

Beyond the GAAP

No.56 – May 2012

There are not very many new standards for mandatory application to the 2012 reporting period, which is welcome news at the time when half-yearly accounts are under preparation. Only the IFRS 7 amendment on disclosures on financial assets may prove complex to apply.

This is only a temporary respite, however, and now is the time to prepare for tomorrow's changes. The Accounting Regulatory Committee (ARC) has recently voted to endorse the new standards on consolidation. These will most probably come into force on 1 January 2014. As to the accounting for the subsequent liability recognised for NCI puts, the stranglehold is tightening with the publication of a draft interpretation proposing that all changes in the measurement of NCI puts must be recognised in profit or loss.

Enjoy your reading!

Michel Barbet-Massin

Edouard Fossat

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News

Adoption of IFRS by the United States: Europe will have to wait a little longer!

In his speech of 9 May 2012 to the 35th Congress of the Europe Accounting Association, Steven Majoor, Chair of ESMA (the European Securities and Markets Authority), urged the SEC (Securities and Exchange Commission) to send a clear message on the potential adoption of IFRSs by the United States.

Less than two weeks later, Elisse B. Walter, one of SEC Commissioners, gave a speech at the annual dinner of the Financial Accounting Foundation in which she announced the imminent publication of the SEC's final report on the Work Plan. However, despite expectations, she was unable to provide any information about the next steps in the potential adoption of IFRSs by the US.

A new member at the IASB

On 18 May 2012, the Trustees of the IFRS Foundation announced the appointment of Martin Edelmann to the IASB. Mr Edelmann, who formerly served on the German accounting standards board GASB (2006 – 2011), former Head of Group Reporting at Deutsche Bank AG (1997 -2011) and former chairman of the German banking association (2004 – 2011) will take up his position, for an initial five-year term, on 1 July 2012.

IFRS

➤ The IASB and the FASB analyse reactions to the second ED on revenue from contracts with customers

In May 2012, the two Boards considered a summary of stakeholder responses to their new proposals for the recognition of revenue from contracts with customers.

Since the finalisation of the 2nd exposure draft in September 2011, the IASB and the FASB have received the views of stakeholders through a wide range of outreach activities (webcasts, podcasts, participation in conferences, etc.) and via the call for comments which closed on 13 March 2012. More than 350 comment letters have been received.

Overall, the stakeholders welcomed both the decision taken by the IASB and the FASB to re-expose their proposals, and the improvements made to the first exposure draft of June 2010.

Nonetheless, many explanations and clarifications are still needed in key areas, such as the criteria for recognising revenue from performance obligations satisfied over time, or the identification of separate performance obligations. Stakeholders believe that these clarifications are necessary to arrive at a model which is practically applicable.

In particular, the two Boards need to reach a final position on areas which are still very contentious, namely the requirement to identify the onerous nature of a transaction at the level of each performance obligation rather than for the contract as a whole, and the quantity of disclosures to be given with the annual and interim financial statements (unsurprisingly, a matter of some dispute between preparers and users).

The two Boards have endorsed a schedule of redeliberations for the forthcoming months, commencing in July 2012. If matters advance as anticipated, the final standard will be published in Q1 2013. No date of first application has been decided at present, since the transition requirements have yet to be discussed.

Next month, Beyond the GAAP will report in detail on stakeholders' comments in response to this second exposure draft on revenue recognition.

➤ IASB rules on transition requirements for IFRS 10

The IASB has again discussed the transition requirements for IFRS 10 at its May 2012 meeting, after considering the 64 comment letters received after publishing the exposure draft in December 2011. The goal of this work is to clarify the transition requirements for this standard, mandatory as of 1 January 2013 (subject to endorsement by the European Union), in the wake of the questions posed to the IFRS Interpretations Committee.

The IASB has tentatively decided:

- to specify that, in IFRS 10, the 'date of initial application' would be defined as 'the beginning of the reporting period in which IFRS 10 is applied for the first time';
- to clarify that an entity is not required to make adjustments to the accounting for its involvement with an entity that was disposed of, or for which control was lost, in the comparative period(s). In practice, an issuer will therefore not be required to restate retrospectively the comparative periods presented if an entity which was unconsolidated under IAS 27/SIC 12 but which would have been consolidated under IFRS 10 (or vice versa) has been disposed of before 1 January 2013;
- to clarify how an investor shall retrospectively adjust comparative periods when the consolidation conclusion at 1 January 2013 is not the same under IAS 27/SIC-12 and IFRS 10. The amendments will also clarify that when an investor must consolidate an entity that was not previously consolidated, and control was obtained before the effective date of the 2008 revisions to IFRS 3 and IAS 27, an entity can apply either the revised versions of those standards or the previous versions to make the necessary adjustments. This last subject was not among the questions addressed in the exposure draft of December 2011. The IASB is therefore responding to the additional comments made by some stakeholders.

At a forthcoming meeting, the Board will discuss whether this transition relief in respect of IFRS 10 should also be provided for first-time adopters of IFRSs.

IFRS

➤ Transition to IFRS 10, IFRS 11 and IFRS 12: the IASB proposes to simplify the required disclosures

In response to particular comments regarding questions which were not specifically asked in the exposure draft on IFRS 10 about transition requirements, the IASB has decided to propose some further simplifications for the transition to IFRS 10, IFRS 11 on Joint Arrangements and IFRS 12 on Disclosures of Interests in Other Entities.

Amendments will therefore be published:

- to limit the requirement to provide adjusted comparative information to only the preceding comparative period (i.e. when an entity has to present two comparative periods in order to comply with local regulatory requirements), since IAS 1 only requires the presentation of a single comparative period. Additional comparative periods may still be presented, on condition that it is made clear on the face of the financial statements that these earlier periods have not been adjusted;
- for the first year that IFRS 12 is applied, to remove the requirement to present comparative information for the disclosures related to unconsolidated structured entities.

However the IASB again refused to postpone the effective date of IFRS 10 (and hence also of IFRS 11 and IFRS 12), despite fresh calls from some stakeholders.

➤ IASB to publish a limited exposure draft proposing amendments to IAS 8 on changes in accounting policies

At its May 2012 meeting, the IASB considered questions arising from its call for comments launched in October 2010 as part of the Request for Views on effective dates and transition methods of current projects.

Stakeholders had suggested that the IASB should reconsider certain provisions in IAS 8 on the information to provide in the event of retrospective changes in accounting policies (the default treatment where a new or amended standard contains no specific transition requirements).

The Board addressed the following subjects:

- **Adjusting comparative information:** the IASB does not want to amend the provisions of IAS 8 under which, in the event that accounting policies are changed, the comparative periods presented should all be restated (i.e. as if the new accounting policy had always been applied). The Board confirmed that adjustments could not be limited to the single comparative period presented (as required under IAS 1) if preparers presented more than one comparative period in order to comply with local laws or regulations. However, the IASB noted that this issue would be better considered as part of a broader scope project, such as its future work on a presentation and disclosure framework;
- **Disclosure of the impact of a required change in accounting policy in the current period:** the Board tentatively agreed to remove this requirement when the change of policy is a result of the publication of a new standard, on the grounds that the costs of this exercise would exceed the benefits. This would oblige preparers to maintain the previous accounting policy for an additional year in order to measure the difference between the two policies. The Board also tentatively agreed to decide on a case-by-case basis whether additional disclosures are needed when a change of policy required by a new IFRS does not require retrospective application, rather than in accordance with IAS 8;
- **Disclosure of the impact of a voluntary change in accounting policy in the current period:** the Board decided to retain this disclosure requirement;
- **Disclosures about published standards which are not yet effective:** the IASB agreed to retain the requirement to disclose the possible impact of forthcoming IFRSs that are not yet effective. However, these disclosures would only be necessary for IFRSs that were published by the end of the reporting period. This clarifies divergent practices in this area.

An exposure draft is expected to be published in the second half of 2012 with a 120-day comment period.

➤ IASB public consultation on the work plan: feedback statement expected shortly

In May 2012, the IASB discussed the contents of forthcoming feedback statement to be published in Q2 2012. This document will summarise the main messages received by the IASB as a result of the late 2011 agenda consultation.

IFRS

It will also indicate the Board's responses and will serve as the basis for planning the work to be conducted over the next three years, when the next agenda consultation will take place.

The IASB unanimously supported the following main guidelines:

- organising a public forum to assess strategies for improving the quality of disclosures, within the existing disclosure requirements;
- giving priority to work on the Conceptual Framework project, which had been suspended while the IASB made decisions about its future work plan. The joint IASB/FASB project was divided into eight phases, of which only Phase A on the objectives and qualitative characteristics of financial disclosures has been completed (September 2010);
- limiting the subjects to be considered for the publication of new standards or amendments, in view of stakeholders' call for a period of calm. In the next few months, the IASB will work on amendments to IAS 41 – Agriculture; rate regulated activities; and the use of the equity method in separate financial statements;
- initiating an ambitious research programme on the following subjects: determining discount rates; the equity method of accounting; extractive activities/intangible assets/R&D; financial instruments with the characteristics of equity; foreign currency translation; non-financial liabilities; and financial reporting in high-inflation and hyperinflationary economies;
- continuing research on emissions trading schemes and business combinations under common control (drawing for this second subject on the work of EFRAG and the Italian standard setter OIC);
- finally, establishing a consultative group to assist the IASB with accounting matters related to Shariah law.

Apart from these major projects, the IASB will devote a considerable part of its resources to updating existing IFRS, not least through holding the "post-implementation reviews" which are now part of its due process.

A review of the problems arising from the application of IFRS 8 has been launched under this heading, and a request for information is also likely to be published during Q2 2012.

➤ Publication of the 2009-2011 Cycle of Annual improvements

On 17 May 2012, the IASB published its amendments to IFRS resulting from the 2009-2011 cycle of Annual improvements:

- IFRS 1: Repeat application of IFRS 1;
- IFRS 1: Borrowing costs;
- IAS 1: Clarification of the requirements for comparative information;
- IAS 16: Classification of servicing equipment;
- IAS 32: Tax effect of distribution to holders of equity instruments;
- IAS 34: Interim financial reporting and segment information for total assets and liabilities.

These minor amendments will be of mandatory application to annual periods beginning on or after 1 January 2013, with early application authorised.

According to the EFRAG timetable updated at 6 June 2012, the European Union is expected to endorse this text during Q1 2013.

➤ Impairment of financial assets (Phase II of IFRS 9/ Impairment) – on-going deliberations

During the May 2012 meetings, the two Boards have continued to develop a new model for the impairment of financial instruments based on the expected loss approach. A first joint meeting was held on 21 May 2012, and the IASB dealt with certain of its own specific issues on 22 May 2012.

Impairment of lease receivables (joint IASB – FASB session of 21 May 2012)

The Boards have decided that lease receivables will follow the same impairment model as trade receivables with a significant financing component (see Beyond the GAAP, February 2012).

Entities could therefore elect to apply:

- the general 'three-bucket' model, or

- a simplified approach consisting of recognising lifetime expected losses at initial recognition and throughout the life of lease receivables. This approach is 'simplified' because an entity would not be required to track credit deterioration through the buckets of the 'three-bucket' model in order to determine whether a transfer is necessary.

Impairment of modified financial assets (IASB-only session of 22 May 2012)

The IASB also discussed how an entity should impair contractually modified financial instruments which do not meet the IAS 39 criteria for derecognition¹.

The Board tentatively decided that modified financial assets should be considered for transfer in the same way as other (non-modified) assets within the general 'three-bucket' impairment model² (no automatic transfer of modified assets to another bucket).

However, the Board also agreed that assets should be transferred out of bucket 1 when the entity identifies:

- a more than insignificant deterioration in the credit quality of the asset since the date of initial recognition (and not on the date of modification of the asset), and
- the likelihood that contractual cash flows may not be recoverable is at least "reasonably possible". For modified assets, the contractual cash whose recoverability is to be assessed correspond to the new modified cash flows.

Similar principles underlie the transfer of modified assets back into bucket 1.

¹ If the modification leads to the derecognition of the instrument, followed by the recognition of a new asset, the new instrument will follow the general model.

² For more details on the criteria for transfers between buckets, see *Beyond the GAAP* December 2011.

➤ Reopening IFRS 9 phase 1, classification and measurement

Introduction of the "Fair value through Other Comprehensive Income" category for some debt instruments

IFRS 9, published by the IASB in 2009, sets out two measurement categories for debt instruments: amortised cost and fair value through profit or loss (FVPL).

In order to be measured in the amortised cost category, the instrument must fulfil two conditions:

- the financial asset must have the contractual characteristics of a debt instrument (its contractual cash flows must remunerate the time value of money and the credit risk of the asset);
- the instrument must be managed under a "hold to collect contractual cash flows" business model

By default, all other debt instruments are measured at fair value through profit or loss.

During the May 2012 meeting, the IASB tentatively decided to introduce a third category for debt instruments, Fair Value through Other Comprehensive Income (FVOCI). This classification only applies only to instruments:

- whose contractual flows meet the conditions for inclusion in the amortised cost category (i.e. solely Principal & Interest features);
- but which are managed in accordance with a mixed business model whose objective is both to hold the financial assets to collect contractual cash flows and to sell the financial assets.

The future IFRS 9 amendment will provide application guidance on the types of business activities that would qualify for this new business model.

Under this approach, the classification of debt instruments would thus depend on two categories defined in positive terms (amortised cost and fair value through other comprehensive income) and a residual/default category: Fair value through profit or loss. The accounting treatment of debt instruments classified in this new category would be the following:

- Presentation in the statement of financial position at fair value;
- Recognition in profit or loss of the same impacts as for an instrument measured at amortised cost (interest income calculated using the effective interest rate method, impairment, etc.);
- Recognition of the residual change of fair value not accounted for in profit or loss (as set out in the previous point) in other comprehensive income. The cumulative fair value gain or loss recognised in OCI should be recycled from OCI to P&L when these financial assets are derecognised.

Reclassification between financial asset categories

The IASB decided to retain the existing IFRS 9 rules on reclassification:

- reclassification must take place when, and only when, the business model changes;
- the Board expects such changes to be very infrequent in practice.

➤ Publication of two draft interpretations for comments

On 31 May 2012, the Interpretations Committee (formerly IFRIC) published two draft interpretations:

- *DI/21012/1: Levies Charged by Public Authorities on Entities that Operate in a Specific Market*: this draft interpretation, open for comments until 2 September 2012, addresses accounting for levies due from entities operating in a specific market, and more particularly the event which triggers recognition of the liability;
- *DI/2012/2: Put Options Written on Non-controlling Interests*: this draft interpretation, open for comments until 1 October 2012, deals with accounting for changes in the liability recognised for sales options granted to the minority shareholders of subsidiaries, or "NCI puts", and states that changes in the liability should in future be recognised in profit or loss.

The two exposure drafts, which will be considered in more detail in a future edition of *Beyond the GAAP*, can be consulted on the IASB web site:

<http://www.ifrs.org/Open+to+Comment/International+Accounting+Standards+Board+-+Open+to+Comment.htm>

European matters

➤ Endorsement of amendments to IAS 19 and IAS 1

On 5 June 2012, the European Commission endorsed the amendments to IAS 19¹ and IAS 1 (Regulation (EU) No 475/2012, published on 6 June 2012 in the Official Journal).

It will be recalled that the IAS 19 and IAS 1 amendments published by the IASB on June 16 2011 are of mandatory application to annual periods beginning on or after 1 January 2013 and 1 July 2012. Early application is permitted.

These amendments can therefore be applied from the interim financial report at 30 June 2012.

¹For more details on the amendments to IAS 19, see *Beyond the GAAP* July-August 2011.

➤ ARC supports the postponement of the mandatory application date of the consolidation package

On 1 June 2012, the Accounting Regulatory Committee (ARC) voted to endorse the "consolidation package" of standards published in May 2011 by the IASB: IFRS 10, IFRS 11, IFRS 12, IAS 24 R and IAS 24 R.

ARC voted on a regulation that required these standards to be applied, at the latest, as from the commencement date of a company's first financial year starting on or after 1 January 2014, whereas the IASB had set this date at 1 January 2013. Early application is possible from the date of endorsement by the European Union.

However, the European endorsement process is not yet completed. The European Parliament and the EcoFin Council both hold a right of veto which might lead to the rejection or amendment of the endorsement regulation. Unless rejected, final endorsement by the European Commission is expected in Q4 2012.

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Standards and interpretations applicable at 30 June 2012

To coincide with the preparation of interim financial reports, Beyond the GAAP presents an overview of the IASB's most recent publications. For each text, we clarify whether it is mandatory for this closing of accounts, or whether early application is permitted, based on the EU endorsement status report (Position as at 6 June 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 are published standards.
- IFRIC's draft interpretations may be applied if the two following conditions are met:
 - The draft does not conflict with currently applicable IFRSs;
 - The draft does not modify an existing interpretation which is currently mandatory.
- Standards published by the IASB but not yet adopted by the European Union may be applied if the European adoption process is completed before the interim financial reports have been approved by the relevant authority (i.e. usually the board of directors).
- Interpretations published by the IASB but not yet adopted by the European Union at the end of the interim financial reporting period may be applied unless they conflict with standards or interpretations currently applicable in Europe.

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

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

Standard	Subject	Effective date according to the IAS	Date of publication in the OJEU	Application status on 30 June 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

¹ For more details, see "A Closer Look" below.

Standard	Subject	Effective date according to the IAS	Date of publication in the OJEU	Application status on 30 June 2012
IFRS 10	Consolidated Financial Statements	01/01/2013 Early application permitted	ARC vote 01/06/2012 Mandatory to financial year starting on or after 01/01/2014 Endorsement expected in Q4 2012	Not permitted
IFRS 11	Joint Arrangements	01/01/2013 Early application permitted		Not permitted
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
IAS 28R	Investments in Associates and Joint Ventures	1/01/2013 Early application permitted		Not permitted
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
Amendments to IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters	1/07/2011 Early application permitted	ARC vote 01/06/2012 Endorsement expected in Q4 2012	Permitted
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income	1/07/2012 Early application permitted	6 June 2012	Permitted
Amendments to IAS 19	Employee Benefits	1/01/2013 Early application permitted	6 June 2012	Permitted

A Closer Look

Standard	Subject	Effective date according to the IAS	Date of publication in the OJEU	Application status on 30 June 2012
Amendments to IFRS 1	Government Loans	1/01/2013 Early application permitted	Awaiting endorsement by the EU (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	ARC vote on 01/06/2012 (Endorsement expected in Q4 2012)	Not permitted
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	Awaiting endorsement by the EU (expected in Q1 2013)	Permitted¹

¹ Unless conflict with standards or interpretations currently applicable in Europe

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

Interpretation	Subject	Effective date according to the IAS	Date of publication in the OJEU	Application status on 30 June 2012
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	01/01/2013 Early application permitted	ARC vote on 01/06/2012 (Endorsement expected in Q2 2012)	Permitted

IFRS 7 amendments: disclosures on the transfer of financial assets

The IFRS 7 amendment on disclosures on the transfer of financial assets, endorsed by the European Union last November (Regulation (EC) No 1205/2011 of 23 November 2011), is of mandatory application to annual reporting periods beginning at 1 July 2011.

In this issue, Beyond the GAAP considers the origins of the amendment, its scope and the definitions in the text, and details the nature of the disclosures which must be made.

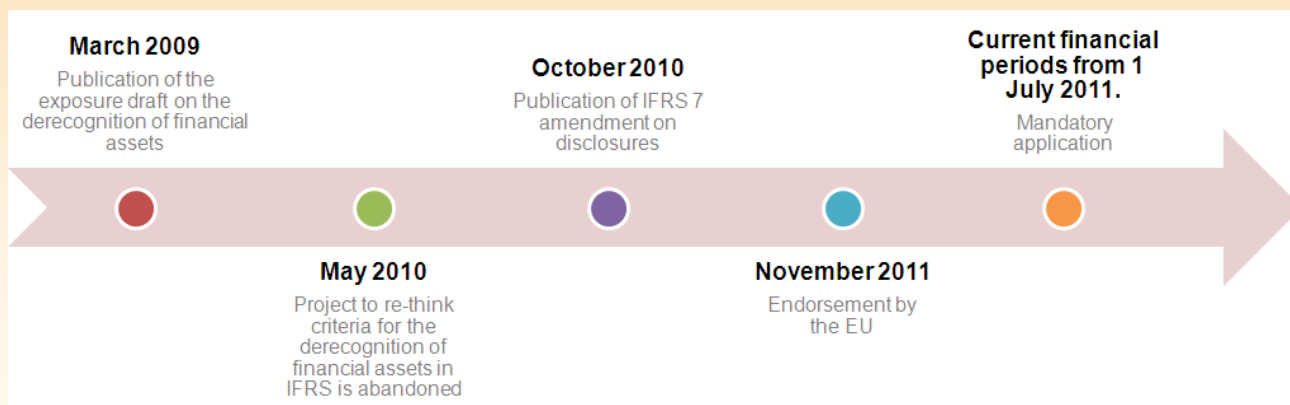
➤ Origin of the project

The origin of this text lies in the project to re-think the criteria for the derecognition of financial assets.

It will be remembered that the IASB published an exposure draft in March 2009 setting out a new approach to the derecognition of financial assets.

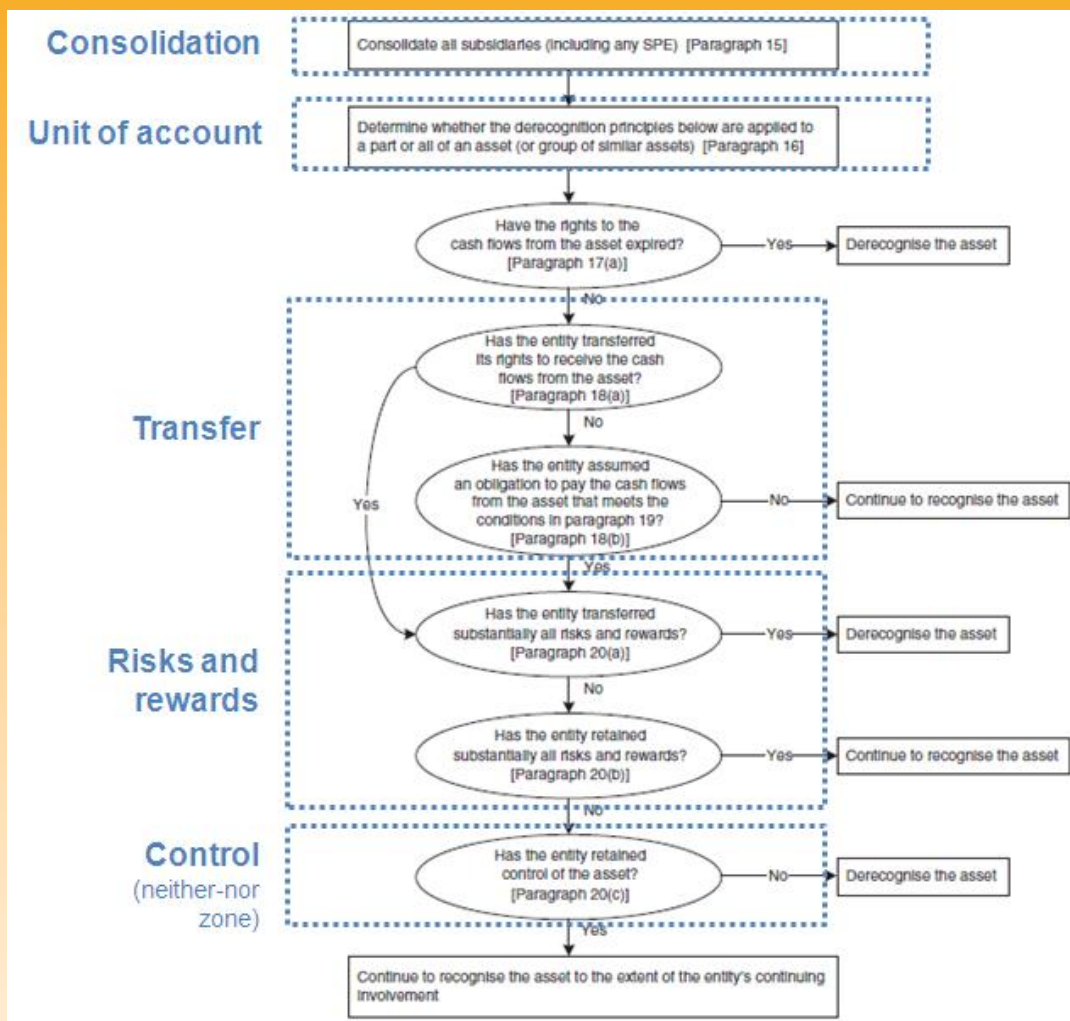
In May 2010, the IASB decided to revise its original objective, limiting the project to an improvement of the disclosures required on the transfers of financial assets. The Board explained that this decision was mainly motivated by the following:

- The derecognition criteria for financial assets set out in IAS 39 had shown themselves to be sound during the financial crisis;
- Defining a derecognition approach which was convergent between IFRS and the US GAAP appeared to be a difficult objective to achieve.



➤ Reminder of 3 possible outcomes of the derecognition analysis under IAS 39

The derecognition of financial assets in IFRSs is analysed in accordance with the decision tree presented in IAS 39 AG36 and reproduced below.



According to this decision flow chart, three outcomes are possible when financial assets are transferred:

Conclusion on Derecognition	Corresponding situation
<p>Transferred financial assets are not derecognised</p>	<ul style="list-style-type: none"> ➤ Absence of transfer meeting the requirements of the standard (no transfer of contractual rights to cash flows and absence of “pass through arrangement” under IAS 39 §19) ➤ The entity retains substantially all risks and rewards associated with the transferred asset
<p>Transferred financial assets are derecognised in their entirety</p>	<ul style="list-style-type: none"> ➤ The entity transfers substantially all risks and rewards associated with the asset ➤ The entity neither transfers nor retains substantially all risks and rewards associated with the asset, but it has not retained control of the asset
<p>Transferred financial assets are partly derecognised: the entity continues to recognise the asset to the extent of its continuing involvement</p>	<ul style="list-style-type: none"> ➤ The entity neither transfers nor retains substantially all risks and rewards associated with the asset, but it has retained control of the asset

➔ Scope and definitions

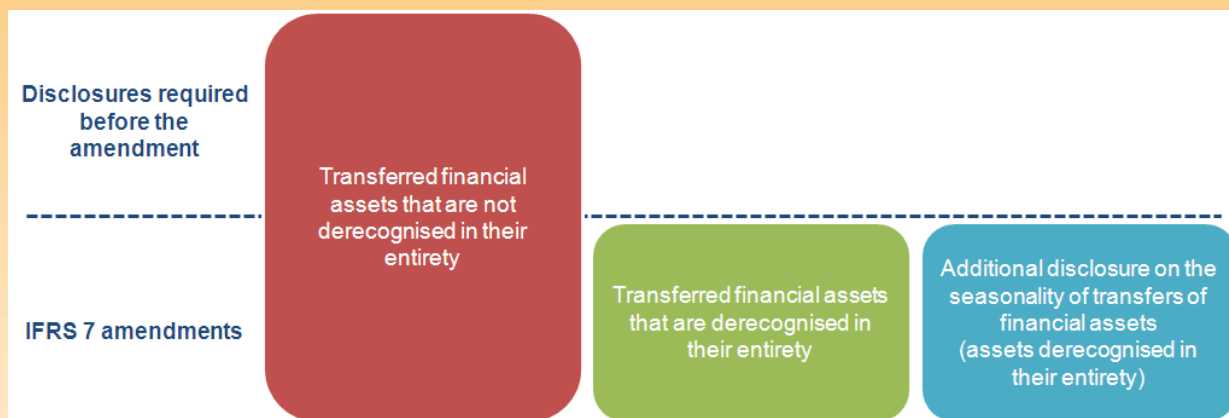
What are the objectives of the IFRS 7 amendment?

The IFRS 7 amendment has two objectives:

- To understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- To evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

What is the scope of the IFRS 7 amendment?

The IFRS 7 amendment expands the scope of the disclosures required:



The asset transfers concerned include all the asset transfers existing at the reporting date, whatever the transfer date. Note that comparative information is not required at the first application date.

The IFRS 7 amendment applies to all banks and insurance companies, and also to corporates engaged in factoring, and securitisation operations.

The disclosures required must all be presented in a single note. The IASB staff have estimated that an entity conducting many asset transfer transactions should be able to meet the new disclosure requirements in 2 or 3 pages (IASB "Feedback Statement" published in October 2010).

What does the concept of continuing involvement entail in IFRS 7?

The concept of continuing involvement used in IFRS 7 is different from that applied in the IAS 39 derecognition decision flow chart:

- In IAS 39, the concept of continuing involvement only applies to assets transferred in the neither/nor zone (partial derecognition);
- In IFRS 7, the concept of continuing involvement applies to both assets which are derecognised in their entirety and those which are partially derecognised.

According to the amendment to IFRS 7, an entity has continuing involvement in a transferred financial asset if, depending on the transfer arrangements, it:

- retains any of the contractual rights or obligations inherent in the asset, or
- obtains or assumes any new contractual rights or obligations relating to the asset.

In IFRS 7 the following do not constitute continuing involvement:

- Current declarations of compliance;

- Contracts concluded to reacquire the transferred financial asset at its fair value;
- Pass-through arrangements.

The definition of the scope of continuing involvement in IFRS 7 is an important issue, because the quantitative disclosures required on continuing involvement in transferred financial assets which have been fully derecognised are complex and extensive (see below).

➤ What disclosures shall be provided in the notes?

Where transferred financial assets are not derecognised in their entirety:

Where transferred financial assets are not derecognised in their entirety, the entity must provide the following information for each class of financial assets:

- Nature of the transferred assets;
- Nature of the risks and rewards of ownership to which the entity is exposed;
- A description of the nature of the relationship between the transferred assets and the associated liabilities;
- Description and nature of the restrictions arising from the transfer on the entity's use of the transferred assets;
- When the entity continues to recognise all of the transferred assets, the carrying amounts of the transferred assets and the associated liabilities;
- When the entity continues to recognise the assets to the extent of its continuing involvement (defined in IAS 39):
 - the total carrying amount of the original assets before the transfer;
 - the carrying amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities
- If the counterparty guarantee on the associated liabilities is limited to the transferred assets, a schedule setting out:
 - the fair value of the transferred assets;
 - the fair value of the associated liabilities; and
 - the net position (expressed in fair value).

The application guidance suggests the following model table for the presentation of the quantitative disclosures required:

	Financial assets at fair value through profit or loss		Loans and receivables		Available-for-sale financial assets
	CU million		CU million		CU million
	Trading securities	Derivatives	Mortgages	Consumer loans	Equity investments
Carrying amount of assets	X	X	X	X	X
Carrying amount of associated liabilities	(X)	(X)	(X)	(X)	(X)
For those liabilities that have recourse only to the transferred assets:					
Fair value of assets	X	X	X	X	X
Fair value of associated liabilities	(X)	(X)	(X)	(X)	(X)
Net position	X	X	X	X	X

Where the transferred financial assets are derecognised in their entirety:

Where transferred financial assets are derecognised in their entirety, the entity must provide the following information for each type of continuing involvement:

- The carrying amount of the assets and liabilities recognised in the statement of financial position that represent the entity's continuing involvement in the transferred financial assets, and the line items concerned;
- The fair value of the assets and liabilities that represent the entity's continuing involvement in the transferred financial assets;
- The amount that best represents the entity's maximum exposure to loss from its continuing involvement, and a description of the method used;
- The undiscounted cash outflows that would or may be required to repurchase derecognised financial assets or other amounts payable to the transferee in respect of the transferred assets (the amounts should be based on the conditions that exist at each reporting date);
- A maturity schedule based on the remaining contractual maturities of the entity's continuing involvement;
- Qualitative information that explains the quantitative disclosures.

The application guidance suggests the following model tables for the presentation of the quantitative disclosures required:

Type of continuing involvement	Cash outflows to repurchase transferred (derecognised) assets	Carrying amount of continuing involvement in statement of financial position			Fair value of continuing involvement		Maximum exposure to loss
	CU million	CU million			CU million		CU million
		Held for trading	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Assets	Liabilities	
Written put options	(X)			(X)		(X)	X
Purchased call options	(X)	X			X		X
Securities lending	(X)		X	(X)	X	(X)	X
Total		X	X	(X)	X	(X)	X

Undiscounted cash flows to repurchase transferred assets								
Type of continuing involvement	Maturity of continuing involvement CU million							
	Total	less than 1 month	1–3 months	3–6 months	6 months –1 year	1–3 years	3–5 years	more than 5 years
Written put options	X		X	X	X	X		
Purchased call options	X			X	X	X		X
Securities lending	X	X	X					

The amendment to IFRS 7 also requires additional disclosures on the timing of transfers of financial assets:

- The gain or loss recognised at the date of transfer of the assets;
- The income and expenses recognised, both in the reporting period and cumulatively, from continuing involvement in the transferred financial assets;
- If the transfers of financial assets are not evenly distributed throughout the reporting period:
 - when the greatest transfer activity took place within that reporting period (e.g. the last five days before the end of the reporting period);
 - the gains and losses recognised from transfer activity in that part of the reporting period; and
 - the total amount of proceeds from transfer activity in that part of the reporting period.

The objective of the disclosures required is to draw the attention of readers to “window dressing” operations (improving the structure of the balance sheet) relating to transfers of financial assets which are derecognised in their entirety.

The IFRS Interpretations Committee publishes a tentative decision on the recognition of the Greek debt restructuring plan (Private Sector Involvement)

On 17 April 2012 ESMA requested the IFRS Interpretations Committee (formerly IFRIC) to issue guidance on the IFRS treatment of the Greek debt restructuring plan which took effect on 9 March 2012 with the exchange of old Greek Government Bonds for several new financial instruments.

ESMA considers that IAS 39 does not provide explicit guidance for holders on the accounting treatment of exchanges of debt instruments, or provisions more generally relating to the modification and restructuring of financial assets.

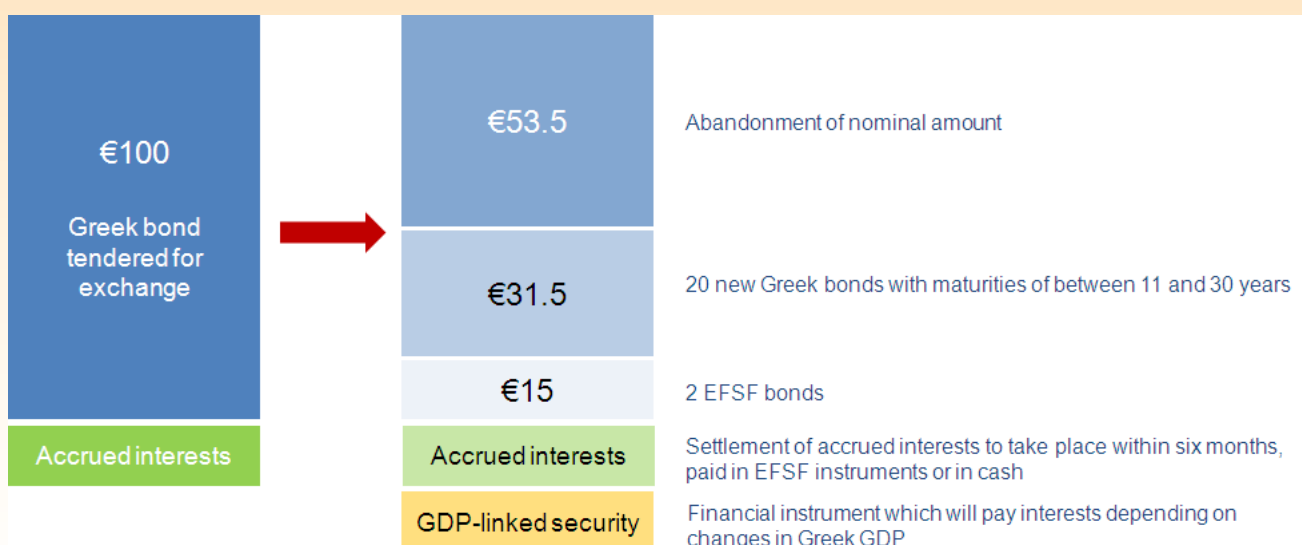
According to ESMA, this lack of guidance in IAS 39 makes it impossible to ensure a consistent accounting approach to the Greek debt restructuring plan in the IFRS financial statements of European preparers. ESMA asked the Committee to consider the following questions:

- Shall Greek bonds tendered for exchange be derecognised?
- What is the accounting treatment of Greek bonds in the absence of derecognition?
- What is the accounting treatment of Greek bonds in the event of derecognition?
- How should the GDP-linked securities be accounted for (see below)?

These questions were addressed by the committee during its May 2012 meeting, and the tentative decisions below were published in the IFRIC Update of May 2012.

➤ What were the terms of the Greek debt restructuring plan?

Under the terms of the Greek debt restructuring plan, an exchange of bonds was held on 9 March 2012. For a private investor holding a bond with a nominal value of €100, the exchange took place as summarised below:



Important: these data are presented at nominal value, not fair value.

⇒ Shall Greek bonds tendered for exchange be derecognised?

According to the IFRS Interpretations Committee, two approaches are possible:

- Approach 1: Have the contractual rights to cash flows from the Greek bonds tendered for exchange expired? (IAS 39 § 17a);
- Approach 2: Are there substantially different contractual terms (by analogy with the restructuring of financial debts)? (IAS 39 § 40).

The Committee considered that both of these approaches led to the same conclusion: bonds tendered for exchange must be derecognised in their entirety.

The Committee also stated that in this case, partial derecognition is not possible since the exchange of old Greek bonds is the result of a single overall agreement.

The Committee justified its position by explaining that following elements lead to the expiry of the bonds tendered for exchange (approach 1) or to the substantial change of their contractual terms (approach 2):

- The holder of one bond receives twenty bonds with different maturities and cash flow profiles, and other financial instruments;
- The exchange conditions are identical for every bondholder, regardless of the characteristics of the bonds tendered;
- There is a change in governing law (the bonds issued in exchange are subject to UK law rather than Greek law), the introduction of contractual collective action clauses and changes to the amount, maturity and coupons.

⇒ What is the accounting treatment of Greek bonds in the absence of derecognition?

The committee noted that this question was now redundant, in view of its answer to the first question.

⇒ What is the accounting treatment of Greek bonds in the event of derecognition?

The question of how to account for Greek bonds in the event of derecognition was not addressed by the Committee at its May 2012 meeting. This point is likely to be tackled during the Committee of September 2012.

⇒ How should the GDP-linked securities be accounted for?

The Committee decided not to rule on the question of whether a GDP-linked security meets the definition of a derivative in IAS 39. However, the Committee seems to consider that it is indeed a financial instrument. It stated that, if a GDP-linked security does not meet the definition of a derivative, this instrument shall be accounted for:

- as an instrument available for sale (AFS); or
- as classified under the fair value option

The Committee noted the operational complexities associated with the 'available for sale' classification, due to the application of the effective interest rate method (EIR). The complexity of the cash flow profile of the GDP-linked security may lead to revisions in the estimates of cash flows, with impacts in profit or loss (the "catch-up" problem in IAS 39 AG8).

Finally, it should be noted that these tentative Committee decisions published in May 2012 are open for comment until 26 July 2012. These topics will be addressed again and confirmed at the September 2012 meeting.

Beyond the GAAP will be sure to keep you up to date with the progress of discussions.

Events/publications

Mazars Insight Publication

Mazars published a new Mazars Insight publication "IFRS 11, Joint Arrangements - Key points of the new standard in 30 Q&A".

This publication presents the main provisions of the standard, in particular the distinction between "joint operations" and "joint ventures" based on analysing the rights and obligations of partners in respect of assets and liabilities relating to the joint arrangement.

It provides examples of application, while alerting the reader on topics that deserve to be clarified for a consistent and coherent application across groups.

This publication is available on our website www.mazars.com

Frequently asked questions

IFRS

- Early termination of a public service delegation contract and subsequent signature of a new PSD with expanded scope ;
- Transfer of research tax credits;
- Accounting for an emphyteutic lease.

Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

IASB

11 - 15 June 2012

16 - 20 July 2012

24 - 28 September 2012

Committee

10 - 11 July 2012

18 - 19 September 2012

13 - 14 November 2012

EFRAG

20 - 22 June 2012

23 - 25 July 2012

5 - 7 September 2012

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The drafting of the present edition was completed on 15 June 2012
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