

Accounting Alert

Special update



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This Accounting Alert provides you with information about a number of recent developments in financial reporting, including exposure drafts issued by the IASB and FRSB.

Exposure Draft on Fair Value Measurement

The International Accounting Standards Board (IASB) has issued an exposure draft entitled *Fair Value Measurement*, which proposes guidance on how fair value should be measured where it is required by existing Standards. The exposure draft does not propose to extend the use of fair value measurements. However, it would add disclosure requirements about how fair values were determined. If adopted, the proposals would replace fair value measurement guidance contained within individual IFRSs with a single, unified definition of fair value, as well as further authoritative guidance on the application of fair value measurement in inactive markets.

Key proposals in the exposure draft include:

- **Fair Value definition** – The IASB proposes an exit price definition of Fair Value: "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".
- **Most advantageous market** – Fair Value measurement of an asset or liability assumes sale or transfer in the most advantageous market for the asset or liability available to the entity.

- **Measurement assumptions** – Fair Value measurement of an asset or liability should use the assumptions that market participants would use in pricing the asset or liability.
- **Highest and best use of an asset** – Fair Value measurement of an asset assumes that the asset will be sold to a market participant who will use it at its highest and best use.
- **Assume transfer of a liability** – Fair Value measurement of a liability assumes that the liability is transferred to a market participant at the measurement date.
- **Day one gains/losses** – In four cases identified in the exposure draft, Fair Value measurement at initial recognition might differ from the transaction price. An entity would recognise any resulting gain or loss unless the relevant IFRS for the asset or liability requires otherwise.
- **Valuation techniques** – The exposure draft proposes guidance on valuation techniques, including specific guidance on markets that are no longer active. Valuation techniques must be consistent with the 'market approach', 'income approach' or 'cost approach'. An entity would choose the valuation technique most appropriate in the circumstances and for which sufficient data are available to measure fair value.

- **Hierarchy of inputs to valuation** – The exposure draft proposes a fair value hierarchy that prioritises into three levels the inputs to valuation techniques used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3 inputs are inputs for the asset or liability that are not based on observable market data (unobservable inputs).

- **Disclosures** – The exposure draft proposes various disclosures about how assets and liabilities were measured at fair value - “information that enables users of its financial statements to assess the methods and inputs used to develop those measurements and, for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period”.

Download the [Exposure Draft](#) from the IASB website.

Comments on the exposure draft should be submitted to the IASB by **28 September 2009**.

IASB Plans for Fast-tracked Replacement for IAS 39

In May 2009 the IASB announced more concrete plans for its fast-tracked project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The IASB has agreed to ‘split’ the project into the following parts:

- **Classification and measurement** – The IASB plans to issue an exposure draft in July 2009 and a final Standard by December 2009.
- **Impairment** – the IASB is considering the merits of the ‘expected loss’, ‘incurred loss’, and ‘fair value’ models, with proposals expected to be issued in October 2009.
- **Hedge Accounting** – the IASB’s proposals will be issued as an exposure draft in December 2009.

The replacement of IAS 39, along with the IASB’s other fast-tracked projects on financial instruments disclosure, derecognition, consolidation and fair value measurement promise substantial change in accounting for financial instruments in the near term. Up-to-date information on this and other IASB projects and the Deloitte observer notes for the IASB meetings can be found at Deloitte’s Global IFRS website www.iasplus.com.

IFRIC Agenda Statement on ‘significant or prolonged’

IFRIC is drawing attention to its tentative agenda decision relating to impairment of available-for-sale equity instruments because the issue of impairment is especially topical in the current economic environment. The IFRIC was asked to clarify the meaning of the phrase ‘significant or prolonged’ as used in IAS 39.61, which requires an entity to recognise impairment if the decline in value is ‘significant or prolonged’. Although IFRIC has tentatively decided not to add the issue to its agenda because the IASB is working on an accelerated project to replace IAS 39, the IFRIC was concerned that some applications of the impairment requirements in practice are inconsistent with the Standard. In presenting its tentative decision, IFRIC has highlighted some of these inconsistencies and provided some commentary on complying with the current requirements of IAS 39.

These comments include:

- The significant or prolonged decline in value is not an indicator of possible impairment, but is rather objective evidence of impairment and where this condition exists, impairment *must* be recognised in profit or loss.
- The decline in value does not need to be both significant *and* prolonged for the impairment to be recognised in profit or loss. The IASB deliberately worded the requirement in the Standard to state that either a significant or prolonged decline in value would trigger an impairment loss to be recognised in profit or loss.
- The fact that a significant or prolonged decline in the value of an investment is consistent with the level of decline in the relevant market as a whole does *not* mean that an entity may conclude that the investment is not impaired. Furthermore, any expected future market recovery may not be taken into consideration when assessing the investment for impairment.

- The assessment of whether an impairment is significant or prolonged must be done in the functional currency of the entity holding the investment.
- The assessment of whether an investment has suffered a significant or prolonged decline in value is an evaluation of the facts of a given circumstance which requires judgement rather than an accounting policy choice. The entity should provide disclosure about the judgements that were made in assessing impairment in accordance with IAS 1 *Presentation of Financial Statements*.

Download the [Message from IFRIC](#) and the [IFRIC Update May 2009](#) from the NZICA website. Comments on the Tentative Agenda Decision should be submitted to IFRIC by **22 June 2009**.

Prepayments of a Minimum Funding Requirement – Proposed Amendments to NZ IFRIC 14

The IASB has proposed amendments to IFRIC 14 which would allow entities to recognise an asset where a prepayment for minimum funding contributions will reduce future contributions by the entity. The aim of the amendments is to correct an unintended consequence of IFRIC 14 whereby entities in some circumstances are not permitted to recognise as an asset some prepayments for minimum funding contributions. The amendments are not expected to have any significant impact in the New Zealand context and the FRSB, in issuing the exposure draft in New Zealand has not proposed any Differential Reporting exemptions or any additional guidance for PBE's. Download the [Request for Comment](#) and the [Exposure Draft](#) from the NZICA website.

Comments on the exposure draft are due to the FRSB by **13 July 2009** or to the IASB by **27 July 2009**.

FRSB Proposes to Narrow the Scope of NZ IFRS 8 *Operating Segments*

The FRSB has issued exposure draft ED 116 *Operating Segments – Amendment to NZ IFRS 8* which proposes to limit the scope of the Standard to those entities whose debt or equity securities are traded in a public market and those entities in the process of issuing securities in a public market. This would align the scope of the New Zealand version of the Standard with the version approved by the IASB and would significantly reduce the number of New Zealand entities required to comply with the requirements of NZ IFRS 8. Download the [Request for Comment](#) and the [Exposure Draft](#) from the NZICA website.

Comments on the exposure draft are due to the FRSB by **31 July 2009**.

FRSB Proposes to Amend the Scope of NZ IAS 34 *Interim Financial Reporting*

The FRSB has proposed an amendment to NZ IAS 34 *Interim Financial Reporting* that would result in the Standard applying to interim financial statements included in a registered prospectus. Exposure draft ED 117 *Amendment to NZ IAS 34 – Scope* proposes to align the scope of NZ IAS 34 with IAS 34 and remove the scope exclusion that currently states that NZ IAS 34 does not apply to interim financial statements included within a registered prospectus. This change is to cater for a proposed change in the Securities Regulations to allow interim financial statements included in registered prospectuses to be prepared in accordance with NZ IAS 34. Further details of the proposed changes to the Securities Regulations can be found on the Ministry of Economic Development (MED) website in the discussion paper entitled ["Changes to the Securities Regulations"](#).

Download the [Request for Comment](#) and the [Exposure Draft](#) from the NZICA website.

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



Recent Developments for PBE's

- **IPSASB Issues Exposure Drafts for Intangible Assets and Entity Combinations from Exchange Transactions** – The International Public Sector Accounting Standards Board (IPSASB) has issued two new exposure drafts - ED 40 *Intangible Assets* and ED 41 *Entity Combinations from Exchange Transactions* as part of its project to converge International Public Sector Accounting Standards (IPSASs) with IFRSs. Download the **Exposure Drafts** from the NZICA website. Comments are due to the FRSB by **31 July 2009** or to the IPSASB by **15 August 2009**.

Deloitte IFRS Publications

- **IFRSs in Your Pocket 2009** – Guide that includes information about the IASB and IFRS, such as summaries of each IASB Standard and Interpretation and the status of all current IASB projects.

Other Deloitte Publications of Interest

- **Issue #3 of the Insurance Accounting Newsletter** – Monthly newsletter focusing on the joint IASB and FASB project to develop a new global financial reporting standard for Insurance. Issue #3 covers the key tentative decisions made by the IASB at its 22 April 2009 meeting.

Contact

Denise Hodgkins

National Technical Partner

Ph: +64 (0) 9 303 0918

Email: dhodgkins@deloitte.co.nz

New Zealand Directory

Auckland PO Box 33, Ph +64 (0) 9 309 4944, Fax +64 (0) 9 309 4947

Hamilton PO Box 17, Ph +64 (0) 7 838 4800, Fax +64 (0) 7 838 4810

Wellington PO Box 1990, Ph +64 (0) 4 472 1677, Fax +64 (0) 4 472 8023

Christchurch PO Box 248, Ph +64 (0) 3 379 7010, Fax +64 (0) 3 366 6539

Dunedin PO Box 1245, Ph +64 (0) 3 474 8630, Fax +64 (0) 3 474 8650

Internet address <http://www.deloitte.co.nz>

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The Editor,
Accounting Alert
PO Box 33, Auckland.
Ph +64 (0) 9 309 4944
Fax +64 (0) 9 309 4947

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