

# Beyond the GAAP

No 65 – March 2013

The first quarter of 2013 is coming to a quiet close – and there is even a gleam of hope in sight! At the end of its March meeting, the IASB finally decided to remove the proposed interpretation on puts on non-controlling interests from its work plan, and to review the controversial elements of IAS 32 with a view to a potential amendment.

Aside from this news, March has been a relatively quiet month – but this will be more than made up for by the action-packed months to come. The upcoming quarter will see the publication of major standards and drafts on leases, revenue recognition and insurance contracts. This is the calm before the storm!

Happy reading!

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## News

### European Commission appoints Special Adviser on IFRS

On 19 March 2013, Michel Barnier, the EU Commissioner for Internal Market and Services, appointed Philippe Maystadt, former President of the European Investment Bank, as Special Adviser on IFRS to the European Commission.

This appointment will strengthen the EU's contribution to IFRS and improve the governance of the bodies developing the standards.

Mr Maystadt's role will involve the following key areas:

- reviewing the governance of EU bodies working in the area of financial reporting and accounting (i.e. the EFRAG and the ARC);
- advising the Commission on the endorsement of new IFRSs;
- making recommendations for improving the current system, especially on how to integrate different views and ensure that the EU speaks with a single voice.

For more details, see the press release from the European Commission:

[http://europa.eu/rapid/press-release\\_IP-13-242\\_en.htm](http://europa.eu/rapid/press-release_IP-13-242_en.htm)

### ➤ IASB work plan

Following its recent meeting (held between 19 and 21 March 2013), the IASB updated its work plan.

The main changes are as follows:

- *IFRS 9 – Impairment*: the redeliberations on the ED published on 7 March 2013 are scheduled for the third quarter of 2013;
- *IAS 19 – Defined Benefit Plans: Employee contributions*: the IASB has announced that the final amendment will be published in the last quarter of 2013;
- *IAS 19 – Actuarial Assumptions: Discount Rate*: the exposure draft is scheduled for the third quarter of 2013;
- *IAS 28 – Equity Method: Share of Other Net Asset Changes*: the publication of the final amendment has been put back a quarter and is now scheduled for the last quarter of 2013;
- *IFRS 10/IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*: the publication of the amendment has been put back a quarter and is now scheduled for the last quarter of 2013;
- *IAS 32 – Put Options Written on Non-controlling Interests*: the proposed interpretation has been removed from the work plan. Instead, the IASB will work on amendments to IAS 32, with an exposure draft scheduled for the second half of 2013 (cf. Highlights section, below);
- *IFRS 13 – Fair Value Measurement: Unit of Account*: an exposure draft on this new project is scheduled for the second quarter of 2013.

### ➤ Conceptual Framework

In February, the IASB began discussing the content of the future Discussion Paper on the Conceptual Framework.

Discussions continued in the March meeting, focusing on the following topics:

- presentation and disclosures, including other comprehensive income;

- additional guidance on constructive obligations and economic compulsion, to support the definition of a liability;
- measurement;
- the boundary between liabilities and equity;
- the definitions of income and expense; and
- capital maintenance.

Beyond the GAAP will return to the IASB's decisions on the Conceptual Framework in a future issue.

### ➤ Draft limited amendment to IAS 19 – Defined Benefit Plans: Employee Contributions

As announced last month, the IASB has published a draft amendment to the revised IAS 19, with a view to clarifying that employee contributions to defined benefit plans are:

- a reduction in the service cost for the period in which they are payable;
- if and only if they are solely related to the employee's service over that period.

The comment period closes on 25 July 2013.

The exposure draft is available on the IASB's website via the following link: <http://www.ifrs.org/Current-Projects/IASB-Projects/IAS-19-Employee-Benefits/Exposure-Draft-March%202013/Documents/ED-Amendments-to-IAS-19-Employee-Contributions.pdf>

### ➤ Revenue recognition: IASB finally decides to permit early application

In March 2013, the IASB decided to reverse the decision taken a month earlier, which would have brought about convergence with the FASB.

In the absence of its US counterpart, the IASB returned to its original position (as set out in the November 2011 exposure draft).

The Board has finally decided to permit early application of the future revenue recognition standard (which is expected to be issued by 30 June 2013, and which will replace IAS 11 and IAS 18).

The IASB has taken this decision in order to allow entities to apply the future standard on revenue recognition before 1 January 2017 (the current effective date) if they wish to do so.

Entities may wish to opt for early application as the future standard should solve various difficulties with implementing the current requirements (especially IFRIC 15).

Although there are potential issues of comparability between financial statements – given the long delay between the publication of the standard and its mandatory effective date – the members of the IASB obviously did not feel that these were sufficiently serious to warrant prohibiting early application.

Early application will not be possible in Europe until the standard has been adopted by the EU and the transition requirements have been published.

### ➤ Puts on non-controlling interests: a light at the end of the tunnel

At its January 2013 meeting, the IFRS Interpretations Committee (formerly the IFRIC) confirmed that:

- changes in the measurement of a liability should be recognised in profit or loss, as set out in IAS 39 and IFRS 9;
- the Committee believes that this is a correct interpretation of the existing standards.

However, the Committee stated once again that better information would be provided if these puts on non-controlling interests were recognised in the same way as other derivatives. With this in mind, it requested that the Board reconsider paragraph 23 of IAS 32.

Having examined the comment letters, the Committee also pointed out that many commenters felt that the whole issue of puts on non-controlling interests should be addressed more comprehensively (either puts on non-controlling interests specifically, or all derivatives written on an entity's own equity).

At its March 2013 meeting, the Board provisionally decided:

- to review the controversial elements of IAS 32 (especially paragraph 23); and
- to decide whether or not puts and forward contracts written on an entity's own equity should be measured at fair value.

The work plan as of 25 March 2013 no longer includes the proposed interpretation, replacing it with plans to amend IAS 32 (the exposure draft is scheduled for the second half of 2013).

We will make sure to keep you abreast of future developments on this particularly tricky issue.

### ➤ Membership of ASAF

The Trustees of the IFRS Foundation announced the membership of the ASAF (Accounting Standards Advisory Forum) on 19 March 2013. The ASAF is an advisory body created with the goal of improving dialogue between the IASB and the main national and regional standard-setters.

The twelve positions were allocated geographically as follows:

- Asia-Oceania: 4 representatives;
- Europe: 4 representatives;
- America: 3 representatives;
- Africa: 1 representative.

Europe will be represented in the Forum by :

- three national standard-setters : Germany, the UK and Spain; and
- the EFRAG.

For more details, see the press release on the IASB's website:

<http://www.ifrs.org/Alerts/Governance/Documents/2013/PR-Trustees-announce-membership-of-ASAF-March-2013.pdf>

### ⇒ Impairment (Phase II of IFRS 9) – IASB publishes new exposure draft

In March 2013, the IASB published an exposure draft on phase 2 of IFRS 9, entitled “Financial Instruments: Expected Credit Losses”.

This document is the IASB's third publication related to its project to replace the current rules on the impairment of financial assets under IAS 39.

The new exposure draft confirms the key principle (i.e. a shift from the current “incurred loss” model to an “expected loss” model) but significant changes have been made to the implementation of the expected loss model since the previous exposure draft.

We will give a closer look at the proposals of this exposure draft in a subsequent issue. The comment period for the exposure draft closes on 5 July 2013.

The document is available on the IASB's website via the following link: <http://www.ifrs.org/Current-Projects/IASB-Projects/Financial-Instruments-A-Replacement-of-IAS-39-Financial-Instruments-Recognition/Impairment/Exposure-Draft-March-2013/Comment-letters/Documents/ED-Financial-Instruments-Expected-Credit-Losses-March-2013.pdf>

### ⇒ Rate-regulated activities

On 28 March 2013, the IASB published a Request for Information on rate-regulated activities. The objective of the Request for Information is to identify a range of rates-regulated schemes to help determine the scope of the research project.

The closing date for responding to the Request for Information is 30 May 2013.

The document is available via the following link: <http://www.ifrs.org/Current-Projects/IASB-Projects/Rate-regulated-activities/Request-for-information-March-2013/Documents/Request-for-Information-Rate-Regulation.pdf>

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## European matters

### ➤ Annual Improvements 2009-2011 Cycle endorsed in Europe

On 27 March 2013, the European Commission adopted the Annual Improvements to International Financial Reporting Standards 2009-2011 Cycle, published by the IASB on 17 May 2012.

As a reminder, the amendments relate to the following standards and issues:

- IFRS 1: Repeated application of IFRS 1;
- IFRS 1: Borrowing costs for qualifying assets under construction at the date of transition to IFRS;
- IAS 1: Clarification on comparative information;
- IAS 16: Clarification on the classification of servicing equipment;
- IAS 32: Clarification of the fact that tax on equity dividends should be treated in line with IAS 12;
- IAS 34: Alignment of segment reporting requirements with IFRS 8.

These amendments are mandatory for financial periods starting on or after 1 January 2013, and early application is permitted.

Regulation (EU) No. 301/2013, published in the 28 March 2013 issue of the Official Journal, is available via the following link:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:090:0078:0085:EN:PDF>

### ➤ Amendment to IFRS 1 – Government Loans endorsed in Europe

On 4 March 2013, the European Commission adopted the amendment to IFRS 1 – *First-time Adoption of International Financial Reporting Standards – Government Loans*, which was published by the IASB in March 2012.

As a reminder, this amendment introduces a new exception to the general principle of retrospective application of IFRS for first-time adopters.

It stipulates that a first-time adopter shall apply IAS 20 prospectively, and shall not recognise the benefit derived from a government loan with a below-market rate of interest as a government grant.

However, a first-time adopter may apply IAS 20 retrospectively to a government loan arranged before the transition to IFRS, as long as the information required for retrospective application was obtained at the time of initial recognition of the loan.

The amendment is mandatory for financial periods starting on or after 1 January 2013.

Regulation (EU) No. 183/2013, published in the 5 March 2013 issue of the Official Journal, is available via the following link:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:061:0006:0008:EN:PDF>

## Frequently asked questions

- Accounting treatment for an employee mutual fund with a liquidity mechanism for shares not listed for trading on a regulated market;
- Accounting treatment for an employee share acquisition plan and its liquidity clause;
- Classification of the gains on the sale of shares in associates;
- Reclassification in the statement of comprehensive income of impairment of intangible assets acquired in a business combination;
- Consolidation of a refinancing vehicle under IFRS 10.

## Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

### IASB

17 - 26 April 2013  
16 - 24 May 2013  
17 - 21 June 2013

### Committee

14 - 15 May 2013  
16 - 17 July 2013  
10 - 11 September 2013

### EFRAG

6 - 8 May 2013  
12 - 14 June 2013  
15 - 17 July 2013

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