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IFRS: An update for boards and audit committees

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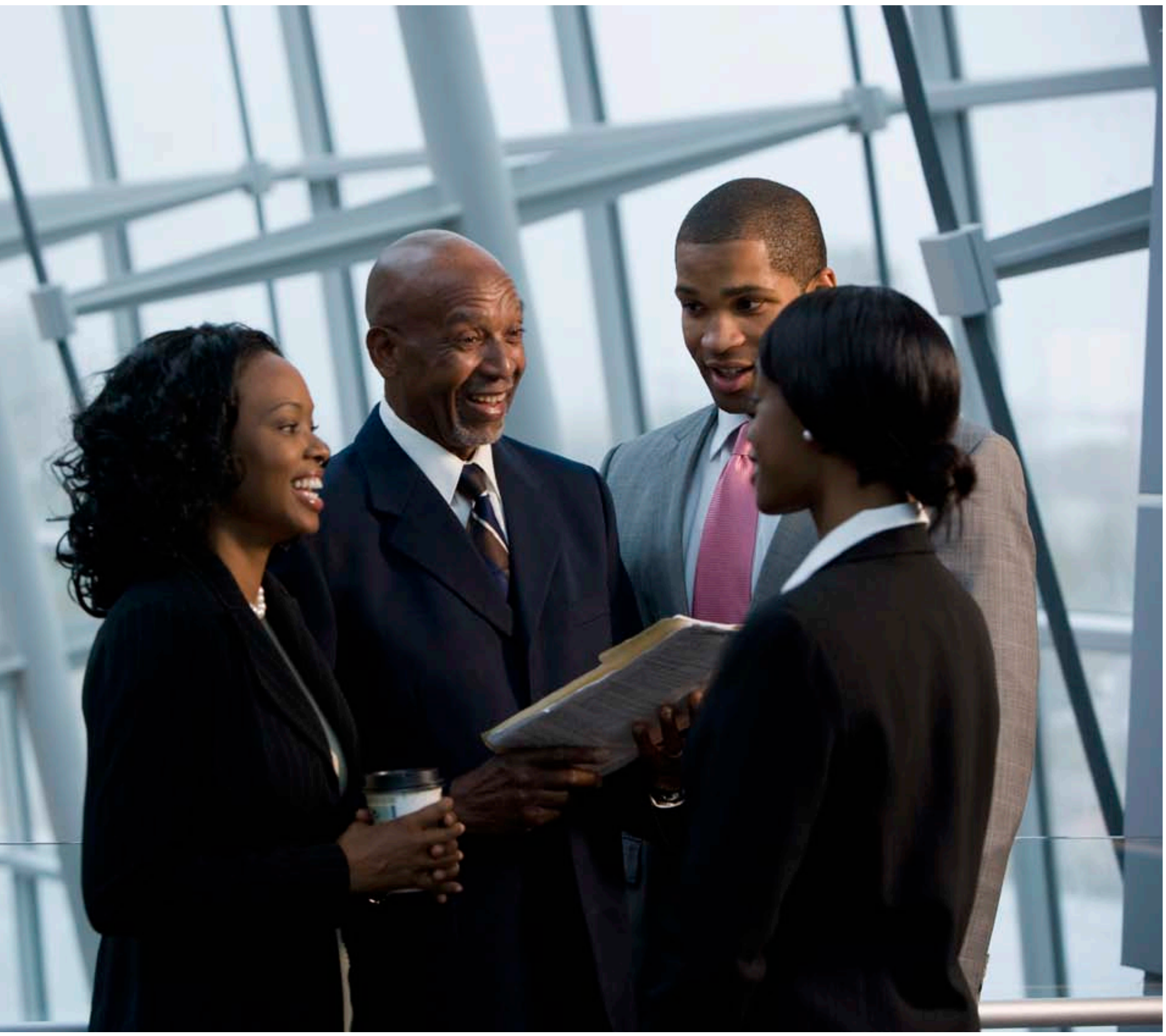

Foreword

International Financial Reporting Standards (IFRS) should be on the financial reporting agenda for Audit Committees and Boards of Directors around the world. The increasing use of IFRS worldwide has been well-publicized with a significant number of countries currently applying IFRS and additional countries planning to adopt IFRS over the next few years. For example, Canada, Argentina, India and the Republic of Korea are planning to adopt IFRS in 2011. Decisions about the mandatory use of IFRS in the United States and Japan are expected in 2011 and 2012, respectively.

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) have been working together for a number of years to achieve convergence between IFRS and U.S. GAAP. The path to convergence has been challenging at times and has led to a rapid pace of standard-setting with many new standards expected to be issued in the coming months. For example, the two Boards have been working on various critical financial reporting topics including financial instruments, revenue recognition and leases. The Boards have established a target date of completing many of these major projects by June 2011. The importance of working toward convergence with the ultimate goal of having a single set of globally accepted, high-quality accounting standards cannot be overstated. In fact, in 2009, the G20 leaders called on the Boards "to redouble their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard setting process, and complete their convergence projects by June 2011."[1]

The rapid pace of standard setting is creating challenging times for many in the financial community. As an audit committee member, effective oversight can potentially be achieved by understanding how current differences between U.S. GAAP and IFRS could affect a company's transition to IFRS, staying abreast of the latest developments at the IASB and understanding the potential implications of these developments, and asking probing questions of management to confirm that an appropriate amount of attention is being given to IFRS.

In recognition of this commitment to excellence and the need to stay current, we present this updated publication, which is based on our 2009 publication titled *IFRS: What should boards and audit committees be doing now?* In the pages that follow, we outline some key potential accounting differences between IFRS and U.S. GAAP, along with related broader potential impacts of those differences, and provide an update on standard-setting developments as well as questions that Board and audit committee members should be asking management as they help to guide their companies down the path of IFRS implementation.

We hope that audit committee and Board members will find this updated compilation useful. Feel free to contact your Deloitte professional if you need additional copies.

As always, we value and welcome your comments and feedback.

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[1] Matthew G. Lamoreaux, "G-20: Achieve a Single Set of Global Accounting Standards by June 2011," *Journal of Accountancy*, September 27, 2009.

Issues guide

Inventory

General requirements	Potential differences from U.S. GAAP
• Primary standard – IAS 2 • Guidance addresses the recognition and measurement of inventory • Alternatives for measuring the cost of inventory include First in, First out (FIFO) and weighted average cost; "retail method" also is allowed if it approximates cost • The same cost formula must be used for all inventory having a similar nature and use • The subsequent measurement of inventory is based on the lower of cost or "net realizable value" (NRV) • NRV is the estimated selling price of the inventory in the ordinary course of business less the estimated costs of completion and of making the sale	• Use of Last in, First out (LIFO) as a measurement basis for inventory is prohibited under IFRS • Inventory is required to be measured at the lower of cost or NRV, which may not be the same as a "market value" • Same cost formula must be used for inventory of a similar nature • Costs related to asset retirement obligations may be included as part of inventory cost basis, rather than property, plant and equipment (PP&E) • Impairment charges on inventory are required to be reversed, if certain criteria are met

Implementation considerations

- Data capture may be more or less detailed leading to possible inventory system changes
- Cost formulas for inventories whose nature and use are similar may need to be aligned throughout the entity
- Processes and controls may need to be developed for monitoring whether inventory impairment should be subsequently reversed
- Changes in the measurement basis of inventory may affect income taxes, particularly if LIFO currently is used as a measurement basis
- **Changes currently pending:** None

Key questions to ask

- Will the basis of inventory measurement change?
- What processes are in place to monitor the reversal of inventory impairment?
- Have tax implications been assessed relating to potential changes in accounting for inventory?

Consolidation policy

General requirements	Potential differences from U.S. GAAP
• Primary standard – IAS 27 • Key issue is determining whether "control" exists; control is defined by IAS 27 as the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities • Guidance provides a number of control "indicators" that focus on governance and decision-making activities, as well as economic factors such as benefits and risks • Potential voting rights must be considered when assessing whether control exists • Entities holding less than majority of voting rights may still consolidate under "de facto" control • Guidance also included on the presentation of the parent's separate financial statements	• Overall consolidation approach is based on whether an entity controls another; applies to all types of entities regardless of legal structure • There is no exception from consolidation for "investment companies" • The accounting policies of all subsidiaries must be conformed to those used in consolidation • The reporting dates of all subsidiaries must be conformed, unless it is impracticable to do so

Implementation considerations

- Determining whether entities should be consolidated may require increased judgment
- Processes and controls should be developed for monitoring potential voting rights and whether they are currently exercisable or convertible
- Processes for the capture of financial data related to all controlled entities should be developed, and accounting policies and reporting dates should be conformed
- Changes in the reporting entity as a result of more or fewer entities consolidated may affect income taxes
- **Changes currently pending:** The IASB is expected to issue a new consolidation standard in the fourth quarter of 2010 as part of a joint project with the FASB. The new standard will revise the definition of control, include more application guidance, and require enhanced disclosures. The IASB is also considering whether to exclude investment companies from the scope of the new consolidation standard.

Key questions to ask

- Will more or fewer entities be consolidated, and how will that affect existing transactions between or among entities within the consolidated group?
- What processes are in place for making judgments about consolidation policy?
- Do the reporting dates or accounting policies of any entities within the consolidated group differ?
- Are the current information systems capable of capturing the information needed to reflect changes in the reporting entity?

Financial statement presentation

General requirements	Potential differences from U.S. GAAP
• Primary standards – IAS 1, IAS 7, IAS 8, IAS 10, IAS 24, IAS 33, IAS 34, IFRS 5, IFRS 8 • Guidance addresses the basic form and content of financial statements and includes general considerations such as fair presentation, going concern, accrual accounting, consistency of presentation, materiality and offsetting • Financial statement components include a statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows, and notes to the financial statements • May have a "condensed" presentation for interim reporting • Certain disclosures are required for public companies (e.g., earnings per share (EPS), segments) • No specific industry guidance	• Format and structure of the financial statements may differ particularly for non-public entities; impact for public entities will depend on future SEC rulemaking; may present alternative performance measures; no "extraordinary items" in the statement of comprehensive income; classification of expenses may be based on function or nature • Cash-flow classification of interest, dividends, income taxes and bank overdrafts; disclosure of discontinued operations by category • Level and nature of disclosure in the notes to the financial statements; more of a focus on judgments made and assumptions used • Events occurring after the reporting period do not affect classifications as of the end of the reporting period (i.e., refinancing of bank loans or debt covenant waivers) • Narrower definition of a discontinued operation

Implementation considerations

- Data capture may be more or less detailed, which could lead to changes in the chart of accounts
- The process around monitoring debt covenants or calculating EPS may need to be revisited
- Disposals may result in more or less discontinued operations
- Management reporting may change as a result of different financial statement formats and the use of alternative performance measures
- Communication with investors may be affected because of changes to financial statement formats; questions may be asked about accounting differences and how general principles were applied
- **Changes currently pending**: The IASB and FASB are currently working together on a joint project to develop a comprehensive standard for the organization and presentation of information in the financial statements with an emphasis on presentation of a cohesive picture of an entity's operations and enhanced cash flow information to assess liquidity and financial flexibility. In June 2008, the Boards issued a discussion paper that included their preliminary views and received a significant number of negative comment letters because many believe the costs of many of the proposed changes would exceed their benefits. Consequently, the timing of the project has been delayed so that the Boards can perform additional outreach activities to better understand constituent concerns. An exposure draft is expected in early 2011 with a final standard in 2012. The Boards also have projects on their agendas to (1) require a single, continuous statement of comprehensive income and (2) develop a common definition of a discontinued operation. A standard on the single statement of comprehensive income is expected to be finalized in late 2010 and an exposure draft on discontinued operations is expected to be issued in early 2011.

Key questions to ask

- How would the presentation format change?
- What is the potential impact on EPS?
- What are the key performance measures and how will they change?
- How do the presentation formats compare with those of others in the industry?
- Is a communication strategy in place to address reporting under IFRS?

Revenue

General requirements	Potential differences from U.S. GAAP
• Primary standards – IAS 11, IAS 18 • Guidance addresses general principles related to revenue from the sale of goods and services; little detailed guidance; also addresses revenue from interest, royalties and dividends • A key issue is understanding the "unit of account" (i.e., combining and segmenting contracts, multiple element arrangements) • Principles relating to the sale of goods focus on the transfer of "risks and rewards" and "control" over the goods • Revenue from the sale of services is recognized based on the "percentage of completion" • Emphasis on fair-value measurement of the consideration received	• Overall level of guidance is much less; limited detailed guidance resulting in more judgment in determining revenue recognition policies • Variances in applying judgment may result in differences in the revenue recognition related to arrangements with multiple elements and those involving upfront fees; as well as in real estate sales and other industry issues • Contract accounting – when the stage of completion cannot be estimated reliably, revenue is recognized to the extent that recoverable expenses have been incurred

Implementation considerations

- The selection of revenue recognition policies will require increased judgment; an overall approach to revenue recognition will need to be developed that focuses on a judgment framework
- Data capture may be more or less detailed, which could lead to the need for information systems changes
- Contract designs may be affected
- Changes in the timing of revenue recognition may affect income taxes
- **Changes currently pending:** The IASB and FASB are currently working on a joint project to develop a single model for revenue recognition that can be applied consistently across most industries. In June 2010, the Boards issued an exposure draft that proposes a new model which could significantly affect the timing and amount of revenue recognized. Under the proposed model, revenue would be recognized at the point that "control" of the good or service is transferred to the customer rather than the risks and rewards. This change could affect an entity's ability to apply the percentage of completion method to long-term contracts. Proposals relating to multiple-element arrangements could result in the recognition of a loss on individual elements of a contract even though the contract as a whole is profitable. Guidance would be provided in other areas, including variable consideration, licenses of intellectual property and warranties. Disclosure requirements would increase significantly. The proposals could also affect the structuring of customer contracts, performance metrics used, debt covenants, accounting policies, and systems. A final standard is expected to be issued in June 2011.

Key questions to ask

- What is the overall approach to revenue recognition and how does it compare to others in the industry?
- What processes are in place for decision-making regarding revenue recognition, and are the appropriate resources involved?
- Are revenue policy disclosures sufficient?

Business combinations

General requirements	Potential differences from U.S. GAAP
• Primary standard – IFRS 3 • Based on the "control" notion • Guidance addresses the accounting by the acquirer; requires use of the acquisition method for the recognition and measurement of assets acquired, liabilities assumed and any noncontrolling interests in the acquired entity • Restructuring provisions are generally prohibited from recognition as acquired liabilities • Transaction costs are expensed • Guidance addresses the accounting for goodwill; annual impairment test is required; no amortization, and the deferral of "negative goodwill" is prohibited • Scope includes transactions involving mutual entities and control by contract; does not address common control transactions	• May account for noncontrolling interests at either full fair value or the fair value of the proportionate share of the net assets acquired; accounting policy choice on a transaction-by-transaction basis • Acquisition of noncontractual liabilities are initially recognized at fair value; subsequent measurement may be different • Accounting for common control transactions are not addressed • Related pro forma financial information is required for all entities (public and nonpublic)

Implementation considerations

- Processes for the capture of financial information related to business combinations will need to be developed, particularly for fair value information related to contingent liabilities
- Changes in the amount of certain items acquired or assumed in a business combination and the related goodwill may affect income taxes
- **Changes currently pending:** None

Key questions to ask

- How will the terms and structuring of future business combination transactions be affected?
- What will be the effect of any changes in the valuation of assets acquired and liabilities assumed?
- How will any future exit strategies or other restructuring plans related to acquired businesses be affected?

Investments in associates & joint ventures

General requirements	Potential differences from U.S. GAAP
• Primary standard – IAS 28, IAS 31 • Key issue is determining whether "significant influence" exists • Significant influence is the power to participate in financial and operating policy decisions of the entity • Entities where significant influence exists are considered to be "associates" and are accounted for using the "equity method" • Investment in an associate is initially recognized at cost; subsequent carrying amount is increased or decreased based on investor's share of profit/loss of associate; distributions reduce the carrying amount • There are scope exceptions for "investment" companies and investments "held for sale" • Joint control exists when the financial and operating policy decisions require the consent of all ventures through the contractual sharing of control • Investments in jointly controlled entities may be accounted for under either the equity method of accounting or the "proportional consolidation" method; the proportionate consolidation method is expected to be eliminated	• Exception from equity accounting for associates held for sale • Potential voting rights must be considered when assessing whether significant influence exists • The accounting policies of all associates must be conformed • The reporting dates of all associates must be conformed • If losses exceed the interest in associate, discontinue recognition unless a legal obligation exists • Impairment testing not based on an "other than temporary" notion • Proportionate consolidation, used in some industries (e.g., oil and gas, real estate) under U.S. GAAP, to be discontinued as a policy option under IFRS

Implementation considerations

- Determining whether entities should be considered associates will require increased judgment
- Processes and controls should be developed for monitoring potential voting rights and whether they are currently exercisable or convertible
- Processes for the capture of financial data for all entities being accounted for as associates should be developed, and accounting policies and reporting dates should be conformed
- Changes in the reporting entity as a result of more or fewer entities being accounted for as associates may affect income taxes
- **Changes currently pending:** The IASB is finalizing its project that would require the use of the equity method of accounting for joint venture entities (the current option to use proportionate consolidation would be eliminated) and limiting the types of joint arrangements to either joint operations or joint ventures (eliminating jointly controlled assets). A final standard is expected to be issued in the fourth quarter of 2010.

Key questions to ask

- Will more or fewer entities be accounted for under the equity method of accounting?
- Will more or fewer entities be considered for joint ventures?
- What changes will need to be made to the joint venture arrangements?
- What processes are in place relating to making judgments related to the accounting for associates or joint ventures?
- Do the reporting dates or accounting policies of any investments in associates or jointly controlled entities differ?
- Are the current information systems capable of capturing the information needed to account for investments in associates?

Long-lived assets	
General requirements	**Potential differences from U.S. GAAP**
• Primary standards – IAS 16, IAS 23, IAS 40, IAS 41 • Long-lived assets are initially recognized at cost; includes all costs directly attributable to preparing the asset for use; borrowing costs are capitalized • Depreciation is based on the "components" approach • Subsequent measurement of property, plant and equipment or investment property may be at fair value • Investment property is land or a building (or part of a building) held to earn rentals or for capital appreciation or both • Biological assets and agricultural products at the point of harvest must be measured at fair value; fair value changes of biological assets in profit or loss; agricultural products at the point of harvest under IAS 2 • Asset exchanges are recognized at fair value, if they have "commercial substance"	• Components approach to depreciation is required; major overhaul costs are generally included as a separate component • Residual values are required to be adjusted to fair value (upwards or downwards) • Subsequent measurement of asset retirement obligations may be different • Property, plant and equipment may be measured at cost or fair value using the "revaluation model"(which is rarely used by entities) • Investment property may be accounted for using the cost or fair value model; property held as an operating lease may be considered an investment property • Biological assets must be fair valued

Implementation considerations

- Asset valuation and depreciation may require increased judgment
- Process and controls may need to be developed for determining the fair value of certain assets if the fair value option is selected
- Data capture for asset componentization may be detailed; which could lead to the need for information system challenges
- Residual value changes will need to be tracked
- Changes in the measurement basis of long-lived assets and depreciation may affect income taxes
- **Changes currently pending:** The IASB issued an exposure draft on fair value measurement which is generally consistent with the fair value guidance under U.S. GAAP. A final standard is expected to be issued in the first quarter 2011.

Key questions to ask

- What will be the measurement basis of long-lived assets?
- Would the revaluation model be considered and is it possible to determine fair values of certain assets?
- Will depreciation amounts change as a result of the components approach?
- Are the current information systems able to capture the information necessary for asset componentization?
- Do any properties under operating leases qualify as investment properties?

Asset impairment

General requirements	Potential differences from U.S. GAAP
• Primary standard – IAS 36 • A single approach to impairment • Focus on the asset's "recoverable amount," which is the higher of fair value less costs to sell and value in use • Value in use is the present value of estimated future cash flows expected to arise from use of the asset and its disposal • Level of testing is based on the cash-generating unit (CGU) (i.e., smallest identifiable group of assets that generates cash inflows independently of other assets) • For goodwill, testing may aggregate CGUs; must at least allocate to an operating segment • Impairment losses, except on goodwill, are required to be reversed, if certain criteria are met	• Impairment losses may be recognized in an earlier period given differences in the impairment "trigger" • The level of impairment testing may be different depending on the CGU • Amount of impairment may be different based on the recoverable amount of the asset • Any impairment charges on property, plant and equipment, investment property (where the cost model is used), and intangibles (except goodwill) are required to be reversed, if certain criteria are met

Implementation considerations

- Determining the level at which assets are tested for impairment will require increased judgment
- Processes and controls for the reversal of impairment charges will need to be developed
- Data capture for an asset's recoverable amount may be detailed, which could lead to the need for information system changes
- Changes in the timing and amount of impairment charges may affect income taxes
- **Changes currently pending:** None

Key questions to ask

- How will potential changes to asset impairment recognition affect the amount and timing of impairments?
- What are the tax consequences of potential changes in impairment?
- Are the current information systems able to capture the necessary information?

Intangible assets

General requirements	Potential differences from U.S. GAAP
• Primary standard – IAS 38 • Guidance addresses the accounting for intangible assets acquired separately or in a business combination and those generated internally • Requires acquired intangible assets, including development costs, to be recognized, if certain criteria are met • Must classify costs of internally generated intangible assets into a research phase and a development phase • Requires all research expenditures to be expensed • Development expenditures are required to be capitalized, if certain criteria are met • Intangible assets may be revalued, if certain criteria are met	• Capitalization of development costs is required; criteria to be met include: – Ability to demonstrate technical feasibility – Intention to complete the asset and use or sell – Ability to use or sell the asset – How the intangible asset will generate probable future economic benefits – Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset – Ability to reliably measure the expenditure during development • Intangible assets may be measured at cost or fair value using the "revaluation model" if an active market exists • Advertising and promotional costs are generally expensed as incurred

Implementation considerations

- Determining when intangible assets should be capitalized will require increased judgment
- Processes and controls for determining fair value of certain intangible assets may need to be developed if the revaluation model is used
- Processes and controls for the capitalization of development costs will need to be developed
- Data capture for the capitalized development costs may be more detailed, which could lead to the need for information system changes
- Capitalization of development costs may affect income taxes
- **Changes currently pending:** None

Key questions to ask

- Is there an active market for intangible assets and, if so, should the revaluation model be considered?
- What amount of development costs will need to be capitalized?
- What are the tax consequences of capitalizing development costs?
- Are the current information systems able to capture the information needed for capitalizing development costs?
- If applicable, will capitalized advertising and promotional costs need to be expensed?

Leasing

General requirements	Potential differences from U.S. GAAP
• Primary standard – IAS 17 • Guidance addresses the accounting for both lessees and lessors • Scope includes leases of property, plant and equipment, as well as of intangible assets; concessionary arrangements • Accounting for a lease depends on its classification as either an operating or finance (i.e., capital) lease; operating leases are "off balance sheet" while finance leases are "on balance sheet" • If a lease transfers "substantially all" the risks and rewards of ownership, it is classified as a finance lease • Operating lease payments are usually recognized on a straight-line basis	• Utilizes a principle-based framework for lease classification that focuses on the substance of the arrangement • Generally the implicit rate in the lease is used to discount the minimum lease payments, which may affect classification • Leases involving land and buildings are required to be accounted for separately, if material. No special accounting for "leveraged leases" • Sale and leaseback transactions are accounted for based on their substance

Implementation considerations

- Determining the classification of leases may require increased judgment because there are no strict classification criteria
- Processes and controls for classifying leases may need to be enhanced
- Data capture for leases may be more detailed, which could lead to the need for information system changes
- Changes in lease classification may affect income taxes or financing ratios (i.e., debt to equity)
- **Changes currently pending:** The IASB and FASB are developing a common leasing standard which will affect both lessees and lessors. In August 2010, the Boards issued an exposure draft that would require lessees to recognize assets and liabilities for all leases thus eliminating operating lease accounting. Contingent rentals and renewal options would need to be estimated and these estimates would need to be reassessed in the future. Lease expense would be composed of interest and amortization expense and would be recognized earlier in the lease term. Lessors would apply one of two models depending on whether significant risks or benefits of the underlying asset are transferred to the lessee. The lessor models could have a significant financial statement affect, including increasing assets and liabilities recognized and limiting the recognition of up-front profit. The proposals could also affect the structuring of lease contracts, performance metrics used, debt covenants, accounting policies, and information systems. A final standard is expected to be issued in June 2011.

Key questions to ask

- Will there be changes to lease classification and, if so, what is the potential financial statement impact?
- Will debt covenants be affected?
- What is the effect on how lease arrangements are structured?
- What are the potential tax consequences?
- Are the current information systems able to capture any additional information needed to account for leases?

Provisions and contingencies

General requirements	Potential differences from U.S. GAAP
• Primary standard – IAS 37 • Guidance addresses the accounting for "provisions" and "contingent" assets and liabilities • Provisions are liabilities of uncertain timing or amount; are "probable" (i.e., more likely than not) of occurring and resulting in an outflow of resources to settle the obligation (may be either legal or constructive) • Provisions are measured using a settlement notion; use of the "best estimate" or mid-point of range if all possible outcomes equally likely • Discounting of provisions is required, if material • Several disclosures are required, although "prejudicial" items are not required to be disclosed	• Recognition threshold for provisions based on "more likely than not;" result is that liabilities may be recognized earlier • Provisions are measured based on the "expected-value" method or at the mid-point of a range of equally likely possible outcomes • Provisions must be discounted, if material • Provisions relating to "onerous" operating lease contracts are recorded when there is a commitment (i.e., communication to a landlord) • Areas where there may be differences in the timing and measurement include litigation provisions, restructuring charges, decommissioning liabilities, and uncertain tax provisions • "Prejudicial" items are not required to be disclosed

Implementation considerations

- Determining liability recognition and corresponding disclosures may require increased judgment
- The legal department and outside counsel may need to be educated on the threshold for recognition of provisions
- Processes and data capture for provisions may be more detailed, which could lead to the need for information system changes
- Changes in the timing and measurement of provisions may affect income taxes
- **Changes currently pending:** The IASB is currently working on a project to amend the guidance in IAS 37 and issued exposure drafts in June 2005 and January 2010. Under the exposure draft, the criteria for determining when a liability should be recognized would change such that all obligations that meet the definition of a liability would be recognized unless they are unable to be measured reliably. Uncertainties related to the outcome would be incorporated into the measurement of the liability. This is in contrast to the current approach where uncertainties to the outcome affect whether an item is recognized – as a provision – or disclosed – as a contingent liability. The comment letters received on the exposure drafts were largely negative, causing the IASB to perform additional outreach activities to further understand constituent concerns. The IASB is moving forward with the project but has indicated that it will rethink certain aspects of the proposals. A third exposure draft is expected to be issued in 2011.

Key questions to ask

- Have all obligations been assessed for potential recognition as provisions?
- What is the effect on the timing of restructuring provisions and provisions relating to onerous contracts?
- Have the implications of changes in recognition of provisions been discussed with the company's legal advisers?
- Do any disclosures consist of prejudicial information?

Income taxes	
General requirements	**Potential differences from U.S. GAAP**
• Primary standard – IAS 12 • Guidance is based on the "temporary difference" approach; deferred tax items are recognized for differences between the carrying amount of an asset or liability in the statement of financial position and its tax base, and for operating loss and tax credit carryforwards • Deferred taxes not recognized on the initial recognition of an asset or liability that is not related to a business combination or that does not affect book or tax profit • Deferred tax assets are recognized when they are "probable" of realization (i.e., more-likely-than-not) • Deferred tax items are measured based on the applicable tax rates that are enacted or "substantively" enacted • Deferred tax items are considered to be noncurrent	• Initial recognition exemption; other items may have a tax effect that are scoped out under U.S. GAAP • Tax rates used to measure deferred tax items • Must use rate applicable to undistributed profits to measure deferred tax on undistributed earnings of a subsidiary • Deferred tax items are considered noncurrent for classification on the statement of financial position • Allocation of tax to equity components – "backward tracing" • Particular areas with a different tax treatment include share-based payments, leveraged leases and uncertain tax provisions

Implementation considerations

- The tax department should be educated on the different tax accounting requirements and their effect on tax planning
- Processes and data capture for deferred tax items may be more detailed, which could lead to the need for information system changes
- **Changes currently pending:** In March 2009, the IASB issued an exposure draft containing proposals that would replace the current guidance under IAS 12. The IASB received a considerable amount of negative comments on the exposure draft leading to the deferral of the larger income tax project until many of the current projects are finalized. In the meantime, the IASB decided to issue limited scope exposure drafts on specific, less controversial practice issues. For example, in September 2010, the IASB issued an exposure draft proposing to provide an exception to the general principle in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. A final standard on this proposal is expected to be issued in the first half of 2011.

Key questions to ask

- Have the deferred tax effects of other changes in accounting under IFRS been assessed?
- What is the overall effect on current tax structures and reporting?
- What is the effect on future tax planning?

Employee benefits

General requirements	Potential differences from U.S. GAAP
• Primary standard – IAS 19 • Guidance addresses short-term benefits; post-employment benefits, (i.e., pensions); other long-term benefits (i.e., bonuses); and termination benefits • Accounting for post-employment benefits depends on the type of plan (defined contribution, defined benefit or a multi-employer plan) • Defined contribution plans involve payment of fixed amounts that are expensed as the employee provides services • For defined benefit plans, a benefit obligation is recognized using an actuarial valuation method, net of plan assets held • Termination benefits are recognized when "demonstrably committed"	• Multiemployer plans are accounted for based on their economic substance as either a defined benefit or defined contribution plan • Policy choice regarding recognition of actuarial gains and losses; recognized in income either using the "corridor" method or accelerated method, or permanently in equity • Prior service costs are recognized immediately, if vested • Measurement of expected rate of return on plan assets is based solely on fair value • Recognition of a defined benefit asset is subject to a "ceiling" • Liability must be recognized for minimum funding requirements when obligation arises • Termination benefits and curtailments are recognized when "demonstrably committed"

Implementation considerations

- Current plans will need to be evaluated to ensure they are accounted for under the appropriate type of plan
- Processes and controls for the asset ceiling test will need to be developed
- Data capture may be more detailed, which could lead to the need for information system changes
- Changes in the timing and amount of pension cost may affect on income taxes
- **Changes currently pending:** The IASB is currently working on a project that would amend IAS 19. In April 2010, the IASB issued an exposure draft that, if finalized, would have a significant effect on many entities with defined benefit plans. Under the proposals, the option to defer and amortize actuarial gains and losses over a future period would be eliminated and all actuarial gains and losses would be required to be recognized immediately through other comprehensive income. The full amount of the overfunded or underfunded status of the defined benefit plans would be recognized. The proposals would affect other aspects of pension accounting, including recognition of the actual return on plan assets and service costs. Also, disclosure requirements would increase significantly. A final standard is expected to be issued in 2011. The IASB is also working on a project to clarify certain aspects in IAS 19 around termination benefits.

Key questions to ask

- How will the current accounting for employee benefits be affected?
- Will the employee benefit plan funding requirements be affected?
- Will future benefit plan structures be affected?

Share-based payments

General requirements	Potential differences from U.S. GAAP
• Primary standard – IFRS 2 • Applies to transactions where goods and services have been exchanged for share-based payments • Transactions generally measured based on a "grant date" approach • Accounting for grant depends on how transaction will be settled; cash settlement is a liability; equity settled is equity; may have elements of both • Compensation expense for equity awards recognized on the basis of grant-date fair value over the period in which the shares vest • Awards with "graded vesting" features are measured as multiple awards • No specific valuation model is required to determine share value	• Scope is broader; includes employee stock ownership plans • Compensation expense is recognized on an accelerated basis for grants with "graded vesting" provisions • Compensation expense related to certain types of award modifications is based on the higher of the modified award fair value or the original grant date fair value • Measurement of compensation expense for grants to non-employees is based on the fair value of the goods or services when provided • Classification of grant is based on how the transaction will be settled • Income tax treatment • Requirements are the same for public and nonpublic entities

Implementation considerations

- Processes and controls may need to be developed for identifying all transactions that should be accounted for as share-based payments
- Awards need to be evaluated for appropriate classification as a liability or equity
- Judgment will be required in the measurement of share-based payments at fair value
- Data capture may be more detailed, particularly regarding graded vesting, which could lead to the need for information system changes
- Income tax implications of share-based payments may need to be understood
- **Changes currently pending:** The IFRS Interpretation Committee is discussing issues around vesting and non-vesting conditions. There is currently no timetable published for the issuance of future guidance.

Key questions to ask

- Should compensation structures be changed?
- How does accounting for existing share-based payment arrangements potentially change under IFRS?
- What fair value techniques are being used and how will they change?
- Are the current information systems able to capture the information needed to account for share-based payments?

Financial instruments presentation and disclosure	
General requirements	**Potential differences from U.S. GAAP**
• Primary standards – IAS 32, IFRS 7 • Financial instruments are classified as either financial assets, financial liabilities or equity depending on the substance of the underlying contractual arrangement • Instruments with liability and equity elements are generally accounted for separately – "split accounting" • Issued equity securities redeemable at the option of the holder or upon a contingent event are usually classified as liabilities • Financial assets and liabilities may be offset, if certain criteria are met • Several disclosures required related to risks of financial instruments held	• There is no mezzanine equity classification under IFRS; must classify as either liabilities or equity • "Split accounting" is required for instruments with liability and equity components; allocate the individual components based on fair value using the "with-and-without" method • Additional disclosures are required

Implementation considerations

- Processes will need to be developed for the capture of data for additional disclosures, differing offsetting and "split accounting"
- Different classification of financial instruments may affect income taxes
- **Changes currently pending:** The IASB and FASB have a joint project on their agendas to better distinguish between debt and equity classification of financial instruments and converge the two sets of standards. The Boards are also working on a project on derecognition with a goal of clarifying the guidance, eliminating differences between IFRS and U.S. GAAP and requiring further disclosure on exposures to risks. The Boards decided to delay these two larger projects until many of the current projects are finalized. However, the IASB also decided to move forward with a limited scope project to improve disclosures around transfers of financial assets. The IASB issued a final standard in October 2010.

Key questions to ask

- Are the appropriate processes available for the use of "split accounting"?
- Should debt covenants that are linked to the amount of liabilities and equity reported in the financial statements be renegotiated? What additional disclosures will be required related to financial instruments held?

Financial instruments recognition

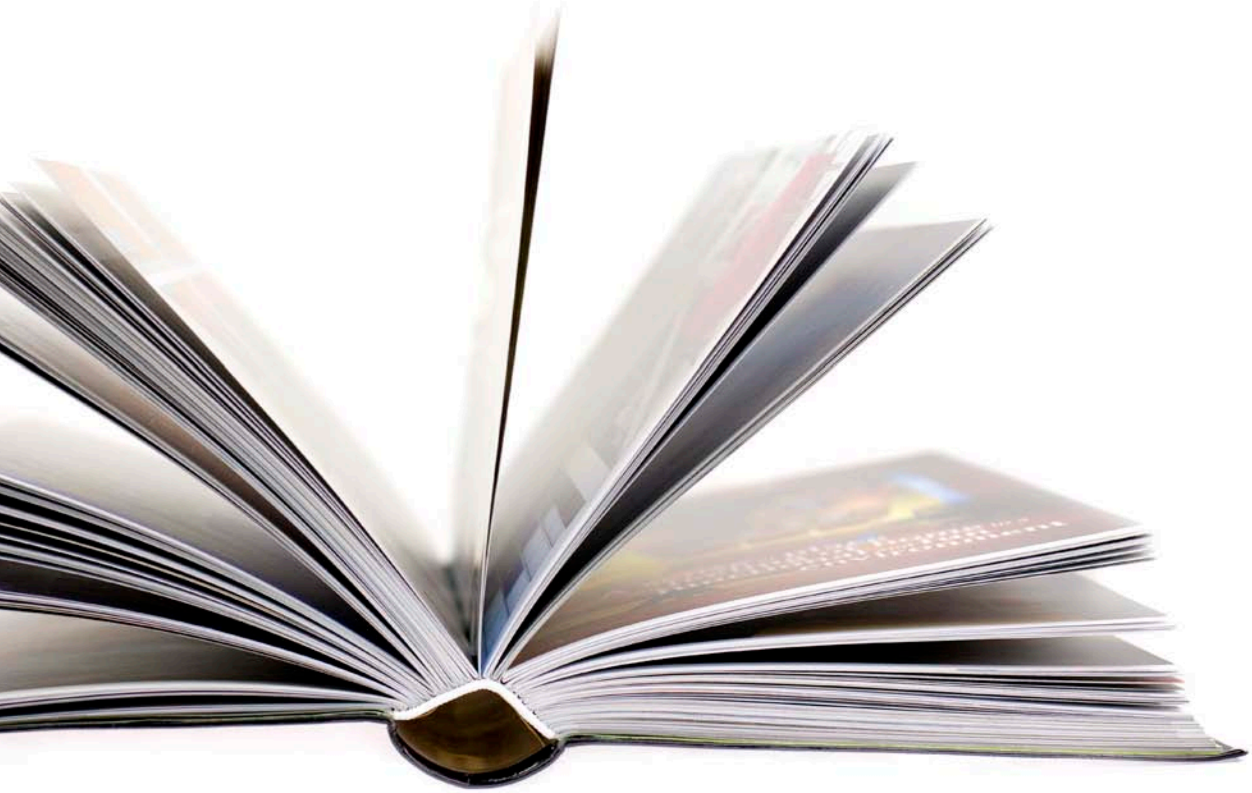
General requirements	Potential differences from U.S. GAAP
• Primary standard – IAS 39 • Financial instruments are recognized and measured based on their classification as either financial assets, financial liabilities or equity • Derecognition of financial assets is based primarily on whether "risks and rewards" have been transferred • Financial liabilities are derecognized when extinguished • Focus on the use of "fair value" as a measurement basis – subsequent measurement depends on classification of financial instrument; use of the fair value option is allowed in certain instances • "Hedge accounting" is allowed if certain criteria are met and are sufficiently documented	• Fair value not limited to an "exit-value" notion • Impairment testing not based on an "other-than-temporary" notion; reversal of impairments for some items, if certain criteria are met • Derecognition of financial assets • Definition of a derivative is broader – a notional, payment provision and net settlement are not required • Fewer restrictions on the types of risks that can be hedged; the "shortcut method" is not permitted for hedge accounting; all hedges must be assessed for effectiveness and documented • May adjust the basis of certain non-financial assets or liabilities for the effects of "cash-flow hedges"

Implementation considerations

- Valuation techniques used to determine fair value may need adjustment
- Processes may need to be developed for the capture of data for impairments (including reversals), interest, recognition, and derecognition
- Hedge documentation may need adjustment, and hedge effectiveness testing may require additional documentation
- Different recognition and amounts of financial instruments may affect income taxes
- **Changes currently pending:** As part of a joint project, the IASB and FASB are amending the accounting for financial instruments with a goal of simplifying the classification and measurement requirements. The IASB's financial instruments project is replacing IAS 39 and has been split into three phases: (1) classification and measurement, (2) impairment and (3) hedge accounting. The IASB published IFRS 9 upon completion of the classification and measurement of financial assets phase of the overall project. The model under IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The IASB is expected to issue a final standard in the fourth quarter of 2010 that will affect how a change in the credit risk of a financial liability is recognized. The second phase of the project, impairment, is focused on providing more transparency and timely recognition of credit loss provisions using an expected loss model. The third and final phase relates to simplifying the hedge accounting requirements, more closely aligning the hedge accounting model to a company's risk management processes and improving user information on hedge accounting. All phases are expected to be completed by June 2011.

Key questions to ask

- What fair value measurement techniques are being used and will they change?
- Will the hedging strategy be affected?
- What fair-value techniques are being used and will they change?
- Will our hedging strategy be impacted?



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