

HKFRS / IFRS UPDATE 2012/08

UPDATE OF IASB WORK PLAN AS AT 19 OCTOBER 2012



Under the HKICPA's policy of converging HKFRS with IFRS, the work plan of the International Accounting Standards Board (IASB) has bearing on how the future financial reporting landscape in Hong Kong would look like. The purpose of this Update is to provide you a summary of the recent changes in the IASB's project work plan.

Background

The IASB has updated its project work plan as at 19 October 2012.

The milestones for several large projects have been pushed back into either the fourth quarter of 2012 or early 2013, including:

- IFRS 9 *Financial Instruments* - macro hedging
- Leases
- Insurance contracts.

The IFRSs relating to the IFRS 9 *Financial Instruments* - General hedge accounting project and the Revenue recognition project are still scheduled for release as previously indicated by the IASB in July 2012.

Several new narrow scope amendments and interpretations have also been added to the project work plan.

A summary of the updated work plan is detailed below in the following sub-sections:

1. Agenda consultation projects
2. Financial crisis related projects
3. Memorandum of understanding projects
4. Other projects
5. Narrow scope amendments
6. Interpretations
7. Post-implementation reviews
8. Research projects
9. IFRS for SMEs¹

The full work plan can be accessed directly from the IASB website www.ifrs.org.

STATUS

Current

EFFECTIVE DATE

N/A

ACCOUNTING IMPACT

May be significant

¹ HKFRS for Private Entities is based on IFRS for SMEs with some amendments to suit circumstances in Hong Kong. According to Preface to HKFRS for Private Entities, HKICPA expects to undertake a review of HKFRS for Private Entities following the IASB timetable to review its IFRS for SMEs. By then HKICPA will consider revising the HKFRS for Private Entities based on the IASB revisions to IFRS for SMEs.

Updated work plan summary

1. Agenda consultation projects

Three-yearly public consultation

In 2011 the IASB formally announced that it would be undertaking for the first time a public agenda consultation on its future work plan and issued a 'Request for Views' document with responses due 30 November 2011. The IASB has also held a number of public round tables. This is all part of a process whereby the IASB obtains input on how it should balance the development of financial reporting with the maintenance of IFRSs and (considering time and resource constraints) what are the areas of financial reporting that should be given the highest priority for further improvement.

The IASBs feedback statement has been pushed back from the third quarter of 2012, to the fourth quarter of 2012. The development of the ultimate strategy is scheduled for the first half of 2013.

2. Financial crisis related projects

IFRS 9 Financial Instruments (replacement of IAS 39)

The project to gradually replace IAS 39 with IFRS 9 is being conducted jointly between the IASB and the Financial Accounting Standards Board (FASB) in the United States, to obtain convergence on the treatment of financial instruments under both frameworks. The ultimate aim of the project is to reduce the complexity and difficulties that currently exist in accounting for financial instruments.

To manage this process, the project has been split into four sub-projects.

- Classification and Measurement
- Impairment
- General hedge accounting
- Accounting for macro hedges.

At present, the IASB and FASB are working through differences in opinion relating to the proposed accounting for the impairment of financial assets, being:

- That the FASB favours an expected loss impairment model that incorporates all expected lifetime losses of the financial instrument upon initial recognition
- That the IASB favours an expected loss impairment model that only incorporates expected losses in the first 12 months upon initial recognition – with lifetime losses only being recognised on the occurrence of a subsequent default event.

This difference currently remains unresolved, and as a result the milestones of three of the four IFRS 9 sub-projects have been pushed back, as detailed below.

Classification and Measurement (Review)

- The IASBs exposure draft is still scheduled for the fourth quarter of 2012.

Impairment

- The IASBs exposure draft is still scheduled for the fourth quarter of 2012.

General hedge accounting

- The final IFRS is still scheduled for release in the fourth quarter of 2012. The IASB has posted to its website a draft of the forthcoming general hedge accounting requirements that will be added to IFRS 9 *Financial Instruments*.

Accounting for macro hedges

- The IASBs discussion paper has been pushed back from the second half of 2012, to the first half of 2013.

At present, the mandatory effective date of IFRS 9 will be for periods beginning on or after 1 January 2015.

3. Memorandum of understanding projects (joint projects between the IASB and FASB)

Leases

The original exposure draft for this project was issued in August 2010 and received mixed feedback from the 800 plus comment letters submitted. Overall, the comment letters:

- Supported the general logic surrounding adopting the 'right of use' model for accounting for lease arrangements (i.e. to bring assets and liabilities onto the balance sheet for the vast majority of lease arrangements)
- Strongly believed that the specific accounting proposed for both lessees and lessors was too complex, economically inconsistent with the underlying transactions, and costly to implement.

As a result, the IASB and FASB agreed to go back and re-expose the leases exposure draft once they have considered and addressed the various concerns raised in the original comment letters. This process is still on going.

As a result, the IASBs (re)exposure draft has been pushed back from the fourth quarter of 2012 to the first quarter of 2013.

At present, the mandatory effective date is not expected to be before 1 January 2015.

Revenue recognition

This joint IASB and FASB project was initiated to develop a common revenue standard for IFRSs and US GAAP, due to:

- Improvements needed in to the existing revenue standards in both frameworks
- The need for convergence between the two frameworks in the way in which revenue is recognised in principle – current application of each framework to certain similar transactions leads to varying accounting treatments.

The IASBs redeliberations are still scheduled for the second half of 2012, with the IFRS still scheduled for release in the first half of 2013.

At present, the mandatory effective date is not expected to be before 1 January 2015.

4. Other projects

Insurance contracts

At the September 2012 IASB meeting it was concluded that the proposals for insurance contracts accounting should be re-exposed, with feedback being sought only on a limited range of questions.

As a result, the IASBs exposure draft has been pushed back from the fourth quarter of 2012, to the first half of 2013.

At present, the mandatory effective date is not expected to be before 1 January 2015.

Consolidation– Investment entities

The aim of the project is to develop an exemption for investment entities from consolidating their controlled investments under IFRS 10 *Consolidated Financial Statements*. Instead they would be required to measure those investments at fair value through profit or loss.

The IASBs exposure draft is still scheduled for release in the second half of 2012.

At present, the expected mandatory effective date is still to be confirmed.

5. Narrow scope amendments

Annual Improvements 2010-2012

The IASB has indicated that the completion of this project has been pushed back from the first quarter of 2013, to the second quarter of 2013.

At present, the expected mandatory effective date is still to be confirmed but expected to be for annual periods beginning 1 January 2014 and 1 January 2015.

Annual Improvements 2011-2013

As a result of the push back of the above 2010-2012 annual improvements, the IASBs exposure draft for the 2011-2013 cycle has been pushed back from the third quarter of 2012, to the fourth quarter of 2012.

Revenue-based methods of depreciation and amortisation (Proposed amendments to IAS 16 and IAS 38)

The objective of the project is to amend IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible Assets* to clarify that a 'revenue-based' depreciation or amortisation method is not considered to be an appropriate manifestation of consumption. This is because revenue represents the generation of expected economic benefits, rather than the consumption of economic benefits.

The IASBs exposure draft is scheduled for the fourth quarter of 2012.

Sales or contributions of assets between investor and its associate/ joint venture (Proposed amendments to IFRS 10 and IAS 28)

The aim of the project is to address the acknowledged inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures (2011)*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture.

This is a new project added by the IASB after a recommendation from the IFRS Interpretations Committee. The exposure draft is scheduled for release in the fourth quarter of 2012.

Equity method of accounting: accounting for other net asset changes (Proposed amendments to IAS 28)

The aim of this project is to provide guidance on whether and where an investor should account for its share of the changes in the net assets of an associate that are not recognised in profit or loss or other comprehensive income (OCI) of the associate (i.e. 'other net asset changes').

This is a new project added by the IASB after a recommendation from the IFRS Interpretations Committee. The exposure draft is scheduled for release in the fourth quarter of 2012.

Acquisition of an interest in a joint operation (Proposed amendments to IFRS 11)

The aim of this project is address how to account for the acquisition of an interest in a joint operation as defined in IFRS 11 *Joint Arrangements*, in circumstances in which the activity of the joint operation constitutes a business as defined in IFRS 3 *Business Combinations* (a joint operation that is a business). It is proposed that an entity should account for the acquisition of an interest in a joint operation that constitutes a business on the basis of the relevant principles of business combinations accounting in IFRS 3 and other IFRSs.

This is a new project added by the IASB after a recommendation from the IFRS Interpretations Committee, with the exposure draft scheduled for release in the fourth quarter of 2012.

6. Interpretations

Levies Charged by Public Authorities on Entities that Operate in a Specific Market

The interpretation relates to the accounting for levies in the financial statements of the entity paying the levy. It addresses when the liability to pay a levy should be recognised and to the definition of a present obligation in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. It was issued in response to a question as to whether under certain circumstances IFRIC 6 *Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* should be applied by analogy to such levies.

The release of the IASBs interpretation on the above is scheduled for the first half of 2013.

Put Options Written on Non-controlling Interests

The interpretation relates to how to account for changes in the carrying amount of a financial liability for a written put option over a non-controlling interest (NCI).

The release of the IASBs interpretation on the above is scheduled for the second half of 2013.

7. Post-implementation reviews

Post-implementation reviews of each new IFRS or major amendment are normally carried out two years after the new requirements have become mandatory and been implemented, with the objectives to:

- Review the important issues that had been identified as contentious during the development of the pronouncement
- Consider any unexpected costs or implementation problems that have been encountered.

Currently there are two post-implementation reviews included in the work plan:

- IFRS 8 *Operating Segments*

The consideration of comments received in relation to the initial outreach is still scheduled for the first quarter of 2013.

- IFRS 3 *Business Combinations*

This project is scheduled to be initiated in the first half of 2013.

8. Research projects

Rate-regulated Activities

This project addresses whether IFRSs should require entities that operate in rate-regulated environments to recognise assets and liabilities arising from the effects of rate regulation.

The discussion paper is scheduled for release in the second half of 2013.

Bearer biological assets (limited-scope project - IAS 41)

This project aims to assess whether bearer biological assets (BBAs, e.g. fruit trees) would be better accounted for under IAS 16 *Property, Plant and Equipment* rather than carried at fair value as currently required by IAS 41 *Agriculture*.

The exposure draft scheduled for release in the first half of 2013.

Conceptual Framework

The IASB have agreed to restart the project on the Conceptual Framework. The project will focus on elements of financial statements (including recognition and derecognition), measurement, reporting entity, presentation and disclosure with the aim of working towards a single Discussion Paper covering all of these areas and then a single Exposure Draft, rather than separate documents for each area. The IASB will conduct this project as an IASB project, not as a joint project with any other standard-setter. Previously the IASB and FASB were engaged in a joint project on the conceptual framework.

The discussion paper scheduled for release in the first half of 2013.

9. IFRS for SMEs

Comprehensive Review 2012-2014

This project aims to assess the application of IFRS for SMEs during its first two years' of application. It will consider whether to amend the IFRS for SMEs to incorporate issues that were addressed in the Q&As, for new and amended IFRSs that have been adopted since the IFRS for SMEs was issued, and for issues identified in the review.

The initial comment period ends on 30 November 2012.

For more information about the projects visit our website www.bdointernational.com or click on the links below to access related publications directly.

[Need to Know – Leases – A Project Update](#)

[IFRB 2010/15 Revenue from Contracts with Customers](#)

[IFRB 2011/14 Investment Entities](#)

[IFRB 2012/06 Proposed Improvements to IFRSs \(2010 – 2012 Cycle\)](#)

[IFRB 2012/08 Put Options Written on Non-controlling Interests](#)

[IFRB 2012/09 Levies Charged by Public Authorities on Entities that Operate in a Specific Market](#)

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