

# Financial Reporting 2011/2012 UK GAAP Checklist

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### **Amendment to FRS 26 Financial Instruments: Recognition and Measurement – Eligible Hedged Items**

**Issued November 2008**

**Mandatory for periods starting on/after 1 July 2009**

**Early adoption permitted**

**Fully retrospective application required**

Amendment clarifies how the existing principles underlying hedge accounting should be applied in the designation of one-sided risk in a hedged item and the designation of inflation as a hedged item.

#### **Main effects**

- Clarifies that changes in cash flows or fair value associated with 'one-sided risk' may be designated as a qualifying hedged item. Also clarifies that a hedge of a one-sided risk using an option cannot include the option's time value without giving rise to ineffectiveness.
- Inflation may not be designated as a risk or portion of a financial instrument unless it is separately identifiable or measurable reliably, i.e., it must be a contractually specified portion of the cash flows of a recognised inflation-linked bond and not affect other cash flows.

## **Mandatory years ending on or after 31 December 2009**

### **Amendments to UITF Abstract 42 (IFRIC 9): Reassessment of Embedded Derivatives and FRS 26 (IAS 39) Financial Instruments: Recognition and Measurement – Embedded Derivatives**

**Issued September 2009**

**Mandatory for periods ending on/after 31 December 2009**

Amendments clarify the treatment of embedded derivatives when an entity reclassifies a financial asset out of the fair value through profit or loss category.

#### **Main effects**

- Entity assesses whether an embedded derivative is required to be separated from a host contract when it reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category.
- Assessment made on the basis of the circumstances that existed on the later date of:
  - when the entity first became a party to the contract; and
  - a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

### **Mandatory from 17 December 2010**

*Abstract 48* – Accounting implications of the replacement of the retail prices index with the consumer prices index for retirement benefits

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### **Publications**

- If the fair value of the embedded derivative to be separated cannot be measured reliably, the entire financial instrument remains in the fair value through profit or loss category.

## **Mandatory years starting 1 January 2010**

### **Amendment to FRS 25 Financial Instruments: Presentation**

**Issued August 2008**

**Mandatory for periods starting on/after 1 January 2010**

**Early adoption permitted only for periods starting on/after 1 January 2009**

Amendment to change the classification of certain financial instruments from liabilities to equity in line with that made by the IASB to IAS 32 in February 2008.

#### **Main effects**

- Certain puttable financial instruments and certain financial instruments that impose an obligation on the entity to deliver a pro rata share of its net assets to another party on liquidation will be classified as equity rather than liabilities.
- Additional disclosure requirements in relation to puttable instruments classified as equity reflected in FRS 25 as well as FRS 29 in order to ensure they apply to entities that are outside the scope of FRS 29.

## **Amendment to FRS 20 (IFRS 2): Group Cash-settled Share-based Payment Transactions**

**Issued September 2009**

**Mandatory for periods starting on/after 1 January 2010**

**Early adoption permitted**

Amendments expand definition of a share-based payment to bring all group entities' accounts within scope of standard for all group awards. UITF Abstracts 41 *Scope of FRS 20 (IFRS 2)* and 44 *Group and Treasury Share Transactions withdrawn*. In line with amendment made by IASB to IFRS 2.

#### **Main effects**

- Amendment introduces concept of *receiving* entity (entity receiving the goods or services), *settling* entity (entity settling the obligation) and *reference* entity (entity whose equity instruments are granted or whose equity instruments are underlying measure for cash payment).
- Group share-based payment transaction now defined as one in which receiving entity, settling entity and reference entity are in the same group from perspective of ultimate parent.
- Cash payments based on equity instruments of *any* group entity now meet definition of share-based payment transaction. Previously, definition referred only to equity instruments of the entity.
- Cash-settled share-based payment granted and settled by shareholder outside the group is accounted for by the group if *reference entity* is within the group.
- Both receiving and settling entities account for a group share-based payment transaction.

- Receiving entity classifies group share-based payment transaction as equity-settled when:
  - it has an obligation to settle in its own equity instruments; or
  - it has no obligation to settle.
- In all other cases receiving entity classifies a group share-based payment transaction as cash-settled.

## Improvements to FRSs (2009)

**Issued December 2009**

**Mandatory for periods starting on/after 1 January 2010**

**Early adoption permitted**

Amendments issued as part of ASB's annual review to ensure relevance and robustness of FRSs and to maintain convergence with IFRSs.

### Main effects

- Amendment to FRS 11 *Impairment of fixed assets and goodwill* requires disclosure of discount rate and key assumptions used in determining value in use or net realisable value of an asset or IGU in an impairment loss calculation.
- Scope of FRS 20 *Share-based payment* amended. FRS 20 does not apply to common control transactions or the contribution of a business in the formation of a joint venture.
- UITF 46 *Hedges of a net investment in a foreign operation* amended to remove restriction on the entity that can hold hedging instruments.
- FRS 26 *Financial instruments: recognition and measurement* amendments include:
  - Scope amendment to exclude business combination contracts (still applicable to other contracts (e.g. options) between potential acquirer and seller);
  - loan prepayment options (only where the exercise price reimburses the lender for lost interest in the event of early repayment) are closely related to the loan;
  - gains or losses on hedged instrument re-classified from equity to profit or loss during the period that hedged *forecast* cash flows affect profit or loss (paragraph 97); and
  - prohibition on internal contracts designated as hedging instruments.

## Mandatory years starting 1 February 2010

### Amendment to FRS 25: Classification of Rights Issues

**Issued January 2010**

**Mandatory for periods starting on/after 1 February 2010**

**Early adoption permitted**

Identical to IASB's October 2009 amendment to IAS 32 *Financial Instruments: Presentation* and ensures FRS 25 remains converged with IAS 32.

#### **Main effects**

- Rights issues involving the exchange of a fixed number of an entity's own shares for a fixed amount of cash denominated in foreign currency classified as an equity instrument.

## Mandatory years starting 1 April 2010

### FRS 30 Heritage Assets

**Issued June 2009**

**Mandatory for periods starting on/after 1 April 2010**

**Early adoption permitted**

New standard introduces significant new disclosure requirements for reporting the content and value of collections held by museums and art galleries.

#### **Main effects**

- Specific disclosure requirements (illustrated in an appendix to the standard) for heritage assets, which apply whether or not they are reported in the balance sheet.
- Heritage assets recognised and measured in accordance with the requirements of FRS 15 and may be recognised at either cost or valuation.
- Valuation approach encouraged but since it may not always be possible to obtain current valuations, they may be made by any method that is appropriate and relevant, and reviewed with sufficient frequency to ensure they remain current.

## Effective years starting 29 June 2010

### UK Corporate Governance Code

**Issued May 2010**

**Applicable for periods beginning on or after 29 June 2010**

New Code issued to replace Combined Code. Changes are designed to reinforce board quality and focus on risk and accountability to shareholders.

#### **Principal changes:**

- **Accountability:** Board responsible for presenting a balanced and understandable assessment of the company's position and prospects and responsible for determining nature and extent of the significant risks it is willing to take in achieving its strategic objectives.

- Performance-related pay aligned to company's long-term interests and its risk policy and systems.
- All directors of FTSE 350 companies to be put forward for re-election every year.
- New principles to promote proper debate in the boardroom on the leadership of the chairman, the responsibility of the non-executive directors to provide constructive challenge, and the time commitment expected of all directors.
- New principles to encourage boards to be well-balanced, e.g., the need to appoint members on merit and against objective criteria, with due regard for diversity.
- Chairman to hold regular development reviews with each director.
- FTSE 350 companies to have externally facilitated board effectiveness reviews at least every three years.

Companies with a primary listing are required either to follow the UK Corporate Governance Code or to explain their non-compliance to shareholders.

## **Mandatory years starting 1 July 2010**

### **Abstract 47 – Extinguishing financial liabilities with equity instruments**

**Issued July 2010**

**Mandatory for periods starting on/after 1 July 2010**

**Early adoption permitted**

Abstract 47 implements IFRIC 19 *Extinguishing financial liabilities with equity instruments* into UK GAAP. It applies only to those entities that apply FRS 26 *Financial instruments: recognition and measurement*.

#### **Main effects**

- Abstract applies to the accounting (by the debtor only) for transactions where equity instruments are issued in a debt for equity swap.
- Equity instruments issued to a creditor to extinguish all or part of a financial liability are measured at their fair value. If that fair value cannot be measured reliably, they are measured at the fair value of the liability extinguished.
- Gain or loss on extinguishment recognised in profit or loss.
- An appendix to the Abstract outlines the provisions of the Companies Act 2006 provisions regarding the payment for shares that must also be taken into consideration.

## **Mandatory from 17 December 2010**

### **Abstract 48 – Accounting implications of the replacement of the retail prices index with the consumer prices index for retirement benefits**

**Issued 17 December 2010 and mandatory with immediate effect**

**Applies to retirement benefits within the scope of FRS 17 *Retirement Benefits***

Issued following the Government's announcement that the consumer prices index (CPI) rather than the retail prices index (RPI) would be used as the inflation measure for determining minimum pension increases to be applied to statutory index-linked features of retirement benefits.

#### **Main effects**

- Abstract addresses whether there is a reduction in scheme liabilities, how the effect of any reduction is presented, and when the effect of a reduction in scheme liabilities should be recognised.
- When a legal or constructive obligation exists to pay benefit increases based on RPI, any change and consequent reduction in scheme liabilities is accounted for as a past service cost and recognised in the accounting period when any necessary consultations have been concluded.
- When there is no RPI obligation, a change to measure scheme liabilities using CPI is a change in financial assumptions and is accounted for as an actuarial gain or loss.

## **Mandatory years starting 1 January 2011**

### **Improvements to FRSs (2010)**

**Issued November 2010**

**Mandatory for periods starting on/after 1 January 2011**

**Early adoption permitted**

Amendments issued as part of ASB's annual review to ensure relevance and robustness of FRSs and to maintain convergence with IFRSs.

#### **Main effects**

- FRS 29 (IFRS 7) *Financial Instruments: Disclosures* amended to add explicit emphasis on the interaction between qualitative and quantitative disclosures. This should enable users to better evaluate an entity's exposure to risks arising from financial instruments. In addition, the clause stating that quantitative disclosures are not required when a risk is not material has been removed from FRS 29 and the disclosure requirements for renegotiated financial assets are amended to address practical concerns.
- SSAP 25 *Segmental Reporting* amended to extend existing exemption from making segmental disclosures to those subsidiary undertakings whose parent undertaking provides segmental information in accordance with EU-adopted IFRS.
- FRS 8 *Related Party Disclosures* amended to replace the definition of a related party with that set out in UK law.

## **Mandatory years starting 1 July 2011**

### **Amendments to FRS 29 (IFRS 7) Disclosures – transfers of financial assets**

**Issued June 2011**

**Mandatory for periods starting on/after 1 July 2011**

**Early adoption permitted**

In line with amendments issued by IASB to IFRS 7 *Financial instruments: disclosures*. Enhances the disclosure requirements on transfers of financial assets and the effect of related risks on an entity's financial position.

#### **Main effects**

- Amendments require specific disclosures for
  - transfers of financial assets that are not derecognised in their entirety; and
  - financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.
- Continuing involvement exists in transferred financial asset if entity retains any contractual rights or obligations inherent in transferred financial asset or obtains any new contractual rights or obligations relating to that asset.

## **Mandatory years starting 1 October 2011**

### **The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011 (SI 2011/2198)**

#### **Issued September 2011**

**Amendment applies to large companies only (as defined by the Companies Act 2006) Mandatory for periods starting on/after 1 October 2011  
Early application permitted**

#### **Main effects**

- Audit fee for audit of company extended to include remuneration receivable by associates of the auditor in respect of the audit of the Company.
- Disclosure of fees for other services provided now split into eight instead of ten categories of service.

## **Effective years starting 1 October 2012**

### **Amendment to UK Corporate Governance Code**

#### **Issued October 2011**

**Applicable for periods beginning on/after 1 October 2012  
Early application encouraged**

Code updated to require listed companies to report annually on boardroom diversity. All companies encouraged to comply voluntarily and report with immediate effect.

#### **Principal changes:**

- Code provision B.2.4 updated to require a description of the board's policy on diversity (including gender); any measurable objectives set for implementing the policy; and progress on achieving these objectives.
- Supporting principles of B.6 updated to require that annual board evaluation process considers balance of skills, experience, independence and knowledge of the company on the board; its diversity, including gender; how the board works together as a unit; and other factors relevant to its effectiveness.

## Publications

Recent books and publications from KPMG member firms relevant to financial reporting:

**Published by KPMG IFRG Limited and available from your normal KPMG contact or from [www.kpmgifrg.com](http://www.kpmgifrg.com) (unless indicated otherwise):**

- *IFRS for Investment Funds: Segment Reporting* (December 2011) - addresses practical application issues that investment funds may encounter when applying IFRS 8.
- *IFRS for Investment Funds: Presentation and movement of financial assets carried at fair value* (November 2011) – addresses practical application issues that investment funds may encounter when applying IFRS.
- *New on the Horizon: Revenue recognition for building and construction* (November 2011) – addresses issues specific to entities in the building and construction sector.
- *New on the Horizon: Revenue from contracts with customers* (November 2011) – considers the proposals in ED/2011/6.
- *The Application of IFRS: Chemicals and performance technologies companies* (November 2011) – intended to guide you through some of the accounting challenges facing chemicals and performance technologies companies that report under IFRS.
- *First Impressions: Production stripping costs* (October 2011) – includes a discussion of the key elements of the Interpretation and highlights various application issues for affected surface mining companies.
- *IFRS Illustrative Financial Statements* (September 2011) – reflects IFRSs in issue at 1 September 2011 that are required to be applied by an entity with an annual period beginning on 1 January 2011.
- *The New World for Insurance: Progress report on Phase II* (September 2011) – an overview and update on how far the IASB and FASB have progressed in addressing their insurance accounting proposals' technical concerns.
- *Impact of IFRS: Power and utilities* (September 2011) – provides assistance to companies in the power and utilities sector who are considering converting to IFRS.
- *Impact of IFRS: Oil and gas* (September 2011) – provides assistance to companies in the oil and gas sector who are considering converting to IFRS.
- *New on the Horizon: Investment entities* (September 2011) – focuses on proposals to amend IFRS 10 Consolidated Financial Statements.
- *IFRS Practice Issues for Banks: Loan acquisition accounting* (August 2011) – provides guidance and examples on the accounting for acquired loans.
- *IFRS Illustrative Condensed Interim Financial Statements: First-time adopters* (July 2011) – illustrates one possible format for financial statements based on a fictitious multinational corporation with a transition date of 1 January 2010. Reflects IFRSs in issue at 1 June 2011 that are required to be applied by a first-time adopter with a first IFRS annual reporting period beginning on 1 January 2011.
- *First Impressions: Employee benefits* (July 2011) – considers the requirements of the amended IAS 19.

- *IFRS Disclosure Checklist* (July 2011) – reflects IFRSs in issue at 30 June 2011 that are required to be applied by an entity with an annual period beginning on or after 1 January 2011.
- *IFRS Illustrative Financial Statements: Banks* (June 2011) – assists with preparing financial statements for a bank or similar financial institution in accordance with IFRSs.
- *First Impressions: Fair value measurement* (June 2011) - includes a discussion of the key elements of the fair value measurement requirements and highlights various application issues of IFRS 13.
- *First Impressions: Consolidated financial statements – IFRS 10* (May 2011) – discusses the new approach for determining which investees should be consolidated.
- *First Impressions: Joint arrangements – IFRS 11* (May 2011) – explains how the new joint arrangements standard works, discusses implications for business and highlights areas of ambiguity. Examples show its effects in practice.
- *IFRS Disclosure checklist – Interim financial statements* (May 2011) – helps users prepare interim financial statements, including for first-time adopters, in accordance with IFRSs. Reflects IFRSs in issue at 1 April 2011 that must be applied by an entity with an annual period beginning on or after 1 January 2011.
- *Illustrative condensed interim financial statements* (May 2011) – helps users prepare condensed interim financial statements in accordance with IAS 34 *Interim Financial Reporting*.
- *The Application of IFRS: Media companies* (March 2011) – provides an understanding of the approaches taken by media companies in dealing with some of the sector-specific accounting issues that they face. Includes survey results from 28 companies and a summary of the main differences between US GAAP and IFRSs.
- *New on the Horizon: Impairment of financial assets managed in an open portfolio* (February 2011) – considers the proposed requirements of Supplement to ED/2009/12 *Financial Instruments: Amortised Cost and Impairment*.
- *New on the Horizon: Offsetting financial assets and financial liabilities* (February 2011) – considers the proposed requirements of ED/2011/1 *Offsetting Financial Assets and Financial Liabilities*.
- *Impact of IFRS: Banking* (February 2011) – gives an overview of the IFRS conversion process; considers the top ten accounting and reporting issues faced by banks; looks at the impact on IT and systems; and what different stakeholders should be aware of.
- *The Application of IFRS: Telecoms* (January 2011) – provides an understanding of the approaches taken by telecoms companies in dealing with some of the sector-specific accounting issues that they face. Includes survey results from 31 companies and a summary of the main differences between US GAAP and IFRSs.

**Recent corporate governance publications from the KPMG-sponsored Audit Committee Institute (ACI) available from your normal KPMG contact or from [www.kpmg.co.uk/aci/](http://www.kpmg.co.uk/aci/):**

- *The BOFI Programme (November 2011)* – summary of training programme offered for NEDs of banks and other financial institutions.
- *The UK ACI Professional Development Programme 2012 (November 2011)* – summary of professional development programme offered by KPMG’s ACI.
- *Future of Narrative Reporting (November 2011)* – summarises the BIS Consultation Paper *The Future of Narrative Reporting* which proposes radical changes to the UK narrative reporting framework in a bid to ensure relevant information can be more meaningfully presented and more quickly accessed by shareholders and other stakeholders.
- *ACI Quarterly, Issue 34 (September 2011)*.
- *Autumn Technical Update (July 2011)*.
- *ACI Quarterly, Issue 33 (June 2011)*.
- *Non-Executive Directors – are you getting the right information to govern? (April 2011)* – provides insights into the type of information that non-executive directors may receive from management and what it might look like in practice.
- *European Commission Paper (April 2011)* – summarises the EC Green Paper addressing the effectiveness of the current corporate governance framework for European companies in the light of the financial crisis.

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