Global IFRS internal

Year-end accounting reminders – IFRS

March 2013

Quarterly update
March 2013

This information is extracted from PwC inform. More information, including other 'Topical issues', is available under 'Latest developments' and updated in real-time.

Introduction

This publication relates to reporting requirements as at 31 March 2013. It highlights the topical issues to consider and the new standards and interpretations that apply at this date.

Topical issues at 31 March 2013

This section summarises some accounting hot topics that may impact March 2013 year ends.

Partial Disposals – Reminders on calculation of gains/losses

A partial disposal of an interest in a subsidiary in which the parent loses control triggers recognition of a gain or loss on the entire interest. This gain or loss comprises two elements – a gain or loss on the portion that has been disposed of and a gain or loss on remeasurement of the interest retained from its carrying value to fair value. IAS 27 requires a parent to separately disclose both the total gain or loss arising, and the portion of the gain or loss related to remeasurement of the retained interest. Amounts recognised in other comprehensive income (such as reserves related to available-for-sale securities and foreign currency translation) are reclassified to profit and loss (**IAS 27 paras 34 and 41**).

Engagement teams should be aware of the above guidance and ensure gains and losses on partial disposals have been accounted for and disclosed appropriately. For further guidance **see paragraph 26.188.6 onwards in the 'IFRS Manual of accounting'**.

Assumptions used when testing for impairment based on FVLCTS

IAS 36, 'Impairment of assets', seeks to ensure that an entity's assets are not carried at more than their recoverable amount (that is, the higher of fair value less costs to sell and value in use). With the exception of goodwill and certain intangible assets for which an annual impairment test is required, entities are required to conduct impairment tests where there is an indication of impairment of an asset.

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Usually, fair value less cost to sell (FVLCS) is more difficult to determine than value in use (VIU) where the asset is not traded in an active market. Once an entity calculates the VIU and where this exceeds the asset's carrying amount the asset is not impaired and there is no need to estimate the FVLCS. However, where the VIU is lower than the carrying amount of an asset, the entity should determine the asset's FVLCS before a write-down is booked. This is because the entity should determine the recoverable amount (being the higher of FVLCS and VIU).

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. So when management are determining the fair value of an asset or CGU, it should consider the characteristics of the asset or liability that a market participants would consider when pricing the asset or CGU. Such characteristics could include:

- the condition and location of the asset; and
- restrictions, if any, on the sale or use of the asset.

Where an asset value has been derived from a valuation technique using a fair value model, it is important to remember that the valuation technique should only incorporate assumptions that market participants would use in estimating the asset's fair value (such as revenue growth, profit margins, and exchange rates). The assumptions used by management should usually be supported by market evidence and it may be necessary to adjust the assumptions where they cannot be supported by market evidence. They should also be the assumptions that are applicable at the date of assessment (typically the balance sheet date).

Accounting for other administration costs under IAS 19 revised

The amended standard requires costs associated with the management of plan assets to be deducted from the return on plan assets, which is unchanged from the existing standard. Other administration expenses should be recognised in profit or loss when the services are received. This is a change from the existing standard, under which there is a choice to include expenses in the calculation of the defined benefit obligation or in the actual and expected return on plan assets. Entities are only affected if their current policy differs from the new requirements. One example of this is where costs other than investment management costs have been reflected in the expected and actual return on assets. Where an entity has to change its existing policy to comply with the amended standard, the entity should recalculate the benefit obligation, return on assets and employee benefit expense, if the difference is material, as the amendment is applied retrospectively.

Examples of costs relating directly to managing plan assets would include:

- fees paid to the bank for asset management services;
- salaries of the management board who manage the trust; and
- investment consultant fees.

Conversely, examples of costs that we do not believe qualify as costs of managing plan assets – and that would need to be expensed as incurred – include:

- salaries of members of the trust's management board who administer the pension payments;
- administration costs incurred to administer the pension plan participants' database; and
- actuarial valuation costs.

Other administration costs should be recognised as part of 'operating results', not within 'finance results' in the income statement.

Accounting for 'Employee benefit plans with a promised return on contributions or notional contributions'

In 2004 the IFRS IC published a draft interpretation D9, 'Employee benefit plans with a promised return on contributions or notional contributions'. This Interpretation was never finalised, but its concepts can be applied under IAS 19 and IAS 19 revised – at least pending further deliberations on the accounting for contribution based promises. D9 gives guidance on how to apply IAS 19 to an employee benefit plan with a promised return on actual or notional contributions. A promised return is either a guaranteed return of a fixed amount or rate or a promise of a variable return based on specified assets or indices. D9 says that such plans are defined benefit plans both under IAS 19 and 19 revised. This is because the promise of a specified return (whether fixed or variable) means that the employer may have to make additional contributions so the plans cannot be defined contribution plans (in which an entity has no legal or constructive obligation to pay further contributions relating to current or past service). In summary, our view is that D9 can be applied under IAS 19 revised as well at present. For details **see IFRS Manual of accounting paragraphs 11.195 - 11.200**.

Scope of financial instrument offsetting disclosures wider than expected for IFRS preparers

Recent clarification by the US Financial Accounting Standards Board ('FASB') regarding the scope of the offsetting disclosure requirements for financial instruments has created a scope difference between IFRS 7 and the equivalent US GAAP disclosure requirements. The IASB noted the FASB's decision to limit the scope of the offsetting disclosures in the November 2012 board meeting, but does not propose to make a similar amendment to IFRS 7.

The clarification has also drawn attention to the broad scope of the disclosures required under IFRS, which will include *all* financial instruments that are subject to a master netting arrangement or similar agreement, including trade receivables and payables. As a result of this broad scope under IFRS the new offsetting disclosure requirements will potentially be applicable to corporate entities as well as financial institutions.

Examples of transactions and industries that may be within scope include receivables from car sales and payables relating to incentives or warranties (master dealer arrangements in the automotive sector), trade payables and receivables under a separate rebate agreement (for example in the retail and pharma sector), reward program relationships with credit card 'partners' (in the financial services sector) and any transactions that are regularly net settled in the normal course of business.

The IFRS 7 amendments are to be applied retrospectively, with an effective date of annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Entities should start to analyse the types of financial instruments they hold now and the agreements to which they are subject.

Fair value will include own credit risk from January 2013

The new fair value standard, IFRS 13, requires entities to take the risk of non-performance into account when calculating the fair value of liabilities (principally derivatives). The standard specifically says that this includes own credit risk. Currently, many financial institutions make an adjustment to financial assets and liabilities for counterparty and own credit risk (commonly referred to as CVA and DVA). These adjustments are often performed on a portfolio basis by head office as a manual adjustment. Many non-financial institutions also consider the impact of counterparty credit risk on financial assets but only account for it if it is material. We allow a policy choice under current standards on accounting for own credit risk and, in practice, the majority of entities have a policy of not adjusting.

This will need to change under IFRS 13. There is little guidance on how to apply adjustments for own credit risk in practice but entities should start to develop a consistent methodology now. This may include the use of CDS spreads, credit ratings, bond spreads or other financial modelling.

The inclusion of credit risk in valuations is also likely to have an impact on hedge effectiveness for both cashflow and fair value hedges. See 'Credit risk and derivative instruments' for updated guidance. Entities should make sure that their Treasury teams are aware of the potential impact of the new accounting guidance when entering into new hedges.

Central clearing houses – impact on hedge accounting

Recent EU and US regulations will require many over-the-counter (OTC) derivatives to be centrally cleared. This will affect both financial and non-financial institutions as they are both parties to the derivatives. Clearing of OTC derivatives with a central counterparty clearing house (CPP) involves a novation process, which transfers all rights and obligations under the original contract from the financial institution to the clearing house. The original derivative, previously settled directly between party A and party B is replaced by two derivatives: one between party A and the CPP and an opposite trade between party B and the CPP. The novation process should be quick but is unlikely to be instantaneous and also results in a change of counterparty for the corporate that entered into the derivative with the financial institution. Under IAS 39, as currently written, it is clear that a change of counterparty would result in an extinguishment of the original derivative financial liability and recognition of a new financial liability. Therefore, where existing derivatives are novated to CPPs, the hedge relationship under IAS 39 must be discontinued. The hedge could be redesignated with the new counterparty post-novation but there is likely to be significant ineffectiveness arising from the non-zero derivative fair value.

The IASB published an exposure draft (ED) on 28 February proposing a narrow scope exception to the requirements for the discontinuation of hedge accounting in IAS 39 when a derivative that has been designated as a hedging instrument is novated from the original counterparty to a CPP as a consequence of new laws or regulations. Corresponding requirements are proposed to be included in the forthcoming hedge accounting chapter in IFRS 9. Comments are due by 2 April 2013. See **Straightaway 113** for more details. In the meantime we advise entities under IFRS to document all new hedges using OTC derivatives in such a way that they permit novation of the hedging instrument.

The IASB's proposed amendment may solve certain hedging issues, but the new regulations introduce other complexities, not least the requirement for all EU entities to report all derivative transactions to a central database, even for intra-group derivatives. The start date for reporting is not expected to be before July 2013 but does include transactions since 16 August 2012 (when EMIR became law). Risk mitigation procedures including timely confirmations of non-cleared derivatives and reconciliations of positions taken is also expected to be required from end March 2013. We recommend that engagement teams and entities liaise with their local Corporate Treasury contacts as changes to systems, policies and processes are likely to be required.

Impact of adopting IAS 19 revised

Paragraph 30 of IAS 8 requires that when an entity has not applied a new IFRS that has been issued but is not yet effective, that the entity discloses this fact and known or reasonably estimable information relevant to assessing the possible impact on the entity's financial statements. We expect that such disclosure would include both the quantitative and qualitative impact of adoption.

Non-controlling interests and cash flow statements

Where there are non-controlling interests in a subsidiary that is consolidated as part of a group, the treatment of the non-controlling interest in the consolidated cash flow statements should be consistent with the overall approach to non-controlling interests. Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the purchase or sale by a parent of a subsidiary's equity instruments, are now accounted for as equity transactions under IAS 27. IAS 7 was therefore amended by IAS 27 so that the resulting cash flows are classified in the same way as other transactions with owners – that is, as cash flows from financing activities in the consolidated cash flow statement. See the guidance in **paragraph 30.108** onwards in the 'IFRS Manual of accounting'.

Supplier finance arrangements

We have recently seen an increase in questions around accounting for supplier financing arrangements. These arrangements raise the question of whether the trade payables that are the subject of the supplier financing should be derecognised and replaced by a bank borrowing.

Supplier finance arrangements involve three parties: a supplier, who supplies goods to a purchaser and a bank. The bank offers to facilitate payments of the trade payables arising between the supplier and purchaser; it may provide finance so that the supplier can be paid earlier than the due date of the trade payable.

Under IAS 39, a financial liability is removed from its balance sheet when it is extinguished – that is, when the obligation is discharged, cancelled or expires. Engagement teams should discuss with the client whether the trade payable has been extinguished, resulting in a new liability to the bank or a significant modification of terms. Indicators of extinguishment are included in the practice aid: **'Supplier finance: A practice aid to the accounting treatment'**.

Upon extinguishment, a new liability to the bank should be presented as bank financing (or under another suitable heading rather than 'trade payables'). If the original liability has not been extinguished, the terms of the liability might be significantly modified. This would result in derecognising the original liability and replacing it with a new one. Whether the modification of terms is significant should be considered from a quantitative perspective (and qualitative perspective, if it is the entity's accounting policy to do so).

Further guidance on supplier finance arrangements can be found in **paragraph 6.6.169** of the IFRS Manual of accounting.

The accounting for supplier finance arrangements will depend on the facts and circumstances relating to them. If in doubt, consult with ACS via IGLO.

'Blend and extend' swaps

Given the current low interest rate environment, management might be considering its hedging relationships and might wish to renegotiate its interest rate swaps, particularly if a swap is in an unfavourable position (that is, the swap's fair value is in a liability position). One method of restructuring the current terms of a swap is to use a 'blend and extend' swap arrangement: a new swap is entered into whose terms incorporate the close-out cost of the original swap (that is, the fair value of the liability at the date of the transaction). Entering this type of arrangement avoids a large cash settlement of the original swap today. But the new interest rate on the pay leg is likely to be higher than the current market rate. This, plus the extended maturity date of the new swap, reflects an embedded financing of the original swap's liability position. Such arrangements raise a number of accounting issues, including whether hedge accounting can be applied (and the consequences if it cannot) and the effect of the new swap on the reporting of net debt.

If you require further guidance on accounting for 'blend and extend' swap arrangements, consult with ACS via IGLO.

Breaches of banking covenants and presentation of borrowings

An entity classifies a borrowing as current under IAS 1 if it does not have an unconditional right at the balance sheet date to defer settlement for at least 12 months after the end of the reporting period. Where an entity is in breach of banking covenants at the period end and the breach causes the entity to lose the unconditional right to avoid settling within 12 months, the whole borrowing is a current liability at the balance sheet date if the breach has not been waived by the lender before the period end. Even where covenant waivers are subsequently received from the lender, and where borrowings have been restructured in the following year, the financial statements should present the borrowings based on their contractual maturity at the period end. A post-period-end waiver is a non-adjusting post balance sheet event under IAS 10.

See the guidance in **paragraph 4.84 onwards** in the IFRS Manual of Accounting.

IFRS 3 disclosure reminders

One of the disclosures required in the business combinations standard that can often be overlooked is the requirement to provide a qualitative description of the items that make up goodwill. For example, this may include expected synergies resulting from the combination or intangible assets that do not meet the criteria for separate recognition. The omission of this disclosure has been specifically noted by regulators (for instance, in the UK FRRP's annual report for 2011). An acquirer is also required to disclose specific information for transactions that are recognised separately from the business combination. This includes a description of the transaction, the accounting treatment and the line item in the financial statements in which each item is recognised. Examples of such transactions include settlement of pre-existing relationships and acquisition-related costs. Furthermore, the amount and recognition basis of any issue costs not recognised as an expense must also be disclosed.

Debt-for-debt renegotiations

Entities sometimes negotiate with lenders to restructure their existing debt obligations. Such restructuring may result in either a modification or an exchange of debt instruments. Different accounting applies for each.

Under IAS 39, a restructuring is accounted for as an extinguishment if either the renegotiated debt instrument is on substantially different terms from the existing instrument, or the renegotiated instrument is with a different lender (including when the new lender is connected with the previous lender – for example, two groups under the common control of the same individual). In this case, the existing debt instrument is derecognised, and the new or revised debt instrument is initially recognised at fair value. The difference between the fair value of the renegotiated instrument and the carrying amount of the old instrument is recognised in the income statement. See **paragraph 6.6.179** of the IFRS Manual of accounting for further information. If the renegotiated debt is with the same lender (including a member of the same group) and not on substantially different terms, the restructuring is accounted for as a modification. The existing debt instrument is not extinguished but continues to be recognised at amortised cost. The difference between the previous carrying amount and the present value of the revised estimated cash flows discounted at the original effective interest rate should either be recognised immediately as a gain or loss in the income statement or should adjust the effective interest rate of the liability (that is, it should be recognised in the income statement over the remaining life of the instrument). The appropriate treatment depends on the facts and circumstances.

Control under IFRS 10

IFRS 10, 'Consolidated financial statements', replaces all of the guidance on control and consolidation in IAS 27, 'Consolidated and separate financial statements', and SIC-12, 'Consolidation – special purpose entities'.

IAS 27 defines control as: '…the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities…'.

IFRS 10 defines control differently as: '… an investor controls an investee when the investor is exposed or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee…' .

The definition of control under IFRS 10 is not based solely on legal ownership. It encompasses three distinct principles, which if present identify the existence of control by an investor over an investee. These principles are:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

In assessing control over an investee, these three factors cannot be considered in isolation; all three must be present for an investor to conclude whether it has control.

The main distinction between the old and new definition of control is that, under IFRS 10, there is a clear requirement to link power and returns (that is, benefits) and an investor's ability to affect those returns.

All entities will need to consider the impact of the new definition, as it may result in some entities consolidating investments that they previously did not, and deconsolidating entities that do not meet the control definition under IFRS 10. IFRS 10 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. However it was endorsed by the EU at the end of December with an effective date for annual periods beginning on or after 1 January 2014, with early adoption permitted.

An amendment to IFRS 10 was issued on October 2012. The amendment exempts 'Investment entities' from the requirements to consolidate controlled investees. The amendment apply for annual periods beginning on or after 1 January 2014 with earlier application permitted. However, this is still subject to EU endorsement. The amendment will primarily impact investment funds and similar entities which will be exempted from consolidating controlled investees under the amendment.

Accounting for joint arrangements under IFRS 11

Proportionate consolidation

One of the key changes brought in by IFRS 11 is the elimination of the accounting policy choice when accounting for investments in joint ventures. Previously, when a venturer had an interest in a jointly controlled entity, it was allowed to report the assets and liabilities using either proportionate consolidation (gross accounting) or the equity method of accounting (net accounting). For those used to reporting gross – typically in the oil and gas, property development and telecommunication industries – the new standard will bring significant changes by reducing the size of balance sheets and income statements unless action is taken now (see below). All entities will need to consider the impact of the standard in their financial statements. IFRS 11 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. However it was endorsed by the EU at the end of December with an effective date for annual periods beginning on or after 1 January 2014, with early adoption permitted.

Retaining gross reporting

Jointly controlled entities (JCEs) might not meet the definition of joint ventures under the new standard. By moving away from the importance of an investment's legal structure, some JCEs might be classified as joint operations in future.

Segment reporting under IFRS 8

The following are some areas that could require further consideration at year ends based on experiences to date under IFRS 8.

Operating segments and segment disclosures are presented based on the information the chief operating decision-maker (CODM) receives and uses to make decisions. Therefore, the first step in applying IFRS 8 is to determine the identity of the CODM. Identification of operating segments, reportable segments and segment disclosures will then follow.

The CODM is the individual or group of individuals who perform the function of allocating resources to operating segments and assessing their performance. A committee of non-executive directors is unlikely to be the CODM given that their function is more one of governance rather than management. Therefore, a supervisory board of executive directors is more likely to be the CODM. Identification of the CODM should consider the key operating decisions made in running the business and who makes these decisions.

Disclosures in respect of operating segments should consider:

- How are the entity's activities reported in the information used by management to review performance and make resource allocation decisions?
- Is any proposed aggregation of operating segments into one reportable segment supported by the aggregation criteria in the standard, including consistency with the core principle (that is, enabling users to evaluate the nature and financial effects of the entity's business activities and economic environments)?
- Is the information about reportable segments based on IFRS measures or on an alternative basis?
- Have the reported segment amounts been reconciled to the IFRS aggregate amounts?
- Is the operating analysis set out in the narrative report consistent with the operating segments in the financial statements?

At every reporting date the entity should reconsider whether their current operating segment disclosure remains appropriate. Changes in the identity or formation of the CODM and the information reviewed by the CODM could lead to changes in the segment disclosures provided. This consideration is especially important where there has been a restructuring of the organisation.

Discount rates and provisions

The risk-free rate is an important element in various calculations and assumptions, as it provides a base to determine an appropriate discount rate. The proxy for such a risk-free rate is in many cases the government bond 'yield' rate for the country where the entity operates. However, due to the recent economic turmoil, the credit rating of government debt has been downgraded in a number of countries, reflecting a market view that the debt (and related yield) is no longer free of risk.

Where this has occurred in a country (country A) for which the entity wishes to apply a risk-free discount rate, an acceptable approach would be to use a government bond 'yield' rate of a AAA-rated country (country B), with appropriate adjustment for the differences in inflation between the two countries.

Disclosure of significant estimation uncertainties – discount rates

The application of an appropriate discount rate to determine the present value of an accounting balance is a common requirement under a number of IFRS accounting standards. Methods for determining an appropriate discount rate vary but often have regard to risk-free rates, or in particular, under IAS 19, to corporate bond rates or government bond rates. In the current economic environment, the selection of an appropriate discount rate is highly judgemental and can have a material impact on financial statements. Management should therefore consider disclosing discount rates as a significant source of estimation uncertainty, in accordance with IAS 1 para 125.

Impairments are still an issue

The current world financial crisis creates a number of financial reporting challenges. Quite a few sectors have been affected by the downturn in the global markets, which has resulted in a loss of consumer confidence, reduction in government spending and the uncertainty surrounding European debt. However, companies continue to make acquisitions.

In the current economic climate, we expect impairment to be an area of focus. Groups holding significant amounts of goodwill and intangibles are at greater risk. In addition, the carrying value of investments held at cost could be affected. There is a risk that a material impairment to the asset will be overlooked.

A recent concern has arisen in relation to the market capitalisation of public entities being significantly lower than the entity's carrying value of its net assets. IAS 36 identifies this particular situation as an indicator that an asset might be impaired. The difficulty in this type of situations is to understand the underlying reasons behind a significant spread between the two measures. A possible explanation is that the issue could arise due to differences in the interpretation of estimates prepared by management in relation to future performance and cash flows in comparison to those used by analysts. It seems that this issue is currently being experienced by a large group of companies across Europe including the UK. Engagement teams are encouraged to look at this indicator of impairment and understand its potential impact for their clients.

The key points for reviewing impairment are:

- Look out for impairment triggers (both internal and external factors).
- The value-in-use model generally used for impairment testing is complex and mechanical. Cross-check management's key assumptions against external market data. Cash flow growth assumptions should be compared to up-to-date economic forecasts.
- The required disclosures are extensive, but they are important to the users of the financial statements. Ensure that disclosures in the annual report comply with the relevant standards.

It is important for the engagement team to seek the view of the senior members of the audit engagement team (preferably the engagement leader) in relation to management's key assumptions. Start the impairment process early to avoid any surprises and difficult conversations with your clients.

Out-of-the money share-based payments – cancellations and modifications

Many employee share awards are no longer favourable in the current economic conditions. If non-market vesting conditions have been affected, some of these awards now result in only a relatively small charge being recognised in the income statement.

Many entities are considering cancelling such awards where employees will not meet non-market performance conditions. Management should consider this approach carefully; by cancelling an award ahead of time, it will be treated as a cancellation under IFRS 2. This means that the entity needs to account for the award as an acceleration of vesting. It will therefore recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period (see further **paragraph 12.138** of the 'IFRS Manual of accounting').

As an alternative to cancelling an award, the entity might consider modifying the award to re-incentivise employees – for example, by repricing the awards and perhaps reducing the number of awards or adding new vesting conditions. IFRS 2 requires any incremental fair value awarded as a result of modifications to be recognised over the remaining vesting period. It may be possible to modify the award such that it has no incremental fair value but provides a better incentive to employees.

Going concern issues

The reduced availability of credit due to the inability or unwillingness of financial institutions to provide funding and illiquidity in short-term funding has raised questions about the going concern assumption. Under normal circumstances, where an entity does not have committed facilities for the next 12 months to cover all cash requirements from the date of signing the financial statements, the guidance is to consult with ACS. This becomes even more important in the current environment, and we potentially have to take a stricter view in light of some banks being unwilling or unable to provide the funding. This includes consideration of the entity's going concern and covenant disclosures.

Pensions – complex funding arrangements

There have been some complex funding arrangements for defined benefit pension liabilities that have emerged over recent years. Other professional advisers have been active in selling these complex funding schemes to audit clients. These can have a number of benefits, including the ability to delay cash payments for longer than would be required under a traditional recovery plan agreed with the regulator; granting the entity an instant tax deduction; and, in some cases, immediately reducing the liability under IAS 19.

These schemes are often structured so that the group transfers some of its assets into a special purpose vehicle (SPV) controlled by the group; at the same time, this gives the pension fund the money to invest in the equity of this vehicle. The money paid to the SPV for its equity is then returned to the group in consideration for the transfer of the assets. As the group rents back its assets from the SPV over the following years, these rentals provide the pension fund with a return on its investment. The characteristics of these structures may include:

- The flow of cash on inception is circular and therefore neutral to the group.
- From a pension fund perspective, the investment in the SPV immediately represents a plan asset, reducing the deficit from a regulatory perspective and hence also reducing the PPF levy payable.
- A tax deduction is available immediately on the cash contributed to the pension fund, even though that cash is part of a circular set of transactions and ends up back with the group.
- There can sometimes be an immediate reduction in the IAS 19 deficit, despite the fact that the assets remain on the group balance sheet, where the future payments to the pension fund are an equity non-controlling interest rather than a liability.

The accounting will vary depending on the specific terms of each arrangement. In particular, the pension fund's investment may constitute either debt or equity from the perspective of the group accounts, and the asset might or might not meet the definition of a plan asset depending on its transferability. Additional practical considerations exist around how the asset is valued, who performs the valuation and whether the entity is exposed to any reputational risk by engaging in what might be seen as 'clever' accounting.

On employer asset-backed pension contributions, the Government published legislation within the Finance Bill 2012 that, with immediate effect, limits the circumstances in which up-front relief can be given to such arrangements. Further changes were introduced to the tax legislation, which are designed to ensure that unintended, excess tax relief could not arise in respect of contributions made to asset-backed structures.

If any of your audit clients are contemplating one of these complex schemes or already have a scheme in place, it is important that you discuss the scheme with ACS early in the process, including the impact of the new legislation, whether under IFRS or UK GAAP.

Accounting for industry-specific tariffs

A number of industry-specific tariffs have emerged over the last year as governments seek to increase tax revenues following the recession. These tariffs are often referred to as 'taxes' or 'levies'. The accounting for these tariffs will depend on the nature of the payment. The first consideration is which standard to apply. In most cases, these tariffs are not based on taxable profit and as such are accounted for under IAS 37 rather than IAS 12. The timing of recognition of the provision and the related expense will depend in part on the point in time at which the entity becomes obligated to pay the levy; bear in mind that it is not possible to provide for potential obligations that may arise from legislation that has not been substantively enacted, and consider the facts and circumstances of the tariff. The IFRS IC has proposed clarification in its **exposure draft, 'Levies charged by public authorities on entities that operate in a specific market'** – see **'Straight away 85'** for more detail. Please consult with ACS for additional guidance on accounting for these payments.

Externally imposed capital requirements, including covenants

As part of capital management disclosures, IAS 1 requires an entity to disclose whether during the period it complied with any externally imposed capital requirements to which it is subject and, if not, the consequences of such non-compliance. This includes capital requirements/limits established through contractual relationships – for example, with banks. Therefore, where loans are included in an entity's definition of capital, the disclosure in respect of externally imposed capital requirements will apply to covenants attached to the loans. This is discussed in **paragraph 23.114** of the IFRS Manual of Accounting. In the past, the FRRP, now the Conduct Committee of the Financial Reporting Council, has noted that capital management disclosure is a significant area of information for users, particularly when assessing going concern considerations, so we expect it will continue to be an area of focus by regulators.

Standards and IFRICs applicable to 31 March 2013 year ends

Standards and IFRICs newly applicable for companies with March 2013 year ends are set out below.

Amendments

Amendments to IFRS 7, 'Financial instruments: Disclosures' on transfers of assets (effective 1 July 2011). These amendments arise from the IASB's review of off-balance-sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. Earlier application subject to EU endorsement is permitted. For further details see **Straight away 32**.

Amendment to IFRS 1, 'First time adoption', on fixed dates and hyperinflation (effective 1 July 2011). (endorsed for EU entities for 1 January 2013). These amendments include two changes to IFRS 1, 'First-time adoption of IFRS'. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. For further details see **Straight away 38**.

Amendment to IAS 12, 'Income taxes', on deferred tax (effective 1 January 2012).(endorsed for EU entities for 1 January 2013). IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. **This amendment** therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC-21, 'Income taxes – recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is withdrawn. For further details see **Straight away 37**.

New IFRS standards effective after 1 April 2013

Under paragraph 30 of IAS 8, entities need to disclose any new IFRSs that are issued but not yet effective and that are likely to impact the entity. This summary includes all new standards and amendments issued before 31 March 2013 with an effective date after 1 April 2013. These standards can generally be adopted early, subject to EU endorsement in some countries.

Amendment to IAS 19, 'Employee benefits'	These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.
Published	June 2011
Effective date	Annual periods beginning on or after 1 January 2013
EU endorsement status	Endorsed June 2012
Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income	The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. There are further details in Straight away 61.
Published	June 2011
Effective date	Annual periods beginning on or after 1 July 2012
EU endorsement status	Endorsed June 2012
IFRS 10, 'Consolidated financial statements'	This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries. Straight away 52 provides an overview of IFRS 10.
Published	May 2011
Effective date	Annual periods beginning on or after 1 January 2013
EU endorsement status	Endorsed December 2012 for annual periods starting on or after 1 January 2014

IFRS 11, 'Joint arrangements'	This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. Straight away 53 provides an overview of IFRS 11.
Published	May 2011
Effective date	Annual periods beginning on or after 1 January 2013
EU endorsement status	Endorsed December 2012 for annual periods starting on or after 1 January 2014
IFRS 12, 'Disclosures of interests in other entities'	This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance-sheet vehicles. Straight away 54 provides an overview of IFRS 12.
Published	May 2011
Effective date	Annual periods beginning on or after 1 January 2013
EU endorsement status	Endorsed December 2012 for annual periods starting on or after 1 January 2014
Amendments to IFRS 10, 11 and 12 on transition guidance	These amendments also provide additional transition relief in IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. For more guidance, see Straight away 88.
Published	July 2012
Effective date	Annual periods beginning on or after 1 January 2013
EU endorsement status	Not yet endorsed
IFRS 13, 'Fair value measurement'	This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. Straight away 55 provides an overview of IFRS 13.
Published	May 2011
Effective date	Annual periods beginning on or after 1 January 2013
EU endorsement status	Endorsed December 2012

IAS 27 (revised 2011) 'Separate financial statements'	This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
Published	May 2011
Effective date	Annual periods beginning on or after 1 January 2013
EU endorsement status	Endorsed December 2012 for annual periods starting on or after 1 January 2014
IAS 28 (revised 2011) 'Associates and joint ventures'	This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.
Published	May 2011
Effective date	Annual periods beginning on or after 1 January 2013
EU endorsement status	Endorsed December 2012 for annual periods starting on or after 1 January 2014
Amendment to IFRS 7, 'Financial instruments: Disclosures', on offsetting financial assets and financial liabilities	This amendment reflects the joint IASB and FASB requirements to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare US GAAP financial statements. Straight away 78 provides the detail.
Published	December 2011
Effective date	Annual periods beginning on or after 1 January 2013
EU endorsement status	Endorsed December 2012
Amendment to IAS 32, 'Financial instruments: Presentation', on offsetting financial assets and financial liabilities	This amendment updates the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. Straight away 78 provides the detail.
Published	December 2011
Effective date	Annual periods beginning on or after 1 January 2014
EU endorsement status	Endorsed December 2012
Amendment to IFRS 1, 'First time adoption', on government loans	This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. Straight away 81 provides the detail.
Published	March 2012
Effective date	Annual periods beginning on or after 1 January 2013
EU endorsement status	Endorsed March 2013

Annual improvements 2011	These annual improvements, address six issues in the 2009-2011 reporting cycle. It includes changes to: • IFRS 1, 'First time adoption'. • IAS 1, 'Financial statement presentation'. • IAS 16, 'Property plant and equipment'. • IAS 32, 'Financial instruments; Presentation'. • IAS 34, 'Interim financial reporting'. Straight away 83 provides more detail.
Published	May 2012
Effective date	Annual periods beginning on or after 1 January 2013
EU endorsement status	Not yet endorsed

Amendments to IFRS 10, Consolidated financial statements', IFRS 12 and IAS 27 for investment entities	These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make. See Straight away 97.
Published	October 2012
Effective date	Annual periods beginning on or after 1 January 2014
EU endorsement status	Not yet endorsed

IFRS 9 'Financial instruments' – classification and measurement	This standard on classification and measurement of financial assets and financial liabilities will replace IAS 39, 'Financial instruments: Recognition and measurement'. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortised-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change will mainly affect financial institutions. There are further details regarding assets in Straight away 07 and liabilities in Straight away 34
Published	November 2009 and October 2010
Effective date	Annual periods beginning on or after 1 January 2015
EU endorsement status	Not yet endorsed

New IFRICs effective after 1 April 2013

These IFRICs can generally be adopted early, subject to EU endorsement in some countries.

IFRIC 20, 'Stripping costs in the production phase of a surface mine'	This interpretation sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. Straight away 71 looks at the detail.
Published	October 2011
Effective date	Annual periods beginning on or after 1 January 2013
EU endorsement status	Endorsed December 2012