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Global Accounting Standards post-2011 – a way forward

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Hedge accounting moves closer to risk management practices

The IASB's new standard expected on hedge accounting will mark a significant shift from the way entities have conventionally applied hedge accounting under IFRS. A Review Draft (RD) of the final standard is expected to be available on the IASB's website in early 2012 for a period of 90 days. In this article, we summarise the reasons for the project and discuss the differences between the new hedge accounting model and current requirements under IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS project update

Find out which projects the IASB and the IFRS Interpretations Committee are currently discussing.

Resources

Look here for an up to date list of our recent publications.

¹ International Accounting Standards Board.

We welcome your feedback on *IFRS Outlook*. Please contact us at ifrs@ey.com.

Ruth Picker
Global Leader of IFRS Services

Global Accounting Standards post-2011 – a way forward



The International Accounting Standards Board (IASB or the Board) has issued a request for views on the strategic direction and overall balance of its standard-setting agenda (The Agenda Consultation). In the midst of the ongoing global financial crisis, we provide our views on the role the IASB could play in setting relevant and useful standards for global financial reporting.

Background

During the financial crisis of 2008, and as a result of it, the IASB focused much of its attention on topics related to the crisis, such as financial instruments and off-balance sheet entities. Now, as the IASB moves closer to finalising the remaining projects in its current work plan, it is looking forward to the next three years of standard-setting. On 26 July 2011, the Board issued a request for views (The Report) on the strategic direction and overall balance of its future agenda. This will be the first of an ongoing three-yearly public consultation process. The comment period for the Report ended on 30 November 2011.

In the Report, the IASB has proposed the following strategic foundation for setting its future agenda:

- ▶ A more diverse IFRS community, potentially leading to new issues
- ▶ A more complex market environment creating new challenges in financial reporting
- ▶ A number of new and amended IFRS have been issued or are expected to be issued in 2012 placing pressure on preparers to implement these changes and users to understand the key differences.

The Report highlights that the strategy of the future agenda should not only focus on the development of new IFRS, but should also emphasise the need to maintain existing IFRS. The Board has specifically posed very open ended questions in the Report to encourage diversity in constituents' responses.

Ernst & Young's Views

Overall, we support the agenda consultation as it allows the IASB to receive views from a wide range of constituents, in addition to creating further transparency in the IASB's agenda setting process. However, rather than prioritising specific projects, we believe that the agenda should focus on the following key strategic areas:

1. The IASB should take the opportunity to step back and focus on the long-term goals of IFRS

- ▶ The IASB has the unique ability to take a step back now and re-assess the strategic direction of IFRS as a valuable tool for financial reporting. The three-year agenda should be set based on intermediate steps that help achieve its key strategic goals.
- ▶ The most important project would be a long-term analysis of the future of performance reporting. This would require the IASB to focus on the decision-usefulness of IFRS that steps back from individual areas of accounting and considers IFRS financial statements as a whole. This will help to increase confidence in the relevance of IFRS financial statements for both users and preparers. Ideally, we would encourage the Board to find a way to advocate the value of IFRS to preparers as a means of "telling the story of the business" to users, while at the same time, meeting the needs of users for transparent, decision-useful financial information.

“The IASB is at a pivotal point in its development. With a new Chair and Vice-Chair and much of its existing work programme nearing completion, there is a momentous opportunity to reshape the value of IFRS for the future.”

- ▶ As part of this performance-reporting project, a comprehensive review of financial statement disclosures needs to be made. This includes emphasis on determining clear principles and objectives for streamlined financial statement disclosures to ensure that financial statements remain meaningful and relevant to their primary users.
- ▶ A high-level review of IFRS should also focus on the Conceptual Framework project. Once the Conceptual Framework and performance reporting projects are completed, these can be used to ‘road-test’ existing IFRS to identify areas of inconsistency or where further guidance is required.
- ▶ These are very in-depth projects aimed at the future state of IFRS. However, this should not preclude the IASB from taking short-term measures to achieve these goals (such as starting outreach activities, reviewing research and initial discussions of these projects).

2. A period of calm is needed

- ▶ Preparers and users need time to implement and digest the raft of new standards that will have been completed by early 2012. These include new standards on financial instruments, consolidation, joint arrangements, fair value measurement, revenue and leases.
- ▶ However, this period of calm does not mean that IFRS should remain stagnant or unresponsive to changes in the environment for the next three years.
- ▶ There is an opportunity to consider if there are any projects that would be relatively simple for financial statement preparers to implement (and users to understand), but would require greater effort on the part of the IASB to resolve (for example the distinction between debt and equity). Completing projects that meet these criteria in the next three years would allow for minimal disruption while IFRS preparers focus on other more significant new accounting changes.
- ▶ Many of the new standards represent implementation challenges and it is likely that the IASB will be asked to provide more application guidance. We would encourage the Board to do so.

- ▶ One example is the new standard for fair value measurement – IFRS 13. This standard, while it does not change *when* fair value is used, provides detailed guidance on *how* to measure fair value. Many of the issues faced during the financial crisis, such as determining how to measure fair value in volatile markets, are now addressed in IFRS 13. However, there is likely to be a greater need for the involvement of valuations experts in applying this new standard. Accordingly, we support and encourage continued co-operation between the IASB and valuation bodies such as the IVSC.²

3. Focus on consistency of application

- ▶ As noted in the Report, there is an opportunity to focus on post-implementation reviews and ensuring standards are consistently applied and interpreted. However, further efforts in addition to post-implementation reviews are needed to ensure the continued value, usefulness and consistency of IFRS into the future. These key steps include providing interpretations (or application guidance, where needed) at a global level and engaging regulators in the standard setting process.
- ▶ The current lack of co-ordinated global regulation is an environmental threat to the consistent application of IFRS throughout the world. The IASB and its governing body, the IFRS Foundation, should consider what actions can be taken to mitigate these concerns.
- ▶ The goal of one set of high-quality global standards requires consistent application and interpretation across many jurisdictions. Engagement with local regulators is an essential part of this process, in order to avoid a proliferation of local interpretations. In our view, the Monitoring Board of the IASB has an important role to play in this respect, since it represents securities regulators as a group.

Conclusion

The IASB is at a pivotal point in its development. With a new Chair and Vice-Chair and much of its existing work programme nearing completion, there is a momentous opportunity to reshape the value of IFRS for the future. Now is the time to take big strategic decisions rather than simply prioritising a laundry list of separate projects. We encourage the IASB to be bold.

² International Valuations Standards Council.

Hedge accounting moves closer to risk management practices

The IASB's new standard expected on hedge accounting will mark a significant shift from the way entities have conventionally applied hedge accounting under IFRS. A Review Draft (RD) of the final standard is expected to be available on the IASB's website in early 2012 for a period of 90 days. In this article, we summarise the reasons for the project and discuss the differences between the new hedge accounting model and current requirements under IAS 39 *Financial Instruments: Recognition and Measurement*.

Why do we need hedge accounting?

Every entity is exposed to business risks from its daily operations. Many of those risks have an impact on cash flows or the value of assets and liabilities, and, therefore, ultimately affect profit or loss. In order to mitigate these risk exposures, companies often enter into derivative contracts to hedge them.

IFRS requires derivatives to be recorded at fair value through profit or loss. Whenever the hedged exposure is measured at amortised cost or is a forecast transaction that is not yet recorded in the financial statements, this would create an accounting mismatch. The idea of hedge accounting is to avoid this mismatch. However, any ineffectiveness in the hedge relationship will be recorded in profit or loss.

Why issue a new hedge accounting model?

The hedge accounting model in IAS 39 includes complex rules, some rather arbitrary limits and onerous hedge effectiveness testing requirements. Economic hedging relationships sometimes do not qualify for hedge accounting and, even if they do, significant ineffectiveness may need to be recorded, which can often result in volatility in profit and loss. Consequently, the financial statements do not reflect what the entity is doing for risk management purposes, which is unhelpful for preparers and users alike. The IASB took this as the starting point for its project for a new hedge accounting model. Hence, the objective of the project is to reflect more accurately an entity's risk management activities in the financial statements.

Main changes in the new model

Effectiveness assessment

For a hedge to qualify for hedge accounting, an effective hedging relationship has to be demonstrated under the requirements of IAS 39. This requires sometimes burdensome retrospective and prospective quantitative assessments, using a bright line threshold. In the new standard, the effectiveness assessment will be more principles-based and will be performed only prospectively. A hedge would be considered effective, if all of the following criteria are met:

- ▶ As a result of an economic relationship, the hedging instrument and the hedged item are expected to move in opposite directions due to a change in the hedged risk (i.e., there is causality and correlation)
- ▶ The impact of changes in credit risk are not of such magnitude that they dominate the changes in fair value of the hedged item or the hedging instrument

And

- ▶ The weightings of the hedged item and the hedging instrument (i.e., the hedge ratio) are designated based on the quantities of hedged item and hedging instrument that the entity actually uses to meet the risk management objective, unless doing so would deliberately create ineffectiveness.

A one-to-one relationship between the hedged item and the hedging instrument is not required. However, if the expected relationship is not perfect, an entity will have to adjust the hedge ratio to reflect this (i.e., the hedge ratio has to be different from 1:1). The hedge ratio used should be expected to result in an offset between the movements of the hedged item and the hedging instrument (i.e., no ineffectiveness expected).

Depending on the complexity of the hedging instrument used and the hedging relationship, the above assessment will usually be qualitative. However, the requirement to measure and record actual ineffectiveness in profit or loss remains.

Rebalancing and discontinuation

As mentioned above, one of the main objectives of the new proposals is that accounting generally should reflect the risk management activities. Therefore, if the entity was to change the risk management objective for a particular hedging relationship, (for example, by selling the hedging instrument or by using the derivative for another hedging relationship or as a trading derivative), then the entity will have to discontinue hedge accounting. The change in risk management objective is a matter of fact that triggers discontinuation.



Hedge accounting has to continue, however, if the risk management objective is still pursued. The Board confirmed that a voluntary discontinuation of hedge accounting is not permitted. As mentioned earlier, if an entity expects a strong, but not perfect, relationship between the hedged item and the hedging instrument, the hedge ratio would have to be different from 1:1. If later, the relationship changes (in terms of trend, not just fluctuation) the entity would have to adjust the hedge ratio in order to reflect that change in the economic relationship. This process, called “rebalancing”, allows an entity to continue with the hedging relationship without the need for formal de-designation and re-designation of the hedge relationship.

Risk components

The new model would permit risk components of non-financial items to be designated as eligible hedged items. We expect the greatest benefit to be for non-financial services entities that enter into contracts to buy or sell non-financial items whose price fluctuates depending on the price of a commodity. This price risk component may be specified in the contract (e.g., a gas purchase contract with a price escalation clause linked to a gas price index) or not specified (e.g., the crude oil component of a jet fuel purchase).

Hedge accounting will now be permitted for individual risk components of non-financial items, provided the entity can separately identify and reliably measure the risk component that is actually hedged. This would require the analysis, in the context of the particular market structure, of how the total item is priced and how this relates to the identified risk component. We expect that this analysis will require the collaboration of the sales or procurement departments with the treasury and accounting departments.

Net positions

Treasury departments often hedge forecast cash flows on a net basis. A typical example of a hedge of a net position would be a foreign exchange hedge of the net purchases and sales of goods or services denominated in a foreign currency. From a treasury perspective, the net position is determined by adding the cash inflows from the sales and the cash outflows from the purchases for a given date. The resulting net position is then hedged using a foreign currency derivative.

However, if the individual cash flows within the net position affect profit or loss in different reporting periods, there will be no “natural hedge” for accounting purposes. The ED originally prohibited such hedges from cash flow hedge accounting. To better align the risk management strategies commonly used with the accounting treatment, the Board in its subsequent redeliberation has decided that not all of the hedged items that make up a net position must affect profit or loss in the same reporting period.

To avoid the use of hindsight in designating net positions, the hedge documentation would need to specify the volume and nature of all items within the net position, as well as the reporting period in which each item is expected to affect profit or loss.

Permitting cash flows within a net position to affect profit or loss in different periods means that the change in fair value of the cash flows that affect profit or loss in an earlier period must be carried forward to offset the change in fair value of cash flows that will occur in a later period. This is achieved by deferring the gain or loss on the earlier cash flows in other comprehensive income (OCI), with a reclassification to profit or loss once the later cash flows affect profit or loss. This requires a tracking of the amount recorded in OCI for each individual item within the net position. Some entities might consider this to be too burdensome when hedging a large number of transactions on a net basis.

Furthermore, the transactions that make up the net position would each need to be recorded when they arise at the spot foreign currency rate ruling at that time. Any effect of hedge accounting on profit or loss would need to be recorded in a separate and single line item in the income statement, so reducing the attractiveness of this amendment to preparers and users of financial statements.

What's next?

The final standard is expected to be issued in the first half of this year.

Many constituents, in particular, financial institutions, are waiting for the IASB to develop a separate proposal on so called “portfolio” or “macro hedging”. An exposure draft on macro hedge accounting is expected later this year.

IFRS project update

What's new?

The following table shows new publications issued by the IASB.

Projects	Publication
Governance of IASB	<p>The IFRS Foundation Trustees' Due Process Oversight Committee (DPOC) has published a working draft of a protocol for due process oversight. The protocol is intended to guide the work of the DPOC as it discharges its responsibility for the oversight of due process matters, to summarise the principal due process procedures of the IASB, as described in the IASB's <i>Due Process Handbook</i>, and to define the performance measurements to be used by the IASB to assist in evaluating and reporting on its adherence to published due process. The DPOC plans to publish a final draft of its operating protocol in 2012 for public comment, along with proposed enhancements to the <i>Due Process Handbook</i>.</p> <p>The draft operating protocol can be accessed at www.ifrs.org.</p>
Revenue recognition	<p>The IASB and FASB have jointly issued for public comment a revised draft standard ED/2011/6 <i>Revenue from Contracts with Customers</i> to improve and converge the financial reporting requirements of IFRS and US GAAP for revenue (and some related costs) from revenue contracts with customers. The ED can be accessed at www.ifrs.org. Our IFRS Developments Issue 18 <i>IASB and FASB issue revised revenue recognition</i> summarises what you need to know about this ED. In addition, our <i>Applying IFRS - revenue from contracts with customers</i> – the revised proposal provides detailed discussion and illustrative examples of how the proposal would be applied. Refer to the Resources section below for more details.</p>
Consolidation	<p>The IASB has published for public comment proposed amendments ED/2011/7 <i>Transition Guidance - Proposed amendments to IFRS 10 Consolidated Financial Statements</i>. The objective of the proposed amendments is to clarify the transition guidance in IFRS 10 by confirming when an entity needs to apply IFRS 10 retrospectively. The ED can be accessed at www.ifrs.org.</p>
Financial instruments	<p>Offsetting</p> <p>The IASB has clarified its requirements for offsetting financial instruments by issuing an amending standard, <i>Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 Financial Instruments: Presentation)</i>. The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32. The amendments clarify:</p> <ul style="list-style-type: none"> ▶ The meaning of 'currently has a legally enforceable right of set-off' <p>And</p> <ul style="list-style-type: none"> ▶ That some gross settlement systems may be considered equivalent to net settlement <p>The amendments are effective for annual periods beginning on or after 1 January 2014 and must be applied retrospectively. The amendments can be accessed at www.ifrs.org. Our IFRS Developments Issue 22 – <i>Offsetting of financial instruments</i> summarises what you need to know about the amendments. Refer to the Resources section below for more details.</p> <p>IFRS 9 effective date deferred</p> <p>The IASB has issued amendments to IFRS 9 <i>Financial Instruments</i> to defer the mandatory effective date of IFRS 9 from 1 January 2013 to 1 January 2015. The deferral will make it possible for all phases of the project to have the same mandatory effective date. Early application of IFRS 9 is still permitted. The amendments can be accessed at www.ifrs.org.</p>
Insurance	<p>The IASB's Insurance Contracts project team has prepared a webpage that reports on the boards' joint tentative decisions on this project.</p> <p>The webpage is designed to help interested parties evaluate the impact of those decisions on the forthcoming standard. It also invites feedback on the following topics:</p> <ul style="list-style-type: none"> ▶ Cash flows (excluding cash flows from discretionary participation features and policyholder tax) ▶ Discount rate ▶ Risk adjustment (excluding diversification benefits) ▶ Disclosures <p>The webpage can be accessed at www.ifrs.org/Alerts/ProjectUpdate/new+IC+webpage+Dec+2011.htm.</p>



Projects	Publication
Annual improvements	The 2011 – 2013 annual improvements cycle and the list of issues to be included in Improvements to IFRSs have been updated on the project page. The list of issues can be accessed at www.ifrs.org/Current+Projects/IASB+Projects/Annual+Improvements .
IFRS for SMEs	<p>The SME Implementation Group (SMEIG) has published two draft Questions & Answers (Q&As) on the IFRS for SMEs. These draft Q&As cover the following topics:</p> <ul style="list-style-type: none"> ▶ Whether an entity may choose to apply the recognition and measurement provisions of IFRS 9 ▶ Whether the recycling of cumulative exchange differences on disposal of a subsidiary is prohibited <p>The draft Q&As are open for comment until 31 January 2012.</p> <p>The SMEIG has also published two final Q&A documents on the IFRS for SMEs:</p> <ul style="list-style-type: none"> ▶ Q&A 2011/02 Entities that typically have public accountability ▶ Q&A 2011/03 Interpretation of 'traded in a public market' in applying the IFRS for SMEs <p>These draft and final Q&As can be accessed at www.ifrs.org.</p>

Current discussions

The IASB has focused its recent discussions on key projects that are intended to result in the issue of exposure drafts for public consultation in the coming months. Tentative decisions were made regarding a number of projects, including leases – lessor accounting, financial instruments, insurance contracts and annual improvements. The IASB also discussed the macro hedge accounting model, but no decisions were made at these meetings.

The IFRS Interpretations Committee met on 3 and 4 November 2011. The Committee continued discussions of the current agenda items, including: the use of IFRIC 6 *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* by analogy; the accounting for put options written over non-controlling interests in the consolidated financial statements of the controlling shareholder; issues for consideration within Annual Improvements; acquisition of interest in a joint operation and meaning of continuous transfer of control in real estate transactions.

Updates from Board meetings and the Interpretations Committee meetings can be found at www.ifrs.org/Updates.

IASB work plan

The IASB has updated its work plan on 20 December 2011 which can be accessed at www.ifrs.org. The updated work plan now reflects recently issued amendments and exposure drafts, and the closing of comment periods. The projected publication of the leases ED has been moved from Q1 to Q2 2012. The work plan also indicates that the Board expects to hold public round table meetings to discuss its three yearly agenda consultation and the investment entities project in Q1 2012.

Resources

The publications below are all available at www.ey.com/ifrs.

IFRS Developments Issues 18 – 23

Issue 18: IASB and FASB issue revised revenue recognition proposals

The IASB and FASB have issued revised proposals to improve the accounting for revenue under both IFRS and US GAAP. Their decision to re-expose the proposals will delay the project, but gives constituents an opportunity to re-evaluate the revised model. The Boards' objective is to create a single revenue model that can be applied to most revenue transactions under both accounting frameworks. For some entities, the revised proposals may alleviate the burden of implementation as aspects of the proposed model are now more aligned with current practice. For other entities, when and how much revenue is reported may still be significantly impacted. Comments on the ED are due by 13 March 2012.

Issue 19: SEC staff issues two papers on IFRS

As part of its work plan to consider whether, and if so, when and how IFRS should be incorporated into the US financial reporting system, the SEC staff has released two papers: *An Analysis of IFRS in Practice* and *A Comparison of US GAAP and IFRS*. We have provided a high level summary of the observations made by the SEC staff in this publication. These Staff Papers provide additional information for the Commission to review before it decides whether to incorporate IFRS into the US financial reporting system.

Issue 20: Support grows for keeping US GAAP but basing future standards on IFRS

Representatives of the Securities and Exchange Commission (SEC), the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) discussed the incorporation of IFRS into the US financial reporting system at the AICPA National Conference in December 2011 on Current SEC and PCAOB Developments in Washington D.C. This issue of IFRS Developments summarises the highlights of the speeches made at the conference.

Issue 21: Impairment – a major step forward in achieving convergence

The IASB and FASB made significant progress at their recent Joint Board meeting, having agreed on several tentative decisions in relation to the "three-bucket" expected loss approach to the impairment of financial assets. These include: the transfer principle from Bucket 1 into Bucket 2 or Bucket 3; the Bucket 1 impairment allowance; the differentiating factor between Bucket 2 and Bucket 3; the grouping of financial assets for impairment evaluation; and the application of the new impairment approach to retail loans, commercial loans and debt securities.

Issue 22: Offsetting of financial instruments

The recently issued amendments to IAS 32 and IFRS 7 on offsetting of financial instruments are intended to clarify existing application issues relating to the offsetting rules, reduce the level of diversity in current practice and to overcome the differences in the offsetting requirements under IFRS and US GAAP. The clarifying amendments to IAS 32 are effective for the annual periods beginning on or after 1 January 2014. The new disclosures in IFRS 7 are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Both require retrospective application for comparative periods.

Issue 23: Limited improvements to the IFRS 9 classification and measurement model

At its recent meeting, the IASB reached a tentative decision to consider making limited improvements to IFRS 9 *Financial Instruments*. While limiting the scope of the review, the IASB seeks to address the interaction between this standard's classification and measurement model and the accounting for insurance contract liabilities. The IASB also seeks to address specific application issues in IFRS 9 and consider possible alignment between IFRS 9 and the FASB's proposed classification and measurement model.



Applying IFRS: New mandatory effective date and transition disclosures

In December 2011, the IASB issued amendments to the classification and measurement model in IFRS 9 *Financial Instruments*. The amendments move the mandatory effective date from 1 January 2013 to 1 January 2015. Earlier application continues to be permitted. The amendments no longer require the restatement of comparative figures. Instead, IFRS 7 *Financial Instruments: Disclosures* has been amended to require additional disclosures on transition from IAS 39 to IFRS 9. The new disclosures are either required or permitted, based on the entity's date of transition.

This publication summarises what you need to know about these amendments and includes an illustrative example of how the transition disclosures may look in practice.

Applying IFRS in Banking and Capital Markets: Challenges for banks and their structured entities in adopting and applying IFRS 10

This issue of Applying IFRS focuses on the application issues, practical challenges and the potential business impacts for banks and their structured entities in adopting IFRS 10 *Consolidated Financial Statements*. The recent financial crisis highlighted the need for better accounting to reflect the substance of relationships between entities. It also highlighted the need for consistency, transparency and comparability in the accounting for and disclosure of such relationships.

Applying IFRS: IAS 19 Employee Benefits – revised June 2011

This edition of Applying IFRS describes some of the key considerations for implementing the revisions to IAS 19 *Employee Benefits* that are effective for annual periods beginning on or after 1 January 2013.

The revised standard will result in significant changes in accounting for defined benefit plans, mainly as a result of recognising actuarial gains and losses immediately through other comprehensive income and the introduction of the net interest income (expense) approach. There are also a number of other changes, such as modification to the timing of recognition for termination benefits, the classification of short-term employee

benefits and additional disclosure requirements around the amount, timing and uncertainty of future cash flows of defined benefit plans. The impact of these revisions could range from significant to immaterial. This will depend on the type of employee benefits an entity provides, as well as the accounting options available under current IAS 19 that the entity has selected.

IFRS Developments for Real Estate Revised revenue recognition proposals – implications for the real estate and construction industries

The IASB and the FASB's recent re-exposed joint revenue recognition proposals may have a significant impact on how entities in the real estate and construction industries recognise revenue. In this edition of our *IFRS Developments for Real Estate*, we consider the potential impact of the IASB's and FASB's latest proposals and the key implications for entities in the real estate and construction industries, including real estate investment trusts, funds and homebuilders.

IFRS Developments for Insurers IFRS 10 Consolidated Financial Statements – an insurer's perspective

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statement*, which becomes effective for annual periods beginning on or after 1 January 2013. IFRS 10 must be applied retrospectively. IFRS 10 establishes a single control model that applies to all entities, including 'special purpose entities'. SIC-12 *Consolidation-Special Purpose Entities* has been withdrawn. The portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements has been moved from IAS 27 to IFRS 10; it has not changed. What remains in IAS 27 is limited to accounting for investments in subsidiaries, joint ventures and associates in separate financial statements. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This publication summarises the issues from an insurer's perspective.

November 2011 Insurance Accounting Alert

IASB decides to consider limited improvements to IFRS 9; Boards discuss unbundling

On 15 November, the IASB continued its re-deliberations of the tentative decisions in the ED Insurance Contracts. This discussion focused on treatment of residual margins and was educational in nature. In a separate session, the IASB discussed whether to consider making limited improvements to IFRS 9. On 16 November, the IASB met with the FASB to discuss disaggregation/unbundling and the presentation of explicit account balances included within insurance contracts.

December 2011 Insurance Accounting Alert

Boards discuss onerous contract testing and measurement of options and guarantees

On 15 and 16 December 2011, the IASB and the FASB held joint meetings to continue their re-deliberations of the tentative decisions in the IASB's ED Insurance Contracts and in the FASB's Discussion Paper Preliminary Views on Insurance Contracts (DP). A large part of the meeting was devoted to discussing the definition of portfolio grouping of cash flows for determining the residual/ single margin, and the risk adjustment (IASB only meeting).

Illustrative consolidated financial statements

Good Petroleum (International) Limited 2011

Good Petroleum (International) Limited is an illustrative set of consolidated financial statements, prepared in accordance with IFRS, for Good Petroleum (a fictitious company) for the year ended 31 December 2011. This illustrative financial report specifically focused on the oil and gas sector. It is complementary to the Good Group illustrative financial report and focuses on oil and gas specific IFRS issues.

Good Real Estate Group (International) Limited

This edition of Good Real Estate Group (International) Limited contains an illustrative set of consolidated financial statements for a real estate company and its subsidiaries for the year ending 31 December 2011. Good Real Estate Group (International) Limited's activities include the development and leasing of investment property together with the development and sale of residential property. These illustrative financial statements have been prepared in accordance with IFRS that were in issue as at 30 September 2011, and effective for the year ending 31 December 2011.

Good Construction Group (International) Limited

This edition of Good Construction Group (International) Limited contains an illustrative set of consolidated financial statements for a construction company and its subsidiaries for the year ending 31 December 2011. Good Construction Group (International) Limited's activities include construction and engineering as well as investment in and operation of infrastructure. These illustrative financial statements have been prepared in accordance with IFRS that were in issue as at 30 September 2011, and effective for the year ending 31 December 2011.

Archived webcasts

These webcasts are available on our EY Thought Center webcasts and podcasts at webcast.ey.com/thoughtcenter.

A revised proposal for revenue recognition

In our webcast, a panel of subject-matter professionals and a project team member from the IASB will discuss the revised model and impact that the proposed requirements would have on companies reporting under IFRS. The webcast, which was originally broadcast on 29 November 2011, focused on the major building blocks of the revised five-step model.

IFRS 9 Financial Instruments – status and what lies ahead

Staying current on significant developments around hedge accounting and recent IASB decisions on impairment of financial assets is critical to understanding the key elements of the IASB proposals, the likely implications for your business and how you should respond to the proposals. This webcast is aimed at CFOs, finance directors, audit committee members and controllers, from both financial and non-financial institutions, that take a proactive approach to addressing the impact of new standards and pronouncements under IFRS. This webcast was originally broadcast on 13 December 2011.

IFRS 2011: Implications for Real Estate

A number of proposed changes may affect the accounting landscape for real estate. In this webcast, industry guests will join us to discuss these changes, the potential impact on your real estate business and what you should anticipate for this reporting season. This webcast was originally broadcast on 6 December 2011.



Upcoming Publications

Applying IFRS: Revenue from contracts with customers – the revised proposal

The IASB and the FASB recently issued a second ED on their joint revenue recognition project, which would converge revenue recognition guidance under IFRS and US GAAP into a single model and replace essentially all revenue recognition guidance. While the overall framework is the same as in the 2010 ED, key parts of the proposal have changed. Some changes would move the proposal closer to current IFRS requirements than the 2010 ED. Others would significantly change current practice for some companies.

This publication will provide a comprehensive analysis of the proposed model, highlighting key changes from current practice.

Applying IFRS on revised revenue recognition proposal for various industries

These publications will analyse revenue recognition issues pertaining to the industries, provide relevant industry illustrative examples and highlight key changes from current practice.

Surveying IFRS for Real Estate: Current issues and financial statement survey 2010/2011

This upcoming publication provides an overview of the accounting policies and disclosures of 38 property companies from Europe, Australia, the Middle East and Canada and focuses on the issues that are likely to be significant in a still challenging real estate market. It also looks ahead to the challenges of applying certain upcoming and expected changes in IFRS.

Joint Project Watch – a quarterly publication

Joint Project Watch provides a snapshot of key recent developments in the standard-setting activities of the IASB and the FASB from an IFRS perspective, together with observations on the potential implications for companies.

IASB Projects: A pocket book guide – a half-yearly publication

This publication summarises the key features of the various IASB projects, many of which are joint projects with the FASB as part of ongoing efforts to converge IFRS and US GAAP. In particular, the pocketbook guide summarises the proposed standards based on the tentative decisions taken to date and it sets out some of the potential financial and business implications of the proposed standards, together with Ernst & Young's views on the projects.

About Ernst & Young

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