

IFRS: Keeping boards and audit committees informed





Foreword

International Financial Reporting Standards (IFRS) should continue to be on the financial reporting agenda for Audit Committees and Boards of Directors around the world. The increasing use of IFRS worldwide has been well-publicized with a significant number of countries currently applying IFRS and additional countries planning to adopt IFRS over the next few years. A decision about the use of IFRS in the United States is expected by the end of 2011.

This last year has been a momentous one. We have seen the appointment of Hans Hoogervorst as the new Chairman of the International Accounting Standards Board (IASB) — taking over as Sir David Tweedie stepped down after his decade as Chairman. We have seen an unprecedented level of standard setting with new standards and amendments issued covering fair value measurements, joint arrangements, consolidation, post-employment benefits and financial instruments bringing much needed improvements. The IASB and U.S. Financial Accounting Standards Board (FASB) continue to work on various critical financial reporting topics including financial instruments, revenue recognition, insurance and leases. We hope that they will reach a successful conclusion soon. And the IASB's work doesn't end there as it seeks input for its future agenda.

The rapid pace of standard setting is creating challenging times for many in the financial community. As an audit committee member, effective oversight can potentially be achieved by understanding how current differences between U.S. GAAP and IFRS could affect a company's transition to IFRS, staying abreast of the latest developments at the IASB and understanding the potential implications of these developments, and asking probing questions of management to confirm that an appropriate amount of attention is being given to IFRS.

In recognition of this commitment to excellence and the need to stay current, we present this updated publication, which is based on our 2010 publication titled IFRS: An update for boards and audit committees. In the pages that follow, we outline some key potential accounting differences between IFRS and U.S. GAAP, along with related broader potential impacts of those differences, and provide an update on standard-setting developments as well as questions that Board and audit committee members should be asking management as they help to guide their companies down the path of IFRS implementation.

We hope and expect that audit committee and Board members will find this updated compilation useful. Feel free to distribute it to your colleagues; if you need additional copies, contact your Deloitte professional or either of us.

As always, we value and welcome your comments and feedback.



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Issues guide

Inventory	
General requirements	Potential differences from U.S. GAAP
<ul style="list-style-type: none">• Primary standard — IAS 2• Guidance addresses the recognition and measurement of inventory• Alternatives for measuring the cost of inventory include First in, First out (FIFO) and weighted average cost; “retail method” also is allowed if it approximates cost• The same cost formula must be used for all inventory having a similar nature and use• The subsequent measurement of inventory is based on the lower of cost or “net realizable value” (NRV)• NRV is the estimated selling price of the inventory in the ordinary course of business less the estimated costs of completion and of making the sale	<ul style="list-style-type: none">• Use of Last in, First out (LIFO) as a measurement basis for inventory is prohibited under IFRS• Inventory is required to be measured at the lower of cost or NRV, which may not be the same as a “market value”• Same cost formula must be used for inventory of a similar nature• Costs related to asset retirement obligations may be included as part of inventory cost basis, rather than property, plant and equipment (PP&E)• Impairment charges on inventory are required to be reversed, if certain criteria are met
Implementation considerations	
<ul style="list-style-type: none">• Data capture may be more or less detailed leading to possible inventory system changes• Cost formulas for inventories whose nature and use are similar may need to be aligned throughout the entity• Processes and controls may need to be developed for monitoring whether inventory impairment should be subsequently reversed• Changes in the measurement basis of inventory may affect income taxes, particularly if LIFO currently is used as a measurement basis• Changes currently pending: None	
Key questions to ask	
<ul style="list-style-type: none">• Will the basis of inventory measurement change?• What processes are in place to monitor the reversal of inventory impairment?• Have tax implications been assessed relating to potential changes in accounting for inventory?	

Consolidation policy

General requirements

- Primary standard — IAS 27
- Key issue is determining whether “control” exists; control is defined by IAS 27 as the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities
- Guidance provides a number of control “indicators” that focus on governance and decision-making activities, as well as economic factors such as benefits and risks
- Potential voting rights must be considered when assessing whether control exists
- Entities holding less than majority of voting rights may still consolidate under “de facto” control
- Guidance also included on the presentation of the parent’s separate financial statements

Potential differences from U.S. GAAP

- Overall consolidation approach is based on whether an entity controls another; applies to all types of entities regardless of legal structure
- There is no exception from consolidation for “investment companies”
- The accounting policies of all subsidiaries must be conformed to those used in consolidation
- The reporting dates of all subsidiaries must be conformed, unless it is impracticable to do so

Implementation considerations

- Determining whether entities should be consolidated may require increased judgment
- Processes and controls should be developed for monitoring potential voting rights and whether they are currently exercisable or convertible
- Processes for the capture of financial data related to all controlled entities should be developed, and accounting policies and reporting dates should be conformed
- Changes in the reporting entity as a result of more or fewer entities consolidated may affect income taxes
- **Recent changes:** In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities*, which are effective for annual periods beginning on or after January 1, 2013. IFRS 10 revises the definition of ‘control’ and provides guidance relating to potential voting rights, ‘de facto control’ and principal/agent relationships. IFRS 12 requires enhanced disclosures of interests in consolidated and unconsolidated entities. In August 2011, the IASB issued an exposure draft that would require investment entities to measure their controlled investments at fair value thus excluding them from the scope of IFRS 10.

Key questions to ask

- Will more or fewer entities be consolidated, and how will that affect existing transactions between or among entities within the consolidated group?
- What processes are in place for making judgments about consolidation policy?
- Do the reporting dates or accounting policies of any entities within the consolidated group differ?
- Are the current information systems capable of capturing the information needed to reflect changes in the reporting entity?

Financial statement presentation

General requirements	Potential differences from U.S. GAAP
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| <ul style="list-style-type: none"> • Primary standards — IAS 1, IAS 7, IAS 8, IAS 10, IAS 24, IAS 33, IAS 34, IFRS 5, IFRS 8 • Guidance addresses the basic form and content of financial statements and includes general considerations such as fair presentation, going concern, accrual accounting, consistency of presentation, materiality and offsetting • Financial statement components include a statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows, and notes to the financial statements • May have a “condensed” presentation for interim reporting • Certain disclosures are required for public companies (e.g., earnings per share (EPS), segments) • No specific industry guidance | <ul style="list-style-type: none"> • Format and structure of the financial statements may differ particularly for non-public entities; impact for public entities will depend on future SEC rulemaking; may present alternative performance measures; no “extraordinary items” in the statement of comprehensive income; classification of expenses may be based on function or nature • Cash-flow classification of interest, dividends, income taxes and bank overdrafts; disclosure of discontinued operations by category • Level and nature of disclosure in the notes to the financial statements; more of a focus on judgments made and assumptions used • Certain events occurring after the reporting period do not affect classifications as of the end of the reporting period (i.e., refinancing of bank loans or debt covenant waivers) • Narrower definition of a discontinued operation |
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Implementation considerations

- Data capture may be more or less detailed, which could lead to changes in the chart of accounts
- The process around monitoring debt covenants or calculating EPS may need to be revisited
- Disposals may result in more or less discontinued operations
- Management reporting may change as a result of different financial statement formats and the use of alternative performance measures
- Communication with investors may be affected because of changes to financial statement formats; questions may be asked about accounting differences and how general principles were applied
- **Recent changes:** In June 2011, the IASB issued amendments to IAS 1 that are effective for reporting periods beginning on or after July 1, 2012, with early application permitted. The amendments require separate presentation of items of other comprehensive income that will be reclassified through profit or loss from those items that will not be reclassified through profit or loss and require an allocation of tax between the items that may be reclassified subsequently to the profit or loss section and those that will not be reclassified subsequently to the profit or loss section if items are presented before tax.

Key questions to ask

- How would the presentation format change?
- What is the potential impact on EPS?
- What are the key performance measures and how will they change?
- How do the presentation formats compare with those of others in the industry?
- Is a communication strategy in place to address reporting under IFRS?

Revenue

General requirements

- Primary standards — IAS 11, IAS 18
- Guidance addresses general principles related to revenue from the sale of goods and services; little detailed guidance; also addresses revenue from interest, royalties and dividends
- A key issue is understanding the “unit of account” (i.e., combining and segmenting contracts, multiple element arrangements)
- Principles relating to the sale of goods focus on the transfer of “risks and rewards” and “control” over the goods
- Revenue from the sale of services is recognized based on the “percentage of completion”
- Emphasis on fair-value measurement of the consideration received

Potential differences from U.S. GAAP

- Overall level of guidance is much less; limited detailed guidance resulting in more judgment in determining revenue recognition policies
- Variances in applying judgment may result in differences in the revenue recognition related to arrangements with multiple elements and those involving upfront fees; as well as in real estate sales and other industry issues
- Contract accounting — when the stage of completion cannot be estimated reliably, revenue is recognized to the extent that recoverable expenses have been incurred

Implementation considerations

- The selection of revenue recognition policies will require increased judgment; an overall approach to revenue recognition will need to be developed that focuses on a judgment framework
- Data capture may be more or less detailed, which could lead to the need for information systems changes
- Contract designs may be affected
- Changes in the timing of revenue recognition may affect income taxes
- **Changes currently pending:** The IASB and FASB (the “Boards”) are currently working on a joint project to develop a single model for revenue recognition that can be applied consistently across most industries. Under the Boards’ proposed model, revenue would be recognized at the point that “control” of the good or service is transferred to the customer rather than based on the transfer of risks and rewards. This change could affect the timing of when revenue is recognized (over a period of time versus at a point in time). Guidance would be provided in other areas, including variable consideration, licenses of intellectual property, breakage, bad debt allowance, and warranties. Disclosure requirements would increase significantly. The proposals may also affect the structuring of customer contracts, performance metrics used, debt covenants, accounting policies, and systems. The Boards will re-expose their proposals in November 2011. A final standard is expected to be issued in 2012. The effective date is uncertain but will not be before January 1, 2015.

Key questions to ask

- What is the overall approach to revenue recognition and how does it compare to others in the industry?
- What processes are in place for decision-making regarding revenue recognition, and are the appropriate resources involved?
- Are revenue policy disclosures sufficient?

Business combinations

General requirements

- Primary standard — IFRS 3
- Based on the “control” notion
- Guidance addresses the accounting by the acquirer; requires use of the acquisition method for the recognition and measurement of assets acquired, liabilities assumed and any noncontrolling interests in the acquired entity
- Restructuring provisions are generally prohibited from recognition as acquired liabilities
- Transaction costs are expensed
- Guidance addresses the accounting for goodwill; annual impairment test is required; no amortization, and the deferral of “negative goodwill” is prohibited
- Scope includes transactions involving mutual entities and control by contract; does not address common control transactions

Potential differences from U.S. GAAP

- May account for noncontrolling interests at either full fair value or the fair value of the proportionate share of the net assets acquired; accounting policy choice on a transaction-by-transaction basis
- Acquisition of noncontractual liabilities are initially recognized at fair value; subsequent measurement may be different
- Accounting for common control transactions are not addressed
- Related pro forma financial information is required for all entities (public and nonpublic)

Implementation considerations

- Processes for the capture of financial information related to business combinations will need to be developed, particularly for fair value information related to contingent liabilities
- Changes in the amount of certain items acquired or assumed in a business combination and the related goodwill may affect income taxes
- **Changes currently pending:** None

Key questions to ask

- How will the terms and structuring of future business combination transactions be affected?
- What will be the effect of any changes in the valuation of assets acquired and liabilities assumed?
- How will any future exit strategies or other restructuring plans related to acquired businesses be affected?

Investments in associates and joint ventures

General requirements

- Primary standard — IAS 28, IAS 31
- Key issue is determining whether “significant influence” exists
- Significant influence is the power to participate in financial and operating policy decisions of the entity
- Entities where significant influence exists are considered to be “associates” and are accounted for using the “equity method”
- Investment in an associate is initially recognized at cost; subsequent carrying amount is increased or decreased based on investor’s share of profit/loss of associate; distributions reduce the carrying amount
- There are scope exceptions for “investment” companies and investments “held for sale”
- Joint control exists when the financial and operating policy decisions require the consent of all ventures through the contractual sharing of control
- Investments in jointly controlled entities may be accounted for under either the equity method of accounting or the “proportional consolidation” method; the proportionate consolidation method is expected to be eliminated

Potential differences from U.S. GAAP

- Exception from equity accounting for associates held for sale
- Potential voting rights must be considered when assessing whether significant influence exists
- The accounting policies of all associates must be conformed
- The reporting dates of all associates must be conformed
- If losses exceed the interest in associate, discontinue recognition unless a legal obligation exists
- Impairment testing not based on an “other than temporary” notion
- Proportionate consolidation, used in some industries (e.g., oil and gas, construction) under U.S. GAAP, to be discontinued as a policy option under IFRS

Implementation considerations

- Determining whether entities should be considered associates will require increased judgment
- Processes and controls should be developed for monitoring potential voting rights and whether they are currently exercisable or convertible
- Processes for the capture of financial data for all entities being accounted for as associates should be developed, and accounting policies and reporting dates should be conformed
- Changes in the reporting entity as a result of more or fewer entities being accounted for as associates may affect income taxes
- **Recent changes:** In May 2011, the IASB issued IFRS 11 *Joint Arrangements*, which is effective for annual periods beginning on or after January 1, 2013. IFRS 11 limits the types of joint arrangements to either joint operations or joint ventures and requires the use of the equity method of accounting for joint ventures thus eliminating the current option to use proportionate consolidation. Also, IFRS 11 does not focus on the legal form of the arrangement but requires an analysis of the parties’ rights and obligations under the arrangement in determining the type of joint arrangement.

Key questions to ask

- Will more or fewer entities be considered for joint ventures?
- What changes will need to be made to the joint venture arrangements?
- What processes are in place relating to making judgments related to the accounting for associates or joint ventures?
- Do the reporting dates or accounting policies of any investments in associates or jointly controlled entities differ?
- Are the current information systems capable of capturing the information needed to account for investments in associates?

Long-lived assets

General requirements

- Primary standards — IAS 16, IAS 23, IAS 40, IAS 41
- Long-lived assets are initially recognized at cost; includes all costs directly attributable to preparing the asset for use; borrowing costs are capitalized
- Depreciation is based on the “components” approach
- Subsequent measurement of property, plant and equipment or investment property may be at fair value
- Investment property is land or a building (or part of a building) held to earn rentals or for capital appreciation or both
- Biological assets and agricultural products at the point of harvest must be measured at fair value; fair value changes of biological assets in profit or loss; agricultural products at the point of harvest under IAS 2
- Asset exchanges are recognized at fair value, if they have “commercial substance”

Potential differences from U.S. GAAP

- Components approach to depreciation is required; major overhaul costs are generally included as a separate component
- Residual values are required to be adjusted to fair value (upwards or downwards)
- Subsequent measurement of asset retirement obligations may be different
- Property, plant and equipment may be measured at cost or fair value using the “revaluation model”(which is rarely used by entities)
- Investment property may be accounted for using the cost or fair value model; property held as an operating lease may be considered an investment property
- Biological assets must be fair valued

Implementation considerations

- Asset valuation and depreciation may require increased judgment
- Process and controls may need to be developed for determining the fair value of certain assets if the fair value option is selected
- Data capture for asset componentization may be detailed; which could lead to the need for information system challenges
- Residual value changes will need to be tracked
- Changes in the measurement basis of long-lived assets and depreciation may affect income taxes
- **Recent changes:** In May 2011, the IASB issued IFRS 13 *Fair Value Measurements*, which is effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 13 establishes a single framework for measuring fair value where fair value is required by other IFRSs and applies to both financial and non-financial items measured at fair value. IFRS 13 is generally consistent with the fair value guidance under U.S. GAAP.

Key questions to ask

- What will be the measurement basis of long-lived assets?
- Would the revaluation model be considered and is it possible to determine fair values of certain assets?
- Will depreciation amounts change as a result of the components approach?
- Are the current information systems able to capture the information necessary for asset componentization?
- Do any properties under operating leases qualify as investment properties?

Asset impairment

General requirements

- Primary standard — IAS 36
- A single approach to impairment
- Focus on the asset's "recoverable amount," which is the higher of fair value less costs to sell and value in use
- Value in use is the present value of estimated future cash flows expected to arise from use of the asset and its disposal
- Level of testing is based on the cash-generating unit (CGU) (i.e., smallest identifiable group of assets that generates cash inflows independently of other assets)
- For goodwill, testing may aggregate CGUs; must at least allocate to an operating segment
- Impairment losses, except on goodwill, are required to be reversed, if certain criteria are met

Potential differences from U.S. GAAP

- Impairment losses may be recognized in an earlier period given differences in the impairment "trigger"
- The level of impairment testing may be different depending on the CGU
- Amount of impairment may be different based on the recoverable amount of the asset
- Any impairment charges on property, plant and equipment, investment property (where the cost model is used), and intangibles (except goodwill) are required to be reversed, if certain criteria are met

Implementation considerations

- Determining the level at which assets are tested for impairment will require increased judgment
- Processes and controls for the reversal of impairment charges will need to be developed
- Data capture for an asset's recoverable amount may be detailed, which could lead to the need for information system changes
- Changes in the timing and amount of impairment charges may affect income taxes
- **Recent changes:** In May 2011, the IASB issued IFRS 13 *Fair Value Measurements*, which is effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 13 establishes a single framework for measuring fair value where fair value is required by other IFRSs and applies to both financial and non-financial items measured at fair value. IFRS 13 is generally consistent with the fair value guidance under U.S. GAAP.

Key questions to ask

- How will potential changes to asset impairment recognition affect the amount and timing of impairments?
- What are the tax consequences of potential changes in impairment?
- Are the current information systems able to capture the necessary information?

Intangible assets

General requirements

- Primary standard — IAS 38
- Guidance addresses the accounting for intangible assets acquired separately or in a business combination and those generated internally
- Requires acquired intangible assets, including development costs, to be recognized, if certain criteria are met
- Must classify costs of internally generated intangible assets into a research phase and a development phase
- Requires all research expenditures to be expensed
- Development expenditures are required to be capitalized, if certain criteria are met
- Intangible assets may be revalued, if certain criteria are met

Potential differences from U.S. GAAP

- Capitalization of development costs is required; criteria to be met include:
 - Ability to demonstrate technical feasibility
 - Intention to complete the asset and use or sell
 - Ability to use or sell the asset
 - How the intangible asset will generate probable future economic benefits
 - Availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset
 - Ability to reliably measure the expenditure during development
- Intangible assets may be measured at cost or fair value using the “revaluation model” if an active market exists
- Advertising and promotional costs are generally expensed as incurred

Implementation considerations

- Determining when intangible assets should be capitalized will require increased judgment
- Processes and controls for determining fair value of certain intangible assets may need to be developed if the revaluation model is used
- Processes and controls for the capitalization of development costs will need to be developed
- Data capture for the capitalized development costs may be more detailed, which could lead to the need for information system changes
- Capitalization of development costs may affect income taxes
- **Changes currently pending:** None

Key questions to ask

- Is there an active market for intangible assets and, if so, should the revaluation model be considered?
- What amount of development costs will need to be capitalized?
- What are the tax consequences of capitalizing development costs?
- Are the current information systems able to capture the information needed for capitalizing development costs?
- If applicable, will capitalized advertising and promotional costs need to be expensed?

Leasing

General requirements

- Primary standard — IAS 17
- Guidance addresses the accounting for both lessees and lessors
- Scope includes leases of property, plant and equipment, as well as of intangible assets; concessionary arrangements
- Accounting for a lease depends on its classification as either an operating or finance (i.e., capital) lease; operating leases are “off balance sheet” while finance leases are “on balance sheet”
- If a lease transfers “substantially all” the risks and rewards of ownership, it is classified as a finance lease
- Operating lease payments are usually recognized on a straight-line basis

Potential differences from U.S. GAAP

- Utilizes a principle-based framework for lease classification that focuses on the substance of the arrangement
- Generally the implicit rate in the lease is used to discount the minimum lease payments, which may affect classification
- Leases involving land and buildings are required to be accounted for separately, if material. No special accounting for “leveraged leases”
- Sale and leaseback transactions are accounted for based on their substance

Implementation considerations

- Determining the classification of leases may require increased judgment because there are no strict classification criteria
- Processes and controls for classifying leases may need to be enhanced
- Data capture for leases may be more detailed, which could lead to the need for information system changes
- Changes in lease classification may affect income taxes or financing ratios (i.e., debt to equity)
- **Changes currently pending:** The IASB and FASB (the “Boards”) are developing a common leasing standard which will affect both lessees and lessors. The Boards’ proposals would require lessees to recognize assets and liabilities for all leases other than short-term leases thus eliminating operating lease accounting. Lease expense would be composed of interest and amortization expense and would be recognized earlier in the lease term. Certain types of contingent rentals and rentals during renewal periods may need to be estimated and reassessed during the lease term. Lessors would apply a single model based on a derecognition approach and the amount of profit recognized if reasonably assured would be based on an allocation. The proposals may affect the structuring of lease contracts, performance metrics used, debt covenants, accounting policies, and information systems. The Boards will re-expose their proposals in the first quarter of 2012. A final standard is expected to be issued in 2012. The effective date is uncertain but will not be before January 1, 2015.

Key questions to ask

- Will there be changes to lease classification and, if so, what is the potential financial statement impact?
- Will debt covenants be affected?
- What is the effect on how lease arrangements are structured?
- What are the potential tax consequences?
- Are the current information systems able to capture any additional information needed to account for leases?

Provisions and contingencies

General requirements	Potential differences from U.S. GAAP
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| <ul style="list-style-type: none">• Primary standard — IAS 37• Guidance addresses the accounting for “provisions” and “contingent” assets and liabilities• Provisions are liabilities of uncertain timing or amount; are “probable” (i.e., more likely than not) of occurring and resulting in an outflow of resources to settle the obligation (may be either legal or constructive)• Provisions are measured using a settlement notion; use of the “best estimate” or mid-point of range if all possible outcomes equally likely• Discounting of provisions is required, if material• Several disclosures are required, although “prejudicial” items are not required to be disclosed | <ul style="list-style-type: none">• Recognition threshold for provisions based on “more likely than not;” result is that liabilities may be recognized earlier• Provisions are measured based on the “expected-value” method or at the mid-point of a range of equally likely possible outcomes• Provisions must be discounted, if material• Provisions relating to “onerous” operating lease contracts are recorded when there is a commitment (i.e., communication to a landlord)• Areas where there may be differences in the timing and measurement include litigation provisions, restructuring charges, decommissioning liabilities, and uncertain tax provisions• “Prejudicial” items are not required to be disclosed |
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Implementation considerations

- Determining liability recognition and corresponding disclosures may require increased judgment
- The legal department and outside counsel may need to be educated on the threshold for recognition of provisions
- Processes and data capture for provisions may be more detailed, which could lead to the need for information system changes
- Changes in the timing and measurement of provisions may affect income taxes
- **Changes currently pending:** None.

Key questions to ask

- Have all obligations been assessed for potential recognition as provisions?
- What is the effect on the timing of restructuring provisions and provisions relating to onerous contracts?
- Have the implications of changes in recognition of provisions been discussed with the company’s legal advisers?
- Do any disclosures consist of prejudicial information?

Income taxes

General requirements

- Primary standard — IAS 12
- Guidance is based on the “temporary difference” approach; deferred tax items are recognized for differences between the carrying amount of an asset or liability in the statement of financial position and its tax base, and for operating loss and tax credit carryforwards
- Deferred taxes not recognized on the initial recognition of an asset or liability that is not related to a business combination or that does not affect book or tax profit
- Deferred tax assets are recognized when they are “probable” of realization (i.e., more-likely-than-not)
- Deferred tax items are measured based on the applicable tax rates that are enacted or “substantively” enacted
- Deferred tax items are considered to be noncurrent

Potential differences from U.S. GAAP

- Initial recognition exemption; other items may have a tax effect that are scoped out under U.S. GAAP
- Tax rates used to measure deferred tax items
- Must use rate applicable to undistributed profits to measure deferred tax on undistributed earnings of a subsidiary
- Deferred tax items are considered noncurrent for classification on the statement of financial position
- Allocation of tax to equity components — “backward tracing”
- Particular areas with a different tax treatment include share-based payments, leveraged leases and uncertain tax positions

Implementation considerations

- The tax department should be educated on the different tax accounting requirements and their effect on tax planning
- Processes and data capture for deferred tax items may be more detailed, which could lead to the need for information system changes
- **Recent changes:** In December 2010, the IASB issued an amendment to IAS 12 that provides an exception for investment property measured using the fair value model in IAS 40. For the purposes of measuring deferred tax, the amendments introduce a rebuttable presumption that the carrying amount of such an asset will be recovered entirely through sale. The presumption can be rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits over time, rather than through sale. The effective date of the amendment is for annual periods beginning on or after January 1, 2012, with earlier application permitted.

Key questions to ask

- Have the deferred tax effects of other changes in accounting under IFRS been assessed?
- What is the overall effect on current tax structures and reporting?
- What is the effect on future tax planning?

Employee benefits

General requirements

- Primary standard — IAS 19
- Guidance addresses short-term benefits; post-employment benefits, (i.e., pensions); other long-term benefits (i.e., bonuses); and termination benefits
- Accounting for post-employment benefits depends on the type of plan (defined contribution, defined benefit or a multi-employer plan)
- Defined contribution plans involve payment of fixed amounts that are expensed as the employee provides services
- For defined benefit plans, a benefit obligation is recognized using an actuarial valuation method, net of plan assets held
- Termination benefits are recognized when “demonstrably committed”

Potential differences from U.S. GAAP

- Multiemployer plans are accounted for based on their economic substance as either a defined benefit or defined contribution plan
- Policy choice regarding recognition of actuarial gains and losses; recognized in income either using the “corridor” method or accelerated method, or permanently in equity
- Prior service costs are recognized immediately, if vested
- Measurement of expected rate of return on plan assets is based solely on fair value
- Recognition of a defined benefit asset is subject to a “ceiling”
- Liability must be recognized for minimum funding requirements when obligation arises
- Termination benefits and curtailments are recognized when “demonstrably committed”

Implementation considerations

- Current plans will need to be evaluated to ensure they are accounted for under the appropriate type of plan
- Processes and controls for the asset ceiling test will need to be developed
- Data capture may be more detailed, which could lead to the need for information system changes
- Changes in the timing and amount of pension cost may affect on income taxes
- **Recent changes:** In June 2011, the IASB issued amendments to IAS 19 that may have a significant effect on the accounting for defined benefit plans. The option to defer and amortize actuarial gains and losses over a future period is eliminated and all actuarial gains and losses are required to be recognized immediately through other comprehensive income. The full amount of the overfunded or underfunded status of the defined benefit plans is recognized. The amendments also affect other aspects of pension accounting, including recognition of the actual return on plan assets, service costs and accounting for other administrative costs of a plan. Also, disclosure requirements increase significantly. The amendments are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

Key questions to ask

- How will the current accounting for employee benefits be affected?
- Will the employee benefit plan funding requirements be affected?
- Will future benefit plan structures be affected?

Share-based payments

General requirements	Potential differences from U.S. GAAP
<ul style="list-style-type: none"> • Primary standard — IFRS 2 • Applies to transactions where goods and services have been exchanged for share-based payments • Transactions generally measured based on a “grant date” approach • Accounting for grant depends on how transaction will be settled; cash settlement is a liability; equity settled is equity; may have elements of both • Compensation expense for equity awards recognized on the basis of grant-date fair value over the period in which the shares vest • Awards with “graded vesting” features are measured as multiple awards • No specific valuation model is required to determine share value 	<ul style="list-style-type: none"> • Scope is broader; includes employee stock ownership plans • Compensation expense is recognized on an accelerated basis for grants with “graded vesting” provisions • Compensation expense related to certain types of award modifications is based on the higher of the modified award fair value or the original grant date fair value • Measurement of compensation expense for grants to non-employees is based on the fair value of the goods or services when provided • Classification of grant is based on how the transaction will be settled • Income tax treatment • Requirements are the same for public and nonpublic entities

Implementation considerations

- Processes and controls may need to be developed for identifying all transactions that should be accounted for as share-based payments
- Awards need to be evaluated for appropriate classification as a liability or equity
- Judgment will be required in the measurement of share-based payments at fair value
- Data capture may be more detailed, particularly regarding graded vesting, which could lead to the need for information system changes
- Income tax implications of share-based payments may need to be understood
- **Changes currently pending:** None.

Key questions to ask

- Should compensation structures be changed?
- How does accounting for existing share-based payment arrangements potentially change under IFRS?
- What fair value techniques are being used and how will they change?
- Are the current information systems able to capture the information needed to account for share-based payments?

Financial instruments presentation and disclosure

General requirements

- Primary standards — IAS 32, IFRS 7
- Financial instruments are classified as either financial assets, financial liabilities or equity depending on the substance of the underlying contractual arrangement
- Instruments with liability and equity elements are generally accounted for separately — “split accounting”
- Issued equity securities redeemable at the option of the holder or upon a contingent event are usually classified as liabilities
- Financial assets and liabilities may be offset, if certain criteria are met
- Several disclosures required related to risks of financial instruments held

Potential differences from U.S. GAAP

- There is no mezzanine equity classification under IFRS; must classify as either liabilities or equity
- “Split accounting” is required for instruments with liability and equity components; allocate the individual components based on fair value using the “with-and-without” method
- Additional disclosures are required

Implementation considerations

- Processes will need to be developed for the capture of data for additional disclosures, differing offsetting and “split accounting”
- Different classification of financial instruments may affect income taxes
- **Changes currently pending:** In January 2011, the IASB and FASB (the “Boards”) issued an exposure draft that would introduce additional application guidance in applying the current offsetting principles. During their redeliberations, the Boards could not reach agreement on whether to require offsetting for derivatives when an entity has a conditional right of set-off in bankruptcy or default as a result of having a master netting agreement in place. Therefore, the Boards decided not to proceed with the proposed amendments but instead will issue converged disclosure requirements and the IASB will amend IAS 32 to clarify certain issues identified during its outreach activities. The additional disclosure requirements and amendments are expected to be issued at the end of 2011.

Key questions to ask

- Are the appropriate processes available for the use of “split accounting”?
- Should debt covenants that are linked to the amount of liabilities and equity reported in the financial statements be renegotiated? What additional disclosures will be required related to financial instruments held?

Financial instruments recognition

General requirements

- Primary standard — IAS 39
- Financial instruments are recognized and measured based on their classification as either financial assets, financial liabilities or equity
- Derecognition of financial assets is based primarily on whether “risks and rewards” have been transferred
- Financial liabilities are derecognized when extinguished
- Focus on the use of “fair value” as a measurement basis — subsequent measurement depends on classification of financial instrument; use of the fair value option is allowed in certain instances
- “Hedge accounting” is allowed if certain criteria are met and are sufficiently documented

Potential differences from U.S. GAAP

- Fair value not limited to an “exit-value” notion
- Impairment testing not based on an “other-than-temporary” notion; reversal of impairments for some items, if certain criteria are met
- Derecognition of financial assets
- Definition of a derivative is broader — a notional, payment provision and net settlement are not required
- Fewer restrictions on the types of risks that can be hedged; the “shortcut method” is not permitted for hedge accounting; all hedges must be assessed for effectiveness and documented
- May adjust the basis of certain non-financial assets or liabilities for the effects of “cash-flow hedges”

Implementation considerations

- Valuation techniques used to determine fair value may need adjustment
- Processes may need to be developed for the capture of data for impairments (including reversals), interest, recognition, and derecognition
- Hedge documentation may need adjustment, and hedge effectiveness testing may require additional documentation
- Different recognition and amounts of financial instruments may affect income taxes
- **Changes currently pending:** The IASB and FASB (the “Boards”) are amending the accounting for financial instruments with a goal of simplifying the classification and measurement requirements. The IASB’s financial instruments project is replacing IAS 39 and has been split into three phases: (1) classification and measurement, (2) impairment and (3) hedge accounting. In November 2009, the IASB issued IFRS 9 that covers the classification and measurement of financial assets with an effective date of 2013 with early application permitted. In August 2011, the IASB issued an exposure draft that proposes to defer the mandatory effective date of IFRS 9 from 2013 to 2015. The IASB issued amendments to IFRS 9 relating to financial liabilities that requires changes in the fair value of a liability (designated as at fair value through profit or loss using the fair value option) attributable to changes in the liability’s credit risk be recognized directly in other comprehensive income, unless it creates or increases an accounting mismatch. The impairment phase of the project is focused on providing more transparency and timely recognition of credit loss provisions using an expected loss model. The Boards expect to issue an exposure draft on the impairment phase during 2012. The third phase relates to simplifying the hedge accounting requirements, more closely aligning the hedge accounting model to a company’s risk management processes and improving user information on hedge accounting. A final standard on hedge accounting is expected to be issued by the end of 2011.

Key questions to ask

- What fair value measurement techniques are being used and will they change?
- Will the hedging strategy be affected?



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