

# Beyond the GAAP

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After the May publication of the 2nd leases exposure draft, another long-term project now sees re-publication: on 20 June the IASB and the FASB published their new proposals for insurance contracts. It looks likely to be a busy summer for commentators!

Three years have passed since the original draft was published in July 2010. Three years of discussions to redefine the main principles for accounting for insurance contracts, in the hope that these proposals will in future attract the support of stakeholders. To know whether this aim has been met, the two boards must now await the results of the comment letters, which can be submitted until 25 October 2013.

Enjoy your reading!

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## News

### IASB and FASB to hold joint round tables on the draft standard on leases

On 1 July 2013, the IASB and the FASB announced that they would jointly hold several round tables on the new draft standard on leases.

These round tables will offer an opportunity for more detailed discussion of the new proposals with the two standard-setters, and to gather the widest possible range of views on the draft. The IASB and the FASB are therefore relying on the participation of all the stakeholders (preparers, auditors, investors, etc.).

These round tables will be held as follows:

- 10 September 2013 in São Paulo,
- 16 September 2013 in London,
- 23 September in Norwalk,
- 3 October in Los Angeles, and
- 4 October 2013 in Singapore.

The final registration date is 22 July 2013. For more information, visit the IASB site at

<http://www.ifs.org/Alerts/Conference/Pages/FASB-and-IASB-to-hold-joint-roundtable-meetings-July-2013.aspx>

### ➤ IASB work plan

On 21 June 2013, the IASB updated its work plan to reflect the decisions taken at the meeting of 18 and 29 June.

The amendments affect the following projects:

- *IFRS 9: Classification and Measurement*: redeliberations are unlikely to be complete during Q3 2013, and will continue into Q4;
- *IFRS 9: Impairment*: redeliberations on the exposure draft, for which the comment period closed on 5 July, are likely to take longer than originally expected, and will be held during Q3 and Q4 2013;
- *IFRS 9: Accounting for Macro Hedging*: the Discussion Paper which was expected in Q3 2013 may not be published until the following quarter;
- *Insurance contracts*: the exposure draft was published on 20 June 2013, the comments period runs until 25 October, and the IASB expects to start its redeliberations in the meantime;
- *IAS 19 – Actuarial Assumptions: Discount Rate*: the exposure draft has been put back from Q3 to Q4 2013;
- *IFRS 13 – Fair Value Measurement: Unit of Account*: the exposure draft will be published in the final quarter of 2013, and not in Q3 as initially announced;
- *IAS 32 - Put Options Written on Non-controlling Interests (NCIs)*: the exposure draft is expected in Q4 2013;
- *IAS 27 – Separate Financial Statements (Equity Method)*: the publication of the amendment has slipped back a quarter, and is now expected in Q4 2013.

### ➤ Insurance contracts – Publication of a new exposure draft

On 20 June 2013 the IASB published its new draft standard on insurance contracts, accompanied by a call for comments by 25 October 2013.

This new draft is based on the proposals in the first exposure draft published in July 2010, and reflects the board's subsequent deliberations.

The IASB expects this new draft to:

- provide a consistent basis for accounting for insurance contracts;
- make the financial statements of insurance entities more transparent, enabling users to understand how the insurance contracts affect the entity's financial situation, performance and cash flows.

Beyond the GAAP will return in more in detail to the IASB's new proposals in a future edition.

### ➤ Bearer biological assets

In September 2012, the IASB included in its work plan a limited-scope improvement to IAS 41 on the grounds that this standard, under which biological assets are measured at fair value, posed problems in the case of bearer biological assets (grape vines, rubber trees, oil palms, etc.).

On 26 June 2013, the IASB published its draft on bearer plants, with a call for comments by 28 October.

The draft proposes to account for bearer plants in accordance with IAS 16 (cost less any accumulated impairment losses or at revaluation amount) rather than fair value less costs to sell.

However, the produce growing on the bearer plants (grapes, oil, rubber resin, etc.):

- would remain within the scope of IAS 41, and
- would continue to be measured at fair value less costs to sell.

The exposure draft can be consulted on the IASB website at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Bearer-biological-assets/Exposure-Draft-June-2013/Pages/Exposure-Draft-and-Comment-letters.aspx>

### ➤ Publication of the IAS 39 and IFRS 9 amendment *Novation of Derivatives and Continuation of Hedge Accounting*.

On 27 June 2013 the IASB published a limited-scope amendment to IAS 39 and IFRS 9 entitled *Novation of Derivatives and Continuation of Hedge Accounting*.



## EUROPE

### ➤ Directive 2013/34/EU on annual and consolidated financial statements

The European Parliament and the Council of the European Union have adopted Directive 2013/34/EU on financial statements, consolidated financial statements and related reports of certain types of undertakings.

The directive was published in the OJEU on 29 June 2013, and repeals directives 78/660/EEC and 83/349/EEC (known as the 4th and 7th directives). It comes into force on 19 July 2013. It must be transposed into national law by 20 June 2015, and its provisions may first apply to financial years beginning on 1 January 2016.

This directive distinguishes four enterprise categories and three categories of groups, depending on whether at least two of three criteria are exceeded at the balance sheet date: balance sheet total, net turnover, and the average number of employees during the financial year:

- (1) **micro-undertakings:** balance sheet total below €350,000, net turnover below €700,000 and average number of employees below 10;
- (2) **small undertakings:** balance sheet total below €4,000,000, net turnover below €8,000,000 and average number of employees below 50;
- (3) **medium-sized undertakings:** balance sheet total below €20,000,000, net turnover below €40,000,000 and average number of employees below 250;
- (4) **large undertakings:** balance sheet total below €20,000,000, net turnover below €40,000,000 and average number of employees below 250;
- (5) **small groups:** balance sheet total below €4,000,000, net turnover below €8,000,000 and average number of employees below 50;
- (6) **medium-sized groups:** balance sheet total below €20,000,000, net turnover below €40,000,000 and average number of employees below 250;
- (7) **large groups:** balance sheet total below €20,000,000, net turnover below €40,000,000 and average number of employees below 250.

The directive sets out the general principles for establishing and presenting annual financial and consolidated statements and related reports, and sets minimum requirements for each type of undertaking or group.

The directive may be consulted at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:182:0019:0076:EN:PDF>

### ➤ EFRAG launches insurance project field test

On 24 June 2013, EFRAG and the leading national accounting standard setters (ANC, ASCG, FRC and OIC) launched a field-test on the new IASB proposals for insurance contracts, with a view to obtaining evidence as to:

- (1) the way in which the new proposals would be implemented;
- (2) the impact of the new proposals;
- (3) the costs and benefits;
- (4) the understandability and usefulness of the new disclosure requirements.

The study will take the form of a questionnaire to be returned before 11 October 2013.

For more information, visit the EFRAG site at:

<http://www.efrag.org/Front/n1-1175/EFrag-and-the-National-Standard-Setters-ANC--ASCG--FRC-and-OIC-invite-companies-to-participate-in-field-testing-the-proposed-new-accounting-for-insurance-contracts.aspx>

## IFRIC issues definitive interpretation on levies (IFRIC 21)

On 20 May the IFRS Interpretations Committee (formerly IFRIC) published the final version of its interpretation on accounting for levies. Beyond the GAAP outlines the main provisions.

### 1. What is the scope of the interpretation?

The levies in question are defined as an outflow of resources imposed on entities by governments (as defined by IAS 20 and IAS 24) in accordance with laws and/or regulations other than fines or other penalties that are imposed for breaches of legislation.

*The interpretation does not therefore apply to a payment made by an entity for the acquisition of an asset, or for the rendering of services under a contractual agreement with a government.*

This interpretation addresses the accounting for a liability to pay a levy falling within the scope of IAS 37.

*In consequence, levies within the scope of other standards (such as income taxes that are within the scope of IAS 12 Income Taxes) do not fall within its scope.*

*However, it is applicable to levies whose timing and amount is certain (i.e. liabilities which are not within the scope of IAS 37).*

Finally, entities are not required to apply this interpretation to liabilities that arise from emissions trading schemes (a choice of accounting policy is therefore possible).

In the case of levies which are triggered by reaching a threshold, and consistent with the logic developed in this interpretation, the Committee has decided that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, i.e. achieving the threshold in question.

*The draft interpretation published on 31 May 2012 (see Beyond the GAAP, June 2012), did not address this issue, due to the absence of agreement between:*

- *those who believed that achieving the threshold is an obligating event after which the levy is due, and the liability should be recognised at a point in time only after the threshold is met (that is, the existence of the threshold directly affects the recognition of the liability); and*
- *those who instead thought that the levy should be provisioned once it is probable that the threshold will be achieved (that is, the threshold only affects the measurement of the liability).*

In practice, given the wide scope of this interpretation, very many entities will be affected.

*In France, for example, the social solidarity contribution (formerly ORGANIC) falls within the scope of this interpretation.*

### 2. What does the interpretation say?

The obligating event that gives rise to the recognition of a levy is the activity that triggers the payment of the levy as identified by the legislation.

# A Closer Look

*For example, if the activity that triggers the payment of the levy is the generation of revenues in the current period but the amount of that levy is based on revenues generated in a previous period, the obligating event for that levy is the generation of revenues in the current period.*

*An entity has no constructive obligation to pay a levy that will arise from operating in a future period as a result of being economically compelled to continue operating in that future period.*

*The preparation of financial statements under the going concern principle does not imply that an entity has an implicit obligation to continue its operations, and therefore does not lead to the entity recognising a liability for levies that will arise from its future activity.*

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy occurs over a period of time).

*For example, a liability is recognised progressively if the obligating event is the progressive generation of revenues over the period in question.*

The same recognition principles should be applied in the interim financial statements as in the annual financial statements. Consequently, the liability to pay the levy:

- shall not be recognised if there is no present obligation to pay the levy at the end of the interim reporting period,
- may not be deferred if a present obligation to pay the levy exists at the end of the interim reporting period.

The interpretation addresses the question of accounting for the liability without clarifying when these levies should be recognised in assets or profit or loss.

### 3. Practical examples from the interpretation

The interpretation offers four examples, summarised below, which illustrate the accounting for an entity with a reporting period ending in December.

#### Levy linked to revenue generated in the current period

The levy results from the generation of revenue by the entity over the current period. In this instance, the liability is recognised progressively over the period because the obligating event is the generation of revenue over the period.

At any point, the entity has a present obligation to pay a levy on revenues generated to date. However, the entity has no present obligation to pay a levy on revenues not yet generated.

In the interim financial statement, for example at 30 June, the entity has an obligation to pay the levy on revenues generated during the first half of the year.

#### Levy triggered in full as soon as the entity generates revenues

A levy is triggered in full as soon as the entity generates revenues in reporting period N. The amount of the levy is determined by reference to revenues generated by the entity during the period N-1.

The entity begins to generate revenues on 3 January N.

In this example, the liability is recognised in full on 3 January N because the obligating event, as identified by the legislation, is the first generation of revenues in N.

The generation of revenues in N-1 is necessary, but not sufficient, to create a present obligation to pay a levy. Before 3 January N, the entity has no obligation. In other words, it is the revenue generated in N which is the activity triggering the payment of the levy. The generation of revenues in N-1 is not the activity that triggers the payment of the levy (the revenue in N-1 only affects the measurement of the liability).

In the interim financial report, the liability is recognised in full in the first interim accounts. The liability may neither be deferred/spread over other interim periods nor anticipated in the accounts in N-1

## **Levy triggered if the entity operates as a bank at the end of the annual reporting period**

A levy is triggered only if the entity operates as a bank at the end of the annual reporting period. The amount of the levy is determined by reference to amounts in the balance sheet at the end of the reporting period.

The liability is recognised at the end of the reporting period because the obligating event, as identified by the legislation, is to operate as a bank at the end of the annual reporting period.

Before the end of this period, the entity has no present obligation, even if it is economically compelled to continue to operate in the future and to operate as a bank at the end of the annual reporting period.

The activity that triggers the payment of the levy is to operate as a bank at the end of the annual reporting period - an event which cannot occur until the end of the period in question.

Even if the amount of the liability is based on the length of the reporting period, the obligating event is to operate as a bank at the end of the annual reporting period, so the liability is not recognised progressively.

No expense can be recognised for this levy in the interim accounts, because the liability is recognised in full at the end of the reporting period.

## **Levy triggered if the entity generates revenue above a minimum amount of revenue**

The levy is only due if the entity has generated revenue above 50 million, and the amount of the levy is based on the revenue generated to date that exceeds this threshold.

The threshold is reached on 17 July. A liability is gradually recognised over the period between 17 July and 31 December, as the entity generates revenue above the threshold.

Variation: the amount of the levy is calculated by reference to all revenue generated (although the liability is only triggered when the threshold is exceeded).

In this instance, the liability relating to the first 50 million of revenue would be recognised in full on 17 July (the date the threshold is exceeded). An additional liability for the levy related to revenue generated above the threshold is recognised between 17 July and 31 December (after the threshold has been passed).

## **4. What is the effective date of this interpretation?**

The interpretation will be applicable to current financial periods at 1 January 2014. Early application is possible.

Application should be retrospective, as for any change in accounting policies.

This interpretation has not yet been endorsed in Europe. According to the EFRAG timetable updated at 21 May 2013, the European Union is expected to endorse this text during Q1 2014.

It may nevertheless be applied early, because it is not in contradiction with the standards applicable in Europe.

## Frequently asked questions

### IFRS

- First application of IAS 28R to an entity under significant influence where joint control was lost before the new standard came into effect: should the fair value remeasurement of the interest portion retained be cancelled at the transition date?
- What is the treatment of an obligation to purchase non-controlling interests conditional on achieving certain results?
- How should sponsorship tax credits be accounted for?
- How should an undertaking to purchase shares in an unconsolidated entity be accounted for?
- Deconsolidating nature of a contract to transfer research tax credits?
- IFRS 10 analysis of a special purpose vehicle for trade receivables?
- Investment in bond redeemable in shares: debt or equity?

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

### IASB

18 - 26 July 2013  
12 - 20 September 2013  
24 - 31 October 2013

### Committee

16 - 17 July 2013  
10 - 11 September 2013  
12 - 13 November 2013

### EFRAG

15 - 17 July 2013  
4 - 6 September 2013  
9 - 11 October 2013

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