

# Beyond the GAAP

N°25 – July - August 2009

## Editorial

This issue considers the reactions to the publication of the Discussion Paper on Financial Statement Presentation published at the end of 2008. Will the IASB and the FASB accept the severe criticisms expressed in the more than 200 comment letters they received? It seems unlikely, given that in July the Board decided to eliminate the option to present the comprehensive income in two distinct statements even before analysing responses to the Discussion Paper ...

In view of the current IASB agenda, we have also taken a look back to assess how the IAS 39 story could/should affect future decisions.

Enjoy your reading!

Michel Barbet-Massin

Jean-Louis Lebrun

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## News

### IFRIC 15 has just been endorsed by the European Union

The interpretation IFRIC 15 – *Agreement for the construction of real estate* was issued in the Official Journal of the European Union on 23 July 2009, with a mandatory application for financial years starting on or after 1 January 2010.

We recall that IFRIC 15 states that the Interpretation is effective for annual periods beginning on or after 1 January 2009.

### Standards endorsement process

The ARC gave a positive opinion on the adoption of the following amendments and interpretations:

- IFRS 1 – First time adoption of IFRS,
- IFRIC 9/IAS 39 – Embedded derivatives,
- IFRS 7 – Improvement to financial instruments disclosures,
- IFRIC 17 - Distribution of non-cash assets to owners,
- IFRIC 18 - Transfers of assets from customers.

Endorsement before the closing date of 2009 financial statements is now highly probable. However, the EFRAG timetable does not set any precise date.



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## European matters

### ➔ CESR survey of the application of IAS 39 and IFRS 7 amendments on reclassification of financial assets

The CESR (Committee of European Securities Regulators) has published a survey on the application of the IAS 39<sup>1</sup> amendment by financial companies in the European Union.

The survey was carried out using a sample of 100 financial companies, including 22 in the FTSE Eurotop 100 index<sup>2</sup>. The objective of the survey was to assess the extent to which the amendment was applied in 2008. It also analyses how entities have complied with the disclosure requirements set out in IFRS 7. This survey complements another study published by the CESR in January (focusing on interim statements at 30 September 2008 – see the January 2009 issue of Beyond the GAAP).

The CESR concluded that more companies used the option to reclassify than in the 3rd quarter of 2008:

- 61% of the companies analysed used the option to reclassify in the annual financial statements for 2008, compared to less than 50% in the 3rd quarter of 2008;
- 68% of the companies in the FTSE Eurotop 100 index used the option to reclassify in the annual financial statements for 2008, compared to 36% in the 3rd quarter of 2008.

According to the CESR, the impact of these reclassifications on financial statements was positive, up €28bn. In other words, if no reclassifications had been carried out, total reported comprehensive income would have been €28bn lower.

The CESR also reported that there were insufficient disclosures:

- 40% of the financial companies that reported a reclassification did not disclose the fair value of the reclassified elements (IFRS 7.12A (d));
- Almost half of the financial companies that reported a reclassification did not disclose the effective interest rate and the estimated amount of cash flows that they expect to recover at the date of reclassification of the financial asset (IFRS 7.12A (f)).

In view of these observations, the CESR stressed that these disclosures are particularly relevant for the users of financial statements.

The survey results are available at:

<http://www.cesr.eu/popup2.php?id=5802>

<sup>1</sup> This amendment, published by the IASB on 13 October 2008, allows for the reclassification of certain "Trading" or "Available for sale" securities to the "Loans and receivables" or "Held to maturity" categories. (See the October 2008 issue of Beyond the GAAP).

<sup>2</sup> The FTSE Eurotop 100 index represents the performance of the 100 largest market capitalisations in Europe ("blue chip companies").

## IFRS news

### ➔ IASB publishes a standard for SMEs

On 9 July 2009, the IASB published a standard applicable to SMEs: IFRS for SMEs. This publication is the result of a 5 years process involving SMEs from all around the world.

This self-contained standard of around 230 pages is largely independent of other IFRS standards.

The main IFRS principles relating to the recognition and measurement of assets, liabilities, income and expenses have been simplified in order to meet the specific needs of SMEs.

In addition, several issues considered as irrelevant to SMEs have been excluded.

Finally the level of disclosures required under IFRS has been significantly reduced.

The standard (including the basis for conclusions, illustrative financial statements and disclosure checklist) are available free of charge at the following address: <http://go.iasb.org/IFRSforSMEs>

## ➤ The IFRIC clarifies the meaning of “significant or prolonged decline”

The IFRIC has declined to provide an interpretation of the meaning of “significant or prolonged decline” when assessing a potential impairment on an equity instrument classified as available for sale (AFS).

The reasons for this refusal have been published in the IFRIC Update. They include:

- An impairment should be recognised as soon as a decline in value is either significant OR prolonged (and not significant AND prolonged).
- The fact that the decline in the value of an investment is in line with the overall level of decline in the relevant market does not mean that an investor can conclude that the investment is not impaired.
- An expected recovery of the asset price (whatever the horizon) is not relevant to the assessment of significant or prolonged decline.
- For equity instruments denominated in a foreign currency, the assessment of significant or prolonged decline should be carried out in the operating currency of the entity holding the investment (and not in the currency of the investment).
- Disclosures should be provided in the notes regarding the judgments made in determining what constitutes a significant or prolonged decline in accordance with IAS 1 (revised in 2007) and IFRS 7.

While the IFRIC confirmed that an impairment should be recognised when a loss in value is either significant or prolonged, it provided scant information about the methodology that entities should use to identify this type of situation.

The IFRIC simply states that determining what constitutes a significant or prolonged decline is a matter of fact that requires the application of judgment. This is true even though an entity may develop internal guidance to assist it in applying that judgment consistently.

In the run-up to the review of IAS 39 (the exposure draft on the impairment of financial assets is expected in the fourth quarter of 2009), the IFRIC refusal to provide an interpretation will stand in the place of doctrine.

## ➤ Some decisions applicable to the 2009 financial statements

The Board has decided to launch in August two mini-consultations, with comments to be received within 30 days. These relate to the expected publication of amendments on the following issues by the end of the year:

- The discount rate for pension liabilities, defined in IAS 19, would no longer be based on Government bond rates in the absence of an active market for corporate bonds. In this case, the rate should be estimated in accordance with the provisions of fair value measurement;
- Rights issues denominated in a foreign currency granted to owners of an entity pro rata to their rights would be classified as equity instruments, as an exception to the classification provisions set out in IAS 32.

In addition, the Board has finalised the amendments to IAS 24 – Related Party Disclosures, and plans to publish the new standard in 2009. The derogations applicable to entities controlled by the State (or over which the State has joint control or significant influence) would thus be available for retrospective application as of 2009.

# Highlights

## ➤ The IASB confirms the single model for the recognition of revenue

The IASB and the FASB report that comments received on the "Revenue Recognition" Discussion Paper held no surprises. The two Boards have therefore started work on the Exposure Draft for the future standard on the basis of the single model for the recognition of revenue. Their technical teams believe that this model will not conflict with the recognition of revenue from long-term contracts. However, the assessment of transfers of control should be reviewed. Meetings will be organised with the industrial companies concerned in order to establish the appropriate provisions for the implementation of the model. We will return to this issue in due course.

## ➤ The IASB has decided to remove the option for the presentation of the comprehensive income into two separate statements

The IASB plans to propose a single statement of comprehensive income as soon as possible. The removal of the option is part of the process of convergence with the FASB. The latter is preparing to eliminate the options for the presentation of the statement of comprehensive income through its project on the recognition of financial instruments. Details of the application of this decision are still to be announced, in terms of schedule in particular.

## ➤ Exposure Draft on "Financial Instruments: Classification and Measurement"

On 14 July, the IASB published the Exposure Draft - *Financial Instruments: Classification and Measurement*, which is the second phase in the review of IAS 39. The first phase was the Exposure Draft - *Derecognition*. A completely new standard should therefore be published by 2010, with mandatory application expected on 1 January 2012 at the earliest (see the study in this issue).

The Exposure Draft proposes two categories of instruments instead of the current four categories:

- Those measured at amortised cost; and
- Those measured at fair value.

Only instruments meeting the following conditions will be eligible for measurement at amortised cost:

- The instrument only has "basic" loan features; and
- The instrument is managed on a contractual yield basis.

All other instruments would be measured at "fair value". For example, all debt instruments (assets or liabilities) excluded from the above category and all equity instruments would be measured at fair value. Changes in value would be recognised in the income statement.

Under certain conditions, an option would allow for the classification of instruments meeting the definition of the "amortised cost" category in the "fair value" category.

Entities may use the option to recognise changes in value of certain equity instruments directly in other comprehensive income. In this case, the whole performance of the instrument (potential or actual gain or loss and dividend) will be recognised in other comprehensive income and may not be recycled. This option specifically relates to "strategic" instruments.

Finally, the Exposure Draft proposes to remove the concept of an embedded derivative in a financial instrument. The hybrid feature of the contract would therefore be taken into account only when assessing the "basic loan features" criterion for classification at "amortised cost".

The next issue of Beyond the GAAP will return in more detail to the main provisions of this Exposure Draft.

Comments on the Exposure Draft should be submitted by 14 September 2009. The document is available at:

<http://www.iasb.org/News/Press+Releases/IASB+proposes+improvements+to+financial+instruments+accounting.htm>

## ➤ Exposure Draft – Rate Regulated Activities

On 23 July, the IASB published an Exposure Draft on the recognition of assets and liabilities resulting from rate-regulated activities. Regulation here refers to control of prices for the provision of goods and services charged to customers, in particular in the energy distribution sectors.

This project aims to answer the increasing number of questions raised by companies. Some of them apply the US or similar standards, and currently recognise significant amounts of assets and liabilities in their statement of financial position. It was therefore necessary to define the appropriate accounting under IFRS.

The IASB objective is to establish criteria for the recognition of regulated assets and liabilities through a scope defining the forms of regulation which may give rise to such assets and liabilities. The measurement provisions will take into account the probability of recovering the costs incurred by the regulated activity or of refunding the gains.

Comments should be submitted by 20 November 2009.

The September issue of Beyond the GAAP will provide more details of the content of this Exposure Draft.

## Discussion Paper on Financial Statement Presentation: reactions from the different stakeholders

In February 2009, Beyond the GAAP reported the content of the Discussion Paper on the presentation of financial statements which was published by the IASB in October 2008. As the period for comments ended in April, we can now report on the reactions to this project. The very least that can be said is that the topic raised significant interest, and more than 200 comment letters were received by the IASB and the FASB (this being a joint project of the two Boards).

All the parties concerned submitted their reactions: preparers, standard setters, auditors, accounting body representatives, analysts, regulators, etc. More than 50% of respondents were accounts preparers (two thirds from the industry and services sectors, 25% from the banking sector and the rest from the insurance sector). Europe and North America were involved equally, with 40% of respondents respectively for each region.

### ➤ The sample

The analysis of the main reactions to this Discussion Paper is based on a sample of 55 comment letters. The sample can be described as follows:

- Type of respondents:
  - 32 account preparers (Nestlé, IBM, Bayer, Shell, BNPP, etc.), accounting for 58% of the sample
  - 9 standard setters (EFRAG, CNC, British ASB, etc.), accounting for 16% of the sample
  - 8 users (analysts and regulators) including the CFA Institute, the SFAF, CRUF and IOSCO, accounting for 15% of the sample
  - 6 auditors (Big 4, Mazars, Grant Thornton), 11% of the sample
- Geographical breakdown of the accounts preparers:
  - USA: 9, accounting for 28% of preparers
  - Europe: 21 (including 5 from France), accounting for 66% of preparers
  - Australia: 1, accounting for 3% of preparers
  - Japan: 1, accounting for 3% of preparers
- Sector breakdown of the accounts preparers:
  - Industry and Services: 23, accounting for 72% of preparers
  - Financial companies: 8, accounting for 25% of preparers
  - Insurance: 1, accounting for 3% of preparers

### ➤ Have the major principles of the Discussion Paper been supported?

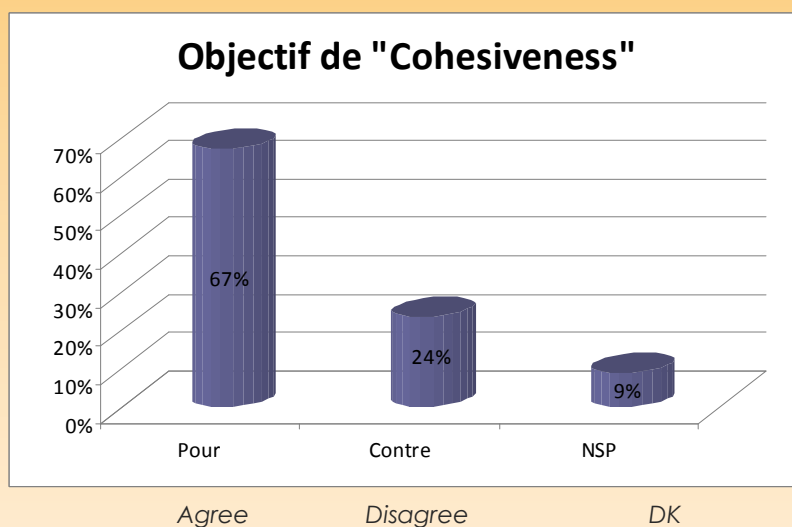
The IASB project is based on three objectives:

- Cohesiveness;
- Disaggregation;
- Liquidity and financial flexibility.

These three objectives are designed to address criticisms of the current format for the presentation of financial statements: lack of consistency between statements, presentation options which adversely affect comparability, lack of detailed information allowing the analysis of the entity's operations, etc.

They are consistent with the changes in the conceptual framework, aiming to provide relevant information for decision-making to users with differing needs (lenders vs. owners).

## Cohesiveness objective



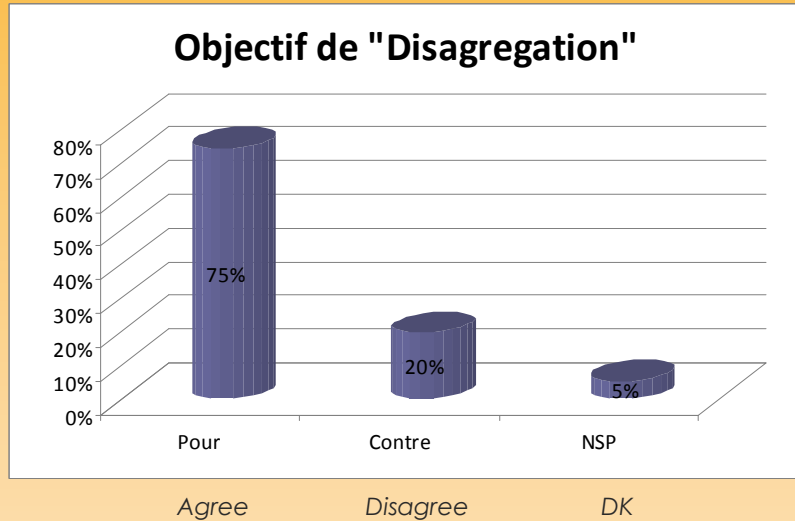
Most respondents were in general agreement with this objective. However, more or less significant reservations were also expressed:

- Need to retain a level of flexibility and a pragmatic approach to the implementation of this objective: rejection of a systematic and mechanical approach;
- The objective should not be applied line by line: the information should remain relevant and useful, and the notes should be used when necessary to preserve the readability of the primary financial statements;
- This objective should not conflict with the application of the management approach;
- Too focused on the statement of financial position: classification in the statement of financial position determines classification in the other financial statements.

The main arguments raised against this objective were:

- A lack of consistency with the objectives defined in the conceptual framework (see the Exposure Draft published in May 2008);
- The main goal of the financial statements should be the provision of relevant disclosures for the purposes of decision-making.

## Disaggregation objective



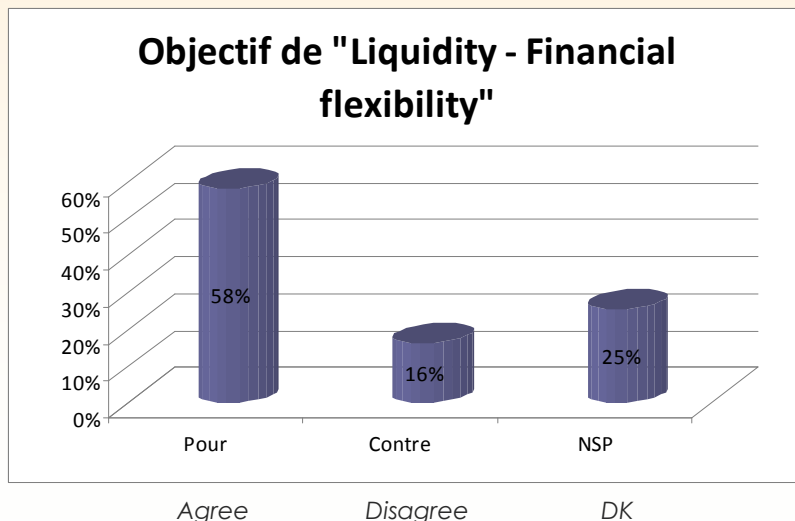
Most respondents were in general agreement with this objective. However, more or less significant reservations were also advanced:

- Need to reach a balance avoiding excessive disclosures: use the notes when necessary;
- Only disaggregate key components;
- Avoid hindering the management approach;
- Opposed to disaggregation by function then by nature in the income statement (feasibility and cost issues).

The main arguments raised against this objective were:

- Excessive disclosures in the primary financial statements may reduce their readability;
- Rely more on the notes;
- The current level of disaggregation is sufficient.

## Liquidity and financial flexibility objective



Around 60% of respondents agreed with this objective, but few arguments were advanced to explain this.

The main arguments against this objective were:

- A conflict between this objective and the application of the management approach;
- The disclosures required in the notes are irrelevant if the assets and liabilities are presented according to their level of liquidity;
- Opposed removing the distinction between current/non current in favour of the short term/long term approach.

## ➤ Reactions to fundamental points determining the format of financial statements

### Classification of assets and liabilities by sections and categories

According to the Discussion Paper, assets and liabilities should be recognised in the two following sections:

- The Business section including the assets (and liabilities) used by the entity to create value;
- The Financing section showing how an entity finances its operational activities.

The Business section would be further divided into two categories: the Operating category including assets and liabilities that management views as related to the central purpose(s) for which the entity is in business, and the Investing category covering the other assets and liabilities.

26 comment letters agreed with the definition of the Business section, notably because the definition is in line with a principle-based approach. 16 comment letters generally agreed with the definition of the Operating and Investing categories, but:

- The Investing category should be renamed to avoid any confusion with the investment operations concept under IAS 7;
- The definitions should be clarified;
- The distinction between Business/Financing and between Operating/Investing is not relevant for banks;
- There is a risk that the Investing category may be used to include non-recurrent items which have a negative impact on the financial statements.

10 comment letters did not mention this topic.

36 comment letters disagreed with the definition of the Financing section:

- This section should not refer to the financial assets and liabilities as defined by the IFRS standards: this is not consistent with the management approach (for example, exclusion of grant financing);
- The section is not relevant for banks;
- The definition of financing assets and liabilities whose scope may differ from financial assets and liabilities should be clarified.

6 comment letters agreed in conceptual terms, but mentioned:

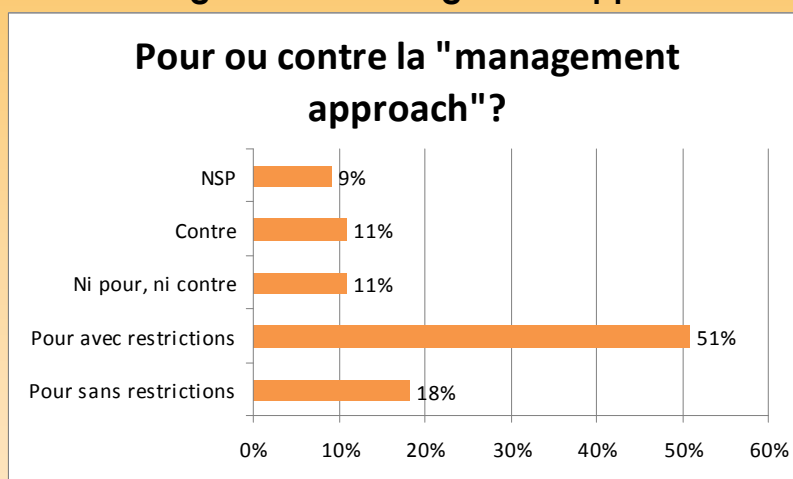
- A need for further information (the definition lacks clarity);
- Unfortunate interactions with the management approach.

Only 2 comment letters completely agreed with this definition. 11 comment letters did not mention this issue.

## Use of the management approach

According to the Discussion Paper, the classification of these items in the Business and Financing sections should be conducted in line with the management approach. Therefore, the assets and liabilities should be included in the section (or category) which best reflects the way the entity uses the asset or the liability to create value or to finance its operations.

### For or against the management approach?



DK – Against – Neither agree nor disagree – Agree with reservations – Agree without reservations

Numerous issues were raised by the management approach, although the principle was generally approved:

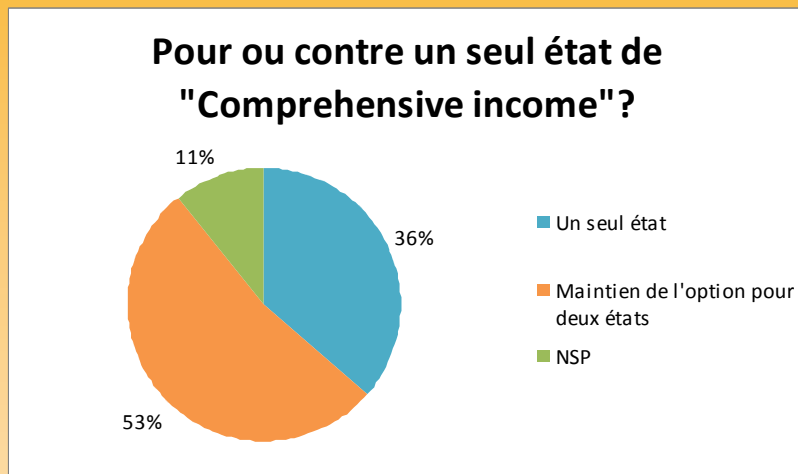
- The management approach may be hindered by the implementation of the cohesiveness principle;
- The management approach raises the issue of comparability of the financial statements;
- There is a risk of manipulation of the financial statements: classification should not be based on the wish to measure an asset or a liability in a particular way;
- Call for clarification of the accounting to be used in the event of a change of business model;
- Risk of confusion with IFRS 8: a change of terminology is required;
- The management approach should not be limited to the classification of assets and liabilities: the classification in the statement of financial position should not necessarily determine the classification in the income statement or in the statement of cash-flow;
- An allocation method should be defined for assets and liabilities held for multiple use.

## A single statement of comprehensive income

The IASB project establishes a single statement of comprehensive income:

- The revised IAS 1, with mandatory application from 30 June 2009, has removed the income statement, replacing it with the statement of comprehensive income;
- In practice, the revised IAS 1 still allows the presentation of this statement in two parts, thus maintaining the presentation of the income statement as a statement distinct from the statement of comprehensive income (which only includes the net income and other comprehensive income);
- The Discussion Paper proposes to remove the option to present this statement in two distinct parts (while maintaining the net income as a subtotal of the statement of comprehensive income). In July, the Board endorsed this proposal supported by the FASB (see our Highlight in this issue).

## For or against a single statement of comprehensive income?



A single statement – Keep the option for two statements – DK

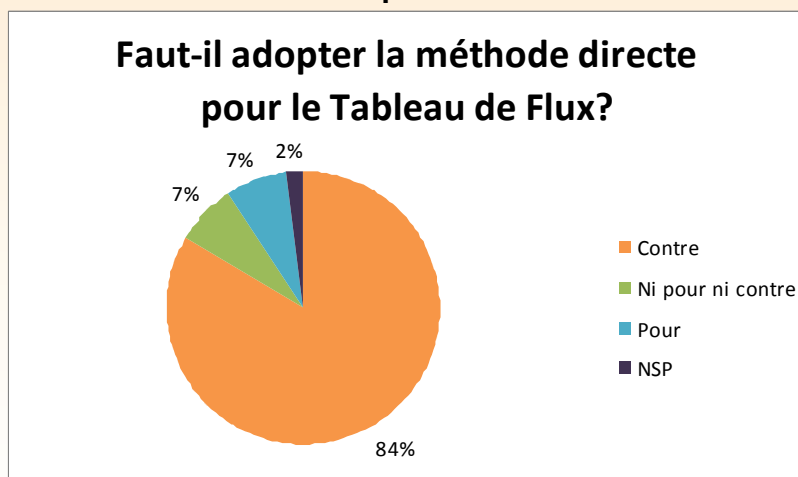
There was a consensus that:

- The net income aggregate should be maintained;
- An analysis of the components of the Other Comprehensive Income was necessary to allow for a positive definition of these components, while additional work was needed on cash flow hedging and available for sale instruments.

## Elimination of the indirect method for presenting operating cash flows

While the indirect method is currently the most widely used, the IASB proposes to eliminate this method when presenting the statement of cash flows. Only the direct method would thus be permitted.

## Should the direct method be adopted for the statement of cash flows?



Disagree – Neither agree nor disagree – Agree – DK

This was the proposal which respondents criticised most severely. The main arguments against it were:

- This method being rarely used, the cost of adapting IT systems would be too high;
- It was not certain that the direct method would provide more relevant information than the indirect method;
- Technical impossibility of providing a statement of cash flows under the direct method;

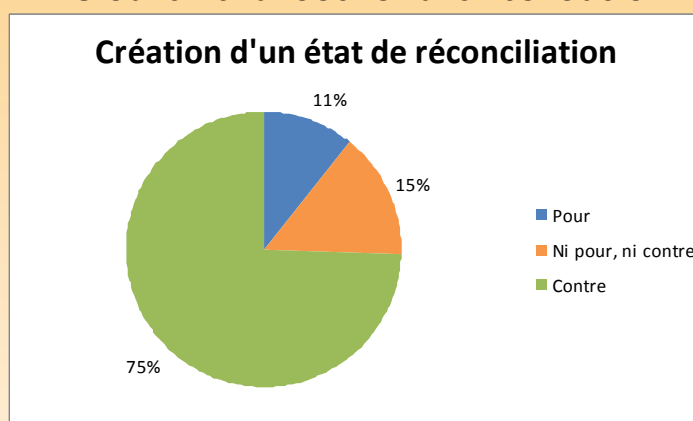
- The method was not relevant for banks (in general, the statement of cash flows is not very relevant for this sector).

## Presentation of a reconciliation schedule in the notes

The project adopts the direct method for the statement of cash flows in order to reconcile this statement with the statement of comprehensive income by:

- Disaggregating the variations in assets and liabilities by separating those having an impact on cash flows and those having no impact on cash flows;
- For non-cash movements, by separating the variations resulting or not from remeasurements;
- Finally, for the variations resulting from remeasurements, by separating those resulting or not from recurring remeasurements.

## Creation of a reconciliation schedule



Agree – Neither agree nor disagree – Disagree

The presentation of a reconciliation schedule in the notes was far from welcome. The main arguments against it were:

- Low added value as compared with the current disclosures in the financial statements (notes in particular);
- Cost/benefit ratio too high;
- Not necessary if the indirect method for presenting operating cash flows were to be maintained;
- Information too detailed and complex;
- Not necessary due to the improvements in the presentation of financial statements proposed elsewhere in the Discussion Paper;
- Preference for reconciliation with the statement of financial position (balance sheet).

Instead, it was suggested that only a reconciliation of some key items should be required, while highlighting remeasurements and any unusual components.

While the current IASB project is more pragmatic than past projects, the Board's proposals are far from achieving consensus. Over the coming months, we will follow the IASB's re-examination of these issues (which began in July) to see what proposals will eventually be included in the Exposure Draft expected in April 2010. The results of the field tests that are carried out in parallel may also be a good indicator of the relevance of the IASB's proposals for the purposes of practical application. However, the decision made in July to eliminate the option for presenting the comprehensive income in two distinct statements suggests that the Board is committed to adopting some of its proposals come what may.

## IAS 39: Will the current review learn from history?

Accounting for financial instruments has always been a thorny topic for the international standard setter. The IASB is struggling to propose a model which will be acceptable to the different stakeholders while preserving simplicity. The Board's desire to expand the use of fair value for financial instruments has been controversial for the last 20 years. At a time when the IASB plans to introduce major changes to IAS 39, Beyond the GAAP will first consider the origins of this standard before focusing on its current review.

### ➤ 1990 – 1997: from the first thoughts to the “full fair value” concept

The IASC<sup>1</sup> work on the project for a standard on the recognition and measurement of financial instruments began in 1990. A first Exposure Draft known as E40 was presented in 1991 and revised in 1994 under the name E48.

The Exposure Draft E48 was mainly based on an accounting driven by management's intent: instruments held to maturity or over the long term continued to be measured at amortised cost while the other instruments changed for a measurement at fair value. The Exposure Draft raised a number of concerns, notably because it relied on the entity's intent. The IASC therefore decided to split the project into two parts so that it could move forward:

- The first part related to presentation and disclosures and resulted in IAS 32 published in 1995;
- The second part related to classification and measurement and resulted in a Discussion Paper two years later (in 1997).

This Discussion Paper was a cornerstone for the IASC. For the first time, the IASC considered expanding the use of fair value to all financial instruments.

This project raised significant criticisms from companies and credit institutions. The debate focused essentially on the expanded use of fair value, and gave birth to the “Full Fair Value” controversy.

### ➤ 1997 – 2008: IAS 39: an interim solution which lasted more than 10 years

The IASC quickly understood that companies were not ready to endorse a full fair value approach. The IASC recognised at the time that this innovative concept would need in-depth analysis before implementation. But the international standard setter could not wait because of the agreement it had just formed with the IOSCO<sup>2</sup>, the international body representing financial market regulators. Under this agreement, members of the IOSCO would open the markets they controlled to corporate securities complying with the accounting and disclosure standards set up by the IASC. The IASC, however, had to develop a full set of principles, initially for 1998. The delays in work on financial instruments began to be an issue. The IASC therefore agreed on a compromise and published the Exposure Draft E62. It resulted in IAS 39 *Financial instruments: Recognition and Measurement*, which was finally published in December 1998.

<sup>1</sup> IASC: International Accounting Standard Committee, predecessor to the IASB (International Accounting Standard Board) created by the 2001 reform.

<sup>2</sup> IOSCO: International Organisation of Securities Commissions.

At the time, the IASC considered IAS 39 as an interim standard, which would only be applicable for a few years. IAS 39 was a first step towards the full fair value concept. Indeed, IAS 39 is based on a mixed measurement model (amortised cost/fair value) allowing some room to an accounting based on management's intent (in particular for the classification of assets in the "held to maturity" category).

IAS 39 was revised for the first time in 2001, and then underwent a more thorough review in 2003, incorporating application guidance following the practice under US-GAAP. In total, more than ten amendments and three interpretations<sup>3</sup> were published over a 5 year period.

Most of these amendments were related to one of the two following topics:

- Hedging;
- Measurement at fair value.

Throughout these years, the objective of the Board remained as announced in July 2001: to simplify and minimise the inconsistencies of IAS 39. This objective was highlighted once again in the Discussion Paper - *Reducing Complexity in Reporting Financial Instruments* published by the IASB in March 2008. However, an unexpected event occurred to disrupt the course of the project...

## ➤ 2008: with the crisis, the debate becomes political

The year 2008 saw the beginning of the financial crisis. The main catalyst for this crisis proved to be a category of financial instruments related to both securitisation and credit derivatives. The banks holding such instruments started to post record losses. The crisis expanded globally, provoking a political response.

Aiming to find solutions to solve this crisis, the G20 meeting in London on 2 April 2009 announced a series of measures, including a reform of the accounting for financial instruments before the end of 2009. In France, President Nicolas Sarkozy has reiterated this position.

While this was not the first time that a French President had addressed the topic of accounting, never in the past had such a message reached that level of unanimity at the international level. The IASB had to react quickly.

## ➤ Review of IAS 39: Where do we stand and what are the next steps?

The current IAS 39 standard includes four different topics:

1. Recognition and derecognition
2. Classification and measurement
3. Impairment
4. Hedging

<sup>3</sup> In addition to the 30-more questions posed to the IFRIC that were not subject to interpretation.

<sup>4</sup> In a letter sent on 4 July 2003 by the French President Jacques Chirac to the Chairman of the European Commission Romano Prodi at the time of adoption in Europe of the IFRS standards, Chirac had emphasized "several accounting standards being currently adopted in the European Union could lead to an increased financialisation of our economy and to corporate management methods too focused on the short term".

Discussion of the first part of the standard had been launched in April 2008 within the IASB / FASB convergence project. This process resulted in the publication of the Exposure Draft – *Derecognition* in April 2009 (Survey published in the June 2009 issue of *Beyond the GAAP*).

In April 2009, the IASB expressed its intention of accelerating the review of IAS 39 regarding the three remaining aspects. The table below summarises the current timetable:

Project	Exposure Draft	Finalisation	Application
Derecognition	Published in March 2009	Expected at the beginning of 2010	<i>A priori:</i> - No mandatory application before 2012, but comparative years may be required. - Early application permitted
Classification and Measurement	Published in July 2009	Expected at the end of 2009	
Impairment	Expected in October 2009	In 2010	
Hedging	Expected in December 2009	In 2010	

In addition, the IASB has launched three other projects interacting with IAS 39:

- A disclosure requirement for impairment models based on expected losses as opposed to the current model based on incurred losses. This step is part of the preparation of the Exposure Draft on impairment;
- An Exposure Draft named Fair Value Measurement. This draft, directly inspired by the US standard FAS 157, aims to include all the provisions on the determination of fair value under IFRS in a single standard;
- A Discussion Paper on the accounting for credit risk in the case of the remeasurement of a financial debt at fair value (liability side).

The ultimate goal of the IASB is to replace the full IAS 39 by a new IFRS standard resulting from the combination of these projects.

## ➤ Key points

The task of the IASB is difficult for a number of reasons:

- The complexity of the subject: while it seems legitimate for the IASB to seek to reduce the complexity of IAS 39, the topic is complex by nature. Aiming to simplify complex matters may prove, well... complicated!
- The time frame: the debate on the accounting for financial instruments has been on the agenda for two decades without reaching a compromise satisfactory to all stakeholders. The IASB aim of tackling this topic in just one year is very ambitious.
- The background crisis: a global financial crisis may not be the most favourable context for a calm discussion resulting in long term decisions. It might seem wiser to wait until all the lessons from the crisis are learnt, but the pressure for action is strong.

A new chapter of the IAS 39 story is being written. We believe that all stakeholders (companies of all sectors, users of financial statements, regulators etc.) need to make their voices heard, responding to the time pressures with greater involvement.

History shows that even temporary solutions may last for quite a while. Let's give the debate all the attention it deserves! Beyond the GAAP will keep you posted on the next steps in the ongoing review of IAS 39.

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# Events and FAQ

## Events/publications

### IFRS 2 Survey

The Doctrine department at Mazars has published a new survey (currently available in French) on financial information related to IFRS 2. The survey is based on companies from the CAC 40 and Eurostoxx 50. It is available at:

<http://www.mazars.fr/Accueil/Actualites/Publications/Enquetes-et-Etudes>

### "IFRS News" Seminar

The next two sessions organised by Francis Lefèbvre Formation focusing on IFRS news will take place in Paris on 25 September and 18 December 2009.

Registration forms can be obtained from Francis Lefèbvre Formation, 13-15 rue Viète, 75017 Paris  
– [www.flf.fr](http://www.flf.fr) +33 (0)1 44 01 39 99.

### Closing of 2009 financial statements

The Doctrine team at Mazars will conduct a number of seminars related to the closing of 2009 financial statements:

- French accounting principles: two sessions in Paris (20 November and 7 January) and one in Lyon (17 November);
- IFRS: one single session in Paris on 21 October.

Registration applications should be sent to Francis Lefèbvre Formation – [www.flf.fr](http://www.flf.fr) +33 (0)1 44 01 39 99.

## Frequently asked questions

### IAS / IFRS

- Assessment of a significant or prolonged decline in value of AFS instruments in foreign currency
- Hedging of a redeemable debt through collars and caps with deferred starting date
- Measurement of the interim tax expense
- Consequences of an acquisition contract on the recognition of expenses related to stock-options
- Changes in the coupon flows for a convertible bond
- Methods for presenting the comprehensive income
- Impact of the new IFRS 3R and IAS 27R standards on existing puts and on "current goodwill" at the effective date of the new standards

## Upcoming meetings of the IASB, IFRIC and EFRAG

### IASB

14 - 18 September 2009  
19 - 23 October 2009  
16 - 20 November 2009

### IFRIC

5 - 6 November 2009  
7 - 8 January 2010

### EFRAG

1 - 3 September 2009  
8 - 9 October 2009  
11 - 13 November 2009

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