IFRS LINK

Contents

Publications of IFRS Rules by the IASB

The publications presented below relate to the period from October 2012 up to and including March 2013.

Standard on accounting for investment entities

On 31 October 2012, the IASB issued the final standards amendment investment entities. The special regulations for investment entities result in amendments to IFRS 10, IFRS 12 and IAS 27.

Parents that meet the definition of an investment entity (in particular private equity funds) are no longer obliged to consolidate the entities they control in their consolidated financial statements. Instead, investment entities must recognise their investments held for investment purposes at fair value through profit or loss in accordance with IFRS 9/IAS 39. One reason for this exception (exemption from the consolidation duty) for investment entities is to achieve better comparability of different investments measured at fair value, in the statement of financial position. The change in value of investments provides the users of financial statements of investment entities with more relevant information for decision making, as the typical business model of investment entities is to acquire, generate returns from and sell investments rather than to carry out operating business activities in different business areas. In addition to the definition criteria, the typical features for determining whether an entity is an investment entity are also introduced in IFRS 10.

Exposure Draft on the Annual Improvements to IFRSs 2011-2013 Cycle

On 20 November 2012, the IASB issued the Exposure Draft (ED/2012/2) Annual Improvements to IFRSs 2011-2013 Cycle. This proposes amendments to four standards in total.

IFRS 1: First-time Adoption of IFRS
The proposed amendments will also specifically allow first-time adopters to adopt early on a voluntary basis, standards that have been pronounced by the IASB but that are not yet mandatory. If a first-time adopter uses this option, it must apply the standard adopted early on a voluntary basis in both periods of the first set of IFRS financial statements.

IFRS 3: Business Combinations
The proposed amendment clarifies that the formation of all types of joint arrangements that fall under the scope of IFRS 11 is specifically excluded from the scope of IFRS 3. This also applies if the assets and liabilities contributed to a joint arrangement which met the criteria for a business, as defined by IFRS 3. However, the scope exception from IFRS 3 only applies to presentation in the financial statements of the joint venture itself. The planned amendment will correct a manual error in IFRS 3, as the amended terms used in IFRS 3 were not adjusted accordingly, when IAS 31 was replaced by IFRS 11.

IFRS 13: Fair Value Measurement
IFRS 13 provides for portfolios of financial assets and liabilities that are controlled accordingly to also be measured at fair value on a net basis. The proposed amendment clarifies that this portfolio measurement also applies to contracts that do not meet the

definitions of financial assets or liabilities in IAS 32 but that are accounted for in accordance with IFRS 9 or IAS 39 (eg energy contracts).

IAS 40: Investment Property
The proposed amendment by the IASB emphasises that the rules in IFRS 3 and in IAS 40 are equally applicable and are not mutually exclusive. The question of whether the acquisition of one or several investment properties qualifies as the acquisition of an asset, a group of assets or a business must be answered using the criteria in IFRS 3. Separately from this, the criteria in IAS 40 must be used to decide whether the respective investment property acquired is an owner-occupied property or an investment property.

Standards amendment on the recognition of certain net asset changes using the equity method for investments in associates and joint ventures

On 22 November 2012, the IASB issued the Exposure Draft (ED/2012/3) Equity Method: Share of Other Net Asset Changes - Proposed Amendments to IAS 28. The reason for the exposure draft stemmed from various application questions on gaps in the regulations. Under the equity method, investments in associates or joint ventures are initially measured at cost. Subsequent measurement of the investments varies depending on the type of net asset change. To date, IAS 28 only contains rules to take into account distributions received as well as changes in the equity of an associate or a joint venture that affect income (net earnings for the year) or that do not affect income (Other Comprehensive Income, OCI). As a result, only those changes in value are regulated that stem from current business activities of the entity or from transactions with the equity owner. However, there is no clear ruling on how asset changes are to be recognised by the investor or equity holder that stem from other matters and that increase the entity's equity (and thus the share of net assets). Examples include capital increases in which the investor participates only disproportionately or not at all but which do not lead to a loss of significant influence, the redemption of treasury shares by the entity or share-based payment plans that influence the entity's recognised equity.

If such matters result in a change in the net assets of the investee and also in the at-equity value recognised for the investment (which corresponds to the proportionate share of the investor in the net assets), the change in value must be recognised directly in the equity of the investor without changing other comprehensive income. If the entity is no longer recognised at equity at a later date, for example the investor can no longer exercise significant influence, the changes in value recognised in equity must be reclassified to profit or loss (recycling).

Example regarding the proposed amendment to IAS 28
An investor holds 35% in an associate with net assets of CU 1,000. The associate issues shares to third parties and receives cash of CU 500 in return, reducing the investor's share in the associate to 30%.

The investor's share in the net assets thus increases from CU 1,000 x 35% = CU 350 to CU 1,500 x 30% = CU 450. The carrying amount of the investment and the equity must be increased by CU 100 in the investor's financial statements. When the investment is discontinued, the amount of CU 100 recognised in equity must be reclassified and recognised through profit or loss.

Standards amendment on the classification and measurement of financial instruments in accordance with IFRS 9

On 28 November 2012, the IASB issued the Exposure Draft (ED/2012/4) Classification and Measurement: Limited Amendments to IFRS 9. With these proposed amendments, the IASB is pursuing the aim of harmonising the regulations in IFRS 9, with the latest developments in the project for revising the accounting for insurance companies.

The proposed amendments include the following:

- **Introduction of a further measurement category "fair value through other comprehensive income", FVTOCI:** This category is to be used to allocate financial assets that meet the following two conditions cumulatively: the contractual cash flows from the assets are solely payments of principal and interest on the nominal amount outstanding and the assets are held predominantly to obtain current interest payments from them. The focus cannot be on trading with the securities and in particular on recording trading profits. For example, if an entity holds a portfolio of government bonds in order to generate interest income, it is not harmful for individual securities that no longer meet the internal credit-rating criteria to be sold and replaced with others. Due to the restriction of the cash flow characteristic to interest and principal repayments, it is not permissible for equity instruments to be recognised in this category. If a financial instrument is to be allocated to this category, fair value change must be recognised in Other Comprehensive Income (OCI). The cumulative changes in value recognised in OCI must be reclassified to profit or loss upon disposal of the financial asset.

  Because the new category in IFRS only corresponds to the "Available For Sale" (AFS) category that already exists in IAS 39 in certain partial areas, the differences are highlighted again in the diagram on the following page:

	Type of financial instruments	Recognition duty/option	Differences in subsequent measurement for debt instruments
Draft category FVTOCI (IFRS 9)	Only debt capital instruments	Duty to allocate to the FVTOCI category if the cash flow and business model conditions are met	• upon disposal of the instrument or reallocation to a different category, the amount recognised in OCI is reclassified to profit or loss (recycling) • impairments are recognised through profit or loss based on the expected losses (over the remaining term) in accordance with the planned IFRS 9 impairment model.
AFS category (IAS 39)	Equity and debt capital instruments	Option to allocate to the AFS category (exception: financial instruments held for trading)	• upon disposal of the instrument, the amount recognised in OCI is reclassified to profit or loss (recycling) • impairments are recognised immediately through profit or loss based on the fair value.

- **New rules for assessing the cash flow condition for financial assets:** The definition of the cash flow condition states that payments can solely be made in the form of payments of principal and interest on the nominal amount outstanding. The exposure draft provides for additional analyses in the case of modifications in the relationship between the interest and the principal for debt instruments, for example due to mismatching maturities or to leverage off the contractually agreed interest rate. The introduction of a benchmark test means that the categorisation of financial instruments as at amortised cost or FVTOCI can be prohibited if the cash flows taking the modification into account are more than insignificantly different from the cash flows of the benchmark instrument (without modification). The instrument then has to be allocated to "fair value through profit or loss" (FVTPL).

Exposure Draft on clarification of acceptable methods of depreciation and amortisation

On 4 December 2012, the IASB issued the Exposure Draft (ED/2012/5) Clarification of Acceptable Methods of Depreciation and Amortisation. The exposure draft formulates further guidelines for how to calculate the decrease in value of property, plant and equipment and of intangible assets correctly. Amendments with the same content are proposed for IAS 16 (Property, Plant and Equipment) and for IAS 38 (Intangible Assets). The three basic types of depreciation and amortisation possible (straight-line, diminishing balance and units of production) are not affected by the exposure draft. However, the reference basis is restricted for the basis used for the units of production method. Accordingly, it is not to be permissible to base the depreciation or amortisation of an asset on the income or revenue from the goods created using the asset. The reasoning provided is that the revenue-based reference amount is derived from an interaction between quantity and price but that the price component does not have any bearing on the actual decrease in value of the asset.

As far as the diminishing balance method is concerned, the exposure draft specifies which information has to be taken into account when measuring the overall useful life and the declining annual installments. Among others, these include the technical obsolescence of the production factor or changes in market demand with respect to the goods or services created using the asset. Expected future price reductions on the sales market are explicitly named as an indication of a change in market demand. If price reductions are expected, the overall useful lives and thus also the amounts of depreciation or amortisation must be corrected if necessary.

Exposure Draft on accounting for the sale or contribution of assets between an investor and its associate or joint venture

On 13 December 2012, the IASB issued the Exposure Draft (ED/2012/6) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The exposure draft provides for several small amendments to IFRS 10 (Consolidated Financial Statements) and IAS 28 (Investments in Associates) in order to eliminate inconsistencies between those standards.

IFRS 10 provides for full gain or loss recognition if a subsidiary that was previously fully consolidated is contributed to an associate or joint venture and therefore has to be deconsolidated. By contrast, IAS 28 (revised 2011) provides only for partial gain or loss recognition in the amount of the unrelated investors' interests for non-financial assets contributed to associates or joint ventures. In future, a uniform principle is to be applied: if a business as defined in IFRS 3 is transferred, full gain or loss recognition takes place at the investor. If, on the other hand, what is transferred is not a business (eg sale or contribution of individual assets), only the gain or loss on the unrelated investors' interests in the investees is recognised.

Exposure Draft on accounting for the acquisition of an interest in a joint operation

On 13 December 2012, the IASB issued the Exposure Draft (ED/2012/7) Acquisition of an Interest in a Joint Operation. The exposure draft leads to partial amendments to IFRS 11 (Joint Arrangements). These relate in particular to the accounting for the acquisition of interests in a jointly controlled operation.

Neither IFRS 11 nor IAS 31 (Interests in Joint Ventures) provides clear guidance on how to account for the acquisition of an interest in a jointly controlled operation in the financial statements of the venturer. The exposure draft intends to now provide clear guidance that the regulations of IFRS 3 (Business Combinations) – thus including the purchase method among others – have to be applied when accounting for the acquisition of an interest in a joint operation. However, the prerequisite is that the activities carried out by the joint venture must meet the criteria of a business (in accordance with IFRS 3). The application of IFRS 3 leads to measurement of the identifiable assets and liabilities at fair value. If the counterperformance given (the purchase price) exceeds the fair value of the net assets acquired, the remaining difference must be recognised as goodwill. The proposed amendment applies to acquisitions of an interest in an existing joint operation as well as acquisitions of an interest in a joint operation on its formation, provided that existing business contributes to the jointly controlled operation on its formation. However, if the formation of a joint operation coincides with the formation of the business, IFRS 3 is not applicable to the measurement of the interests.

Exposure Draft on the adjustment of disclosures in the notes for the measurement of the recoverable amount

On 18 January 2013, the IASB issued the Exposure Draft (ED/2013/1) Recoverable Amount Disclosures for Non-Financial Assets. The exposure draft provides for adjustments to disclosures in the notes concerning the method used to measure the recoverable amount.

As a conforming amendment from the newly introduced IFRS 13, the duty to disclose the recoverable amount for each cash-generating unit that represents a significant share of the goodwill or of intangible assets, with indefinite useful lives was introduced in IAS 36. This disclosure had to be made regardless of whether or not an impairment loss was recognised for the unit. The exposure draft now relaxes this rule. In future, the recoverable amount only has to be disclosed for cash-generating units that represent a significant share of the goodwill or of intangible assets, with indefinite useful lives and for which an impairment loss was recognised or reversed during the reporting period.

The exposure draft also includes some clarification on the disclosure requirements for measuring the recoverable amount if it was determined as the fair value less costs of disposal and an impairment loss had been recognised. The disclosures required include which valuation technique was used and at which of the three levels described in IFRS 13, measurement took place. In the case of Level 2 and 3 measurements, the key assumptions and the discount rate used must be disclosed.

Exposure Draft on the novation of derivatives and continuation of hedge accounting

On 28 February 2013, the IASB issued the Exposure Draft (ED/2013/2) Novation of Derivatives and Continuation of Hedge Accounting. The exposure draft is a reaction to the commitment by the G20 states to improve regulatory oversight of over-the-counter (OTC) derivatives. The EU subsequently issued the "Regulation on OTC derivatives, central counterparties and trade repositories", which took effect on 26 August 2012. A major part of the new regulation is the creation of a central counterparty that has to be the contractual partner to a standardised OTC derivative. The exposure draft aims to avoid the new regulatory framework having an influence on the hedges recognised by an entity.

According to the rules in IAS 39 to date, a change in the counterparty to a derivative would automatically lead to derecognition of the derivative. This would also lead directly to discontinuation of the hedge. However, any resulting need to redesignate the hedge would lead to greater ineffectiveness, as the fair value of the derivative underlying the novation will only be equal to zero in exceptional circumstances. This consequence is to be avoided by means of the proposed amendments to IAS 39, which will also be transferred to IFRS 9. In the event of a novation due to a change in the counterparty, a derivative does not have to be derecognised if the following conditions are cumulatively met:

- the novation is required by laws or regulations
- the novation results in a central counterparty becoming the counterparty to both of the original contractual partners
- adjustments to the contractual terms and conditions are limited to those that are necessary for transfer to the central counterparty.

The scope of the admissible adjustments to the contractual terms and conditions is narrow: such adjustments are only permissible to the extent that they reflect the conditions currently applicable for the derivative. If, for example, the nominal value or the term of the original derivative is changed, the exception no longer applies and the derivative would have to be derecognised and restated based on the novation.

Exposure Draft on accounting for expected losses on financial instruments

On 7 March 2013, the IASB issued the Exposure Draft (ED/2013/3) Financial Instruments: Expected Credit Losses. While the first phase of the extensive project by the IASB to revise the accounting for financial instruments involved the classification and measurement of financial assets, the second phase the exposure draft now tackles the regulations for recognising impairment losses on financial assets.

The scope of the impairment model contained in the exposure draft includes the following instruments:

- financial assets measured either at amortised cost or at fair value through other comprehensive income (FVOCI) pursuant to IFRS 9
- loan commitments that constitute a contractual obligation due to the lack of an option to cancel at any time, unless they are measured voluntarily at fair value through profit or loss in accordance with IFRS 9
- financial guarantee contracts within the scope of IFRS 9, unless they are measured voluntarily at fair value through profit or loss
- lease receivables within the scope of IAS 17 (Leases) in its present and future form.

By including loan commitments and financial guarantee contracts, the scope of the model has been extended significantly compared with the exposure drafts issued to date.

The exposure draft also aims to already take expected losses into account when the instruments are measured. In order to determine the specific risk provision needed, the instruments are broken down into three stages.

All instruments are generally allocated to Stage 1 upon initial recognition. Risk assessment for this stage is based on a period of 12 months after the reporting date. The expected loss is calculated as the present value of the expected default (discounted default amount multiplied by the probability of default) within the 12-month period under review. The impairment loss required must be recognised through profit or loss. The gross carrying amount, ie the carrying amount before recognising expected losses, must still be used as a basis for the interest revenue to be recognised using the effective interest method.

Stage 2 is for instruments that have a significantly higher default risk since initial recognition. The period for calculating the risk for this stage is extended to the entire remaining term of the instruments. The impairment loss necessary is determined from the present value of all expected losses over the entire remaining term of the instrument (discounted expected value). The comments in Stage 1 apply by analogy to interest calculations.

Stage 3 is for those instruments that have a significantly higher default risk as well as objective evidence of impairment. The risk of at least partial default is so high in this stage that there has to be a change in perspective. What were previously hypothetical losses become reasonably certain losses. The procedure in Stage 3 corresponds more or less to the incurred loss model that already exists in IAS 39. There is no change in the way in which risk provision is calculated compared with Stage 2. The present value of the expected losses, in terms of the entire remaining term, is likewise used for risk provision. In this stage, the input value for the interest revenue calculated using the effective interest method is the net carrying amount of the instrument, ie after taking the impairment loss into account.

Stage 1 instruments must be evaluated at each reporting date to determine whether there has been a significant rise in the default risk. If this is the case, the instrument must be moved to Stage 2. Whether a significant change in the probability of default has occurred is assessed by comparing the probability of default upon initial recognition of the instrument with the probability of default calculated as of the reporting date. However, indications of actual default or an impairment loss are not a necessary criterion. Reclassification can be necessary even without the existence of such matters. But, if there is objective evidence of impairment as of the reporting date, the instrument has to be classified as Stage 3. Direct allocation to Stage 3 takes place regardless of whether the instrument was previously allocated to Stage 1 or Stage 2. The indications of objective impairment presented in the exposure draft correspond to the criteria already contained in IAS 39.

The 3-stage model is designed to be used dynamically. If the reasons for a downgrade no longer apply in a later assessment period, the previous downgrading must be reversed. The instrument must then once again be subject to the assessment criteria for the stage, in which it is classified after the transfer.

For selected instruments, the exposure draft provides for simplifications to the general impairment model. Such instruments include trade receivables as well as receivables from leases that are also within the scope of the general impairment model. If the simplification rule is used, the instruments are allocated in full to Stage 2 upon initial recognition. In this case, risk provision is based on the expected losses over the remaining term. It is not necessary to calculate present value. To determine the expected losses, the exposure draft proposes a provision matrix that incorporates historical observed default rates. Receivables are broken down into groups based on whether they are for example 30 days past due or 60 days past due etc. Uniform write-downs are then applied.

Another exception relates to financial assets that already have objective evidence of impairment upon acquisition. These must be considered separately both in terms of interest and loss recognition. When the asset is initially recognised, the effective interest is based on the expected cash flows instead of the contractual cash flows. This results in an effective interest rate that was adjusted for the default risk and that must be used in the subsequent periods, to determine interest revenue. Due to the expected loss being taken into account as described above, no further risk provision is necessary on the date of initial recognition. However, if there are changes regarding the estimate of the expected loss, these must be recognised immediately and in full through profit or loss.

Exposure Draft on taking into account employee contributions in defined benefit plans

On 25 March 2013, the IASB issued the Exposure Draft (ED/2013/4) Defined Benefit Plans: Employee Contributions. The exposure draft contains an addition to IAS 19.93 regarding the recognition of contributions from employees or third parties that are included in the formal terms of a pension plan. The background to the planned amendment relates to several questions put to the IFRS Interpretations Committee on how to handle employee contributions. The Committee passed the issue on to the Board for clarification. The exposure draft now clarifies that contributions from employees can be recognised as a reduction in the service cost in the period in which they are payable. However, the prerequisite is that the contributions made must be linked solely to the employee's service rendered in that period. They cannot depend on the number of years of service rendered in the past. The example provided in the exposure draft for an amount to be offset against the service cost for the period, is a fixed percentage of salary that is unchanged over the period. The negative example provided is a variable portion of salary that depends on the years of service already rendered. If there is provision for such contributions linked to service, these must be distributed over the periods to which the contributions must be allocated.

Adoption of IFRS standards by the EU

Standards adopted

In the Official Journal dated 29 December 2012, the European Union issued Regulations (EU) No.1254/2012 and No.1255/2012 of 11 December 2012 as well as Regulation (EU) No.1256/2012 of 13 December 2012 amending Regulation (EC) No.1126/2008 and adopting certain international accounting standards in accordance with Regulation (EC) No.1606/2002 of the European Parliament and of the Council.

By way of these regulations, the following 11 IASB pronouncements are adopted under European law:

New Standards

IFRS 10	Consolidated Financial Statements (12 May 2011)
IFRS 11	Joint Arrangements (12 May 2011)
IFRS 12	Disclosure of Interests in Other Entities (12 May 2011)
IFRS 13	Fair Value Measurement (12 May 2011)
IFRS 27	Separate Financial Statements (12 May 2011)
IAS 28	Investments in Associates and Joint Ventures (12 May 2011)

Amendments to Standards

IAS 12	Deferred Taxes: Recovery of Underlying Assets (21 December 2010)
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (20 December 2010)
IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities (16 December 2011)
IAS 32	Offsetting Financial Assets and Financial Liabilities (16 December 2011)

Interpretations

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

In the Official Journal dated 5 March 2013, the European Union issued Regulation (EU) No.183/2013 of 4 March 2013 amending Regulation (EC) No.1126/2008 and adopting certain international accounting standards in accordance with Regulation (EC) No.1606/2002 of the European Parliament and of the Council. By way of this regulation, IFRS 1 First-time Adoption of IFRSs — Government Loans is adopted for application in the EU.

In the Official Journal dated 28 March 2013, the European Union issued Regulation (EU) No.301/2013 of 27 March 2013 amending Regulation (EC) No.1126/2008 and adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council. By way of this regulation, the Annual Improvements to IFRSs (2009-2011 Cycle) — Amendments to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34 are adopted for use in the EU.

Update of standards not yet adopted

On 28 March 2013, the EFRAG (European Financial Reporting Advisory Group) issued the current EU endorsement status report.

As of 28 March 2013, the following 3 IASB pronouncements have not yet been endorsed for adoption in Europe:

New Standards

IFRS 7 and IFRS 9	Financial Instruments (12 November 2009) and subsequent amendments to IFRS 9 and IFRS 7 (16 December 2011)

Amendments to Standards

IFRS 10, IFRS 11 and IFRS 12	Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (28 June 2012)
IFRS 10, IFRS 12 and IFRS 27	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (31 October 2012)

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A Partnership of
Incorporated Professionals

1200 - 609 Granville Street,
PO Box 10372, Pacific Centre
Vancouver, B.C. Canada V7Y 1G6

Tel: (604) 687-0947

www.Davidson-Co.com