

IFRS news

IASB Trustees go for 'Noah's ark' approach

In this issue:

- 1 **IASB appoints chairman and vice-chairman**
- 2 **Financial instruments**
Project update
- 3 **Cannon Street Press**
Transition and effective dates
- 4 **Contacts**



Hans Hoogervorst

To be IASB chairman from 1 July 2011

The Trustees of IASCF have taken a ground-breaking step in appointing a successor to current chairman Sir David Tweedie, following a Noah's ark, two-by-two approach. Hans Hoogervorst a Dutch politician with financial regulatory experience will become the next chairman of the IASB. He will be joined by a vice-chairman, Ian Mackintosh, current chairman of the Accounting Standards Board in the UK.

Mr Hoogervorst will succeed Sir David Tweedie on his retirement as chairman of the IASB at the end of June 2011. He is currently chairman of the Netherlands Authority for the Financial Markets (AFM), the Dutch securities and market regulator – he will resign this position before joining the IASB. He is also chairman of the Technical Committee of the International Organization of Securities Commissions (IOSCO), stepping down from this role in April. He was also until recently the co-chair of the Financial Crisis Advisory



Ian Mackintosh

To be IASB vice-chairman from 1 July 2011

Group (FCAG), an independent body of senior leaders formed to advise accounting standard-setters on their response to the global financial crisis.

Mr Mackintosh, a former chief accountant of the Australian Securities and Investment Commission, has more than 30 years' experience of national and international accounting standard-setting. He is currently chairman of the UK Accounting Standards Board and chairman of the group of national accounting standard-setters, a body in which more than 20 national and regional accounting standard-setting organisations participate.

Sam Di Piazza, Trustee of the IFRS Foundation and former global CEO of PwC, called the appointment of Hans and Ian "an outstanding choice".

"I have known Hans for several years. His background as Minister of Finance in The Netherlands gives him unique policy

experience of the issues faced by the IASB in its service to the public interest. On the crucial issue of independence, Hans has been absolutely clear. He is committed to investor protection and believes the independence of the IASB is primary. Having worked with him in his role as chairman of the Monitoring Board, his actions have confirmed his views.

“It has long been my view that the successor of Sir David Tweedie would

require a keen sense of business and finance,” said Sam, “but more importantly a skill in public policy not often found in the accounting profession. The IASB has made tremendous progress in its first decade, but the next 10 years will require both technical and public policy experience. I believe we have the perfect combination in Hans.”

Sam said of Ian MackIntosh, “His deep experience in the profession and in

standard setting will serve him well in this new role. He has served in an outstanding manner as chair of the National Standard Setters since 2004, which gives him great perspectives of the global issues we face at the IASB. His diverse background, including his roots in New Zealand, his service in Australia and the UK, his work at the World Bank and the Australian Securities and Investment Commission will also aid in his service to the IASB.”

Financial instruments project moves forward

The IASB has put in place several more building blocks of the financial instruments project. It has updated IFRS 9, ‘Financial instruments’, to include guidance on financial liabilities and derecognition of financial instruments, and has amended IFRS 7 to include disclosures around transferred financial assets. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, ‘Financial instruments: Recognition and measurement’, to IFRS 9. The guidance is unchanged with one exception: the accounting for financial liabilities that are designated at fair value through profit or loss (FVTPL), as explained below. IFRS 9 is applicable for accounting periods beginning on or after 1 January 2013. The IFRS 7 amendments are applicable for annual accounting periods beginning on or after 1 July 2011.

Key provisions

Items unchanged

The requirements in IAS 39 regarding the classification and measurement of financial liabilities have been retained,

including the related application and implementation guidance. The two existing measurement categories for financial liabilities remain unchanged: FVTPL and amortised cost. The criteria for designating a financial liability at FVTPL also remain unchanged.

Entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract. The separated derivative continues to be measured at FVTPL, and the residual debt host continues to be measured at amortised cost. The existing application guidance relating to embedded derivatives has been included in IFRS 9; it will continue to apply to derivatives embedded in non-financial items – for example, foreign currency derivatives embedded in purchase and sales contracts.

The requirements in IAS 39 for determining when financial instruments are derecognised from the balance sheet have also been relocated to IFRS 9 without any change.

New measurement guidance

Entities with financial liabilities designated at FVTPL recognise

changes in the fair value due to changes in the liability’s credit risk directly in other comprehensive income (OCI). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

However, all fair value movements are recognised in profit or loss if presenting the change in fair value attributable to the credit risk of the liability in OCI would create an accounting mismatch in profit or loss. Determination of the accounting mismatch is at initial recognition of the financial liability and the determination is not reassessed. The mismatch must arise from an economic relationship between the financial liability and a financial asset that results in the liability’s credit risk being offset by a change in the fair value of the asset.

All fair value movements will be recognised in profit and loss for financial liabilities that are required to be measured at FVTPL (as distinct from those that the entity has designated at FVTPL), including financial guarantees and loan

commitments measured at FVTPL. All derivatives and a bank's own liabilities that it holds in its trading portfolio are in this category.

Effective date and transition – IFRS 9 amendments

The effective date and transition requirements are consistent with IFRS 9 issued in November 2009 for the classification and measurement of financial assets. That is, IFRS 9 is mandatory for annual periods beginning on or after 1 January 2013. Early adoption is possible, but the rules are complex. There are three possible choices for adoption of the standard:

- The financial asset accounting provisions of IFRS 9 can be early adopted without adopting the financial liability requirements;
- All of the requirements (financial assets and financial liabilities) can be early adopted; or
- An entity can wait and adopt the standard at the mandatory adoption date, for a calendar year entity that would be 2013 and restatement of comparatives would be required.

An entity that chooses either of the early adoption options prior to 1 January 2012 would not be required to restate comparatives.

There is additional transition guidance for the designation of financial liabilities or financial assets at FVTPL on initial application of IFRS 9.

Entities that are affected should be aware of the requirements, as they are specific and detailed.

Effective date and transition – IFRS 7 amendments

The additional disclosure requirements will be required for annual periods beginning on or after 1 July 2011, with earlier application permitted.

Disclosures are not required for any period presented that is before the date the amendments are adopted; in other words, there is no requirement for comparatives in the year of adoption.

Impact

The changes to IFRS 9 will impact entities that have designated financial liabilities at FVTPL. For example, it impacts financial institutions that have

designated liabilities at FVTPL to eliminate an accounting mismatch or to avoid separating an embedded derivative. The additional disclosure requirements will impact any entity that sells, factors, securitises, lends or otherwise transfers financial assets.

What do I need to do?

Management of entities that currently designate (or in future may wish to designate) financial liabilities at fair value through profit or loss should familiarise themselves with the updated requirements of IFRS 9. Management should also consider carefully the planned timing of their adoption of IFRS 9.

However, the financial instruments project is still evolving, and additional changes are expected for the impairment and hedging phases. The IASB has recently requested views on the effective date and transition requirements for the entire group of standards in the US GAAP convergence programme. This may well impact the transition dates and requirements set out above.

Request for views on effective dates and transition methods

A number of major projects are scheduled for completion in 2011, so the IASB and FASB are seeking views on how to sequence the effective dates of new standards in order to reduce the burden on preparers. The IASB will consider the needs of jurisdictions already using IFRSs and those planning to do so. The projects covered by the 'request for views' are:

- all phases of the financial instruments project;
- revenue from contracts with customers;

- insurance contracts and leases;
- pensions;
- other comprehensive income;
- consolidation; and
- joint arrangements.

Some of the new standards that are the subject of this 'request for views' are being developed by the IASB and the FASB. The FASB has published a discussion paper inviting comments on the same issues.

The IASB has asked for views on four

broad issues:

- preparing for transition to the new requirements;
- the implementation approach and timetable (effective dates for the new requirements and early adoption);
- international convergence considerations; and
- considerations for first-time adopters of IFRS.

Comments are requested by 31 January 2011.



For further help on IFRS technical issues contact:

Business Combinations and Adoption of IFRS

mary.dolson@uk.pwc.com: Tel: + 44 (0)20 7804 2930
caroline.woodward@uk.pwc.com: Tel: +44 (0)20 7804 7392

Financial Instruments and Financial Services

john.althoff@uk.pwc.com: Tel: + 44 (0)20 7213 1175
jessica.taurae@uk.pwc.com: Tel: + 44 (0)20 7212 5700
elizabeth.m.lynn@uk.pwc.com: Tel: + 44 (0)20 7804 0306

Liabilities, Revenue Recognition and Other Areas

tony.m.debell@uk.pwc.com: Tel: +44 (0)20 7213 5336
mark.lohmann@uk.pwc.com: Tel: +44 (0)20 7212 4482

IFRS news editor

joanna.c.malvern@uk.pwc.com: Tel: +44 (0)20 7804 9377

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. It does not take into account any objectives, financial situation or needs of any recipient; any recipient should not act upon the information contained in this publication without obtaining independent professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2010 PricewaterhouseCoopers. All rights reserved. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.