



# BAKER TILLY INTERNATIONAL

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INTERNATIONAL

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## EDITORIAL

The International Accounting Standards Board (IASB) is facing possibly one of its most serious threats. Just when the need for a strong accounting standards setting process is being recognised, political pressures, both globally and nationally, have possibly never been stronger. It is important that whilst recognising that it needs to react to valid concerns about the fair value model, the IASB does not give in to political arguments which are too often based on protectionist views of the market.

Meanwhile, the long awaited publication of the standard for small and medium entities (SMEs) represents the first attempt on an international level to offer a reporting platform relevant to the needs of non-public interest entities. Although arguably the standard does not meet the needs of micro entities, it is an important step forward and should be considered by all countries that have moved or are in the process of moving to International Financial Reporting Standards (IFRS).

### **Paul Ginman**

*Chief operating officer and technical director, Baker Tilly International*

## NEW/AMENDED STANDARDS

### **IFRS for SMEs**

The IASB has released a new standard designed for use by SMEs. The standard, unlike the previous exposure draft, is a fully stand alone document with no cross references to the full standards. The majority of the principles that underpin the full IFRSs remain in the 230 page document; however a number of topics not considered relevant to SMEs have been omitted.

It has been estimated that the disclosure requirements under the new standard are up to 80% less than in the full IFRSs.

Notable options in the full standards not included in the IFRS for SMEs include:

- Financial instrument classification and measurement options
- Revaluation model for property, plant and equipment (PPE) and intangibles
- Proportional consolidation option for jointly controlled entities.

Other topics have been omitted, including:

- Earnings-per-share
- Segment reporting
- Non-current assets held for sale.

The standard is effective immediately subject to adoption in local jurisdictions. The extent of the current complexity is demonstrated by the fact that in the European Union there are estimated to be over 55 different local GAAPs that apply to SMEs.

## IASB Concludes Second Annual Improvements Project

As part of the IASB's annual improvements project, a document containing amendments to several standards has been issued. Significant in presentation, measurement, or recognition are summarised below.

Standard(s) Affected	Explanation of Changes	Effective Date
IFRS 2	The scope of IFRS 2 has been revised to include business combinations that are outside of the scope of IFRS	1 July 2009
IFRS 5	The standard now states that the required disclosures for non-current assets held for sale (or disposal groups) are specified in that standard and requirements in other standards do not apply	1 July 2009
IFRS 8	The standard is amended to state that a segmental analysis of total assets is required only if such information is regularly reported to the chief operating decision maker	1 January 2010
IAS 1	There are changes regarding the classification of convertible instruments between current and non-current	1 January 2010
IAS 7	The standard is amended for expenditure on unrecognised assets	1 January 2010
IAS 17	The standard's guidance on leases of land has been modified to state that under certain circumstances a lease of land can be classified as a finance lease	1 January 2010
IAS 18	The appendix amended regarding the distinction between principal and agent	N/A
IAS 36	The standard is modified to state that the largest unit to which goodwill can be allocated is an operating segment (as per IFRS 8)	1 January 2010
IAS 38	Changes include amendments arising from the revised IFRS 3, measurement of the fair value of intangible assets acquired as part of a business combination	1 July 2009
IAS 39	Changes include guidance on whether loan payment penalties result in embedded derivatives, a scope exemption for business combination contracts and classification changes for cash flow hedge accounting	1 January 2010
IFRIC 9	The scope is revised as a result of changes to IFRS 3	1 July 2009
IFRIC 16	The restriction on the entity that can hold hedging instruments is amended	1 July 2009

### NEW INTERPRETATIONS

#### Amendments to IFRS 2: Share-based Payments – Group Cash-settled Share-based Payment Transactions

The amendment incorporates the contents of International Financial Reporting Interpretations Committee Interpretation (IFRIC) 8 – scope of IFRS 2 and IFRIC 11 – IFRS 2: Group and Treasury Share Transactions which have been withdrawn.

The amendment to IFRS 2 clarifies that an entity that receives goods or services from its suppliers must apply IFRS 2 even though the entity has no obligation to make the required share-based cash payments. The amendments also clarify links with other standards.

The amendment is effective for periods beginning on or after 1 January 2010, subject to the transitional requirements of IFRS 2.

### OTHER DEVELOPMENTS

#### Exposure Draft: Income Taxes

An exposure draft of a standard to replace the current International Accounting Standard (IAS) 12, Income Taxes has been released. The proposed standard was originally a joint project with the US Financial Accounting Standards Board (FASB) to converge the IAS with FASB Statement 109, Accounting for Income Taxes; however the FASB withdrew its support for the project in August 2008.

The proposed standard retains the temporary difference principle of the old standard, and most entities should not notice any change if this were to become a new standard. However the definitions of the terms “tax basis”, “temporary difference”, “tax credit” and “investment tax credit” have been amended. In addition, the initial recognition exemption, whereby deferred tax assets and liabilities that arise when an asset or liability has a tax basis different from its carrying amount, is removed.

Comments were due by 31 July 2009.

#### **Exposure Draft: De-recognition (Proposed Changes to IAS 39 and IFRS 7)**

This exposure draft details proposed changes concerning the de-recognition of financial assets and liabilities. The amendments will affect the more complex financial asset de-recognition issues.

Comments were due by 31 July 2009.

#### **Exposure Draft: Prepayments of a Minimum Funding Requirement – Proposed Amendments to IFRIC 14 – IAS 19 – the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

This exposure draft removes an unintended consequence arising from the treatment of prepayments in some circumstances when there is a minimum funding requirement. The exposure draft proposes that in certain circumstances an entity should recognise an asset rather than an expense.

Comments were due by 27 July 2009.

#### **Exposure Draft: Fair Value Measurement**

The IASB has released an exposure draft of a potential new standard, Fair Value Measurement. The exposure draft provides a single, unified definition of fair value as well as guidance on the application of fair value measurement in inactive markets.

The exposure draft defines fair value measurement as the exit price or “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”.

Comments are due by 28 September 2008.

#### **Discussion Paper: Leases: Preliminary Views**

In a joint project with the US FASB, the IASB has released a discussion paper that proposes a new approach to lease accounting.

The paper proposes a move away from the traditional approach of classifying leases as operating leases or finance leases and proposes that all lessees recognise a liability for the obligation for future rental payments and an asset for the right to use the leased item.

The liability would initially be recognised at the present value of the lease payments. The asset initially is measured at cost (which is the same as the liability). In future periods the liability would be recognised on an amortised cost basis and the asset amortised over its useful economic life.

The discussion paper is restricted to lease accounting from the lessee’s point of view and does not cover lessor accounting.

Comments were due by 17 July 2009.

#### **Discussion Paper: Credit Risk in Liability Measurement**

This discussion paper addresses the role of an entity’s “own credit risk” in the measurement of an entity’s liabilities. Current standards require profit or loss resulting from changes in “own credit” to be booked when debt is fair valued. The paper notes the reasons for and against applying fair value measurement to both assets and liabilities.

Comments were due by 1 September 2009.

#### **US GAAP – FASB Codification**

The FASB has made a significant change in the way accounting standards are organised. The FASB Accounting Standards Codification (FASB codification) has brought together in a single place all authoritative, non-governmental US GAAP. All literature that has not been included in the codification is non-authoritative.

## List of Financial Reporting Developments

### New Standard Now Effective

IFRS 8: Operating Segments

### Effective Date

Effective for accounting periods beginning on or after 1 January 2009

### Amended Standards

IAS 1: Presentation of Financial Statements

### Effective Date

Amendments effective for accounting periods beginning on or after 1 January 2009

IAS 23: Borrowing Costs

Amendments effective for accounting periods beginning on or after 1 January 2009

IAS 32: Financial Instruments: Presentation and IAS 1: Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

Amendments effective for accounting periods beginning on or after 1 January 2009

IFRS 3: Business Combinations and IAS 27: Consolidated and Separate Financial Statements

Amendments effective for annual periods beginning on or after 1 July 2009

IFRS 1: First-time Adoption of International Financial Reporting Standards and IAS 27: Consolidated and Separate Financial Statements

Amendments effective for accounting periods beginning on or after 1 July 2009

IFRS 2: Share-based Payments

Amendments effective for accounting periods beginning on or after 1 January 2009 and 1 January 2010

IFRS 7: Financial Instruments – Disclosures

Amendments effective for accounting periods beginning on or after 1 January 2009

IAS 39: Financial Instruments – Recognition and Measurement

Amendments effective for accounting periods beginning on or after 1 July 2009

### Annual Improvements Project

Improvements to Standards 2009

### Effective Date

Amendments effective for accounting periods beginning on or after 1 July 2009 or 1 January 2010

### Latest Interpretations

IFRIC 11: IFRS 2 – Group and Treasury Share Transactions

Withdrawn as of 1 January 2010, incorporated into IFRS 2

IFRIC 8: Scope of IFRS 2

Withdrawn as of 1 January 2010, incorporated into IFRS 2

IFRIC 13: Customer Loyalty Programmes

Effective for periods commencing on or after the 1 July 2008

IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Effective for periods commencing on or after the 1 July 2008

IFRIC 15: Agreements for the Construction of Real Estate

Effective for periods commencing on or after the 1 October 2008

IFRIC 16: Hedges of a Net Investment in a Foreign Operation

Effective for accounting periods beginning on or after 1 January 2009

IFRIC 17: Distributions of Non-cash Assets to Owners

Effective for accounting periods beginning on or after 1 July 2009

IFRIC 18: Transfers of Assets from Customers

Effective for accounting periods beginning on or after 1 July 2009

**Current Proposals – Discussion Papers**

Discussion Paper: Financial Instruments with Characteristics of Equity

Discussion Paper: Preliminary Views on Financial Statement Presentation

Discussion Paper: Preliminary Views on Insurance Contracts

Discussion Paper: Preliminary Views on Amendments to IAS 19 Employee Benefits

Discussion Paper: Preliminary Views on Revenue Recognition in Contracts with Customers

An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information

Discussion Paper: Leases: Preliminary Views

Discussion Paper: Credit Risk in Liability Measurement

**Status**

Exposure draft in development in conjunction with FASB

Exposure draft due first half 2010

Exposure draft due late 2009

Exposure draft due third quarter 2009

Exposure draft due first half 2010

Comments being analysed

Comments being analysed

Comments being analysed

**Current Proposals – Exposure Draft**

Exposure Draft: Consolidated Financial Statements

Exposure Draft: Investments in Debt Instruments

Exposure Draft: Discontinued Operations: Proposed Amendments to IFRS 5

Exposure Draft: Simplifying Earnings-per-Share, Proposed Amendments to IAS 33

Exposure Draft: Additional Exemptions for First-time Adopters: Amendments to IFRS 1

Exposure Draft: Joint Arrangements

Exposure Draft: Proposed Amendments to IAS 24: Related Party Disclosures – State Controlled Entities and the Definition of a Related Party

Exposure Draft: Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits

Exposure Draft: Income Taxes

Exposure Draft: De-recognition (Proposed Changes to IAS 39 and IFRS 7)

Exposure Draft: Fair Value Measurement

Exposure Draft: De-recognition (Proposed Changes to IAS 39 and IFRS 7)

Exposure Draft: Prepayments of a Minimum Funding Requirement – Proposed Amendments to IFRIC 14 – IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

**Status**

Comments being analysed

Comments being analysed

Comments being analysed

Comments being analysed

Comments being analysed

Final standard expected

Final amendment expected third quarter 2009

Comments being analysed

Comments being analysed

Comments being analysed

Comments due by 28 September 2009

Comments being analysed

Comments being analysed



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