

Accounting Alert

Special update

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This Accounting Alert provides you with information about a number of recent developments in financial reporting. In response to the ongoing global financial crisis and as part of existing projects, the IASB has issued several exposure drafts, discussion papers, and improvements to existing standards.

Income Tax Exposure Draft

The International Accounting Standards Board (IASB) has issued an exposure draft entitled *Income Tax*, which it has proposed to replace the existing Standard IAS 12 *Income Taxes*. The exposure draft proposes to retain the 'temporary difference' approach to accounting for income taxes and harmonise with the equivalent United States standard in a number of areas. Major changes include the treatment of 'uncertain tax positions' (a high risk area with commercial implications), a new calculation methodology for deferred taxes, elimination of various exceptions to the recognition of deferred tax and changes to the allocation of income taxes between financial statement components.

Uncertain Tax Positions

It is common for uncertainties to arise with the tax treatment of items and whether the treatment adopted will ultimately be sustained on investigation by the relevant tax authority. These types of uncertainties are referred to as 'uncertain tax positions'. The existing IAS 12 does not provide any explicit guidance on how to account for uncertain tax positions and divergence in treatment

has developed in practice. Many entities currently adopt an 'all or nothing' approach, i.e. the benefit of a tax deduction is recognised in full in the financial statements if it is probable that it would be sustained.

It is proposed in the exposure draft that current and deferred tax assets and liabilities be measured using a probability-weighted average amount of all possible outcomes, assuming that the tax authorities will review the amounts submitted and have full knowledge of all relevant information. Determining the range of possible outcomes for each uncertain tax position and the probability of each of those outcomes occurring may prove to be a very difficult task which may require expert tax advice. The exposure draft also proposes new disclosure requirements which would require entities to provide information about their uncertain tax positions in the financial statements.

Revaluation of Assets and Indefinite Life Intangibles

Of particular concern to New Zealand entities is the lack of clarity in the exposure draft in relation to whether deferred tax should be recognised in respect of the revaluation of assets such as property, plant and equipment and investment properties. We anticipated that the exposure draft would remove the requirement to calculate deferred tax on revaluations of assets above original cost where there is no capital gains tax. However the exposure draft is unclear on this point

and there are indications, (e.g. example 15 of the IASB staff illustrative examples), that in fact deferred tax may still result. Similarly, it is not clear whether deferred tax arises in relation to indefinite life intangible assets such as brands acquired in a business combination.

Comments on the exposure draft should be submitted to the FRSB by **10 July 2009** or to the IASB by **31 July 2009**.

Links:

Further information on the proposals presented in the exposure draft can be found in the Deloitte IAS Plus Newsletter: [Changes Proposed for Income Tax Accounting](#)

Leases – Preliminary Views

The IASB and the US Financial Accounting Standards Board (FASB) have issued a joint discussion paper entitled *Leases: Preliminary Views*, which proposes a possible new model for lease accounting. The model is based on the principle that all leases give rise to liabilities for future rental payments and assets (the right to use the leased asset for a specified term) that should be recognised in an entity's statement of financial position. The effect of the proposals would be to eliminate the concepts of 'finance' and 'operating' leases and recognise all leases on the balance sheet.

The lease liability would be measured initially at the present value of the lease payments discounted using the lessee's incremental borrowing rate. The lease payments would be determined based on the 'most likely' lease term, reflecting management's assessment of the likelihood of exercising renewal and/or purchase options, and would also reflect expected contingent rental and residual guarantee payments. Subsequent to initial recognition, the lease liability would be measured using an amortised cost based approach under which interest would be accrued on the outstanding obligation. Entities would be required to reassess the expected lease terms, contingent rentals, and residual values guarantees at each reporting date and adjust the lease liability accordingly.

The right-of-use asset would be initially measured at cost, which would equal the present value of the lease payments discounted using the lessee's incremental borrowing rate. The asset would subsequently be amortised over the lease term or the economic useful life of the asset.

Comments on the discussion paper should be submitted to the FRSB by **3 July 2009** or to the IASB by **17 July 2009**.

Links:

Further information on the proposals presented in the discussion paper can be found in the Deloitte IAS Plus Newsletter: [Boards Issue Preliminary Views on Lease Accounting](#)

Derecognition (Proposed Amendments to IAS 39 and IFRS 7)

The IASB has issued an exposure draft entitled *Derecognition: Proposed amendments to IAS 39 and IFRS 7* which aims to improve derecognition requirements for financial instruments. The proposed approach to derecognition of financial assets focuses on the existence of control, which differs from the current approach which focuses primarily on risks and rewards (with control being a secondary test). The exposure draft also includes enhanced disclosure requirements for transfers of financial assets, especially for situations where an entity continues to have an ongoing involvement in a financial asset that would be derecognised under the proposals.

An alternative approach is also included in the exposure draft, which assesses control differently and has a different perspective of the nature of the asset that is the subject of the transfer. The exposure draft also proposes some additional and amended guidance for derecognition of financial liabilities.

The exposure draft is part of the IASB's comprehensive review of off-balance sheet activities. In December 2008, the IASB published ED 10 *Consolidated Financial Statements* to tighten the requirements for identifying which entities a company controls, and therefore consolidates.

Comments on the derecognition exposure draft should be submitted to the FRSB by **10 July 2009** or to the IASB by **31 July 2009**.

Links:

Further information on the proposals presented in the exposure draft can be found in the Deloitte IAS Plus Newsletter: [New Derecognition Model Proposed for Financial Instruments](#)

Improvements to IFRS

The IASB has issued *Improvements to IFRSs 2009*, which amends 12 IFRS Standards. The Improvements are part of the IASB's annual improvements programme, under which the IASB makes necessary, but non-urgent, amendments to IFRSs. The recently approved amendments are largely clarifications of existing requirements and guidance and changes to eliminate unintended consequences of other recent modifications to IFRS Standards and Interpretations. However, several of the amendments could result in changes to existing practice, including amendments relating to the current/non-current classification of convertible instruments, the classification of expenditures on unrecognised assets in the statement of cash flows and the classification of leases of land.

The effective date and transitional provisions vary by Standard. Most of the amendments are effective for annual periods beginning on or after **1 January 2010**, although entities are permitted to adopt them earlier.

Links:

Further information on the changes can be found in the Deloitte IAS Plus Newsletter: [Improvements to IFRSs 2009](#)

IASB Responds to G20

The Group of Twenty (G20) meeting held in London early in April has attracted a lot of attention. The G20 called for standard-setters to reduce the complexity of accounting standards for financial instruments and to address issues arising from the financial crisis, such as loan-loss provisioning. The IASB is already addressing many of these issues and has committed itself to a six-month time frame for publishing a proposal to replace its existing financial instruments standard, IAS 39 *Financial Instruments: Recognition and Measurement*.

Additionally, the G20 has put pressure on the IASB and the US Financial Reporting Standards Board (FASB) to make significant progress towards achieving a single set of high-quality global accounting standards. The IASB and the FASB have a number of significant convergence projects underway and have recently issued some joint discussion papers, as noted above.

Links:

Further information on the G20 recommendations regarding financial reporting can be found in the Deloitte IAS Plus Newsletter: [G20: Implications for IFRS](#)

Recent Developments for PBE's

- **IPSASB Issues Exposure Drafts for Financial Instruments** - The International Public Sector Accounting Standards Board (IPSASB) has issued three exposure drafts: ED 37 *Financial Instruments: Presentation*, ED 38 *Financial Instruments: Recognition and Measurement*, and ED 39 *Financial Instruments: Disclosures*. These exposure drafts address financial reporting issues for public sector entities relating to financial instruments. Download the [Exposure Drafts](#) from the NZICA website. Comments are due to the FRSB by **13 July 2009** or to the IPSASB by **31 July 2009**.
- **IPSASB Issues Exposure Draft for Agriculture** – The IPSASB has issued an exposure draft entitled [ED 36 Agriculture](#) as part of its project to converge International Public Sector Accounting Standards (IPSASs) with IFRSs. Comments are due to the FRSB by **15 June 2009** or to the IPSASB by **30 June 2009**.
- **ASRB Seeks Comments on Proposed Modifications to Release 8**. The ASRB has issued for comment a [Proposed Revised Release 8 The Role of the Accounting Standards Review Board and the Nature of Approved Financial Reporting Standards](#) in response to concerns raised by Public Benefit Entities about the process for modifying IFRS for PBE's. Download the [Invitation to Comment](#).

Process for Modifying, or Introducing

Additional Requirements to, IFRS for PBEs. The Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants and the Australian Accounting Standards Board (AASB) have developed a proposed Process for considering when to modify International Financial Reporting Standards (IFRSs) for not-for-profit entities and public benefit entities. Download the [Draft Process](#) and the [Invitation to Comment](#) from the NZICA website.

Submissions regarding these respective proposals are due to the ASRB or the FRSB by **30 June 2009**.

Deloitte IFRS Publications

- **Interim Financial Reporting - A guide to IAS 34** – an updated guide to IAS 34 Interim Financial Reporting
- **IAS 34 Interim Reporting Compliance Checklist for 2009** – a checklist of the requirements of IAS 34 formatted to allow the recording of a review of interim financial statements, with a place to indicate yes/no/not-applicable for each item

Other Deloitte Publications of Interest

Deloitte (United Kingdom) has launched a monthly newsletter focusing on the joint IASB and FASB project to develop a new global financial reporting standard for Insurance. Deloitte has recently issued the following IFRS publications

- **Issue #1 of the Insurance Accounting Newsletter**
- **Issue #2 of the Insurance Accounting Newsletter**

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