles set out in the second exposure draft of November 2011, namely:

- the measurement of revenue should not take account of customer credit risk, and the revenue recognised is not subject to a collectibility threshold; and
- any impairment losses corresponding to the revenue recognised (whether recognised initially or subsequently) must be presented 'prominently as an expense in the statement of comprehensive income'.

  Note, however, that the wording used in the IASB Update of November 2012 suggests that the presentation of this expense on a separate line <u>adjacent to the revenue line</u>, as the exposure draft clearly required for contracts concluded with customers which do not include a significant financing component, would no longer be necessary.

  Finally, it was decided to adopt a different approach to contracts concluded with customers which include a significant financing component (confirming the proposals in the second exposure draft).

Events

The application of IRFS 7 in the financial communication of industrial and services entities

2007 saw the entry into force of IFRS 7, *Financial Instruments: Disclosures* which calls for greater transparency and sets out the main guidelines for the presentation of disclosures on financial instruments.

The most recent amendment to IFRS 7 on enhancing disclosures about transfers of financial assets came into effect on 1 July 2011. Four years after the first study conducted by Mazars, this is an opportunity to revisit the subject of disclosures on financial instruments by industrial and services entities in France.

This new study is available on our website: www.mazars.fr under Notre Expertise/Publications Techniques.

Frequently asked questions

- Accounting for the hedging of a cash-settled share-based payment transaction;
- Hedging a commercial paper issuance programme;
- Foreseeable consequences of the Revenue Recognition project for a service provider;
- Grant of a put to the minority shareholders in a subsidiary, where the conditions of exercise are controlled by the majority;
- Change of method for the recognition of actuarial gains and losses.

Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

IASB	Committee	EFRAG
12 - 19 December 2012	22 - 23 January 2013	12 - 14 December 2012
25 - 31 January 2013	12 - 13 March 2013	16 - 18 January 2013
18 - 21 February 2013	15 - 16 May 2013	27 February – 1 March 2013

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MAZARS