

INTERNATIONAL FINANCIAL REPORTING BULLETIN 2010/10

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS



Background

The International Accounting Standards Board (IASB) has issued its 2010 *Improvements to IFRS*, which includes changes to nine International Financial Reporting Standards. The IASB's annual improvements process is designed to make non-urgent, but necessary, amendments to IFRSs.

The standards which have been amended are:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- IFRS 3 *Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- Transitional requirements for amendments arising as a result of IAS 27 *Consolidated and Separate Financial Statements* in:
 - IAS 21 *The Effects of Changes in Foreign Exchange Rates*
 - IAS 28 *Investments in Associates*
 - IAS 31 *Interests in Joint Ventures*
- IAS 34 *Interim Financial Reporting*
- IFRIC 13 *Customer Loyalty Programmes*

While some of the amendments are minor, it is possible that some, particularly those relating to the measurement of non-controlling interest and the use of deemed cost for operations subject to rate regulated activities, will have a significant effect on financial statements. Consequently the effect of the amendments should be analysed carefully by those entities that have adopted, or plan to adopt, IFRS.

The effective date of each of the amendments, and their transitional arrangements, are included below.

STATUS

Final

EFFECTIVE DATE

Annual periods beginning on/after 1 July 2010 and 1 January 2011

ACCOUNTING IMPACT

May be significant

Amendments

IFRS 1 First-time Adoption of International Financial Reporting Standards

Issue: *Changes in accounting policies during an entity's year of adoption of IFRS*

If a first-time adopter changes its accounting policies or its use of exemptions in IFRS 1 after the date of its first interim financial report prepared in accordance with IAS 34, but before the issue of its first annual IFRS financial statements, the reconciliations between previous GAAP and IFRS are required to be updated. The requirements of IAS 8 do not apply.

Effective date and transition: Annual periods beginning on/after 1 January 2011, with earlier application permitted.

Issue: *Use of revalued amount as deemed cost*

Some GAAPs permit an event driven fair value (being a remeasurement to fair value of some or all assets and liabilities on an event such as a privatisation or public offering) to be established as a deemed cost. The amendment extends the relief available under IFRS 1, to permit a first-time adopter to use that event driven fair value as deemed cost under IFRS, from measurements which are carried out at or before transition date to measurements that are carried out between the date of transition and the end of the entity's first annual IFRS reporting period.

As an example, if an entity chooses to use an event driven fair value as deemed cost under IFRS for an asset where the measurement date is after its date of transition to IFRS but before the end of the entity's first annual IFRS reporting period, an adjustment will be made to equity as at the measurement date. During the period from transition date to the measurement date, historical cost or other amounts permitted by IFRS are presented. The IASB rejected an approach of 'working back' from the measurement date to a deemed cost at the date of transition, on the basis that this would require the use of hindsight and would result in a carrying amount at transition date that was neither historical cost nor fair value.

Effective date and transition: Annual periods beginning on/after 1 January 2011, with earlier application permitted.

Issue: *Deemed cost for assets used in operations subject to rate regulation*

The amendment permits a first-time adopter to use its previous GAAP carrying amount of property, plant and equipment and intangible assets that are, or were previously, used in operations subject to rate regulation as deemed cost at the date of transition to IFRS. This election is available on an individual asset basis.

Effective date and transition: Annual periods beginning on/after 1 January 2011, with earlier application permitted.

IFRS 3 Business Combinations

Issue: *Measurement of Non-Controlling Interest (NCI)*

The amendment clarifies that the option to measure NCI at either fair value, or the proportionate share of the acquisition date fair value of the acquiree's identifiable net assets that are recognised by the acquirer, applies only to instruments that give the NCI a present ownership interest and entitle the holder to a proportionate share of net assets in the event of liquidation. All other components of NCI are measured at their acquisition date fair value, unless another measurement is required by IFRS.

This amendment has been made to ensure that certain components of NCI are not measured at zero. For example, if a share-based payment transaction is classified as equity, it is measured in accordance with IFRS 2 *Share-based Payment*. Another example is a preference share that represents NCI, being an equity instrument, with its holder being entitled to a return of the initial amount subscribed on liquidation. The NCI that relates to the preference shares is measured at fair value.

Effective date and transition: Annual periods commencing on/after 1 July 2010, with earlier application permitted. On adoption, to be applied prospectively from the date on which IFRS 3 (2008) was first applied.

Issue: *Share-based payment transactions of an acquiree that are either not replaced on a business combination, or are voluntarily replaced*

The current requirement for an acquirer to measure share-based payment awards, that it issues to replace existing awards of an acquiree at the acquisition date, in accordance with IFRS 2 is extended. This means that existing share-based payment awards of an acquiree that are not replaced in a business combination are also measured by the acquirer in accordance with IFRS 2 at the acquisition date. If the awards have vested at the acquisition date, they are accounted for as part of NCI in the acquiree. If the awards have not vested at the acquisition date, they are accounted for as if the acquisition date was the grant date.

An acquirer may exchange its own share-based payment awards for awards held by employees of the acquiree. The current requirement to account for that exchange as a modification of the existing arrangement, where the acquirer is obliged to replace the existing awards, is retained with the amount calculated in accordance with IFRS 2 being allocated between the cost of the business combination and post acquisition services. The amendment extends this to cover replacement awards where the acquirer is not obliged to replace the existing awards, but chooses to voluntarily.

In some cases, existing share-based payment awards in an acquiree expire as a result of a business combination. In those circumstances, if the acquirer replaces those awards voluntarily, the entire fair value of those replacement awards calculated in accordance with IFRS 2 is accounted for as a post acquisition remuneration expense.

Effective date and transition: Annual periods commencing on/after 1 July 2010, with earlier application permitted. On adoption, to be applied prospectively from the date on which IFRS 3 (2008) was first applied.

Issue: *Transition – contingent consideration balances arising from business combinations that took place prior to the adoption of IFRS 3 (2008)*

IFRS 3 (2008) included a consequential amendment to IAS 39 that brought contingent consideration balances within the scope of that standard. This means that instead of changes in the amount of contingent consideration being accounted for as an adjustment to the cost of the original business combination, they are now accounted for in accordance with IAS 39 and recognised in profit or loss. The amendment clarifies that the change in scope of IAS 39 is applied to business combinations on a prospective basis, meaning that where a business combination took place before the date of adoption of IFRS 3 (2008), changes in contingent consideration are accounted for as an adjustment to the cost of the original business combination.

Effective date and transition: Annual periods commencing on/after 1 July 2010, with earlier application permitted.

IFRS 7 Financial Instruments: Disclosures

Issue: *Clarification of disclosure requirements*

The amendment clarifies quantitative disclosure requirements for risks arising from financial instruments, and encourages accompanying narrative disclosures if the concentration of risk is not apparent from the quantitative disclosures.

The requirements for disclosures of credit risk, including collateral held, are clarified and reduced, with the carrying amount of assets that would have been past due or impaired unless they had been renegotiated no longer needing to be disclosed.

Effective date and transition: Annual periods beginning on/after 1 January 2011, with earlier application permitted.

IAS 1 Presentation of Financial Statements

Issue: *Presentation of changes in equity*

The amendment clarifies that the analysis of items of Other Comprehensive Income may be shown in either the (primary) statement of changes in equity, or in the notes to the financial statements.

Effective date and transition: Annual periods beginning on/after 1 January 2011, with earlier application permitted.

IAS 27 Consolidated and Separate Financial Statements – consequential amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures

Issue: *Transitional requirements for consequential amendments*

The amendments to IAS 21, IAS 28 and IAS 31 clarify that the amendments made to these standards as a consequence of IAS 27 (revised 2008) are to be applied prospectively from the date of adoption of that standard (annual periods beginning on/after 1 July 2009 with earlier application permitted). As exceptions, paragraph 35 of IAS 28 and paragraph 46 of IAS 31, which relate to accounting in the separate financial statements of the investor, are applied retrospectively.

Effective date and transition: Annual periods beginning on/after 1 July 2010, with earlier application permitted.

IAS 34 Interim Financial Reporting

Issue: *Content of an interim financial report – significant events and transactions*

The amendments emphasise that disclosure about significant transactions and events is required to update relevant information presented in the most recent annual financial report.

IAS 34 is made more specific about events and transactions for which disclosure is required, and guidance has been added covering the application of the requirements for financial instruments.


Effective date and transition: Annual periods beginning on/after 1 January 2011, with earlier application permitted.

IFRIC 13 Customer Loyalty Programmes

Issue: *Fair value of award credits*

The amendment clarifies that the fair value of award credits includes consideration of the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.

Effective date and transition: Annual periods beginning on/after 1 January 2011, with earlier application permitted.



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