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Publications of IFRS Rules by the IASB

Annual Improvements 2009-2011

On 17 May 2012 the IASB published the final amendments to the International Financial Reporting Standards (IFRS) in the wake of the 'Annual Improvements to IFRS 2009-2011'. In the context of the Omnibus Standard there are amendments to five Standards.

The amendments relate to the following announcements:

- IFRS 1 First-time application of the International Financial Reporting Standards
- IAS 1 Presentation of the Financial Statements
- IAS 16 Tangible assets
- IAS 32 Financial instruments - presentation
- IAS 34 Interim Financial Reporting

The first amendment to IFRS 1 concerns the question of how to proceed if an entity already applied the IFRS in the past but was unable to include the statement that the financial statements fully comply with IFRS in the financial statements last drawn up. In this context it is clarified that an entity in this situation must either apply IFRS 1 again or correct the financial statements in accordance with the parameters of IAS 8. In such circumstances it is possible to apply IFRS 1 again, even if the entity has already applied IFRS 1 in a previous period, i.e. was already a first-time applier.

The second amendment to IFRS 1 concerns the treatment of borrowing costs in connection with the drawing up of qualifying assets. If, prior to the transition to IFRS, an entity has already capitalised borrowing costs for qualifying assets in accordance with the accounting standards previously applied, the values stated under the previous accounting standards may be adopted in the IFRS opening balance. However, borrowing costs which are incurred after the transition to IFRS can only be capitalised if the conditions as formulated in IAS 23 (loan capital costs) are fulfilled.

In relation to the disclosure of the previous year's figures in the notes the IASB also recognises the need for clarification. Henceforth it is explicitly stated in IAS 1 that only two balance sheets, two statements of income and accumulated earnings, two statements of changes in equity and two cash flow statements with the associated disclosures in the notes are required to be presented. If an entity also publishes comparable information from still earlier periods voluntarily, it is not necessary for all components of the annual financial statements to be supplied for these periods. For example, it is therefore permissible to additionally publish only a third balance sheet. However, if a third balance sheet is published for additional information purposes, all disclosures in the notes are mandatory in relation thereto. A different procedure is necessary if, as a result of the correction of an error or a change in measurement under IAS 8, the opening balance sheet of the previous period must be drawn up in addition. In such case the IASB does not deem it necessary to publish further disclosures in the notes in addition to the disclosures required in IAS 8.

In relation to the balance sheet treatment of servicing equipment such as special tools, it is emphasised that these are to be treated as tangible fixed assets if the tools fulfil the recognition requirements of IAS 16. Otherwise the equipment qualifies as inventories.

Regarding the treatment of tax on income in connection with distributions to, or contributions by shareholders, the Standard amendment states that the stipulations of IAS 12 are to be applied in future. To date the tax on income in IAS 32 was treated partly at variance to the stipulations in IAS 12. The question at hand is under what conditions tax on income from distributions or contributed capital is carried in the accounts via the income statement or directly deducted from equity without effect on net income. In particular the focus is on tax expenditure which originates in events relating to the past. For example of mention here is the preferential treatment of retained income from untaken profits. The profits are taxed preferentially in the year of formation and are subject to subsequent taxation in the year of distribution. Since the subsequent taxation is triggered by an event in the past (preferential treatment in previous periods), the subsequent taxation amount must be accounted for via the income statement. In contrast hereto taxes which fall due as a result of a waiver of debts outstanding by a shareholder are to be accounted for without effect on net income since in this case the IFRS simulates a contribution to the company by the shareholder without affecting net income and the taxes falling due as a result share this characteristic.

The adaption to IFRS 8 places emphasis on the question of under what conditions disclosures on the total assets of individual business divisions are necessary in the interim report. In this connection it is made clear that details on the assets of individual business divisions are to be provided in an interim report only if the information is also reported to the management regularly and the assets deviate significantly from the amount stated in the last annual financial statements.

All amendments as a result of the Annual Improvements process 2009-2011 are mandatorily applicable for reporting periods which commence on or after 1 January 2013. A voluntary premature application is allowed. The EU has not adopted the amendments as yet.

Exposure Draft on the Annual Improvements 2010-2012

On 3 May 2012 the IASB published the draft (ED/2012/1) 'Annual Improvements to IFRSs 2010-2012'. In the paper a total of eleven amendments to Standards are proposed.

The amendments relate individually to the following Standards:

- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements
- IAS 7 Cash Flow Statement
- IAS 12 Income Taxes
- IAS 16 Property, plant and equipment and IAS 38 Intangible Assets
- IAS 24 Related Party Disclosures
- IAS 36 Impairment of Assets

Share-based payments which are made in exchange for services to be received can provide for conditional exercising requirements. Up to now IFRS 2 contains a relatively general definition for exercising requirements of share-based forms of payment. As a result of the multitude of possible exercising requirements in practice the IASB recognises the need to define the concept more precisely. It is therefore proposed to adopt intrinsic definitions for service conditions on the one hand and performance conditions on the other in Appendix A of the Standard. In accordance herewith a service condition is distinguished by being exclusively linked to a certain length of stay in the business. In contrast hereto performance conditions are distinguished by being linked to success targets of the business. If the agreement also includes performance-dependent components in addition to the length of stay, a success or performance-dependent exercising condition must be uniformly assumed. Performance-related conditions must contain factors which can be influenced by the employee, such as turnover, EBIT or share price of their own company. If a condition is aimed at a parameter which cannot be influenced by the employee, such as a share index or sectorial index, this is a non-vesting condition which is not to be subsumed either under service conditions or under performance conditions. The distinction made between the individual exercising conditions has repercussions on the measurement of the share-based payments.

The purpose of the planned amendments to IFRS 3 is the classification and measurement of contingent considerations. In relation to the classification it is clarified that certain considerations which fulfil the conditions for financial instruments, based exclusively on the criteria in IAS 32.11, are to be distinguished between equity instruments and financial liabilities. The previous

additional reference to "other applicable IFRSs" is deleted. The second amendment is concerned with the subsequent measurement of contingent considerations which represent financial liabilities. For these the reference to IFRS 9 is amended, which indicates the case difference between subsequent measurement affecting net income and that not affecting net income. Moreover there are slight consequential amendments to IFRS 9.

If, for divisional reporting under IFRS 8, several operating segments are grouped to a reporting segment, in future it will be necessary to report thereon based on what discretionary decisions the management has made for the aggregation. In this connection a brief description of the individual operating segments is also required. Also harmonisation in the reconciliation of the total assets and liabilities per operating segment to the entity's total assets and liabilities is aimed at. In future total assets of a reporting segment are to be included in the reconciliation only if the amount is also reported to the management for internal reporting purposes. Hitherto this facilitation was prescribed explicitly for liabilities only.

Together with the introduction of IFRS 13 a facilitation provision was deleted in IAS 39 and IFRS 9 which allowed dispensing with the discounting of short-term receivables and liabilities, in so far as the instruments did not contain any interest components. With an addition to the 'Basis for Conclusions' in IFRS 13 the Standard setter now wants to point out that, despite the deletion of the facilitation provision in IAS 39 and IFRS 9, the general materiality criterion of IAS 8 is applicable to evaluate the necessity of any discounting. Therefore it should still be possible to dispense with the discounting of trade receivables, for example, if the interest effects are immaterial.

In IAS 1 two additional criteria are to be added for the differentiation between short and long-term debt. In order to arrive at a classification as long-term, it was previously necessary to prolong a debt under an existing loan facility contract by at least a further twelve months. Moreover it is explicitly stated that in future it must be possible to extend the debt with the same lender and on comparable terms.

IAS 7 is to be expanded to include a provision to disclose interest on borrowed capital in the cash flow statement which, under IAS 23, is capitalised as acquisition costs. The disclosure of the interest payments in the cash flow statement is to be based on the disclosure of the asset value for which the debt interest is carried as assets. If an accrual is formed in connection with inventories, the interest should be disclosed under cash flows from operating activity and if the capitalisation is connected to fixed assets, disclosure is to be made under the cash flow from investment activity.

In order to be able to recognise a deferred tax asset under IAS 12 it is a general requirement that adequate taxable income is available at the time of probable reversal of the temporary difference. With the planned changes the IASB wants to place greater emphasis on this condition. This concerns in particular cases where the tax system disallows deductions or allows the set-off of losses only with certain types of income. Deferred tax assets may only be recognised in future if, taking account of possible disallowed set-offs or deductions, enough income is still available.

With the revaluation method under IAS 16 and IAS 38 adjustments are made in the determination of the cumulative depreciation after the revaluation has been made.

In relation to IAS 24 the draft provides for the group of related parties to be extended to include entities which perform management services for the reporting entity. These service providers are also to be considered as related when no other legal or personal connections otherwise exist to the reporting entity.

The last planned amendment concerns the disclosures in the notes on the impairment test under IAS 36. If the recoverable amount is calculated as fair value less selling costs and if a valuation method is applied for the calculation, in future the discounting interest rate applied should also be disclosed in the notes.

Transition Guidance for the Consolidation Package

On 28 June 2012 the IASB published the Standard amendment 'Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)'. The changes, together with the consolidation package, (IFRS 10, IFRS 11 and IFRS 12) will be subject to mandatory application for the first time on 1 January 2013.

In relation to IFRS 10 the wording "date of initial application" is defined more precisely. The Standard amendment clarifies that the time of initial application, is the beginning of the annual reporting period in which IFRS 10 is applied for the first time. For a reporting period which corresponds to the calendar year and an initial application which corresponds to the parameters for first application in IFRS 10, the time of initial application is therefore 1 January 2013. Moreover retrospective application of IFRS 10 for group companies which are disposed of in the comparative period (previous period) should not be necessary if, both upon application of the consolidation criteria in IFRS 10 and the consolidation criteria under IAS 27/SIC 12, the entities had been disposed of in the previous period. If the consolidation criteria of IFRS 10 and IAS 27/SIC 12 produce different results, IFRS 10 must be applied retrospectively and the comparable period is to be adjusted accordingly.

With regard to IFRS 11 and 12 the Standard amendment likewise provides for additional facilitation provisions upon initial application. For IFRS 11 the obligation to disclose information from the previous year is limited to the period which directly precedes the period of initial application. In the year of initial application of IFRS 12 no details of the previous year need to be provided for non-consolidated entities.

Draft interpretation on the Accounting of Levies Charged by Public Authorities

On 31 May 2012 the IFRS Interpretation Committee published the draft interpretation (DI/2012/1) 'Levies Charged by Public Authorities on Entities that Operate in a Specific Market'.

The paper deals with the issue of how levies charged by public authorities in connection with operating in specific markets are to be presented in the financial statements. The remarks in the draft refer to charges where the payment does not give rise to any asset; therefore expenditure for catering licences, for example, does not fall within the area of application of the Interpretation. The same applies to taxes under IAS 12 or fines. Generally the levy debt should be carried under liabilities at such time as the event which gives rise to the levy occurs. In the balance sheet presentation the difference should be reflected between levies which fall due only once and those which are raised in instalments, for example, depending on the turnover generated. If a levy falls due as soon as an entity starts to operate in a market for the first time and if it is independent of performance data (e.g. turnover), the levy must be carried as liabilities at the time of initial entry into the market in the full amount. If the levy is dependent on performance data achieved in the financial year (e.g. turnover, sales figures), the debt to be carried as liabilities must be structured in instalments. In interim accounts only that expenditure for performance-related payments must be deferred which is attributable to performance data which has occurred between the last balance sheet date and the time of the interim report. No accruals are to be made for expected fees after the effective date of the interim report. Following the same principle, no accruals need be made for the following financial year on the balance sheet date if the event which triggers the levies does not occur until after the balance sheet date. This rule is to apply even if it is already certain on the reporting date that activities will be performed in the next reporting year which will result in a liability to charges.

Draft interpretation on the Measurement of Put Options Written on Non-controlling Interests in the Consolidated Financial Statements of the parent company

On 31 May 2012 the IFRS Interpretation Committee published the draft interpretation (DI/2012/2) 'Put Options Written on Non-controlling Interests' (put options which are written by a parent company on the interest of a subsidiary which are held by a non-controlling shareholder).

Upon the issue of written put options by the parent company (seller of options) on equity instruments of a subsidiary, a reclassification is to be made between equity and loan capital in the consolidated financial statements in the amount of the fair value of the issued options. In the draft the Interpretation Committee raises the question of which Standards are relevant for the subsequent measurement of the capitalised liability resulting from the issued option. The paper has been issued against the background of diverging measurement parameters in IAS 39/IFRS 9 and IAS 27/IFRS 10. For the subsequent measurement of the liability IAS 39/IFRS 9 stipulates the duty to record changes in value affecting net income in the profit and loss account. On the other hand IAS 27/IFRS 10 states generally that changes in the parent's ownership interest in the subsidiary which does not result in a loss of control are to be formed without effect on net income, since such cases as transactions with owners are to be appraised in their capacity as owners. The IFRIC comes to the conclusion that no change in the relative interest in the subsidiary results merely on the basis of the existence of the conditional purchase obligation. The changes in value of the liability must therefore be recorded in conformity with the parameters of IAS 39/IFRS 9 affecting net income. No change in the relative interest in the subsidiary will take place until such time as the put option is exercised by the non-controlling shareholder. In turn the actual purchase of equity instruments of a subsidiary by the parent company must be shown without effect on net income.

IASB expands Training Modules on IFRS for Small and Medium-sized Entities

The IASB is developing training modules on IFRS for small and medium-sized entities (IFRS for SMEs). This back-up material is intended for each of the 35 sections of IFRS for SMEs. Its purpose is to provide support to users and auditors in the application of IFRS for SMEs and assist in learning the standards.

In May 2012 module 31 Hyperinflation was completed and published. Therefore 29 of the planned 36 modules are now available.

Adoption of IFRS rules by the EU

Endorsement Status Report

The EFRAG (European Financial Reporting Advisory Group) published the current EU Endorsement Status Report on 29 June 2012.

New Standards

IFRS 7 and IFRS 9	Financial Instruments (12 November 2009) and subsequent amendments to IFRS 9 and IFRS 7 (16 December 2011)
IFRS 10	Consolidated Financial Statements (12 May 2011)
IFRS 11	Joint Arrangements (12 May 2011)
IFRS 12	Disclosure of Interests in Other Entities (12 May 2011)
IFRS 13	Fair Value Measurement (12 May 2011)
IAS 27	Separate Financial Statements (12 May 2011)
IAS 28	Investments in Associates and Joint Ventures (12 May 2011)

Amendments to Standards

IAS 12	Deferred Taxes: Recovery of Underlying Assets (21 December 2010)
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (20 December 2010)
IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities (16 December 2011)
IAS 32	Offsetting Financial Assets and Financial Liabilities (16 December 2011)
IFRS 1	Government Loans (13 March 2012)
IFRS 10, IFRS 11 and IFRS 12	Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (28 June 2012)
AIP 2009-11	Annual Improvements 2009-11 (17 May 2012)

Interpretations

IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine (19 October 2011)

Adopted Rules

In the Official Journal of 6 June 2012 the European Union published Regulation (EG) No. 475/2012 of 5 June 2012 amending Regulation (EG) No. 1126/2008 relating to the adoption of certain international accounting standards in conformity with Regulation (EG) No. 1606/2002 of the European Parliament and the Council. With this Regulation IAS 1 'Presentation of Financial Statements - Presentation of items of Other Comprehensive Income' and IAS 19 'Employee Benefits' were adopted in European law.

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