ICAEW FINANCIAL REPORTING FACULTY

BY ALL ACCOUNTS

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WHERE NOW FOR IFRS?

We talk to new IASB Chairman Hans Hoogervorst

PLUS...

The latest wave of new and revised IFRSs are upon us

Update on the ASB's plan to reshape UK GAAP

Special edition: Singapore

FROM THE CHAIRMAN

I'm delighted to welcome you to the fourth issue of the faculty's journal, *By All Accounts*.

Both IFRS and UK GAAP reporters are facing a period of unprecedented change, and as you'll see elsewhere in this issue, the faculty continues to improve its range of resources to help our members deal with the practical challenges this brings. The faculty can help you keep up to date with all the latest developments whether you're interested in pouring over the technical detail in a factsheet, attending a live event or logging on and watching a webinar. You can also keep up to date wherever you are by visiting our recently revamped website.

One thing I've learnt, however, since the faculty was launched over two years ago, is how much our members value this journal because of the way in which it addresses the issues on their minds and helps them to put financial reporting developments into context. I hope you'll agree that this is another fascinating and insightful issue.

Following on the heels of the Hong Kong supplement published six months ago, this issue is complemented by a special edition for Singapore members, produced jointly with our colleagues at the Institute of Certified Public Accountants of Singapore (ICPAS). This collaboration reflects the growing international outlook of ICAEW and the faculty's international reputation as a trusted voice on complex financial reporting issues.

Underpinning much of what the faculty provides for members is the work of a substantial number of volunteers. Once again, I would like to take this opportunity to express my sincere thanks to the dedicated individuals (you know who you are!) who contribute so much time and effort to the faculty's strategy and output, and of course to the very capable staff team at ICAEW who make it all happen.

FROM THE FACULTY HEAD

The last edition of *By All Accounts* focused primarily on the future of financial reporting in the UK and the possible replacement of UK GAAP as we know it. The comment period on the ASB's proposals has now closed but the debate continues. We include an update on the latest developments in this edition and no doubt we will return to this saga in the future as the ASB finalises its plans. But for this edition IFRS takes centre stage.

After a decade at the helm, Sir David Tweedie is stepping down as the Chairman of the IASB. In an exclusive interview we talk to his successor, Hans Hoogervorst, about his new role, and consider whether IFRSs can ever become truly global.

There has been a flurry of activity at the IASB in the final months of Sir David's tenure and new IFRSs on fair value measurement, consolidation, joint ventures and disclosures of interests in other entities have been issued. Four joint IASB-FASB projects are proving more challenging: revenue recognition, leases, financial instruments and insurance contracts. New standards, which were expected before Sir David's retirement, will now not be published until the second half of the year – at the earliest.

This edition of the faculty journal explores not only these but also many of the other current challenges facing faculty members. It also includes updates for our members in Hong Kong, Singapore and the public sector. We hope that you find it interesting. Ideas for the next edition are very welcome.

Finally, I'd like to warmly welcome Francis Clark and Deloitte as members of the faculty's upgraded corporate membership scheme.

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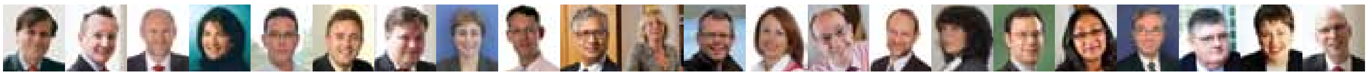

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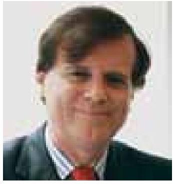
WHERE NOW FOR IFRS? AN INTERVIEW WITH HANS HOOGERVORST

Hans Hoogervorst takes over as the Chairman of the IASB this month. The faculty's Nigel Sleigh-Johnson and Eddy James were granted an opportunity to meet him shortly before he took the helm at Cannon Street.



July 2011 marks the dawn of a new era in financial reporting as Sir David Tweedie passes the baton as IASB Chairman to his anointed successor, Hans Hoogervorst.

When we met the 55 year-old Dutchman in advance of the handover, he was excited about the change and about relocating to London, explaining 'My Mexican wife is an artist and wants to move to Shoreditch. I prefer somewhere more central, maybe Kensington or Pimlico. The important thing is we have just found a good school for our kids'. He was quick to dispel rumours that IASB may leave these shores any time soon. Well, he added enigmatically, 'probably not', a reference to the impact on IASB's international workforce of new UK immigration rules. We discuss with Hans ICAEW's role in highlighting this issue, and as a long-standing supporter of global standards – a 'partner' of IASB as Hans puts it – before turning to what the future may hold for IFRS.

A few eyebrows were raised when Hans was appointed to his new role and much has perhaps been made of the fact Hans has a background in market regulation and politics, not in accountancy. In the Netherlands, he is perhaps best known for his time as Minister of Health, Welfare and Sport between May 2003 and February 2007, during which time he steered through major health care reforms. Key to his success, he says, was a pragmatic approach and his ability to make 'complex issues simple'. This approach is one Hans hopes very much to apply in his new role.

A closer look at Hans' CV reveals that he has plenty of relevant experience for the role of IASB Chairman. He has served as the Dutch Finance Minister and headed the AFM, the regulator of the Dutch financial markets. More recently he was the co-chair of the IASB's Financial Crisis Advisory Group, the body set up to investigate the financial reporting implications of the credit crunch, and the chairman of the technical committee of the International Organisation of Securities Commissions.

Hans tells us that one of the biggest influences on his career has been fellow Dutchman Frits Bolkestein, the former European Commissioner for the internal market. He supported Hans during the early days of his political career and encouraged him to take on the role of IASB Chairman. Mr Bolkestein played a key role in the adoption of IFRS in the EU and, having negotiated his way through the minefield that led to the 'carve out' of certain sections of IAS 39, he knows plenty about the politics involved with EU endorsement of IFRS, experience that may still be relevant in the years ahead!

All organisations need a change in leadership from time to time and Hans agreed that such times present a useful opportunity to reassess the direction in which the organisation is heading. However, Hans told us that it was 'too early' to set out the priorities that will define his tenure as chairman explaining that 'he has an open mind' – although he understands that there may be little appetite for further substantial change any time soon. He is also particularly interested in understanding the needs of emerging economies, and mentions the importance of completing the conceptual framework – without devoting undue time and effort to the project.

'IFRS cannot survive if the standard-setting body is perceived as European or American.'

Hans admitted that for many he may not necessarily seem a natural candidate for the job, but he sees his new role as very much a continuation of not only his working life over the last few years but also of a common thread that he can trace back much further. He obtained a masters degree in international relations from John Hopkins University in Washington DC in 1983 and working in an international environment is something which has fascinated him ever since. Indeed, Hans' enthusiasm is unbounded when we moved on the IASB's relations with global stakeholders. 'That's the fun part!' he tells us. His priority is to 'consolidate the gains made in recent years by solidifying the sense of ownership around the world'. He explains that 'this can only be achieved by making the IASB feel like a truly global organisation; by ensuring it is not dominated by any one country or region … IFRS cannot survive if the standard-setting body is perceived as European or American'.

But is such a global consensus really possible? Hans is 'realistically hopeful that the outcome will be positive' when the SEC takes its long-awaited decision later this year on the use of IFRS in the

US, but admits that the decision can only be made by the SEC in consultation with their stakeholders. He already has 'a good relationship' with Mary Schapiro, the Chairman of the SEC, and has the following message for her and her colleagues: 'Adopting IFRS will not result in a loss of sovereignty. The SEC needs to remember that the standard-setter's job is to develop the standards but the local regulators remain in charge of enforcement.' He was unwilling to be drawn on what would happen if the US were to decide that IFRS was not for them or if they simply deferred their decision. However, regardless of the outcome, he describes the effort of attempting to converge IFRS and US GAAP over the past decade as being 'time well spent', before adding: 'Let's not beat about the bush, of course there has been a lot of focus on the US. But while it is just one country, it is a very important one. Its own accounting standards are high quality and have served their capital markets well so I can understand that there is some reluctance to change. But philosophically the two systems are already very close and the convergence project has not only brought them closer together, it has also uplifted the quality of the standards at the same time.'

Even if the US did commit to IFRS, there still remain questions about whether a truly global set of standards will ever be achievable. Some countries have chosen to adapt IFRS to their circumstances rather than adopt it wholesale. Through a series of so called 'carve outs' this has lead to the development of what some have referred to as one accounting language with many dialects. Asked whether this was a concern, Hans replied: 'You can't avoid a few setbacks here and there but if you end up with too many countries carving out standards you will no longer have a global system'. However, he added that if 'the quality is high enough, the standards should be easy enough to implement anywhere in the world'. Indeed, he wants the IASB to focus on the quality of its standard setting 'We need a clear mission. We can't be distracted by local enforcement issues. That is the job of the local regulators'.

Interestingly, while working for AFM Hans once declared 'as a layman, I do not expect I will ever be able to fathom IFRS completely', but now finds himself heading the body which sets those very standards. When asked whether IFRSs and the resultant financial reporting are too complex to be understood by a non-specialist, he quips 'I will tell you in a few months' time once I have been in the job for a while', before adding that 'the fundamentals are very straightforward; the underlying principles are not so complex. However, sometimes transactions can be complex and that is where the difficulty lies. It is not so much that accounting has got more complex. What has got more complex is the world of business, for example 30 years ago banks were nowhere near as complex as they are today'.

'Let's not beat about the bush, of course there has been a lot of focus on the US. But while it is just one country, it is a very important one.'

Inevitably perhaps talk turns to the financial crisis and the IASB's response to the G20's call for standard-setters to take action to reduce the complexity of accounting requirements for financial instruments and to address issues arising from the credit crunch. Hans remains firm in his belief that IFRSs had very little role in causing the crisis. Perhaps here his skills as a politician may be of greatest benefit as finding a common solution that is acceptable in Europe and the US will be a tough nut to crack, but he feels that 'clarity must come soon' on this important topic.

Finally, in homage to one of the oft-repeated lines of his predecessor as IASB Chairman, we ask whether Hans has ever flown on a plane that was on somebody's balance sheet. Recognising our little joke, he rolled his eyes, before replying 'I travel so much I'm sure I must have done at some point!'

The new man at the helm of the IASB is a pragmatist, with a strong internationalist perspective. We leave him clutching a copy of *Fostering Monetary and Financial Co-operation in East Asia* by Duck-Koo Chung and Barry Eichengreen. Some light reading for the journey ahead?

A condensed version of this interview was printed in June's edition of *Accountancy*.

IS THIS THE END OF THE BEGINNING?

Andy Simmonds, Chairman of the faculty and a Partner in Deloitte LLP, shares his personal views on the successes and failures of the IFRS project.

As I reach the twilight years of my career, it seems like yesterday that I was starting out as a young articled clerk in 1973. Back then accounting standards were the new 'big thing'. Life was much simpler – there were no standards on financial instruments, or inventories or fixed assets come to that. In fact there were only three accounting standards, SSAPs 1, 2 and 3. However, despite my inexperience, I remember thinking it odd that the principles on which everything else was based were in SSAP 2 rather than SSAP 1? If it was important, why was it not produced first?

'Looking back, there are some notable successes: SIC 12 and IFRIC 12 are examples of the IASB doing a superb job. But there are also some notable failures: IAS 12 and IFRS 2 are the top two on my list.'

Almost 40 years later, things do not seem to have become much clearer. International accounting standards also started professional life in 1973 – largely by drawing on US, UK and Canadian standards and allowing choices where there were differences. But despite several rounds of major upgrades – the comparability project in the late 1980s, a new constitution in the late 1990s and an improvements programme prior to EU adoption in 2005 – we seem little further forward. The IASB has still not finished its conceptual framework! And while we have accounting standards for most things, the IASB is still in major upgrade mode, as you'll see by reading the articles elsewhere in this publication, on the next wave of new standards and progress on the 'big 4' projects. When will it end? Will there ever be a day when the IASB move into a purely 'maintenance' mode? Perhaps, to quote Winston Churchill, this is just the 'end of the beginning'?

Please don't worry about me unduly. By the time any of these new standards come into force, I will have retired. The free bus pass beckons! But I do ask two important questions: what have we learned in 40 years? And if the IASB were put on gardening leave for 10 years, would we be better or worse off?

If we were to sum up the objective of the IASB in a phrase, it would be to issue 'high-quality principle-based-standards'. Looking back, there are some notable successes: SIC 12 on controlled special purpose entities and IFRIC 12 on service concessions are examples of the IASB doing a superb job and meeting this objective. They are short, clear, easily understood and, in my experience, lead to consistent application. But there are also some notable failures: IAS 12 on taxes and IFRS 2 on share-based payments are the top two on my list. In the first case, the IASB drew heavily on US ideas and literature. Whenever they do this, the result always seems complex to read and apply. In the second case, the IASB has taken a simple principle and turned it in effect into an industry by issuing multiple amendments and interpretations with the result that you need all-day meetings at the big firms just to keep up to date with what it all means.

When we come to financial instruments, past standards suffer both from complexity in the subject matter and language, and the proliferation of rules. But there is a third factor – the IASB insist on a 'one-size-fits-all' standard with the effect that simple trading entities apply the same lengthy rules as complex financial institutions. It requires a financial instruments expert to be involved in simple cases. It sometimes feels as if the lunatics have taken over the asylum!

The elephant in the room is convergence between IFRSs and US GAAP. The IASB try to think and work globally but the US has a slightly annoying habit of doing their own thing in their own time. The projects on consolidations and financial instruments are both suffering because of this. Finally there are major projects such as leasing and revenue recognition where we have been muddling through with an old principle, but where the IASB would like to introduce a new one. However, in both cases, it is far from clear what that principle is, as it keeps changing.

Which takes me back to where I started: shouldn't we decide the principles first?

IFRS AS A GLOBAL STANDARD – DREAM OR REALITY?

Ruth Picker, Global Leader – IFRS Services at Ernst & Young Global, looks at the challenges ahead and asks, with the help of colleague Tim Denton, whether IFRS as a global standard is achievable or not.

SO WHERE ARE YOU FROM?

Last September I visited Canada with my colleagues – the Ernst & Young IFRS area desk leaders who comprise our Global IFRS Policy Committee. After one of the events, a Canadian partner asked me where I was from. I hesitated. He looked perplexed. How difficult a question could that be? For me, it was a very difficult question. My grandparents were refugees and we have no records of their ancestry. I have lived in a number of countries, most recently in the UK. I travel frequently for my work. At the time he asked me, I was in Toronto, but I was soon to be travelling to Japan. So, after an uncomfortable delay, I said: 'I don't know'. He scuttled off, hoping never to see me again.

'Consistency lies at the very heart of ensuring that IFRS is a truly global standard.'

That encounter left me thinking. I don't know where I'm from, but I do know where I am. I'm in the world. In this world, information, including financial statements, is so easily accessible via the internet that books, music and printed media are under threat. In this world, our children have hundreds of friends on social networking sites, most of whom they have never met. Many of these children would say that they are global citizens, not of any particular country. This is a very different world from that of my grandparents and their long, uncertain boat voyage to a strange country.

To be in this world, at least from a business perspective, I had to learn to speak a new language. That language was IFRS. I learnt to 'speak IFRS' in Australia, where I have spent most of my professional career. I was deputy chair of the Australian Accounting Standards Board when Australia took the decision to adopt IFRS from 2005. I wasn't born in Australia but I had developed a slight twang. The biggest challenge for me, and for the Australian accounting profession, was to learn to speak IFRS without that Australian twang. And this, I believe, is the greatest challenge we face as we look at IFRS as a global standard. How do we adopt one truly global standard without local dialects? How do we avoid local interpretations? And if there are local adaptations, can those jurisdictions claim that they are following IFRS? Is IFRS as a global standard an unrealistic dream, or is it achievable? We look at some of the challenges below.

CONSISTENCY

Consistency lies at the very heart of ensuring that IFRS is a truly global standard. Consistency means that when the facts and circumstances surrounding two transactions (eg, for two companies in the same industry but in different countries) are the same, they should both be accounted for in a manner that provides the most faithful representation. This generally means that the accounting under IFRS should be the same. Consistency also means that an entity consistently applies its accounting policies for similar transactions and consistently uses the same accounting policies between periods.

In limited cases, IFRS allows management to select between two or more accounting methods that both provide a faithful representation. In these cases, two identical transactions might be accounted for differently. For example, in IFRS, management can elect to measure certain property, plant and equipment at either depreciated cost or at revalued amounts. In contrast, US GAAP does not allow such assets to be revalued.

In some cases, IFRS does not specify how a particular transaction should be accounted for. In these cases, management should use judgement to determine the accounting policy that best reflects the facts and circumstances. It is quite possible to reach two or more different conclusions based on similar facts – although once a policy is determined it must be applied consistently. It is these judgemental areas that are most likely to lead to regional dialects of IFRS, as such judgements are inevitably influenced by previous experiences and practices.

National standard-setters, preparers, auditors, regulators and the IFRS Interpretations Committee, all have an important part to play in promoting consistency. At Ernst & Young we devote considerable effort to consistency of interpretation of IFRS. We have a global IFRS infrastructure, part of our Professional Practice group, based on a decentralised model with centralised coordination and support by our global IFRS services team. All our professionals worldwide can access panels of subject matter experts and also specialised industry groups. Our global IFRS policy committee – a standing panel of expert IFRS partners from around the world – decides significant and pervasive matters of interpretation. Our views and interpretations are shared within Ernst & Young by various means and externally in our flagship book *International GAAP*.

OTHER CHALLENGES

Different perspectives

Different parties interested in financial reporting come with differing perspectives on what it should be. For example, those preparing accounts may be concerned with certainty as to compliance with rules and the business sense of accounts. Regulators and legislators may be more concerned with issues such as stewardship, independence and transparency or financial stability. Such differing perspectives of those involved in, or influencing the manner of, financial reporting have the potential to impede the success of a single global accounting language.

The US decision

The US FASB and the IASB have worked together for almost 10 years in pursuit of converged standards – although they have diverged on some important topics. Notwithstanding the large numbers of countries adopting IFRS, a truly global set of standards would need adoption by the US. At present we cannot know when or if that will happen.

Pace of change

Some observers are concerned with the current pace of change in IFRS. Ultimately, IFRS can only succeed if it is viewed as a suitably robust body of accounting literature. Some fear the pace of development – with the potential for inadequate field-testing and consultation – may compromise the quality of the next wave of expected standards.

SURMOUNTING THE CHALLENGES

So there are many challenges, as we have seen. However, we believe that these are not insurmountable. We need the commitment of all stakeholders. We also need to remember that we have only been on this journey for a very short time. Since 2005 we have seen a remarkable change in that most major regions of the world have adopted or committed to adopt IFRS. Among the first wave of adopters, including all of the European Union, Australia, New Zealand and South Africa, IFRS has become the language of accounting, at least for listed companies, and in some countries, for all companies.

In the past six years, common ground has been reached on a range of interpretive issues. Countries learned that sometimes they had to give up some of their long-held views and accept a different approach, for the sake of comparability. They also learned that giving up their rights to set their own standards didn't mean that they lost influence over the global standard-setting process. Indeed, national standard-setters play an important role in assisting and advising the IASB.

There are other positive developments too. For example:

- The Monitoring Board of the IASB has been established to improve accountability of the IASB to its global stakeholders.
- Investors have said that one accounting language has helped their analysis of financial information.
- There is now a large body of literature on how to apply and interpret IFRS. This will benefit the next waves of adopters. As new adopters join, new issues arise, but we have the mechanisms to address these.

CONCLUSION

As long as all stakeholders are willing to accept that there is some 'give and take' in the process, IFRS as a global language should be achievable. In judging the global consistency of application of IFRS we should also be realistic. Previous national GAAPs were not free from inconsistency of application – dialects and accents within one national language existed. Global consistency at least as high as that previously seen at a national level would of itself be a success, and the prospects look good.

THE LATEST WAVE OF NEW AND REVISED IFRSs ARE UPON US

The IASB recently issued several new and revised standards inspired by the global financial crisis. Eddy James, Faculty Manager, provides a summary of the key changes and Andy Simmonds adds some personal views on their technical merits.

On 12 May 2011 the IASB issued a flurry of new and revised standards, completing financial crisis-related projects on off-balance sheet activities, joint arrangements and fair value measurement.

OFF-BALANCE SHEET ACTIVITIES AND JOINT ARRANGEMENTS

The global financial crisis raised serious questions about off-balance sheet activities, particularly within the banking sector. As the financial system went into meltdown in late 2008, Wall Street giants such as Lehman Brothers, Bear Stearns and Citigroup crumbled amid revelations that their performance had been inflated by transferring billions of dollars of under-performing assets into unconsolidated special purpose entities. This highlighted significant weaknesses in US GAAP. While the IASB's model for consolidation was perhaps not fundamentally flawed in the same way, there was certainly room for improvement.

The IASB has sought to address these concerns by issuing IFRS 10 *Consolidated Financial Statements,* which replaces the sometimes contradictory requirements of IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purposes Entities*.

IFRS 10, together with IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and related updates to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* – make up a package of five new and revised standards which must be adopted simultaneously. Let's look briefly at the new standards in turn.

> 'IFRS 10 explicitly states that an investor can control an investee where it has less than 50% of the voting rights.'

IFRS 10 *Consolidated Financial Statements*

IFRS 10 builds on existing principles by identifying control as the determining factor in whether an entity should be consolidated or not and for the first time introduces a single consolidation model for **all** types of entities.

The standard provides a definition of control that comprises the following three elements:

- **power** over an investee;
- exposure, or rights, to variable **returns** from an investee; and
- the **ability** to use power to affect the reporting entity's returns.

IFRS 10 explicitly states that an investor can control an investee where it has less than 50% of the voting rights.

The aim of IFRS 10 is to better reflect the economic substance of the relationship between a reporting entity and an investee. Nonetheless, it will be a matter of judgement whether an entity should be consolidated or not.

IFRS 10 also provides additional guidance to assist in the determination of control where this is difficult to assess. It also carries forwards accounting requirements and consolidation procedures unchanged from IAS 27.

Chairman's thoughts. At one level, the IASB seem to be bringing some old UK thinking around 'actual exercise of a dominant influence' to bear on what we consolidate. There is much to agree with, for example, the treatment of options to acquire shares and the discussion of substantive and protective rights. But there are two areas that give me concern. One is the increased role of judgement in weighting various factors, and the resulting likelihood of increased inconsistent application. The second is that the standard's examples provide a fairly strong steer to where the IASB thinks lines should be drawn which could result, for example, in shareholdings of just 30% being consolidated.

IFRS 11 *Joint Arrangements*

IFRS 11 introduces a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from that arrangement. This contrasts with IAS 31 *Interests in Joint Ventures* where the legal form of the arrangement was the driving factor for the accounting. By requiring a single method to account for interests in jointly controlled entities, IFRS 11 addresses the inconsistencies that arise under IAS 31.

Chairman's thoughts. This is much closer to the UK's FRS 9 in that it allows for the idea of a JANE (a joint arrangement that is not an entity), and hence more appropriate allocations of assets, etc.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 is a comprehensive new standard designed to require disclosure of information that will help users to assess the nature and financial effects of the reporting entity's relationships with other entities. It combines, enhances and replaces current disclosure requirements and applies to all forms of interests in other entities ie, subsidiaries, joint arrangements, associates and special purpose entities including off-balance sheet entities.

Chairman's thoughts. There are two new disclosures required here. One is a narrative explanation of how consolidation judgements have been reached. The second is very extensive qualitative and quantitative information about entities that were originated by the reporting entity, but are quite properly not included in the consolidation. This will not assist in 'cutting the clutter'!

FAIR VALUE MEASUREMENT

Fair value accounting also received a lot of attention during the financial crisis. Steve Forbes, editor-in-chief of the business magazine *Forbes* and a US presidential candidate in both 1996 and 2000, even claimed that it was 'the principal reason' for the crisis experienced in the US financial system. And he wasn't alone in this view. However, the SEC disagreed, concluding that fair value accounting 'did not appear to play a meaningful role' in the bank failures at that time. Instead, in their December 2008 report to Congress, they indicated that bank failures appeared to be the result of growing credit losses, concerns about asset quality and declining confidence among lenders and investors.

On balance most people agree that while fair value accounting has its limitations it provides investors with the most meaningful information for many financial instruments. So rather than replace it with an alternative model or change what items can be measured at fair value, IFRS 13 *Fair Value Measurement* sets out to provide in a single standard a clear and consistent framework for measuring fair value. Responding to criticisms raised at the peak of the financial crisis, IFRS 13 also provides specific guidance on how to measure fair value when markets are no longer active. Similarly it increases the transparency of fair value measurement by requiring additional detailed disclosures.

IFRS 13 provides, for the first time, a single definition of fair value and a single source of fair value measurement. It defines fair value as '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'.

IFRS 13 aims to increase consistency and comparability in fair value measurement and related disclosures through the use of a 'fair value hierarchy'.

Table 1: Fair value hierarchy

Level 1	Quoted prices in active markets for identical assets and liabilities. Level 1 inputs must be used without adjustment whenever available.
Level 2	Inputs not included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	Unobservable inputs, including the entity's own data, which are adjusted if necessary to reflect market participants' assumptions.

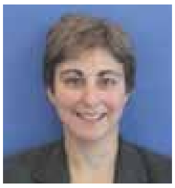
This hierarchy was first introduced in March 2009 through an amendment to IFRS 7 *Financial Instruments: Disclosures.* These requirements have now been moved to IFRS 13. Additional information must now be disclosed about level 3 fair value measurements in order to improve confidence in those measurements among users of the financial statements.

Only time will tell how easy the new standard is to apply in practice and how useful these new disclosures are to users of the financial statements.

Chairman's thoughts. The requirements are consistent with existing guidance for financial instruments. However, IFRS 13 extends the 'market exit price' notion to a wide range of non-financial assets where established valuation practices may be questioned.

ARE WE THERE YET?

The IASB had hoped to complete its major projects on leases, revenue recognition, financial instruments and insurance contracts by June 2011 but the deadline for completing these projects has been pushed back. We asked the chairs of the relevant ICAEW working parties to provide an update.



LEASES

Peter Hogarth, Partner, PwC

While most respondents to the exposure draft accepted the basic premise of recognising all lease liabilities 'on-balance sheet', the IASB and FASB (together 'the boards') identified a number of areas for re-deliberation. Five issues seem to have stimulated the greatest debate. These are: determining whether an arrangement contains a lease, renewal options, contingent rentals, the pattern of expense recognition and lessor accounting. In each case, the boards have made tentative decisions – or are likely to do so in the near future – that will significantly change the proposals contained in the exposure draft. Depending on your perspective, these changes either provide evidence that the boards are really listening and are committed to producing a standard that is both of high quality and practical to apply, or they suggest that perhaps the models originally proposed had not been fully thought through.

Either way the boards still have a lot to think about. For example, respondents to the exposure draft were also concerned about the arrangements for first-time adoption, but these are yet to be re-deliberated.

We now know, as we always suspected, that the final standard will not be issued by June 2011. Indeed, re-exposure of some or all of the boards' proposals has not been ruled out. The official line is that the standard will be issued at some time in the final quarter of this year. It seems unlikely that the effective date will be earlier than 2014.

REVENUE RECOGNITION

Phil Barden, Partner, Deloitte

Although there was support for the exposure draft, many respondents raised serious concerns about key aspects of the proposals. In monitoring the debate, ICAEW is also very aware of the interest of many of its members in the impact of the proposals on accounting for professional services.

At the time of writing, it appears that the boards have been thinking very carefully about the issues raised. They have been prepared to revisit previous thinking, which is to be welcomed. For example, they have now tentatively concluded that provisions for onerous contracts should not be assessed at the level of individual performance obligations, but rather at the contract level as argued by respondents. Importantly, they have also agreed that they will re-expose their revised proposals, and a further exposure draft is expected in the third quarter of 2011.

Many would say that the single biggest problem with the 2010 exposure draft was its approach to services. Bluntly, having the same control-based guidance for goods and services was too opaque to be workable. The boards have since been developing separate guidance for services. This is what many respondents requested and it seems like a step in the right direction.

Separately, the boards are trying to refine the guidance on multiple elements and 'unbundling', particularly for an overall project such as a construction contract. This is more difficult – the concepts are tricky, and what may appear to work for one industry may seem inappropriate for another – so it will need careful study.

Re-exposure was the right decision for this important project. In these final stages, quality is paramount. There seems broad support for the direction of travel; this now needs to be translated into a standard that is understandable, unambiguous and capable of being applied by the wide range of companies that must adopt it.

FINANCIAL INSTRUMENTS

Sondra Tarshis, Director, Mazars

We now know that IFRS 9 will not be wholly completed by 30 June 2011. The IASB will decide further due process steps on impairment in June, will consult on the FASB's classification and measurement proposals in the third quarter and will publish a further exposure draft on portfolio hedge accounting later in the year.

There are uncertainties around some of the key aspects of the standard for the financial services industry; particularly macro hedge accounting and impairment. However, other industries welcome the direction of the hedge accounting requirements. They may now be encouraged to apply hedge accounting.

With the exception of exchange rate risk, IAS 39 did not allow a risk component of a non-financial instrument to be identified as a hedged item. IFRS 9 will extend the ability to

hedge risk components to non-financial instruments, provided they are identifiable and measurable. This raises the possibility of an airline's financial statements reflecting hedge accounting for its exposure to changes in the price of jet fuel by hedging the crude oil component of the price.

Companies may also wish to take advantage of other expected relaxations in the hedge accounting conditions. Hedge accounting may be possible for aggregate positions resulting from the combination of an exposure and another derivative. This would permit hedge accounting to fix the short-term interest rate on longer-term foreign currency fixed rate debt, which has already been swapped to a functional currency floating rate. In some situations hedge accounting for net positions may also be possible.

Some restrictions will remain. For example, unless explicitly in the contract, inflation cannot be hedged and there are difficulties in hedging the credit component of a financial instrument. Nevertheless, many companies will welcome an approach to hedge accounting that is based more on risk management and which will be more understandable to both preparers and users.

INSURANCE CONTRACTS

James Dean, Global Insurance IFRS Leader, Ernst & Young

In July 2010, the IASB published its long-awaited exposure draft on insurance contracts. The insurance project is a joint effort with the FASB, who issued a discussion document in autumn 2010.

The proposals reflect many important concepts that are envisaged by insurers and others involved with insurance accounting, offering improvements over ideas floated by the IASB in the past. Nevertheless, the exposure draft attracted many critical responses from around the globe. Top of the list of concerns is the potential for significant earnings volatility. Other issues include the presentation format for the income statement, limited acquisition cost recognition and transition arrangements. Last but not least, many expressed concerns with the IASB's ambitious timetable and the inability of the IASB and the FASB to reach the same conclusions.

Earlier this year, the boards started their re-deliberations of the proposals. They are committing very significant time to the project and progress is being made dealing with the feedback, including widening the definition of acquisitions costs. Also, additional guidance on how to calculate the discount rate has been provided as a means of addressing the volatility issue. However, a number of issues still need to be debated and their outcome is difficult to predict. The project timetable has also proven to be unpredictable, with the publication of the standard now planned for the fourth quarter of 2011.

Although the IASB is showing continuing effort and commitment to finalise the project, critical hurdles need to be jumped. Key will be when and how the IASB will respond to the insurers' call for opening up the financial instruments model in IFRS 9 to re-instate the 'available for sale' category for assets, something the IASB has rejected repeatedly thus far. And all involved are holding their breath to see whether the boards are able to resolve their differences and achieve a globally consistent standard.

ACCOUNTING BY RULES OR DISCRETION?

Shyam Sunder, Professor at the Yale School of Management, shares his views on balancing reliance on written standards with the exercise of professional judgement and social norms in the practice of accounting.

Living by rules or discretion is a perennial dilemma of human society. Discretion implies judgement, and freedom to exercise it in our infinitely variable circumstances. Rules imply discipline, regularity, order, and hope for respite from the chaos of our environment. We want one, and the other, and sometimes both at once. Individuals and societies struggle with the problem of finding the right balance between the two. The problem is especially acute in the learned professions such as accounting, law, and medicine.

Like other professionals in their sister disciplines, accountants too, struggle with the problem of drawing boundaries between judgement and rules. Historically, professions originated in evolution of expert judgement through the process of dealing with variations arising in practice. As variations accumulate, demand for codifying the practice develops on grounds of education and training, reference, coordination, and resolution of conflict.

It is easy for accountants to convince themselves of the questionable proposition that codification of practice serves these ends better than substantial reliance on professional judgement does. But as the spectacular accounting failures of the past decade have abundantly illustrated, no amount of codification can replace the judgement and moral responsibility in achieving a true and fair system of financial reporting.

In the resolution of conflict among parties with opposed interests, both judgement and rules must simultaneously play a mutually balancing role. Excessive reliance on expert judgement may create avoidable uncertainty about the consequences of entering a transaction; excessive reliance on written rules encourages creative accounting through design of new transactions, instruments, and organisations to circumvent them. Boards writing accounting rules through years of due process are the mice for the fast moving cats played by financial engineers. Written codes constrain the engineers no more than a picket fence stops a tornado.

Accounting faces the general problem of creating a reasonably stable environment for true and fair financial reporting in a world of self-interested managers, investors, analysts, employees, and even regulators. Eighty years' worth of effort to meet this challenge through a gradual shift from professional judgement and social norms towards written standards, have not borne fruit. In the US, the process started rather gently with Accounting Research Bulletins in the 1940s, advanced to 'Opinions' of the Accounting Principles Board in 1959, and were replaced by more assertive and confident 'Standards' in 1973.

From the frequency of their failures and revisions, much of the assertiveness and the confidence behind the 'Standards' have proved to be misplaced. But bureaucratic institutions have momentum of their own; instead of rethinking the wisdom of weakening the role of professional judgment, failures of the written rules – and the ease with which they can be circumvented by those who feel constrained by them – have been used to justify writing rules with increased vigour, volume, and scope.

In the 1990s, the movement to write international financial reporting standards gained momentum with the support of large international accounting networks seeking to enlarge their market share, and cutting accounting and auditing costs. After the notorious accounting scandals at the turn of the century, this international approach to writing accounting rules came to be justified by two slogans: 'principles not rules' and 'level playing field'. With a decade of support from the European Union, accounting is the only profession whose internationally codified 'principles' – not rules, mind you – now amount to some 3,000 pages; and the 'level playing field' has created incentives for shenanigans in the financial services industry whose costs to taxpayers have already amounted to trillions of dollars.

Few would let a rule-bound surgeon wield a scalpel on them in the operating room. When a learned profession abandons its individual and collective responsibility to make judgements about what is right in each case, and seeks the crutches of written rules, it climbs down to the status of a craft at best. Excessive dependence on accounting rulebooks, whether domestic or international, needs careful scrutiny.

Professor Shyam Sunder is an experimental economist and accounting theorist. His research contributions include financial reporting, dissemination of information in security markets, statistical theory of valuation, and design of electronic markets. He is a pioneer in the fields of experimental finance and experimental macroeconomics.

WHAT'S NEW AT THE FINANCIAL REPORTING FACULTY?

Marianne Mau, Faculty Manager, explains how the Financial Reporting Faculty is expanding its existing range of products and looking to increase the value of its member-only content.

WEBINARS

The faculty has hosted a number of webinars so far this year. We are fortunate to have access to presenters of significant experience and experts available to help answer your questions, and this quality is reflected in the high ratings achieved to date. It's clear that members appreciate what one attendee described as 'a really effective way of getting training without the travel' and the ability to ask questions online while the webinar is in progress.

The faculty's webinars fall into two categories: practical updates on new and recent standards, and discussions of public policy.

The practical update webinars are **exclusively for faculty members** and if you can't make the session the recordings are made available on the website, adding to the increasing range of resources designed to keep you up to date.

Webinars on policy issues will continue to be freely available to **all ICAEW members**, as well as members of the faculty. These events have attracted record numbers and play an important part in the faculty's ability to stimulate debate. We will continue to host webinars in the public interest as significant policy issues arise.

Webinars on revenue recognition, leasing and the second part of financial instruments will be scheduled once these projects have been completed. We'll also be running a second general IFRS update later in 2011. Dates will be announced soon.

FACTSHEETS

As developments in IFRS and UK GAAP continue apace we have published the following five new factsheets so far this year:

- *The Proposed FRSME* provides an overview of the FRSME's key requirements and its differences with existing UK GAAP.
- *UK Company Accounts FAQ* looks at areas which, although not new, continue to cause problems such as depreciation of fixed assets, exchange differences, directors and related party disclosures. The factsheet draws on the experience of others so that some of these common pitfalls can be avoided.
- *2011 IFRS Accounts* and *2011 UK GAAP Accounts* outline new requirements coming into force for accounting periods starting in the current year.
- *Debt for Equity Swaps* explains how to account for such transactions in accordance with both IFRS and UK GAAP.

A flurry of new and amended standards were published by the IASB in May and June 2011, and more will follow later in the year. Many of these new requirements will not come into force until 2013 or beyond but of course the faculty will have updated and expanded its range of factsheets to reflect the new requirements long before then.

iPHONE AND iPAD APP

The development of the faculty's Financial Reporting iPhone and iPad app demonstrates our commitment to finding new and innovative means of communicating financial reporting news and raising awareness of the faculty.

The app is regularly updated with the latest developments; subscribers can scroll down the latest IFRS and UK GAAP news stories with additional detail available at their fingertips. At the last count the app has been downloaded over 5,000 times and has constantly featured in Apple's App Store's top 100 free finance iPad apps since its launch earlier this year.

WEBSITE

ICAEW launched a new website earlier this year which will, in time, provide all the functionality of the faculty's earlier platform and more. So the decision was taken to move the member-only content to the new site so members can use their unique login to immediately access all the resources available to them.

The standards tracker has been substantially updated and we hope you like the improved presentation and navigation.

We continue to work on improving the website and are always looking to maximise the potential of any new functionality as it becomes available. Your ideas for further improvements are always welcome.

CORPORATE MEMBERSHIP SCHEME

The Financial Reporting Faculty has recently launched its new corporate membership scheme. We asked two corporate members what they thought of the scheme.

The ICAEW Financial Reporting Faculty provides a forum for knowledge-building and sharing for practitioners at the coal face. As a major firm, we are delighted in taking a leading role by being a fully fledged member of the faculty. The benefits of membership are extensive: access to the subscriber area of the IASB's website for all members, webinars and news articles on the latest financial reporting developments with exceptional archives, and many other useful reporting tools such as a standards tracker which permits the user to input their reporting date and identify the version of the standards and/or interpretations applicable for the period.

Veronica Poole
Global Managing Director, IFRS Technical, Deloitte

Deloitte.

Francis Clark LLP is delighted to support the ICAEW Financial Reporting Faculty's new corporate membership scheme. As the largest independent firm in the South West we provide financial reporting support to entities ranging from small owner-managed businesses to AIM-listed companies. A number of our team were individual members of the faculty and have been very pleased with the online standards tracker, factsheets and e-IFRS. Corporate membership allows us to extend access to these essential resources across the corporate team. One of our partners has been involved in the faculty since its inception and we believe there are enormous benefits both to the firm and its clients in continued participation in faculty discussions and policy debates.

Stephanie Henshaw
Technical Standards Partner, Francis Clark LLP

Francis Clark
CHARTERED ACCOUNTANTS

Francis Clark LLP was voted mid-tier audit firm of the year for 2011 at the FDs' Excellence Awards.

BACK ON THE ROAD AGAIN…

Following the success of the Financial Reporting Faculty's inaugural roadshow last year, we'll be hitting the road once more in the autumn to bring you up to date on the new UK GAAP regime and other significant areas of change in UK financial reporting.

Last year the faculty took to the road to deliver a series of events in six cities around the UK. These events were a great success so this year we're undertaking an expanded road trip visiting no less than 14 locations in a hectic two-month tour. This means that there is every chance that there will be a roadshow event somewhere near you later this year.

The pace of change in financial reporting remains unabated, both in the UK and internationally. As you can read elsewhere in this issue, some very significant decisions are to be taken by the standard-setters during the remainder of 2011. Not only will the UK's Accounting Standards Board make a decision of the future of financial reporting in the UK and the Republic of Ireland but the International Accounting Standards Board are also finalising a plethora of new and revised standards as their convergence project with the US draws to a close.

The roadshow will provide a clear and up-to-date analysis of the implications for UK companies and their professional advisers, along with practical advice and tips on other topical issues in UK financial reporting. The feedback we received last year told us that most delegates were primarily interested in UK GAAP so this will be the main focus of our events this year (although IFRS will feature). However, we know many of you are also very interested in international standards, so we will also be running additional events in London and Manchester that focus just on IFRS.

The UK GAAP events will be presented by either John Selwood or Stephanie Henshaw, both well-known and respected speakers. The faculty's Chairman, Andy Simmonds, will be among the presenters at the IFRS events. The events offer good value for money, with faculty members paying only £75 plus VAT for a half-day session. If you're interested in both UK GAAP and IFRS, you can sign up for both events at a reduced rate.

The tables opposite show the dates and locations of this year's roadshow. We hope you can join us for what is sure to be an interesting an informative update on the fast changing world of financial reporting.

UK GAAP focus

Date	am/pm	Location
28 September	pm	Derby
29 September	pm	Durham
4 October	pm	Southampton
11 October	pm	Luton
13 October	am	Liverpool
17 October	pm	London
20 October	pm	Birmingham
31 October	pm	Manchester
1 November	pm	Bury St Edmunds
3 November	pm	Maidstone
8 November	pm	Wakefield
14 November	pm	London
15 November	pm	Preston
24 November	pm	Exeter
28 November	pm	Bristol

IFRS focus

Date	am/pm	Location
17 October	am	London
31 October	am	Manchester
14 November	am	London

Find out more information and book your place by visiting icaew.com/frfroadshow2011

REPORTING BUSINESS RISKS

How can we improve risk reporting? Brian Singleton-Green, Faculty Manager, previews some ideas from a forthcoming faculty report.

A large part of the world is still recovering from the credit crunch and the global recession that followed in its wake. Everybody who has investigated the matter agrees that it was preceded by a serious and widely-shared under-estimation of risk.

Many have also concluded that there needs to be a significant improvement in risk reporting if we are to avoid a similar financial crisis in future. This probably puts too much faith in the power of risk reporting, although there seems to be little doubt that there were inadequacies in such reporting before the crisis. A forthcoming report in the faculty's *Information for Better Markets* series, *Reporting Business Risks: Meeting Expectations*, looks at the experience of risk reporting to date and at how it might be improved.

Since the 1990s, ICAEW has been in the lead in thinking about risk reporting. We pointed out then, and it is worth repeating now, that there is a great deal of reporting about risk that is not labelled 'risk reporting'. Indeed, the financial statements are full of information about risk. Users who are interested in assessing a company's risks look carefully at trends and ratios in both the income statement and the balance sheet and expect to find useful information in the notes – on matters such as contingencies, commitments, repayment schedules, fair value analyses and so on. Geographical and segmental analyses, whether in the financial statements or elsewhere, also provide useful information on risks.

Discussions of past performance are relevant to risk, as the factors that explain last year's performance may or may not be present in future years and are therefore uncertainties. Forward-looking descriptions of a company's plans and business model should convey plenty of information about risk. If they don't, then they are not giving the full story.

So the lists of risks that form what most people think of as 'risk reporting', and which have a natural tendency to turn into boilerplate, are probably not the most useful sources of information about risk.

How can risk reporting be improved? Our report is still in draft, so we may change some of what we say before it is published later this year. But here are the recommendations that we have in mind at the moment.

Understand users' needs. Surprisingly little work has been done to find out what information on risk users actually find useful. This would be a good starting-point for improvements.

Focus on quantitative information. More detailed analyses of the quantitative data that companies already provide would give useful new information on risks. There has been too much emphasis hitherto on descriptive risk lists.

Integrate information on risk into other disclosures. Understanding a company's risks is essential to understanding its business. Where possible, risk disclosures should be integrated into descriptions of companies' business models and discussions of their prospects and performance.

Think beyond the annual reporting cycle. Many risks stay the same from one year to the next. Others are highly variable and information on them needs to be updated frequently. The internet, rather than the annual report, would probably be the right place for both information that changes more than once a year and for information that stays the same for a number of years.

Encourage shorter risk lists. Long and indigestible risk lists are all too easy to ignore. Companies should be encouraged to keep such lists as short as possible.

Highlight current concerns. Users like to know what's currently worrying a company's managers. Ideally, this would not require yet another list, but should emerge naturally from management's forward-looking discussion of its plans and prospects.

Too often, risk reporting has disappointed the expectations of both its users and its advocates. There need to be realistic expectations as to what it can achieve – users should bear in mind, for example, that managers will never report some risks (eg, managerial incompetence) and tend to underestimate others (eg, competitors). But there is definitely room for improvement.

THE FUTURE OF UK GAAP

The ASB's proposals on the future of UK GAAP have generated much debate. Brian Shearer and Danielle Stewart, Partners at Grant Thornton and Baker Tilly respectively, chaired ICAEW working parties on the proposals. Here they explain ICAEW's thoughts on the way forward.

ICAEW faced a difficult task when formulating their response to the ASB's proposals on the future of financial reporting in the UK. With a membership comprising practitioners from large and small firms and accountants working in all kinds of industries, how do you agree on one view? In truth, you can't. But ICAEW's response was formulated from meetings and emails from working parties comprising over 40 members, including several smaller practitioners, from many parts of the country. The draft submission was posted on ICAEW's website, for further input from interested members. We have done our best!

RIGHT DIRECTION OF TRAVEL

We agreed that it is time for a fundamental change to the UK GAAP regime, which has become unwieldy, inefficient and lacking in cohesiveness.

'We agreed that it is time for a fundamental change to the UK GAAP regime, which has become unwieldy, inefficient and lacking in cohesiveness.'

Accountants are now trained in, and increasingly comfortable with, IFRS-based principles. Running with two systems places strains and costs on financial reporting, particularly felt by smaller practitioners. The FRSME, derived from the IASB's IFRS for SMEs, is a good base for a UK solution; there will of course be some costs in changing to it, but the ongoing benefits should be significant. There are, of course, some concerns, and these are discussed below.

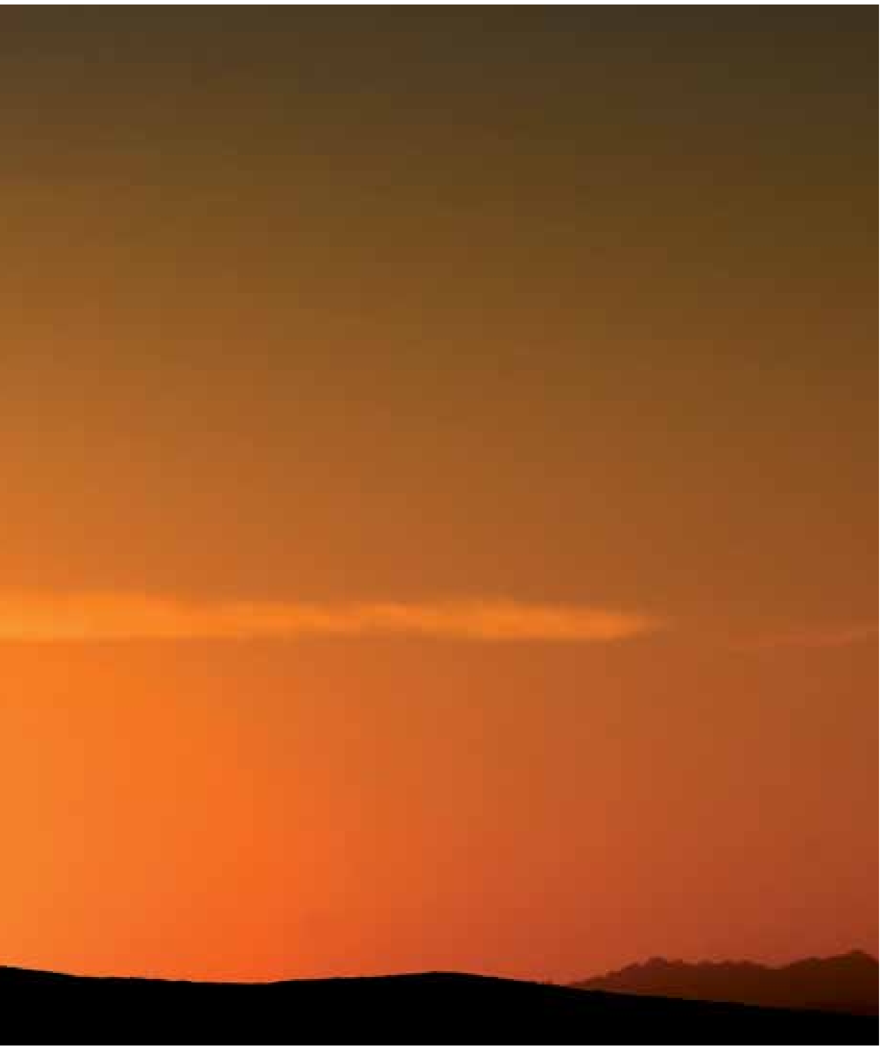
THE TIERED SYSTEM

The concept of a tiered system generally found favour, although somewhat to our surprise, many people we consulted preferred to move directly to a two-tier system, not only applying the FRSME to medium-sized entities but also to small entities. This would help in terms of having universal IFRS-based principles. But others want to keep the FRSSE for smaller entities, so we advised the ASB to consult quickly on this issue.

The reduced disclosures framework for subsidiaries was well liked, being one aspect of the proposals that undoubtedly saves costs from the outset.

PUBLIC ACCOUNTABILITY

Some concept of public accountability is better than an arbitrary size test in determining when full IFRS should be used. The difficult issue here relates to the 'deposit-taking' section of public accountability. Our conclusion was that when funds are taken from a broad group of outsiders, there is a higher level of accountability. But we advised the ASB to be mindful of the cost-benefit ratio in asking small entities to apply full IFRS, particularly if they are already prudentially regulated. The overall aim should be that the interests of the broad group of outsiders are appropriately monitored by an effective regulator. There is more work to be done here, but entities should in the end have clarity on which tier they are in.



TERMINOLOGY AND INCLUSIVENESS

Accountants familiar with current UK GAAP and the Companies Act could initially struggle with the IFRS-based terminology in FRSME. We recommended an introductory chapter in the FRSME to provide a bridge between them, together with example primary statements. Unincorporated entities also need to produce accounts on true and fair principles, so references in FRSME solely to companies legislation are unhelpful.

CHANGES PROPOSED TO FRSME

We agreed with the ASB that the FRSME should follow the IFRS for SMEs as much as possible. However, we proposed some changes to retain treatments available in UK GAAP where users base decisions on them, the treatment is in line with IFRS and it is not onerous to apply.

Accordingly, we proposed that revaluation of tangible fixed assets should be permitted and that development costs should be capitalised in the same circumstances as under IAS 38. Capitalising borrowing costs is very important to some entities, so we proposed that this should permitted.

'We agreed that the FRSME should follow the IFRS for SMEs as much as possible. However, we proposed some changes to retain treatments available in UK GAAP.'

Other significant recommendations in the ICAEW representation letter included:

- Deferred tax – we agreed with this section being based on IAS 12 *Incomes Taxes*, but suggested it should be condensed and simplified.
- Financial instruments – we suggested importing the IFRS 9 *Financial Instruments* wording to allow bank loans with covenant clauses to be at amortised cost.
- Government grants – we suggested reverting to the conditions in IAS 20 *Government Grants* to avoid deferring grant income when there are long-term performance conditions.
- Effective date – we suggested allowing at least 18 months for preparation, while permitting early adoption.

This article is a very brief summary of the main points made in ICAEW's response; you can see our final representation letter at icaew.com/futureofukgaap. We hope you will agree that it is a thorough analysis, even if you do not agree with every detail!

A SELECTION OF VIEWS FROM ICAEW MEMBERS

'I consider that we should move as quickly as possible to an accounting framework with consistent measurement principles for all entities regardless of size, but with disclosures appropriate for the size and nature of the entity. I believe that retention of the FRSSE alongside the FRSME would cause practical difficulties for the smaller practitioner with increased training costs, particularly as students are no longer trained in UK GAAP, and increase the scope for error. Accordingly I favour a two tier approach based on the FRSME for the lower tier but with reduced disclosure requirements for small entities.'
John Price, sole practitioner

'I have some concerns about the proposals to extend EU-adopted IFRS to pension scheme accounts which have long been considered a special case in UK financial reporting terms. The provision of key financial information about a scheme to its members is governed by regulation which is not confined to scheme accounts. For example, schemes are required to provide summary funding statements, statements of investment principles and recovery plans. I believe the requirements for scheme accounts need to be considered within that overall information package and we already have a Pensions SORP which in my opinion offers a complimentary accounting solution.'
Andrew Penketh, Head of Pensions Group
Crowe Clark Whitehill

'The ICAEW Charities Technical Committee is broadly supportive of FRED 43 and 44. We have highlighted concerns from the sector about differing accounting treatments between IFRSs and the FRSME on a number of issues and over the impact of the removal of the third tier for the large number of smaller charities. We welcome the call for further consultation on this issue.'
Nick Brooks, Partner
Kingston Smith

'The ICAEW Social Housing Committee too are broadly supportive of the ASB's general approach. However, we have highlighted a number of points of detail which would be particularly damaging to the housing association sector. These include: the inability for tier 2 organisations to capitalise interest or use valuations for fixed assets (other than investment properties) and the complexities arising from the requirements in some circumstances to take movements in fair value of certain financial instruments through the income statement. There are also particular concerns over the treatment of capital grants'.
Jonathan Pryor, Director
Smith & Williamson

'The proposals are a good starting point but there are still uncertainties to be resolved before the impact can be fully appreciated. Many entities are still not clear whether they are to be deemed "publicly accountable", so a definitive list of who is in and who is out of tier 1 is needed. Tier 1S was added following lobbying from listed companies. As this is separate from the FRSME, why not bring it in immediately? Also, the ASB can't ignore the significant changes to IFRSs currently being considered by the IASB. This should not be allowed to delay publication of the standard, but strengthens the case for a longer transition period to avoid entities pushed into tier 1 being forced to effectively transition twice.'
Amanda Swaffield, Senior Manager
Deloitte

FRSME – THE BEST FUTURE FOR UK GAAP?

Neil Harris, Partner at Reeves & Co and a member of the Financial Reporting Faculty board, provides a personal view on whether the FRSME delivers the best possible future for non-publicly accountable entities in the UK.

INTRODUCTION

The ASB's consultation on the future of UK GAAP and the FRSME is a one-off chance to radically improve financial reporting for non-listed companies.

ICAEW has recommended making a number of changes to the proposed FRSME that would move it further away from the IFRS for SMEs on which it is based. This article considers whether there is justification for any differences from IFRS for SMEs.

INTERNATIONAL CONVERGENCE – A LOST OPPORTUNITY?

The FRSME is based on the IFRS for SMEs, adapted for specific UK circumstances. Differences arise principally in order to conform with EU accounting directives and to retain UK company law exemptions.

However, in my opinion EU accounting directives and UK company law are outdated. Rather than adjusting the IFRS for SMEs to fit the legislation, effort should be directed to conforming accounting law to the IFRS for SMEs. This is consistent with the approach for applying EU-adopted IFRS in the UK. In any case, certain EU law requirements have been ignored over an extended period – eg, the requirement to amortise goodwill over five years – so why is there greater emphasis on compliance now?

It is also not clear in my view that retaining existing UK law exemptions is necessarily appropriate. For example, cash flow statements provide useful information about small as well as large entities and aid user understanding. If the IASB believes that all entities should produce cash flow statements, why keep the existing UK company law exemptions? Similarly, I would question the need to retain UK exemptions from consolidation in the FRSME as eligible companies will generally be able to apply the FRSSE (at least for now) to utilise the exemption.

Efforts could be made to liaise with legislators to update accounting law and remove impediments preventing use of the IFRS for SMEs in the UK. Similar efforts could seek to influence the development of the IFRS for SMEs to allow differences with FRSME, such as accounting for deferred tax, to be eliminated, even if this means waiting until the initial three year review of the IFRS for SMEs before its first implementation in the UK.

Many non-publicly accountable entities have foreign operations. Using a common international financial reporting framework such as the IFRS for SMEs would deliver significant cost savings to preparers, reduce risk of error from incorrect translation between national GAAPs for consolidated reporting, and assist competition between providers of finance, thereby reducing the cost of capital. These benefits are reduced if each country adopts its own 'flavour' of the IFRS for SMEs along the lines of the ASB's proposals for the UK.

COULD IFRSE FOR SMES BE SUITABLE FOR UK NON-PUBLICLY ACCOUNTABLE ENTITIES?

Some commentators have suggested that the proposed FRSME should be amended to retain elements of UK GAAP, such as the option to capitalise interest and to permit property revaluation.

Reintroducing these options would increase the consistency between the FRSSE, the FRSME and full IFRS and facilitate smoother transition from one to the other. However, doing so creates further conflicts with the IFRS for SMEs. Perhaps rather than adapting the IFRS for SMEs to UK practice, we should consider whether the UK really differs enough from the rest of the world to justify such changes.

Alternatively, perhaps it is the IFRS for SMEs that requires amendment ie, the options suggested may be appropriate not just for the UK but for users and preparers in other jurisdictions. If so, the ASB should be encouraged to influence the IASB to amend the IFRS for SMEs accordingly.

THE WORST OF BOTH WORLDS?

Shelving the entire process of updating UK GAAP is not an option so the ASB needs to decide between two far from ideal approaches – amending the IFRS for SMEs and failing to secure the benefits of international consistency or adopting it wholesale and, perhaps, failing to meet the needs of users in the UK. In the meantime greater effort needs to be made to influence both the IASB and legislators to remove the impediments to having a world class financial reporting standard for the UK – and the rest of the world.

FINANCIAL REPORTING IN THE PUBLIC SECTOR

ICAEW's Sumita Shah discusses some of the significant challenges of developing policy and delivering good financial reporting and management while dealing with severe expenditure cuts as highlighted at the faculty's recent UK public sector conference held jointly with CIPFA.

Opening the conference, Ken Beeton, Director of Financial Management and Reporting at HM Treasury, said that 'good financial management and reporting have always been central to the effective and efficient delivery of public services which is essential for accountability to parliament and the wider public.'

Justine Greening MP, Economic Secretary to the Treasury went on to stress the importance of better financial discipline and commerciality at all levels when it comes to spending taxpayers' money. She also outlined key messages from HM Treasury's publication *Managing Taxpayers' Money Wisely* and how the government's transparency agenda will play a central role in this.

'The financial transformation programme will help us to get the best possible value for money from every pound spent.'

JUSTINE GREENING MP ON SOUND FINANCIAL JUDGEMENT

'I know from my time as an accountant and auditor in the private sector how important sound financial management is. It underpins good decision making, drives accountability, improves business understanding and enables organisations of all kinds to manage their risks. The financial transformation programme will deliver just that; we're introducing a whole new approach to financial management across government. It will be part of how we can restore credibility to government finances and it can help us to get the best possible value for money from every pound spent. The support of professional accountancy bodies like ICAEW and CIPFA are a key part of ensuring this happens.'

CENTRAL GOVERNMENT

With these aspirations in mind, government departments have a number of challenges ahead of them, including how to implement and improve financial management while managing a cost-cutting exercise across the board.

This conference session outlined what is crucial in the current economic climate: firstly to build capability and skills in people, processes and systems; and secondly to ensure that front-line services are protected while costs are reduced. Efficiency needs to be at the heart of every aspect of public service provision. This can be achieved through greater transparency, better management information, improved accountability, better risk management and governance and all-round financial awareness.

Good information is the key underlying principle, balanced with effective and proportionate controls and accountability. Devolved delivery of public services will be challenging, therefore departments will need to ensure that all decisions are adequately documented.

LOCAL GOVERNMENT

This session provided an insight into the experience of implementing IFRS for the first time for the 2010/2011 financial statements. There has been a marked improvement in transparency and comparability. However some challenges remain for local government, including raising member awareness of the impact of IFRS, involving others outside to the finance function and incorporating transitional issues into the close-down timetable. In addition, there are detailed issues which need to be resolved relating to housing stock, leases, PFI schemes, grants, group accounts and disclosure requirements.

It was noted that there is much for local government to learn from central government and the private sector on the implementation of IFRS.

ACCOUNTING STANDARDS

Although UK public sector bodies are now using IFRS, International Public Sector Accounting Standards Board (IPSASB) standards are also referred to for guidance. This session outlined how IPSASB has been working towards a single set of global public sector financial reporting standards. Twenty-eight have been substantially converged with IFRS and there are three public sector-specific standards. The IPSASB work programme currently includes projects on the conceptual framework, service concession arrangements, narrative reporting and service performance.

ACCOUNTABILITY AND REPORTING

HM Treasury's overall agenda, outlined in its publication *Managing Taxpayers' Money Wisely* is based on the basic principles of transparency, accountability, simplicity and coherence. This session highlighted the following initiatives:

- The development of a group finance function for central government under the finance transformation programme.
- The publication of the revised Corporate Governance Code – changes have already taken place, for example the Secretary of State is now chairing central government boards, non-executive directors are being appointed with enhanced roles and finance directors are now part of the board membership.
- The internal audit transformation programme is now underway. HM Treasury provide the group internal audit function, acting as the core provider for procurement of internal audit services across central government.
- The alignment project, where full implementation is on target for 2011/2012.
- The publication of a governance statement, in place of the statement of internal control, is also underway.
- The publication of business plans.
- A new project financial database OSCAR (online system for central accounting reporting), which will replace the combined on-line information system (COINS) and should result in better and more enhanced management information.

SUSTAINABILITY

The Accounting for Sustainability project (A4S) set up in collaboration with ICAEW, CIPFA and the NAO, commenced in 2004 to help organisations on accounting and information relating to sustainability. It focuses on three areas:

- embedding sustainability into decision making;
- integration of sustainability commentary within reporting; and
- engagement and education on sustainability.

Speakers explained that this project has already identified cost savings through connected reporting and that there has been increased collaboration across different parts of the business, with the use of a common language and better understanding of how sustainability is relevant to business performance. From 2011/2012, in accordance with the Financial Reporting Manual (FReM), the financial statements will need to include a sustainability report (incorporating an overview, a table of financial and non-financial information on emissions and other issues eg, biodiversity and sustainable procurement). Departments can opt to include this report for the 2010/2011 accounts.

LOCALISM

Finally, the Parliamentary Under-Secretary of State at the Department of Communities and Local Government, Bob Neill MP, set out local government's place at the heart of coalition agreement commitments to deliver greater transparency, localism, efficiency in services and rebalance the economy.

BOB NEILL MP ON LOCALISM

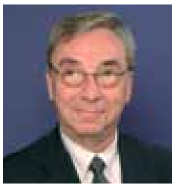
'We have to tackle the deficit now by reigning back unsustainable public spending. Councils account for around a quarter of all public expenditure so they have to play their part. Every council knew tough decisions lay ahead and the majority were planning sensibly for leaner budget. But no council is facing a spending power reduction of more than 8.8%. Can-do councils are showing that they can protect front-line services by sharing back offices, utilising reserves, shining a spotlight on waste and collaborating to spend smarter to make real savings. The new localism powers and spending freedoms we are handing councils will help them be as efficient and effective as possible. By letting councils and communities run their own affairs we can restore civic pride, democratic accountability and economic growth that will lead to a stronger, fairer Britain.'

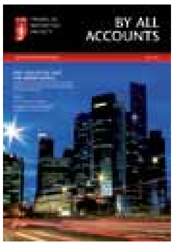
He outlined that the demise of the Audit Commission meant that a new legal framework would need to be put into place to hold councils to account. They would be free to appoint auditors from the private sector with audit standards overseen by the National Audit Office and there would be a register of audit firms.

Developments continue apace in the public sector, and the faculty will continue to play a role in promoting understanding and best practice. Watch this space!

FINANCIAL REPORTING IN SINGAPORE

To accompany this edition of *By All Accounts,* the faculty has published a special edition for members working in Singapore, produced jointly with the Institute of Certified Public Accountants of Singapore (ICPAS). Copies have been sent to faculty members in Singapore and are available to faculty members on request.





Singapore's accountancy sector has a vision of transforming itself into a leading global accountancy hub for the Asia-Pacific region by 2020 and the wider region is important to ICAEW's international strategy. The special edition includes an exclusive interview with Paul Pacter of the IASB, summarised below.

Paul Pacter is the architect of the IFRS for SMEs and since July 2010 has been a member of the IASB Board. The faculty's Nigel Sleigh-Johnson and Eddy James spoke to him about the SME standard and IFRS in Singapore and beyond.

Financial Reporting Faculty – The IFRS for SMEs is clearly enjoying much success around the world but several major jurisdictions have decided not to use it or have amended its contents. Why do you think that is, and how do you intend to respond?

Paul Pacter – The IFRS for SMEs was issued in July 2009. In less than two years, 73 countries have adopted it and nearly all of them have not changed a word. Nearly all of them either permit or require it for all entities that do not have public accountability. Very few have put in size tests; Singapore has but they are one of the few to do so. I think we have achieved an extraordinary breadth of acceptance in a very short time. Adoption is a jurisdiction's decision, but if they make modifications then they cannot assert compliance with the IFRS for SMEs.

What unexpected implementation or technical issues have arisen from early use of the IFRS for SMEs?

The Trustees of the IFRS Foundation have appointed an SME Implementation Group (SMEIG) to develop and publish questions and answers as non-mandatory guidance for implementing the IFRS for SMEs. We have received roughly 50 implementation questions so far – not very many considering millions of companies are using the standard. We honestly do not have many thorny technical questions on individual sections of the standard. The main questions are on who is eligible to use the standard.

Perhaps this is because the board knew that we could not just issue the standard and say goodbye and good luck! So we have offered a lot more support than we do for companies adopting full IFRS, through things such as running 'train the trainer' workshops – like the one I presented in Singapore last year – and developing comprehensive self-study training materials.

What is your biggest regret about the content of the first iteration of the IFRS for SMEs?

My biggest regret is the income taxes section, which was the toughest chapter to write in the whole standard. My recommendation three times to the board was to go for taxes payable with disclosures on deferrals, reversals and so on. In other words, no deferred taxes! At the time the board was proposing to replace IAS 12 with a standard that had fewer exemptions. In other words, more deferred taxes. And that's what the chapter in the SME standard is based upon. But when the comments came back

on the proposals to replace IAS 12 they were very negative and so the board decided to abandon the exposure draft. But those abandoned proposals are hardwired into the IFRS for SMEs. I am disappointed we have ended up in this situation, but the practical effect is not huge as for most SMEs recognition of deferred taxes seems to be straightforward. We have had few implementation questions so far.

Do you still hold that the IFRS for SMEs is suitable for very small private companies as well as larger businesses?
If your question is whether I think that tiny private companies – say those with fewer than five or ten employees – should be required by law or regulation to prepare general purpose financial statements, my personal leaning would be no. But if a parliament or a regulator has demanded that micro-entities prepare general purpose financial statements, I think the IFRS for SMEs is ideal for them.

Remember that a huge issue for micro-companies is access to capital. Companies of this size consistently lament their inability to borrow money. The banks and other capital providers, on the other hand, say – to put it crudely – we don't understand the numbers, we don't trust the numbers. So I definitely think there is a big role for the IFRS for SMEs even for micros.

How significant is the opening of the IASB's first regional office in Japan?
Most of the world thinks of the IASB as Europe's standard-setter. And that is particularly true in Asia. But we're now the world's standard-setter. The Board are aware of the concern in Asia that the IASB appears to be Euro-centric. It was with this in mind that we decided to open an Asia-Oceania Regional Office in Tokyo. It's not our Japan office, it's our regional office. I think the new office is significant because it highlights the growing importance of Asia as a global financial centre and the resulting demand for the kind of high quality financial information that IFRSs provide.

Do you think the faculty has a role to play in an increasingly global financial reporting environment?
IFRSs are good, but understanding them requires old fashioned hard work. The ICAEW Financial Reporting Faculty offers people the help they need to get to grips with the standards. So I think what it does is very useful, not just for people in the UK but all around the world, including Singapore. So I see a bright future for the faculty.

OTHER ARTICLES INCLUDE:

Interview with Euleen Goh
Euleen Goh is the Chairman of the Accounting Standards Council, the body which prescribes accounting standards in Singapore. We talk to her about Singapore's transition to IFRS-equivalent standards in 2012.

The landscape of the accountancy sector in Singapore
Grace Chua from the Technical Division at ICPAS looks at the current state of play in Singapore's accountancy sector and considers where the road ahead might lead.

PLUS
Teo Kok Ming, Executive Director at the Monetary Authority of Singapore, discusses his views on developing an appropriate expected loss impairment model.

Insightful contributions from Singapore-based practitioners Shariq Barmaky (Deloitte), Ward Coombs (Ernst & Young), Kok Moi Lre (PwC), Reinhard Klemmer (KPMG) and Kon Yin Tong (Grant Thornton).

FINANCIAL REPORTING IN HONG KONG

Nigel Dealy, Director in Accounting Consulting Services of PricewaterhouseCoopers in Hong Kong, provides our members in the region with his views on recent financial reporting developments and their implications for both Hong Kong and mainland China companies.

CHINESE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (CAS) COME TO HONG KONG

Under Hong Kong Stock Exchange's (HKEx's) new rules, effective for accounting periods ending on or after 15 December 2010, Chinese companies dual-listed in Hong Kong and the mainland are no longer required to prepare separate financial statements using HKFRS or IFRS and to be audited by a Hong Kong audit firm. They can instead use their CAS financial statements, provided they are audited by one of 12 approved mainland CPA firms.

The same applies to the 100 or so companies incorporated in mainland China that are traded only on the HKEx. To be on the approved list, the mainland audit firm has to have a member firm in Hong Kong or be part of an international accounting network with a Hong Kong practice. The arrangement is reciprocal in that Hong Kong companies that plan to list on one of the mainland Chinese bourses in the future will be allowed to use their HKFRS financial statements audited by a Hong Kong CPA firm.

As a result of this rule change, four companies changed to CAS for their 2010 reporting. More companies may make the change in 2011 after considering their shareholders' interests and preferences and completing the relevant procedures, such as seeking shareholder approval at an AGM.

HONG KONG INTERPRETATION 5 (HK INT-5)

Issued in November 2010, HK Int-5 on accounting for term loans with repayment on demand clauses requires that in cases where such clauses provide the lender with a clear and unambiguous unconditional right to demand repayment at any time at its sole discretion, the entire loan should be classified as current.

This caused a flurry of activity in the period surrounding the end of 2010, as companies strived to obtain the necessary written commitment from their bankers to remove, waive or alter the clause so as to allow term loans to continue to be presented as non-current. Although, mainland Chinese banks, generally, had not put these clauses in their loan agreements, they were found in syndications involving banks outside of China. Consequently, some mainland companies have had a harder task to get their term loans presented as non-current liabilities under IFRS, HKFRS or CAS.

> 'To mitigate land appreciation tax, property is usually held in a "corporate wrapper", which has no intention of selling the property.'

AMENDMENT TO IAS 12 – DEFERRED TAX – RECOVERY OF UNDERLYING ASSETS

This amendment was greeted with enthusiasm by Hong Kong companies holding investment properties. The use of the rebuttable presumption that an investment property measured at fair value is recovered entirely by sale has already seen the release by early adopters in their 2010 financial statements of billions of Hong Kong dollars of deferred tax liabilities; liabilities that made little economic sense as they would never have crystallised as there is no capital gains tax in Hong Kong.

However, early adoption has been less marked in China, as there is land appreciation tax (LAT), a tax on real property transaction gains at progressive rates ranging from 30% to 60%. To mitigate LAT, property is usually held in a 'corporate wrapper', which has no intention of selling the property. If, and when, the property is sold, it is achieved by selling the company's shares, the gain on which is taxed at substantially lower rates. So should deferred tax be provided at LAT rates or that applicable to share sales? And, consequently, what is the effect of the IAS 12 amendment? There are differing views among the audit firms and among their clients. It certainly isn't a complete release of deferred tax liabilities, as in Hong Kong.

Corporate wrapper structures are not unique to China and thus this issue needs an international solution. Dare I suggest it is referred to the IFRS Interpretations Committee?

SUSTAINABILITY REPORTING

Kathryn Cearns, Consultant Accountant at Herbert Smith LLP, explains why sustainability reporting may become a more important element of corporate reporting.

There is a history, in the UK and internationally, of companies voluntarily reporting the impact of their activities on the environment and on wider groups of stakeholders, including employees and the local community. More recently, mandatory requirements have been brought into effect for larger companies in the UK for narrative reports that accompany audited financial statements.

There are also numerous developments in the offing, some legislative, others from organisations or groups with an interest in this issue, not least from the International Integrated Reporting Committee (IIRC). These developments may take sustainability reporting into a more central position in company reporting, but several important underlying questions need to be answered.

> 'Can economic growth be achieved through commercial enterprise but at a cost that is sustainable?'

In the UK, the Climate Change Act 2008 requires DEFRA to set regulations which mandate reporting of greenhouse gas emissions by April 2012 or explain to Parliament why it has not done so. And at the time of writing, we expect shortly a consultation paper from the IIRC on a draft framework that would, broadly speaking, integrate sustainability issues with existing reporting requirements.

These and other initiatives reflect wider concerns: can economic growth be achieved through commercial enterprise but at a cost that is sustainable? Reporting in relation to this can only be one of a series of policy tools, but it may prove to be an important one.

We should not lose sight of some challenging questions which are, to some extent, overlapping.

WHO IS IT FOR?

Much corporate reporting is of interest to wider stakeholders. Nevertheless, the focus is members and investors, tied to the legal duties of directors. The difficulties of widening the scope to other stakeholders have been rehearsed during the development of the operating and financial review and the business review. The problem is not just a legal one in relation to whom the directors owe duties but whether the information provided risks becoming too diffuse if companies have to consider the needs of too wide a group of users. Key information for investors cannot be sacrificed.

PART OF THE FINANCIAL REPORTING PACKAGE?

In some industries, companies produce stand-alone sustainability reports aimed at a wider group of stakeholders, sometimes with cross-references from the annual report. This practice has recently been queried by the UK Financial Reporting Review Panel in relation to Rio Tinto plc, where the company was reminded of its obligations to include relevant information in its business review. Thus, although all information was in the public domain, the fact that members and investors could not find it in the directors' report did matter. This contrasts with, for example the IIRC, whose members advocate bringing the whole of financial and sustainability reporting together into one package.

YET MORE INFORMATION?

As John Boulton explains on the next page, the UK Financial Reporting Council (FRC), in its project on cutting clutter in annual reports, has cited corporate and social responsibility reporting that goes beyond the bounds of the current legal requirements as a problem if it obscures what investors need to know. There is thus a tension between stakeholders wanting more sustainability information and the demands of increasingly complex financial reporting.

The UK Department for Business Innovation and Skills, in its current review of narrative reporting, is investigating whether more flexibility can be introduced in the law, to allow cross-references to web-based standing data, so people can drill down from high-level summary information. How the edifice is constructed will be key to ensuring clarity and usefulness.

There are other tensions, for example how forward looking the information can be and to what extent it might be linked to risk and strategy reporting. And there are significant differences of opinion on how these challenges should be addressed. The legislative and other proposals that are imminent, in the UK and internationally, will need to tackle them comprehensively and in a way that achieves maximum buy-in from business and investors, as well as policymakers and NGOs.

RELEVANT OR IRRELEVANT? KEEPING MANAGEMENT COMMENTARY IN FOCUS

The UK Financial Reporting Review Panel has released a statement highlighting deficiencies in the reporting of principal risks and uncertainties. John Boulton, Faculty Manager, looks at what this means and provides some tips for keeping on their right side.

CLUTTER

Clutter is a pretty emotive term, even forming the basis for a whole BBC television series *The Life Laundry*. But while clutter is an innocuous enough problem while it's confined to Auntie Audrey's house, it's a lot more destructive in the context of the annual report. And it's a hot topic at the moment; not only do the UK Financial Reporting Council have a whole consultation out on the subject of 'cutting clutter', it also forms the basis of four of the complaints in the Financial Reporting Review Panel's (FRRP's) recent report on the challenges in the reporting of principal risks and uncertainties. Management commentary is criticised for including too many risks and for not identifying which of these are key, for describing risks in generic terms that do not properly relate the risk to the business in question, and even worse, for just providing a general risk framework with no specific details at all. Businesses would do well to keep the IASB's guiding principle of relevance in mind when preparing their management commentary – if an item is not relevant to an understanding of the specific and material risk factors affecting the business, then it may be better to just leave it out.

A word here on 'uncertainties', because these are supposed to be disclosed too. 'Uncertainty' is not defined in the UK Companies Act, and therefore its practical meaning is rather vague. But clearly the intention here is to throw the net out a little further in identifying risk factors. As such there is perhaps an even greater danger of identified uncertainties being irrelevant and management should take particular care that generic economy or industry wide conditions of uncertainty, if meriting reporting at all, are appropriately related to their own business.

CONSISTENCY

Another gripe is consistency between different parts of the annual report. Common pitfalls include those areas where IFRS requires narrative descriptions in the notes to the financial statements. If these relate to risk factors, make sure that they agree with what's in the front-half of the financial statements (or even that the thing being described gets a mention in the front-half at all). This is likely to be particularly relevant for IFRS 7 *Financial Instruments: Disclosures*, which requires financial risks to be shown in the notes. Some of those financial risks may not qualify as 'key' and therefore could fail the relevance test for the front-half, but some thought should be given to how the two parts hang together. An allied point could be made about duplication, repeating the same information in multiple places increases the risk of inconsistency, much better for cross-references to be included instead.

'Businesses would do well to keep the IASB's guiding principle of relevance in mind when preparing their management commentary.'

MANAGEMENT OF RISKS

A further deficiency the FRRP has picked up on is that all too often little information is given on how management is actually managing its identified risks. Part of the purpose of the directors' report is to allow capital providers to assess management's stewardship over the business. Thus where risks are baldly stated without adequate indication of what management is actually doing about them, the report fails to meet its objective. In practice, partnering each risk with a related resolution seems to be a sensible format to follow and the time saved by excluding irrelevant information could more profitably be redirected to this exercise. Ultimately, providing this information can paint a much more positive picture to readers by illustrating how management is engaging with its key risks; and it keeps the FRRP happy to boot. More bang for your buck!

AND FINALLY…

Faculty Chairman Andy Simmonds recently admitted a dark secret. Many years ago, he opened a folder into which he put all those amusing e-mails that circulate. We have accessed that folder, and here is a first selection of favourites … with the most questionable material carefully edited out!

TEACHING MATHS AND ACCOUNTANCY THROUGH THE AGES

Teaching maths in 1960. A logger sells a truckload of lumber for £100. His cost of production is ⅘ of the price. What is his profit?

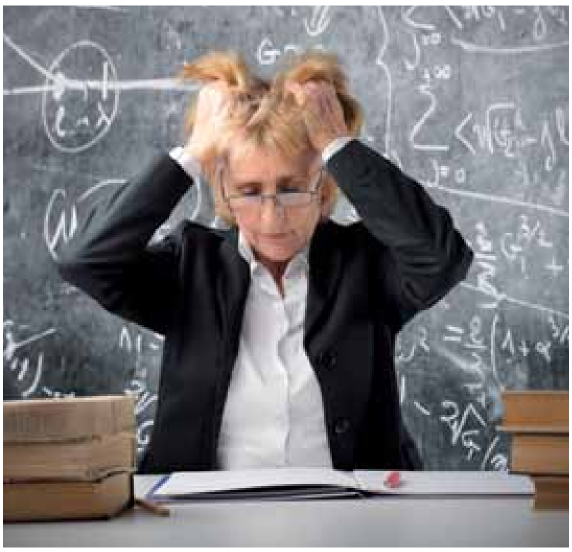
Teaching maths in 1970. A logger sells a truckload of lumber for £100. His cost of production is ⅘ of the price, or £80. What is his profit?

Teaching maths in 1980. A logger exchanges a set 'L' of lumber for a set 'M' of money. The cardinality of set 'M' is 100. Each element is worth one pound. Make 100 dots representing the elements of the set 'M.' The set 'C', the cost of production contains 20 fewer points than set 'M.' Represent the set 'C' as a subset of set 'M' and answer the following question: what is the cardinality of the set 'P' of profits?

Teaching maths in 1990. A logger sells a truckload of lumber for £100. His cost of production is £80 and his profit is £20. Your assignment: Underline the number 20.

Teaching maths in 2000. By cutting down beautiful forest trees, the logger makes £20. What do you think of this way of making a living? Topic for class participation after answering the question: how did the forest birds and squirrels feel as the logger cut down the trees? There are no wrong answers.

Teaching maths in 2010. A bank lends £100 to a logger, and securitises the loan through a fully leveraged private-equity off-balance sheet vehicle. How much does the banker earn in share options?



PEOPLE SEEM TO SEND ANDY LOTS OF JOKES ABOUT OLD AGE NOW...

An elderly couple had dinner at another couple's house, and after eating, the wives left the table and went into the kitchen.

The two gentlemen were talking, and one said, 'Last night we went out to a new restaurant and it was really great. I would recommend it very highly.'

The other man said, 'What is the name of the restaurant?'

The first man thought and thought and finally said, 'What is the name of that flower you give to someone you love? You know…the one that's red and has thorns.'

'Do you mean a rose?'

'Yes, that's the one,' replied the man. He then turned towards the kitchen and yelled, 'Rose, what's the name of that restaurant we went to last night?'

MY NEW SPELLING CHEQUER

Eye have a spelling chequer
It came with my pea sea
It plainly marques four my revue
Miss steaks eye kin not sea
Eye strike a quay and type a word
And weight four it two say
Weather I am wrong or write
It shows me strait a weigh
As soon as a mist ache is maid
It nose bee fore two long
And eye can put the error rite
Its rare lea ever wrong
Eye have run this poem threw it
I am shore your pleased to no
Its letter perfect awl the weigh
My chequer tolled me sew.