

IFRS news

IASB and FASB issue new revenue recognition ED

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What is the issue?

The IASB and FASB have issued a new exposure draft (ED) on revenue from contracts with customers. The core revenue recognition model and scope have not changed from that proposed in the June 2010 ED. However, the boards have revised various proposals on how to apply that core principle. They therefore agreed that re-exposure would increase transparency and minimise unintended consequences. The comment period ends on 13 March 2012.

The new ED requests feedback on the most significant changes from the previous proposal; these are summarised below.

The proposed model

The proposed model requires a contract-based approach. Management should first identify separate performance obligations and then estimate and allocate the transaction price to each separate performance obligation. Revenue is recognised when an entity satisfies its obligations by transferring control of a good or service to a customer. There are a number of changes from the June 2010 ED. Most of the changes were made in response to concerns raised during the comment letter process and industry consultation.

Performance obligations satisfied over time

The ED provides new guidance on determining when a performance obligation is satisfied 'over time' rather than at a 'point in time'. A performance obligation is satisfied over time if

the entity's performance:

- creates or enhances an asset that the customer controls; or
- does not create an asset or creates an asset but the asset has no alternative use to the vendor, and one of the following criteria is met:
 - a. the customer simultaneously receives and consumes the benefit as the entity performs;
 - b. another entity would not need to substantially re-perform tasks already performed; or
 - c. the entity has a right to payment for work performed.

Presentation of the effects of credit risk

Impairment as a result of credit risk is presented as a separate line item adjacent to revenue. Both the initial impairment assessment and any subsequent changes in the estimate are recorded in this line item, such that the cash ultimately received from the customer equals the sum of the two line items if the contract does not have a significant financing component.

'Reasonably assured' constraint

Revenue is only recognised to the extent that the entity is reasonably assured to be entitled to the consideration. An entity is reasonably assured when it has experience with similar types of performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled.

The new ED includes an exception for licences of intellectual property, such that consideration based on the customer's subsequent sales using that intellectual property cannot be recognised as revenue until those subsequent sales occur.

Onerous performance obligations

An entity recognises a loss for a performance obligation that is satisfied over a period greater than one year if the performance obligation is onerous. A performance obligation is onerous if the lower of the cost to settle or fulfil the performance obligation exceeds the transaction price allocated to that performance obligation. The new ED removes the requirement from the previous proposal to assess and measure a liability for a performance obligation satisfied at a point in time or within a year.

Interim disclosures

Several new disclosures will be required not only in an entity's annual financial statements, but also in its interim financial statements.

Application to non-financial assets

The new ED will result in entities recognising the sale of a non-financial asset when control is transferred to the buyer even if the sale is outside of the scope of the ED (that is, not a contract with a customer).

Is convergence achieved?

Convergence is expected for revenue recognition, as the same principles should be applied to similar transactions under both frameworks. Differences might continue to exist to the extent that the guidance requires reference to other standards before applying the guidance in the revenue standard.

Who's affected?

The proposal will affect most entities that apply IFRS or US GAAP. Entities that currently follow industry-specific guidance should expect the greatest impact.

What's the effective date?

The final standard will have an effective date no earlier than 2015. Full retrospective application will be required, with the option to apply some transition relief.

What's next?

The comment period ends on 13 March 2012; we understand the boards anticipate issuing the final standard by the end of 2012. We have issued more comprehensive analysis, including industry-specific guidance, in our 'Practical guide' (see below).

PwC publishes 'Practical guide' to new revenue ED

PwC guidance on the IASB and FASB's revised exposure draft is now available on [PwC inform](#). It explores the implications of the proposed revenue recognition model, which could significantly change the way some entities recognise revenue.

The proposed standard is likely to have a more significant effect on some industries than others. Industry-focused supplements to the 'practical guide', which discuss some of the more significant implications for a number of industries, are also available.

They cover:

- Aerospace and defence
- Asset management
- Automotive
- Engineering and construction
- Industrial products and manufacturing
- Pharmaceutical and life sciences
- Retail and consumer
- Technology
- Telecoms
- Transport and logistics

Clarification on asset/liability offsetting

The IASB has published amendments to the application guidance in IAS 32, 'Financial instruments: Presentation', clarifying some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position. Jessica Taurae of PwC's Accounting Consulting Services Central Team looks at the amendments.



Jessica Taurae

The IAS 32 amendments clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position. However, differences from US GAAP remain. As a result, the IASB has also published an amendment to IFRS 7, 'Financial instruments: Disclosures', reflecting the joint requirements with the FASB to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between IFRS and US GAAP preparers.

Key provisions

The current offsetting model in IAS 32 requires an entity to offset a financial asset and financial liability only when the entity currently has a legally enforceable right of set-off and intends either to settle on a net

basis or to realise the asset and settle the liability simultaneously.

The amendments clarify that the right of set-off must be available today and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy.

Gross settlement mechanisms (such as through a clearing house) with features that both (i) eliminate credit and liquidity risk and (ii) process receivables and payables in a single settlement process, are effectively equivalent to net settlement; they would therefore satisfy the IAS 32 criterion in these instances.

Master netting agreements where the legal right of offset is only enforceable on the occurrence of some future event, such as default of the counterparty, continue not to meet the offsetting requirements.

Disclosures

The amended disclosures will require more extensive disclosures than are currently required under IFRS and US GAAP. The disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

Transition and effective date

The converged offsetting disclosures in IFRS 7 are to be retrospectively applied, with an effective date of annual periods beginning on or after 1 January 2013. The IAS 32 changes are retrospectively applied, with an effective date of annual periods beginning on or after 1 January 2014.

Am I affected?

These amendments primarily affect financial institutions, requiring additional disclosures. But other entities that hold financial instruments that may be subject to offsetting rules will also be affected.

What steps should management take?

- Begin gathering the information necessary to prepare the new disclosure requirements;
- Investigate whether the clarifications of the offsetting principle in IAS 32 result in any changes to what they offset in the statement of financial position today; and
- Work with the clearing houses they use to determine whether their settlement processes comply with the new requirements

Cannon Street Press

Leasing redeliberations

The December IASB/FASB leasing discussions focused on:

- Cancellable leases;
- Rental income recognition for investment properties; and

- Disclosures for leases excluded from the 'receivable and residual' approach for lessors.

Tentative decisions were taken in these areas. See our '[Straight away](#)' guidance for more detail.

But perhaps more interestingly, the staff

clarified that a number of technical issues will come back to the boards early in 2012. These include a paper revisiting the definition of an investment property, following the board's tentative decision at the October 2011 meeting to exclude all investment properties from the 'receivable and residual' approach to lessor accounting.

The staff also confirmed that they continue to explore the issue of lessee income statement recognition patterns following feedback from constituents and concerns raised by certain board members at the October 2011 meeting. This issue will also be brought back to the boards early in 2012.

Effective date for IFRS 9 is put back

The IASB has published an amendment to IFRS 9, 'Financial instruments', that delays the effective date from annual periods beginning on or after 1 January 2013 to 1 January 2015.

This amendment is a result of the board extending its timeline for completing the remaining phases of its project to replace IAS 39, 'Financial instruments: Recognition and measurement' (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project. It also confirms the importance of allowing entities to apply the requirements of all the phases of the project to replace IAS 39 at the same time.

The amendment also modifies the relief

from restating prior periods. As part of this relief, the board published an amendment to IFRS 7, 'Financial instruments: Disclosures', to require additional disclosures on transition from IAS 39 to IFRS 9.

An entity that adopts IFRS 9 for periods:

- a. beginning before 1 January 2012 need not restate prior periods and is not required to provide the additional disclosures at the date of initial application;
- b. beginning on or after 1 January 2012 and before 1 January 2013 should elect to either restate prior periods or provide the additional disclosures at the date of initial application; and
- c. beginning on 1 January 2013 or thereafter need not restate prior periods but should provide the additional disclosures at the date of initial application.

Early application of IFRS 9 continues to be permitted.

Almost all entities have financial instruments and will therefore have to

adopt IFRS 9 at some point in the future. Management should consider evaluating when they will adopt IFRS 9, taking into consideration the new relief from providing comparative information. Management should also begin preparations for providing the additional disclosures.

ED on IFRS 10 transition guidance

The IASB has published proposed amendments to IFRS 10, 'Consolidated financial statements'.

The objective of the ED, 'Transition guidance (proposed amendments to IFRS 10)', is to clarify the transition guidance in IFRS 10 by confirming when an entity needs to apply IFRS 10 retrospectively. The proposals aim to address the concerns over the burdensome transition provisions.

The board proposes to align the effective date of the proposed amendments with the effective date of IFRS 10 (annual periods beginning on or after 1 January 2013).

The comment deadline is 21 March 2012.

New and improved PwC inform

PwC's online resource for all your technical needs is to be relaunched with even better functionality.

Take a look at [PwC inform's](#) 'News' page for all the latest IFRS developments; the 'Bookshelf' page for a clear view of our

different types of guidance; and access PwC inform on the move, with the mobile version for use on smartphones and iPads.

If you are interested in a 60-day trial, visit www.pwcinform.com

For further help on IFRS technical issues contact:

Marc Minet, Partner - IFRS Leader
marc.minet@lu.pwc.com +352 49 48 48-6113

Gilles Vanderweyen, Partner - Commercial and Industrial Companies
gilles.vanderweyen@lu.pwc.com +352 49 48 48-2501

Kenneth Iek, Partner - Asset Management & Real Estate
kenneth.iek@lu.pwc.com +352 49 48 48-5172

Claude Jacoby, Partner - Insurance
claude.jacoby@lu.pwc.com +352 49 48 48-2534

Fabrice Goffin, Partner - Technical Advices and Banking
fabrice.goffin@lu.pwc.com +352 49 48 48-2529

Harald Thul, Director - Banking and Real Estate
harald.thul@lu.pwc.com +352 49 48 48-5717

Magalie Cormier, Director - Training Solutions
magalie.cormier@lu.pwc.com +352 49 48 48-5735