Presentation Material

CPE Session #14
IFRS Teaching and Research
1 August 2009 – New York, USA

CPE Session #14

IFRS Teaching and Research

1 August 2009
Rendezvous Trianon room, 3rd Floor the Hilton New York
New York, New York, USA

Program

13:00 ***Introduction***
Mary Barth
Professor of Accounting, **Stanford University** and *former Member*, **IASB**

13:05 ***A Framework for Teaching IFRSs and myths, mysteries & misconceptions***
Michael Wells
Director, IFRS Education Initiative, **IASC Foundation**

13:45 ***IFRS Curriculum Development and IFRS Resources***
Donna Street
Professor of Accounting, **University of Dayton** and *President*, **IAAER**

14:15 Coffee break (in the Madison room on the 2nd floor)

14:45 ***Teaching IFRS Judgments***
Katherine Schipper
Professor of Accounting, **Duke University** and *former Member*, **FASB**

15:30 ***IFRS Training***
Paul Munter
Partner, **KPMG**

16:15 ***IFRS Research***
Mary Barth
Professor of Accounting, **Stanford University** and *former Member*, **IASB**

16:55 ***Concluding Comments***
Mary Barth
Professor of Accounting, **Stanford University** and *former Member*, **IASB**

17:00 ***Close***

CPE Session #14
IFRS Teaching and Research

1 August 2009 – New York, USA

A Framework for Teaching IFRSs and myths, mysteries and misconceptions

Michael Wells
Director
IFRS Education Initiative, IASC Foundation

August 2009

International Financial Reporting Standards

Teaching principle-based standards

New York, August 2009

Michael Wells, Director, IFRS Education Initiative, IASC Foundation

IASC Foundation

The views expressed in this presentation are those of the presenter, not necessarily those of the IASC Foundation or the IASB

Overview

- Principle-based standards
- Structure of IFRSs
- A structure for teaching IFRS

International Financial Reporting Standards

Principle-based standards

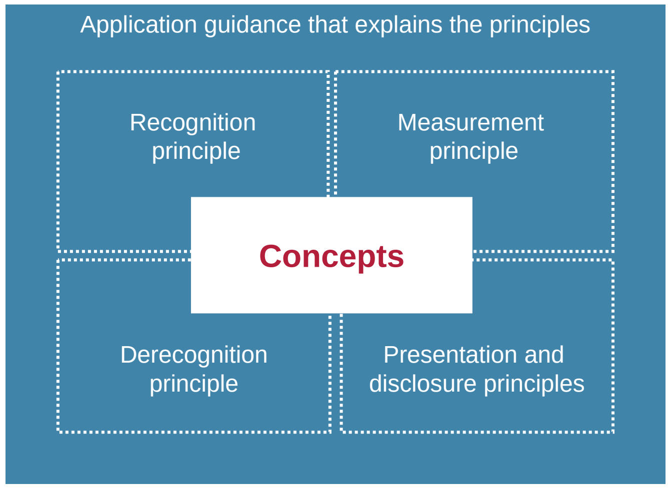
IASC Foundation

The views expressed in this presentation are those of the presenter, not necessarily those of the IASC Foundation or the IASB

Principles versus rules

Principles **Rules**

Ideal structure of a principle-based standard



The ideal principle-based standard

- Scope
  - no exceptions
- Principles
  - derived from conceptual framework
  - reliance on professional judgement to apply principles in business context
- Application guidance
  - explains application of principles

Get rule-based standards if

- Preparers and auditors
  - refuse to exercise professional judgement
  - don’t act with integrity
  - ask for detailed interpretations
  - refuse to accept raw economic facts
- Regulators
  - want one answer in spite of different economic facts
- Courts
  - lawyers fail to defend reasonable judgements

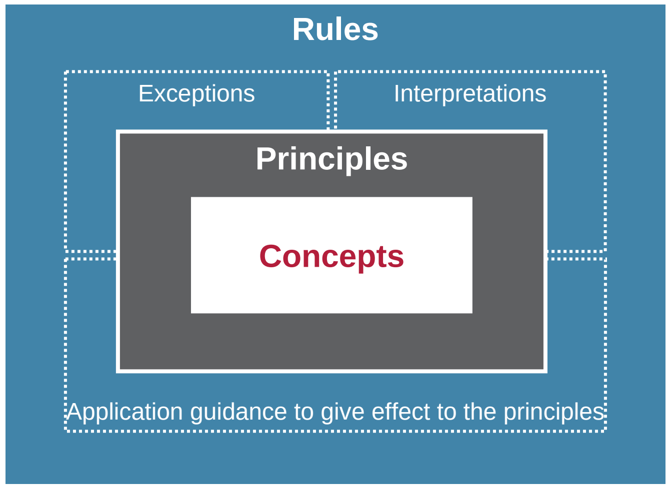
International Financial Reporting Standards

Structure of IFRSs

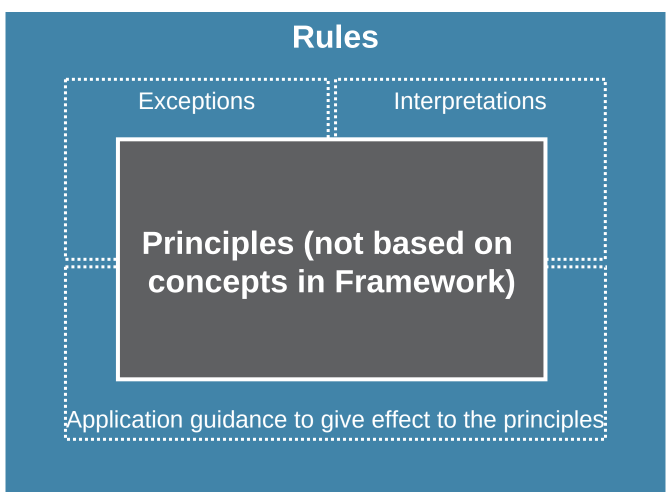
IASC Foundation

The views expressed in this presentation are those of the presenter, not necessarily those of the IASC Foundation or the IASB

Structure of *some* IFRSs



Structure of *other* IFRSs



What is IFRS?

IFRS is

- Standards (IFRSs and IASs)
- Interpretations (IFRICs and SICs)

Framework is not an IFRS (but is in hierarchy)

Concepts that underlie IFRSs

- Objectives of **general purpose financial statements**
- Qualitative characteristics
- Elements
- Recognition and measurement
- Presentation and disclosure

Teaching suggestions:
- Identify which concepts are robust (and which are not)
- Relate the requirements back to the robust concepts in FW
- Explain reasons when requirements inconsistent with FW
- Debunk myths, eg myth: Framework = IFRS constitution

Objective

Objective of IFRS financial statements

- to provide information about the:
  - financial position
  - performance; and
  - changes in financial position
- of an entity that is useful to … in making capital allocation decisions.

Objective continued

Teaching suggestions:

- Contrast objective of IFRS financial statements with other objectives of financial statements
- Debunk myths
  - Myth 1: objective = record of historical costs
  - Myth 2: objective = support tax return
  - Myth 3: financial statements are designed to meet all the needs of all users

Qualitative characteristics

Current framework

- understandability
- relevance
  - materiality
- reliability
  - faithful representation
  - substance over form
  - neutrality (prudence)
  - completeness
- comparability

Proposed framework

- fundamental QCs
  - relevance
  - faithful representation
    - complete
    - neutrality
    - free from material error
- enhancing QCs
  - comparability
  - verifiability
  - timeliness
  - understandability

Debunk myths

Myth 1: Reliability = precise

- Debunk:
  - reliability = faithful representation, substance over form, neutrality, completeness… (FW.31–38)

Myth 2: Matching = QC or underlying assumption

- Debunk:
  - underlying assumptions = going concern and accrual basis (FW.22 and 23)
  - accrual basis = recognise elements when they satisfy definition and recognition criteria (IAS 1.28)
  - other elements defined with reference to assets and liabilities (FW.49 and 70)

Elements

Current framework

- Asset
  - resource controlled by the entity
  - result of past event
  - expected inflow of economic benefits
- Liability
  - present obligation
  - arising from past event
  - expected outflow of economic benefits

Framework project

- Asset
  - a present
  - economic resource
  - to which the entity has a right or other access that others do not have
- Liability
  - a present
  - economic obligation
  - for which the entity is the obligor

Elements continued

Current framework

- Equity = Assets – Liabilities (ie a residual)
- Income and expenses = changes in assets and liabilities…

Teaching suggestions:
- asset is the cornerstone of element
- defining income and expenses with reference to assets & liabilities = robust framework for measuring performance

Measurement

Myth 1: IFRSs has two measurement bases—cost and fair value

- Debunk:
  - – IFRSs contains many different measurements
  - – Framework is poor on measurement
    - – it lists a number of measurement techniques (rather than measurement bases)
    - – it does not explain when each measurement should be applied
    - – is not very helpful (on measurement) therefore a joint project with the FASB to rewrite the measurement part of the Framework

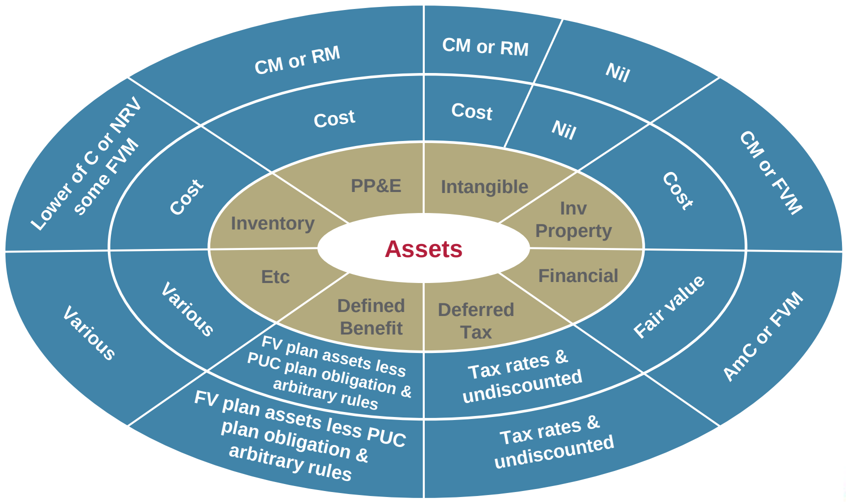
Debunk myths

Myth 2: Counterintuitive that worsening in own credit rating results in decreased liabilities

- Debunk:
  - – basic finance: greater default risk increases the discount rate that the market would apply to the entity’s debt
  - – overall probable that market capitalisation and value of net assets declines:
    - – recorded assets may require impairment
    - – unrecorded decline in value of unrecorded net assets

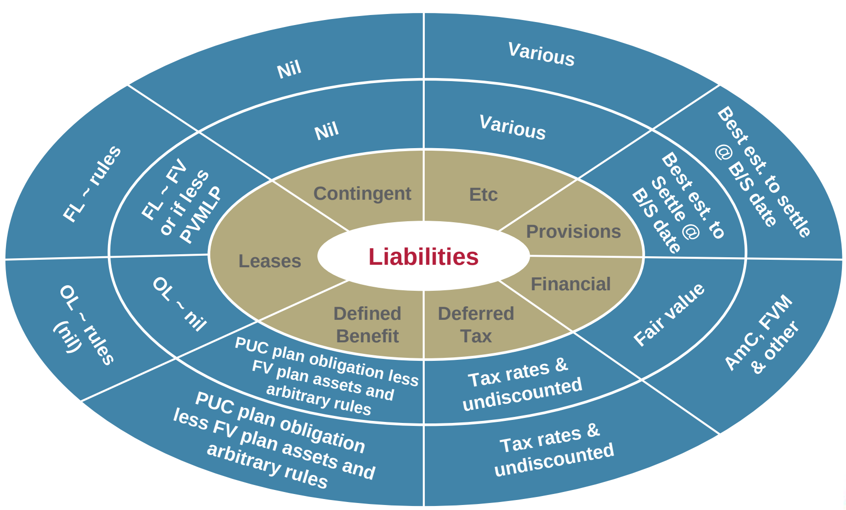
Asset

Classification, recognition and measurement



Liability

Classification, recognition and measurement

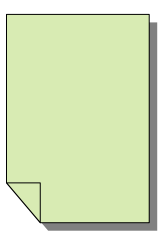


A structure for teaching IFRSs

IASC Foundation

The views expressed in this presentation are those of the presenter, not necessarily those of the IASC Foundation or the IASB

From concepts to principles to rules



Concepts

Principles

Rules

From concepts to principles to rules

Teaching suggestions

– build from concepts to principles

– explain

  – need for judgement in applying principles
  – how application guidance gives effect to principles
  – how other rules create exceptions and other departures from the principles
  – how interpretations can create more rules

– test understanding, eg use integrated case studies

Example 1
Correcting material prior period error

- Objective
- Concepts
  - faithful representation
  - comparability
- Principle
  - retrospective restatement, ie restate financial statements in order that present financial information as if error had not occurred
- Rules
  - impracticable exception
  - specified disclosures

Example 1:
Correcting material prior period error continued

Teaching suggestions

– build from objective through concepts to principle and rules

  – eg principle results in faithful representation & comparabili

– explain use of judgement in applying principle

  – eg materiality

– explain reasons for exception

  – impracticability

– test understanding, integrated case study

Example 2:
Change in accounting policy

- Objective
- Concepts
- Principle – retrospective application
- Rules
  - – transitional provisions
  - – impracticable exception
  - – specified disclosures

Example 2:
Change in accounting policy continued

Teaching suggestions:

– build from objective through concepts to principle and rules
– reasons for transitional provisions and impracticable exceptions
– explain how specified disclosures give effect to principle
– focus on judgements, eg differentiating certain changes in accounting policies from changes in accounting estimates
– test understanding, eg use an integrated case study

Example 3:
Change in accounting estimate

- Objective
- Concepts
- Principle – prospective application
- Rules
  – specified disclosures

Example 3: Change in accounting estimate continued

Teaching suggestions:

– build from objective through concepts to principle and rules

– explain how specified disclosures give effect to principle

– focus on judgements, eg differentiating certain changes in accounting estimates from changes in accounting policies and the correction of prior period errors

– test understanding, eg use an integrated case study

Example 4: Events after the reporting period

- Objective
- Concepts
- Principles
  - – adjusting, if condition existed at end of reporting period
  - – non-adjusting, if condition did not exist at end…
- Rules
  - – eg specified disclosures

Example 4:
Events after the reporting period continued

Teaching suggestions:

– build from objective through concepts to principle and rules

– explain how specified disclosures give effect to principles

– focus on judgements, eg material?

– test understanding, eg use an integrated case study

Example 5:
Lease classification

- Objective
- Concepts
- Principles
  - – capitalise in-substance purchases (finance leases)
  - – other leases = executory contracts (operating leases)
- Rules
  - – guidance, eg contingent rentals
  - – specified disclosures

Example 5: Lease classification continued

Teaching suggestions:

– explain principle is weak/inconsistent with the framework

– discuss what a better classification principle could be, eg see DP *Leases*

– focus on judgements, eg classification operating or finance lease

– test understanding, eg use an integrated case study

Example 6: Business combinations

- Objective
- Concepts
- Core principle
  - – an acquirer of a business
  - – recognises the assets acquired and liabilities assumed
  - – at their acquisition-date fair values
  - – discloses information that enables users to evaluate the nature and financial effects of the acquisition

Example 6: Business combinations continued

- Rules
  - – exceptions to the recognition principle
  - – exceptions to the measurement principle
  - – specified disclosures

Example 6: Business combinations continued

Teaching suggestions:

– build from objective through concepts to principle and rules

– recognition—explain reason for removing
(i) the probability criterion; and
(ii) the explicit reliability of measurement criteria
(see Basis for Conclusions on IFRS 3 paragraphs BC125–BC130)

– explain reasons for exceptions to IFRS 3:

– recognition principle

– measurement principle

(see Basis for Conclusions on IFRS 3)

Example 6:
Business combinations continued

39

Teaching suggestions:

Focus on judgements, eg

– identifying a business, measuring fair value in the absence of an active market etc

Test understanding, eg:

– integrated case studies

– discuss with reference to the QCs whether uncertainty should enter recognition or measurement (for business combinations and then extend the discussion to other transactions and elements)

Questions or comments?

40

Expressions of individual views by members of the IASB and their staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

CPE Session #14
IFRS Teaching and Research

1 August 2009 – New York, USA

IFRS Curriculum Development and IFRS Resources

Donna Street
Professor of Accounting,
University of Dayton *&*
President,
IAAER

IFRS Resources For Educators

IASCF/IAAER/AAA IAS
IFRS Teaching and Research CPE Workshop
AAA – August 2009 - NY

Professor Donna L. Street
President IAAER
Mahrt Chair in Accounting
University of Dayton

Portions of this presentation build on prior work by Pacter and Zeff and Schipper.

Overview

- Free and low cost IFRS teaching resources
- eIFRS / *A Guide Through IFRS* demonstration
- IFRS for SMEs training materials
- Approaches to teaching IFRS

IFRS teaching resources

- Recommended starting point - Paul Pacter's IFRS Resources for Educators
- Regularly updated and available at
  - http://www.iasplus.com/resource/ifrsresources.pdf

My favorites from Paul's list

- *Issues in Accounting Education* 22(4) Nov 2007
  - 17 international accounting cases
  - Special issue by International Accounting Section of AAA
- IASB and FASB project summaries (www.iasb.org and www.fasb.org)
  - PLEASE TEACH IASB AGENDA INCLUDING FRAMEWORK
- AICPA's www.ifrs.com
- http://www.iasplus.com (Deloitte)
  - TREMENDOUS UPDATES
    - Go to place for updates – worldwide coverage
  - Includes Deloitte IFRS e-learning (free downloads)
    - Independent study with quizzes provided

My favorite from Paul's list

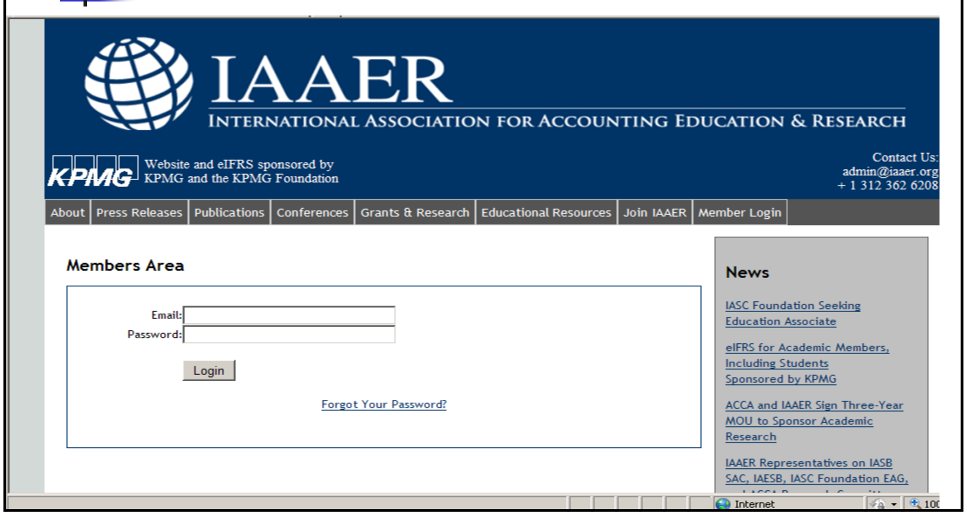
- IAAER membership includes <u>free</u> academic access to eIFRS. Annual IAAER membership
  - $US25 faculty
  - $US20 student
  - Special university rates start at $US150 (for 10 faculty)
  - Membership forms available at www.iaaer.org
  - Otherwise 200 UK pounds
  - eIFRS includes - *A Guide Through IFRS*
    - Full text of standards & interpretations
    - Extensive cross-referencing and other annotations

My favorite from Paul's list

- eIFRS includes printable PDF language versions of IFRS in
  - English (2009)
  - German (2008)
  - Spanish (2008)
  - French (2008)
  - Greek (2006)
  - Italian (2008)
  - Dutch (2008)
  - Russian (2006)
  - Slovenian (2007)

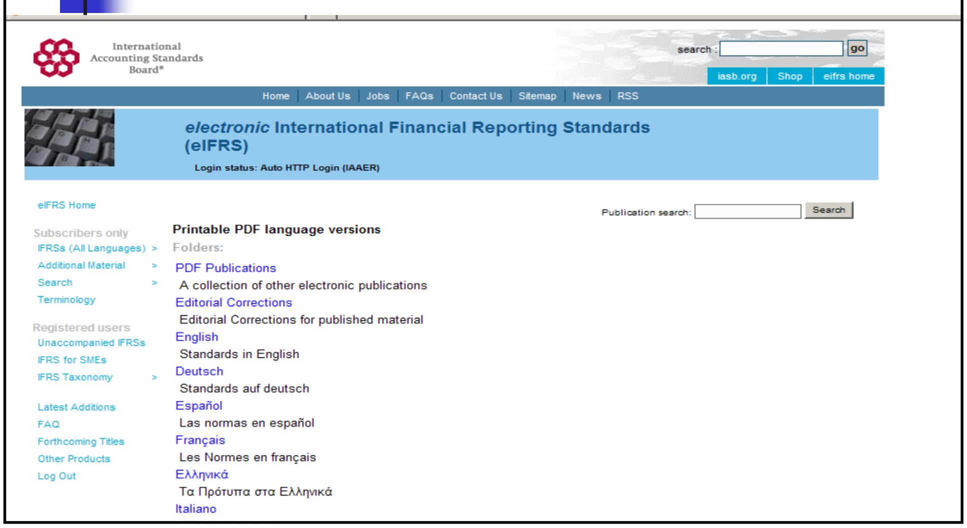
eIFRS demonstration www.iaaer.org

Member login



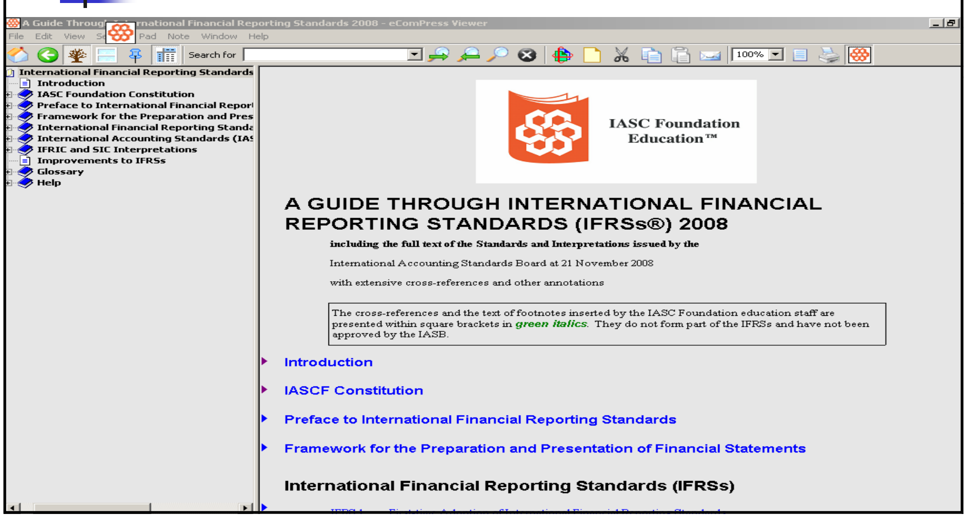
Accept terms and conditions of use

eIFRS (several languages)

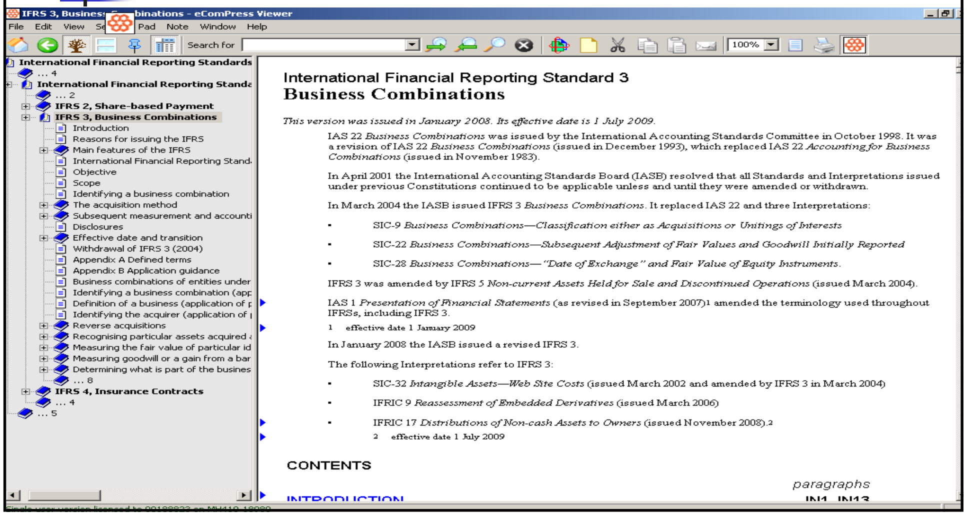


A Guide Through IFRSs: 2008

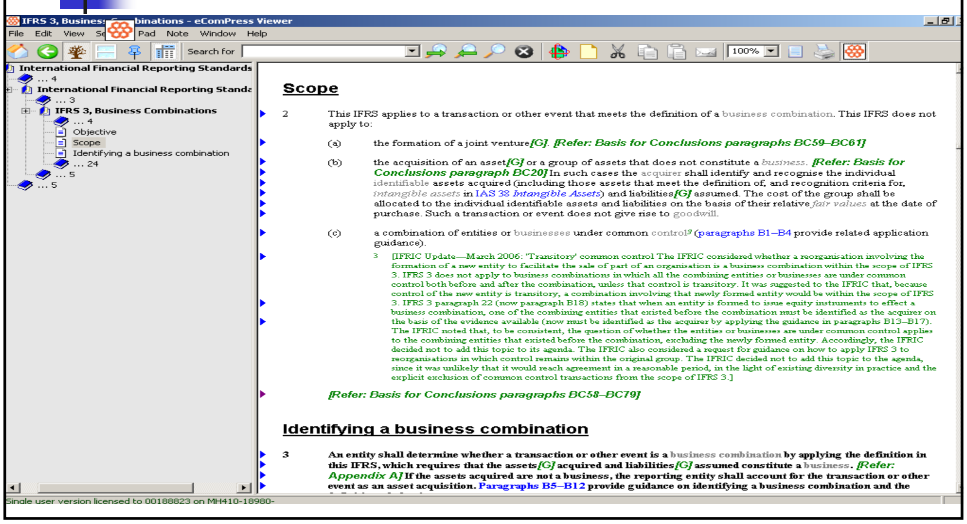
A Guide Through IFRSs: 2008



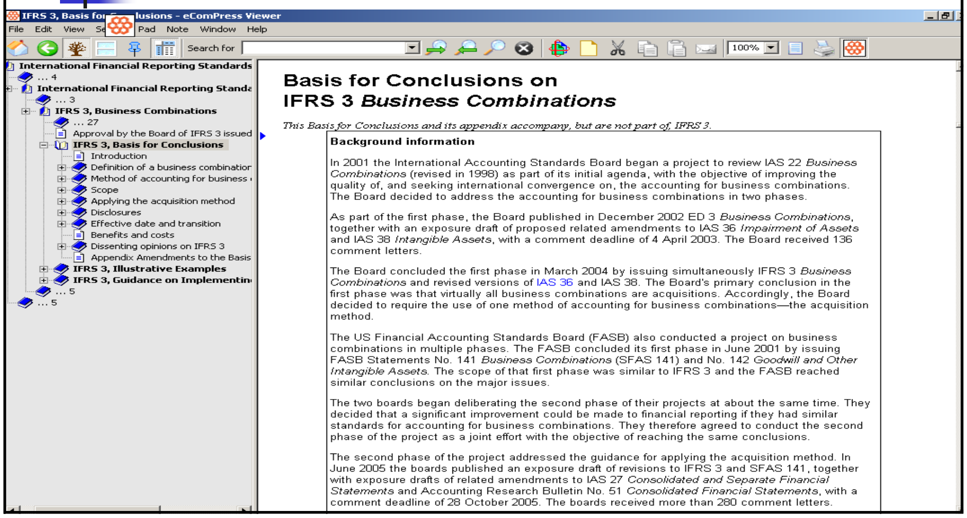
IFRS 3



IFRIC update



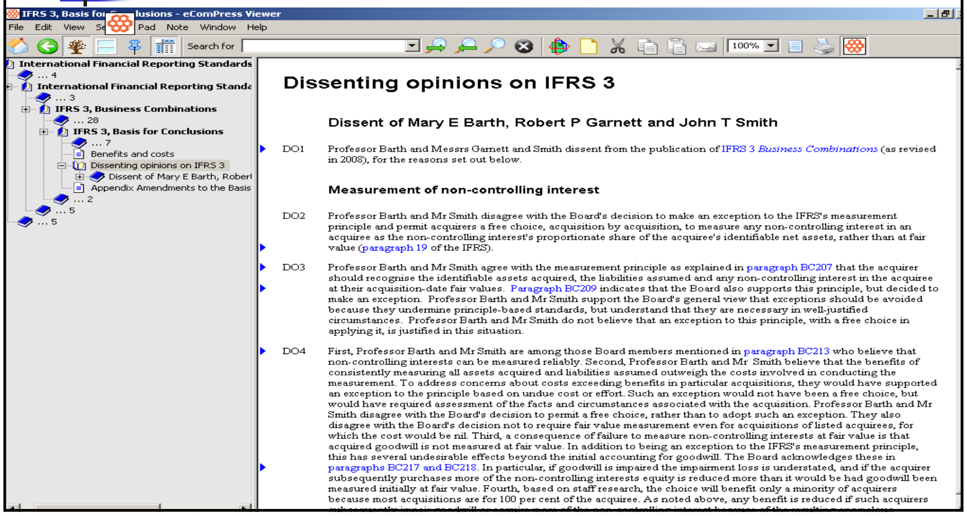
Basis for conclusions



Basis for conclusions

- Not included in free versions of IFRS
- Very important for classroom use – included in eIFRS

Dissenting opinions



Dissenting opinions on IFRS 3

Dissent of Mary E Barth, Robert P Garnett and John T Smith

DO1 Professor Barth and Messrs Garnett and Smith dissent from the publication of IFRS 3 *Business Combinations* (as revised in 2008), for the reasons set out below.

Measurement of non-controlling interest

DO2 Professor Barth and Mr Smith disagree with the Board's decision to make an exception to the IFRS's measurement principle and permit acquirers a free choice, acquisition by acquisition, to measure any non-controlling interest in an acquiree as the non-controlling interest's proportionate share of the acquiree's identifiable net assets, rather than at fair value (paragraph 19 of the IFRS).

DO3 Professor Barth and Mr Smith agree with the measurement principle as explained in paragraph BC207 that the acquirer should recognise the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at their acquisition-date fair values. Paragraph BC209 indicates that the Board also supports this principle, but decided to make an exception. Professor Barth and Mr Smith support the Board's general view that exceptions should be avoided because they undermine principle-based standards, but understand that they are necessary in well-justified circumstances. Professor Barth and Mr Smith do not believe that an exception to this principle, with a free choice in applying it, is justified in this situation.

DO4 First, Professor Barth and Mr Smith are among those Board members mentioned in paragraph BC213 who believe that non-controlling interests can be measured reliably. Second, Professor Barth and Mr Smith believe that the benefits of consistently measuring all assets acquired and liabilities assumed outweigh the costs involved in conducting the measurement. To address concerns about costs exceeding benefits in particular acquisitions, they would have supported an exception to the principle based on undue cost or effort. Such an exception would not have been a free choice, but would have required assessment of the facts and circumstances associated with the acquisition. Professor Barth and Mr Smith disagree with the Board's decision to permit a free choice, rather than to adopt such an exception. They also disagree with the Board's decision not to require fair value measurement even for acquisitions of listed acquirees, for which the cost would be nil. Third, a consequence of failure to measure non-controlling interests at fair value is that acquired goodwill is not measured at fair value. In addition to being an exception to the IFRS's measurement principle, this has several undesirable effects beyond the initial accounting for goodwill. The Board acknowledges these in paragraphs BC217 and BC218. In particular, if goodwill is impaired the impairment loss is understated, and if the acquirer subsequently purchases more of the non-controlling interests equity is reduced more than it would be had goodwill been measured initially at fair value. Fourth, based on staff research, the choice will benefit only a minority of acquirers because most acquisitions are for 100 per cent of the acquiree. As noted above, any benefit is reduced if such acquirers

I also use these free downloads

- Deloitte's *Buckle Up (On the Road to IFRS)*
  - http://www.deloitte.com.mx/documents/hablemos_claro/Book11.pdf
  - Pages 12 -13 Where the rubber meets the road
    - List of key differences between IFRS and US GAAP — and what CFOs need to do about them.
- E&Y's
  - *US GAAP vs. IFRS: The Basics* (updated January 2009)
  - http://www.ey.com/Publication/vwLUAssets/IFRS_v_GAAP_basics_Jan09/$FILE/IFRS_v_GAAP_basics_Jan09.pdf
  - Covers similarities, differences, and convergence for 20 financial reporting areas

Consider recent regulatory decisions

- For example, CESR's EEC database of enforcement decisions
  - http://www.cesr-eu.org/index.php?page=contenu_groups&id=13&docmore=1
    - 24 Mar. 2009 - 5th extract from EECS's database of enforcement decisions
    - 23 Dec. 2008 - 4th extract from EECS's database of enforcement decisions
    - 19 May. 2008 - 3rd extract from EECS's database of enforcement decisions
    - 17 Dec. 2007- 2nd extract from EECS's database of enforcement decisions
    - 16 Apr. 2007 - Extract from EECS's database of enforcement decisions

Free IFRS access on EU website

- IFRS in every official language of EU
  - Under heading: IAS / IFRS Standards and Interpretations
  - Includes (as adopted by EU):
    - International Accounting Standards (IAS)
    - International Financial Reporting Standards (IFRS) and related interpretations (SIC/IFRIC)
    - Information on temporary carve-out from IAS 39 and fair value/financial crisis debate
  - At http://ec.europa.eu/internal_market/accounting/ias/index_en.htm
    - 'ro' link for Romanian
    - 'fr' link for French
    - 'en' link for English

IFRS for SMEs

- IASCF offers free online access to the English version and accompanying material for private, non-commercial use for registered users.
  - http://www.iasb.org/IFRS+for+SMEs/IFRS+for+SMEs+and+related+material/IFRS+for+SMEs+and+related+material.htm

- IASCF education initiative is developing comprehensive free-to-download training material to support implementation of IFRS for SMEs

  - Will be available at http://www.iasb.org/Education/Resources/Training+material.htm

  - Please note these materials are FORTHCOMING, expected 4th Q 2009

  - Training materials will include 38 stand-alone training modules - one for each section of IFRS for SMEs

IFRS for SMEs

- Each training module will include:

  - Test your knowledge - a collection of multiple choice questions designed to test the learner's knowledge of the requirements of the section of the IFRS for SMEs

  - Apply your knowledge - a collection of case studies designed to develop the learner's ability to account for transactions and events in accordance with the section of the IFRS for SMEs

IFRS for SMEs in the US

- Designation of IASB under AICPA Rules 202-203 (May 2008)
  - AICPA's Governing Council recognizes IFRS as authoritative for purposes of financial accounting for members of AICPA
    - Specifies that one criteria for GAAP, that of exclusive domain, waived for time being. Because FASB continues also to be considered GAAP. Thus for the moment there are two GAAP sets of standards. It is not known who or how quickly individuals will chose IFRS over FASB GAAP.
  - Private US domiciled companies may now chose freely between US GAAP, IFRS, IFRS for SMEs
    - Some are selecting IFRS

IFRS for SMEs in the US

- KPMG IFRS Institute Webcast: IFRS for Small and Medium Sized Entities - A New Choice for Many U.S. Private Companies
  - KPMG partners provide an overview of the simplifications and deletions compared to full IFRS, and provide insight into practical implications for companies considering adopting IFRS for SMEs.
- AICPA Q&A on IFRS for SMEs
  - http://www.ifrs.com/overview/IFRS_SMES/IFRS_SMES_FAQ.html#q6

Approaches to teaching IFRS

- See Schipper: Ideas for Teaching IFRSs
  - http://www.iasb.org/NR/rdonlyres/4F3A44D2-F6AB-4F36-84C3-0032B08870D9/0/France_draft2.pdf
- See Pacter and Zeff: IFRS Is Here And What To Do About It
  - http://www.iasplus.com/resource/0808aaa-ifrs-is-here.pdf

Approaches to teaching IFRS

- General Knowledge
  - Start in principles and include in all financial reporting (and finance) classes – should not be a one man/woman show – need department buy in
    - IFRS is the global norm
    - Why US students need to know about IFRS (i.e. become bi-lingual)
      - Utilize large firm publications, webcasts, etc.
      - IFRS will soon be on the CPA exam (no later than 2012)

Approaches to teaching IFRS

- Classes for accounting majors
  - 1) Stand alone IFRS courses
    - Growing demand from practicing CPAs
  - 2) Integrate IFRSs into all financial accounting courses (see Schipper for 2 possible approaches)
    - *Approach 1*: Equal emphasis
      - *Example:* Present both IFRS and U S GAAP
      - » Primary focus is on where they are the same
      - » Identify and illustrate differences at a level that is appropriate
    - *Approach 2:* Differences approach
      - *Example:* Teach US GAAP (or teach IFRS)
      - » Present IFRS (or US GAAP) only where it differs from US GAAP (or IFRS)

Approaches to teaching IFRS

- How much emphasis on convergence projects? (see Schipper for two approaches)
  - Approach 1: Basic explanation
    - Explain objective of project and describe progress to date
    - Little technical content
  - Approach 2: Teach the proposals, with illustrations
    - Example 1: Revenue recognition
      - » Contrast IAS 18 and relevant portions of US GAAP with main proposals under consideration
    - Example 2: Financial statement presentation
      - » Recast financial statements as they would appear under the current proposals
  - Questions to consider:
    - Is it likely your students will encounter standards based on these proposals?
  - How much class time can be devoted to proposed standards?

Approaches to teaching IFRS

- For those supplementing US GAAP classes, free and easy to implement IFRS additions include
  - Have students visit www.iasb.org and summarize convergence activities related to each chapter/topic
  - Supplement each chapter with relevant section of US GAAP vs IFRS: the Basics
  - Have students regularly visit www.iasplus.com and ifrs.com and report on relevant recent events
  - Have students view relevant webcasts (large firms, IASB, etc.) outside class and prepare written reports – follow with a class discussion addressing any questions they may have
  - Have students view e-learning modules outside class at www.iasplus.com and complete the quizzes
  - Utilize the great IFRS teaching materials provided on the websites of the large firms
  - Etc.
    - Test your students on all the IFRS materials covered

Approaches to teaching IFRS

- My recommendation – Kill two birds with one stone whenever possible
  - Teach forthcoming joint concepts and standards and you are teaching US GAAP **<u>and IFRS</u>** (see Schipper's two approaches)
    - Approach 1 – Basic explanation for projects in early development stages
    - Approach 2 – Teach the proposals with illustrations for projects in latter stages of due process
      - Example teach the Framework chapters replacing SFAC 1 and 2
        - Exposure draft on IASB and FASB site
        - http://www.fasb.org/draft/ed_conceptual_framework_for_fin_reporting.pdf
        - Final concept statement anticipated 3rd Q 2009
      - Focus on projects targeted in MOU for 2011 completion
        - Revenue recognition
        - Financial statement presentation

My recommendation

- Start TODAY if you have not already
  - I started integrating IAS into intermediate over a decade ago (on exams, research papers, etc.)
  - What are you waiting for?
  - Tons of free and low cost material is available for your students

- Why not integrate IFRS in ALL financial reporting and related classes?
  - And don't forget that users, etc also need to know about IFRS

IFRS Resources for Educators

Prepared by Paul Pacter: ppacter@iasb.org and paupacter@deloitte.com

Updated 17 July 2009

This is a list of some IFRS Resources available to accounting academicians. Most of the Internet resources are available without charge (purchased access is indicated).

This document (with active hyperlinks) may be downloaded from:

http://www.iasplus.com/resource/ifrsresources.pdf

Important: This list is provided for your convenience only. Neither the IASB nor Deloitte has reviewed or approved the contents of any of the information sources cited. It is the responsibility of the user to evaluate the content and usefulness of information.

BDO SEIDMAN

BDO IFRS Resource Centre

http://www.bdo.com/ifrs/

DELOITTE TOUCHE TOHMATSU

Comprehensive IFRS publications

iGAAP 2009 – A Guide to IFRS Reporting (Second Edition)
Written by Phil Barden (writing team leader) and eight other authors from Deloitte. Published Nov. 2008 by Lexis-Nexis, 2,529 pages, ISBN 9780754535836. A practical working manual for applying each IAS and IFRS, with commentary, interpretation, and many illustrative examples. Purchase from **www.lexisnexis.co.uk/deloitte**.

iGAAP 2009 Financial Instruments: IAS 32, IAS 39 and IFRS 7 Explained (Fifth Edition)
By Veronica Poole and Andrew Spooner of Deloitte. Published by LexisNexis, 992 pages, June 2009. Guide for financial instruments accounting under IFRSs, including interpretations, examples, discussions from the IASB and the IFRIC, comparisons of IFRSs with US GAAP for financial instruments, and extracts from 2008 annual reports illustrating IFRS 7 *Financial Instruments Disclosures*. Purchase from **www.lexisnexis.co.uk/deloitte**.

Deloitte IFRS website

http://www.iasplus.com

- Nearly 700 HTML web pages
- Over 3,800 downloadable PDF and ZIP files
- Free
- Examples of content:
  Summaries of Standards and Interpretations
  Summaries of IASB and IFRIC Agenda Projects
  IFRSs in your Pocket 2008
  IAS Plus newsletters
  Information about IASB history and structure
  IFRS model financial statements and presentation and disclosure checklists

IFRS publications and resources
Use of IFRSs by jurisdiction
Comparisons of IFRSs and national GAAPs
Links to 200 IFRS-related websites

IFRS eLearning

http://www.iasplus.com then click on light-bulb icon

- Each module is a 4mb to 8mb download. Can install on single PC or network. Each module takes 2-3 hours to complete. Case approach. Quiz at end. Completely free of charge. Must register before first download. Over 2,000,000 modules already downloaded.
- 37 Modules currently available (all updated in 2008 or 2009.
- Available also in Spanish**: www.deloitteifrslearning.com/spanish/registration_es.asp**

Deloitte's IFRS University Consortium

http://www.deloitte.com/dtt/article/0,1002,sid%253D177677%2526cid%253D206187,00.html

- Resources for bringing IFRSs into the classroom
- Webcasts
- Course materials
- Case studies
- Resource library

ERNST & YOUNG

Comprehensive IFRS publication

Ernst & Young, ***International GAAP 2009***.
Published by John Wiley & Sons, January 2009, 3,792 pages, 43 chapters, in two volumes, ISBN-978-0-470-74003-3. "The essential tool for anyone applying, auditing, interpreting, regulating, studying and teaching international financial reporting. It provides expert interpretation and practical guidance for busy professionals, and includes, in every chapter, detailed analysis of how complex financial reporting problems can be resolved appropriately and effectively." Web page: **http://as.wiley.com/WileyCDA/Section/id-310759.html**

Ernst & Young IFRS website

www.ey.com/ifrs

Includes:

- IFRS publications: **http://www.ey.com/GL/en/Issues/Governance-and-reporting/IFRS/Publications**
- *IFRS Outlook* Monthly Newsletter (formerly called *Global EYe on IFRSs*)
- IFRS Library Online:
- Model IFRS financial statements:
- Tools and resources

GRANT THORNTON

International Financial Reporting Standards Resource Center

www.grantthornton.com/portal/site/gtcom/menuitem.91c078ed5c0ef4ca80cd8710033841ca/?vgnextoid=bb444cfadd5d3110VgnVCM1000003a8314acRCRD

Includes a range of publications such as:

- IFRS Top 20 Tracker (May 2008) 20 leading IFRS disclosure and accounting issues
- Comparison between U.S. GAAP and International Financial Reporting Standards

Faculty Connection – resource website:

http://faculty.gtexperience.com

KPMG

KPMG IFRS Institute

http://www.kpmgifrsinstitute.com/

KPMG Faculty Portal

http://www.kpmgfacultyportal.com

- IFRS resources as well as US GAAP

KPMG International Financial Reporting Group website

http://www.kpmgifrg.com

IFRS Publications Library

http://www.kpmgifrg.com/pubs/index.cfm

Includes:

- Interpretive guidance
- *IFRS In Brief* newsletter
- Revolving Issues newsletter
- Disclosure checklists
- GAAP comparisons
- Illustrative financial statements

PRICEWATERHOUSECOOPERS

PWC IFRS reporting website

http://www.pwcglobal.com/ifrs

Includes:

- *IFRS News* (monthly newsletter)
- *IFRS Pocket guide 2008*
- IFRS illustrative financial statements
- IFRS publications
- IFRS eLearning (purchase)
- *Applying IFRSs* (purchase via Comperio license)

PWC 'IFRS Ready' toolkit for educators

- www.pwc.com/faculty

- Video explaining IFRS
- Interactive financial statements
- Slides, speaker notes, and questions an educator can use in intro or intermediate

PWC IFRS Blog

http://pwc.blogs.com/ifrs/

Interative IFRS Financial Statements

http://www.knowledgelaunch.com/interactive_ifrs/

US SECURITIES AND EXCHANGE COMMISSION

SEC Global Accounting Standards Page

http://www.sec.gov/spotlight/ifrsroadmap.htm

- Roadmap, speeches, proposed and final rulemaking and releases, concept releases, staff review of IFRS financial statements

AMERICAN ACCOUNTING ASSOCIATION

Issues in Accounting Education. Special Issue: Cases in International Accounting

http://aaahq.org/pubs/issues.htm

- This joint initiative of the American Accounting Association and its International Accounting Section includes 17 cases spanning a variety of topics and placement in the curriculum. Most can be utilized in more than one course, and several of the cases have a common theme. See Volume 22, Number 4 (November 2007) of *Issues* (available by subscription)

AMERICAN INSTITUTE OF CPAs

Proposal to add IFRSs to US CPA Exam

http://www.cpa-exam.org/cpa/exposure_draft.html

New IFRS website

http://www.ifrs.com

Free monthly IFRS newsletter called *IFRS Report*

http://www.smartbrief.com/ifrs/?campaign=1008Trial

CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

IFRS transition page

http://www.cica.ca/index.cfm?ci_id=39166&la_id=1

EUROPEAN COMMISSION

Accounting – general

http://ec.europa.eu/internal_market/accounting/index_en.htm

Accounting News

http://ec.europa.eu/internal_market/accounting/news/index_en.htm

Use of IFRSs in the European Union

http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

EU Directives relating to accounting

http://ec.europa.eu/internal_market/accounting/officialdocs_en.htm

INTERNATIONAL ACCOUNTING STANDARDS BOARD

Website

http://www.iasb.org

Includes:

- Free download of PDF standards (but not guidance or basis for conclusions):

http://www.iasb.org/IFRSs/IFRS.htm

IFRS summaries (English, Spanish, Portuguese):

- Current projects
- Purchase full final standards, translations, subscriptions, eIFRS, CD ROMs:

Important: Academicians and students can join IAAER (see below) and get eIFRS for US$25 (students $20) as compared to US$400 if purchased from IASB.

Important: IASB has announced that it plans to post

Bound Volume of IFRSs ("the annual IFRS compendium")

- Published March each year
- All Standards and Interpretations, guidance, bases for conclusions, constitution, etc.
- Roughly 2,800 pages, £60, printed version. Also CD and on-line.

Education resources and training material

http://www.iasb.org/Education/Resources/Resources.htm

http://www.iasb.org/Education/Resources/Training+material.htm

INTERNATIONAL ASSOCIATION FOR ACCOUNTING EDUCATION AND RESEARCH (IAAER)

IAAER website

http://www.iaaer.org/

- Very low-cost subscription to eIFRS (from IASB)
- Includes all IFRSs and other educational materials of the IASB $25 (academician) and $20 (student) – normal price from IASB $400

Teaching resources page

http://www.iaaer.org/resources/

- Includes links to a number of IFRS resources

RECENT TEXTBOOKS (2007 and later)

Comparative International Accounting
10th edition. By Christopher Nobes and Robert Parker. Published by Pearson, April 2008, 632 pages, ISBN13: 9780273714767. "Uncovers the conceptual and contextual foundations of the increasingly used International Financial Reporting Standards (IFRS) and contrasts them with US generally accepted accounting principles (GAAP). Nobes and Parker examine the key issues inherent in the subject, such as transition, harmonization and political lobbying, and the international differences that remain. They also look at the special accounting problems of multinational companies." Web page:
http://www.pearsoned.co.uk/Bookshop/detail.asp?item=100000000259866

International Corporate Reporting: A Comparative Approach
4th edition. By Clare Roberts, Pauline Weetman and Paul Gordon. Published by Pearson, April 2008, 704 pages, ISBN13: 9780273714736. "Enables students to analyze the similarities and differences in accounting, reporting and regulation around the world, and to familiarize them with the growing body of research into international accounting practices". Web page:
http://www.pearsoned.co.uk/Bookshop/detail.asp?item=100000000259868

International Accounting
6th edition. By Frederick D. Choi and Gary K. Meek. Published by Pearson, Nov. 2007, 528 pages, ISBN-13: 9780138133887. "For upper-level undergraduate/graduate courses in International Accounting. Takes a multinational approach, written from a financial reporting perspective to accounting practices, introducing students to the international dimensions of accounting, financial reporting, and financial control in a concise, comprehensive, and student-friendly manner." Web page:
http://www.pearsonhighered.com/educator/academic/product/0,3110,0131588141,00.html

Wiley IFRS: Practical Implementation Guide and Workbook
2nd edition. By Prof Graham Holt and Abbas Ali Mirza and Magnus Orrell of Deloitte. Published by John Wiley & Sons, May 2008, 474 pages, ISBN: 978-0-470-17022-9. Includes outlines of all IASs/IFRSs, practical insights, cases studies with solutions, illustrations, and multiple-choice questions with solutions. Web page**:** **http://as.wiley.com/WileyCDA/WileyTitle/productCd-0470170220.html**

Applying International Financial Reporting Standards

Enhanced Edition. By Keith Alfredson, Ken Leo, Ruth Picker, Paul Pacter, Jennie Radford, Victoria Wise, February 2007, 1,256 pages, ISBN: 978-0-470-80823-8. "Written to meet the needs of accounting students and practitioners in understanding the complexities of IFRSs and applying the stable platform of standards. It concentrates on those financial reporting standards that are not related to specific industries and that therefore have wide application". Web page: **http://as.wiley.com/WileyCDA/WileyTitle/productCd-0470808233.html**

HISTORIES

Financial Reporting and Global Capital Markets: A History of the International Accounting Standards Committee, 1973-2000
By Kees Camfferman and Stephen A. Zeff. Published by Oxford University Press, March 2007, 676 pages, ISBN-13: 978-0-19-929629-3. "Examines the history of the IASC from 1973 to 2000, including its foundation, operation, changing membership and leadership, achievements and setbacks, the development of

its standards, and its restructuring leading up to the creation of the IASB in 2001." Telephone orders: +44 (0) 1536 741 727. Web page: **http://www.oup.com/uk/catalogue/?ci=9780199296293**

The International Accounting Standards Committee: A Political History
By Robert J. Kirsch. Published by Wolters Kluwer (UK) Ltd., 2006, 463 pages, ISBN 978 1 84140 608 4. order by email: customerservice@cch.co.uk

OTHER RESOURCES

World Accounting Report www.i-financial.com/

- Monthly subscription newsletter covers IFRSs, US GAAP, IASB meeting summaries, and more

CPE Session #14
IFRS Teaching and Research

1 August 2009 – New York, USA

Teaching IFRS Judgements

Katherine Schipper
Professor of Accounting,
Duke University *&*
former Member,
FASB

Teaching IFRS Judgments

Katherine Schipper, Duke University
July 2009

Acknowledgement: I have benefited greatly from reviewing presentations prepared by David Cairns and Donna Street.

Overview

- Determining your perspective
  - MBA versus Master-level versus undergraduate
  - Introductory versus intermediate/advanced versus financial statement analysis or valuation
  - Teach only IFRS or IFRS plus another financial reporting system (e.g., US GAAP)
  - How much to say about the IASB's convergence activities and active projects
- How to approach the role of judgment
  - Preparation of the financial reports
  - Attestation/assurance (not considered here)
  - Analysis (user perspective)
  - Examples
- Developing your materials
  - Choose a textbook, or decide to use teaching notes
  - Supplement a textbook with teaching notes
    - Work directly from the authoritative guidance
    - Use the IASB's implementation guidance, examples and basis for conclusions
  - Develop assignments based on IFRS financial reports
    - A plentiful supply, freely available, *but,* based on my own experience, some inconsistencies in implementations, and some difficulties with disclosures

2

How to approach the role of judgment

- Financial statement preparation
  - Which standard to apply?
    - Understand the nature of the commercial arrangement
    - Understand the scope of IFRSs—which guidance applies?
    - If necessary and applicable, understand pronouncements of other standard-setting bodies that use a conceptual framework similar to that of the IASB
  - How to apply the standard?
    - What information is needed to apply the standard?
    - Recognition (and derecognition)
    - Measurement
    - Classification, display and disclosure
- Financial statement analysis/use
    - For a given reporting outcome, what guidance was applied, and how and why?
      - What judgment is required by the guidance?
      - If there is choice (e.g., the fair value option) what is the reporting entity's choice and how does this affect comparability?
    - How is the nature of the commercial arrangement that is being accounted for reflected in the financial statements and notes?
    - What recognized and disclosed information can/should affect judgments and decision?

3

Example: Going concern

- The IASB's *Framework* specifies a "going concern" assumption
  - Normal operations will continue for the foreseeable future
  - If intention, or necessity, to liquidate or materially curtail operations, management may need to prepare statements on a different basis (which should be disclosed)
- IAS 1, para. 25 specifies the going concern assumption
  - IAS 1, para. 26 specifies that management takes into account all available information and indicates some factors to consider, for example:
    - Current and expected profitability
    - Debt repayment schedules, including replacement financing
  - *Example*: Austrian Airlines
    - Lufthansa agreed to buy the Austrian government's 41.56% stake for approximately €366 million, provided the Austrian government provides a €500 million grant. Shareholders agreed May 2009
    - Lufthansa may cancel the deal if it is not completed by July 31.
    - The European Commission opened an investigation on July 1 and (as of July 10) there has been no indication a ruling would be available by July 31.

4

Example: Going concern
Austrian Airlines 2008 financial report

How does management describe its application of the going concern principle?

The going-concern principle
The preparation of the consolidated financial statements has been based on the going-concern principle. This means that the Group assumes its ability to continue normal business operations in the foreseeable future, to commercially realise its assets and pay off its liabilities.

Due to the signing of the contractual agreements on 5.12.2008 to transfer to the Lufthansa Group the shareholding in the Austrian Airlines Group held by the state holding company ÖIAG, the implementation of which depends on several pre-requisites being fulfilled, such as the approval of the EU Commission and the carrying out of measures by the previous majority shareholder ÖIAG and the Lufthansa Group as the new majority shareholder designed to strengthen the liquidity and share capital of the Austrian Airlines Group, the pre-requisites provide the basis for a positive going concern opinion, due to the fact that no information is currently available to the management of the company about any circumstances which could forestall or impede the fulfilment of the contractual agreements. Accordingly, the company is operating on the assumption that additional capital resources will be made available to the Austrian Airlines Group upon fulfilment of the contractual agreements.

On the basis of the urgent need on the part of the Austrian Airlines Group for additional liquidity, and the current difficult situation prevailing on financial markets, which does not enable the company to take advantage of alternative financing options, the Republic of Austria notified the European Commission on 19.12.2008 concerning rescue aid in the form of government-backed bridge financing for the Austrian Airlines Group. The government assistance was formally approved by the European Commission on 19.1.2009.
In implementing the government-backing bridge financing, an Austrian bank granted the Austrian Airlines Group a line of credit amounting to EUR 200m, for which ÖIAG has provided security. Of this line of credit, a total of EUR 113.0 can be withdrawn pursuant to a pre-defined schedule before 30.6.2009. Any further drawing upon this credit facility above the amount of EUR 113.0m requires the explicit approval of Lufthansa and ÖIAG. Two unscheduled withdrawals from this line of credit were carried out in the period January-March 2009.

5

Example: Going concern

42 » Subsequent events after the balance sheet date

On 2.2.2009, Lufthansa formally submitted a voluntary offer to all shareholders of Austrian Airlines (with the exception of ÖIAG) pursuant to § 10 Takeover Act to obtain control of the company in accordance with § 25a Takeover Act by acquiring up to 48,468,147 no par bearer shares of Austrian Airlines. The takeover offer was formally submitted by Lufthansa to the Board of Management and the Chairman of the Supervisory Board of Austrian Airlines in accordance with § 11 (2) Takeover Act, and published on 27.2.2009 in the newspaper "Wiener Zeitung" as well as on the Website of Lufthansa. In accordance with § 11 (3) Takeover Act, the Board of Management informed the works council representatives of the takeover offer and distributed the relevant takeover documents to them. On the basis of the takeover offer made by Lufthansa as contained in the conceptual proposal presented to the Board of Management, the Board of Management added its mandatory comments to the offer pursuant to § 14 Takeover Act and recommended acceptance of the takeover offer by the shareholders of Austrian Airlines. The Supervisory Board of Austrian Airlines examined the draft takeover offer and made a declaration about the takeover offer in accordance with § 14 (1) Takeover Act, in which the Supervisory Board concurred with the opinion of the Board of Management and recommended the acceptance of the takeover offer submitted by Lufthansa by the shareholders of Austrian Airlines. The statements made by the Board of Management and the Supervisory Board of Austrian Airlines were examined by Deloitte Wirtschaftsprüfungs GmbH as the authorised expert pursuant to § 13 Takeover Act, and the legality of these statements was confirmed within the context of its expert report. Details on the statements made by the Board of Management and the Supervisory Board of Austrian Airlines pertaining to the takeover offer submitted by Lufthansa as well as the expert report were published in the Wiener Zeitung. The entire texts of the various documents concerning the takeover offer were published on the Website of Austrian Airlines.

Alfred Ötsch, Chief Executive Officer of Austrian Airlines AG since 1.5.2006, resigned his position on the Board of Management as at 31.1.2009. His responsibilities were divided among COO Peter Malanik and CCO Andreas Bierwirth, with the approval of the Supervisory Board.

On 19.2.2009, the Board of Management of Austrian Airlines published a notice of loss in accordance with § 83 Austrian Stock Corporation Act, in which the monthly reporting for January 2009, based on the preliminary financial statements set up according to the Austrian accounting principles as at 31.12.2008, determined a cumulative loss on the part of the Austrian Airlines Group as at 31.1.2009 amounting to half of the company's total issued share capital. For this reason, the Annual General Meeting originally scheduled for 15.5.2009 will be moved forward to an earlier date, namely on 14.4.2009.

Due to the accelerated decline in demand and corresponding drop in sales, additional measures were initiated to secure earnings, such as further production cutbacks as well as cost savings measures in respect to personnel and material expenses as a means of compensating on the cost side for the loss of earnings caused by the market crisis.

Vienna, 12 March 2009

6

How to approach the role of judgment in applying the going concern principle

- What judgments and estimates did management use to prepare Austrian Airlines' 2008 financial report?
  - Refer to management discussion, to the extent applicable (not part of the audited financial statements)
  - Assessment of profitability, liquidity and solvency
  - Assessment of financing alternatives
- How can an investor use the financial report information, and other information, to assess the current and/or future performance of Austrian Airlines?
  - Analyze the 2008 financial report to understand Austrian Airlines' economic circumstances
  - Update the financial report information for subsequent events
    - Press releases and other announcements
  - Analyze industry trends, including demand for air travel
  - Analyze the European Commission's investigation

7

Example: provisions

- IAS 37 defines a provision as a liability of uncertain timing or amount and provides recognition criteria and measurement guidance
  - Recognition criterion 1: an outflow to settle the liability is probable
    - IAS 37 defines probable as more likely than not, requiring a judgment as to whether there is a present obligation at the reporting date
  - Recognition criterion 2: a reliable estimate can be made
    - If yes, measure as the "best estimate" as the amount an entity would rationally pay to settle, possibly an expected value, possibly the midpoint of a range
  - Extensive disclosure requirements
    - Reconciliation of carrying amounts
    - For each class of provision, description of the nature of the obligation
    - Information about uncertainties of amount/timing of outflows
- *Example*: restructuring charges, warranties

8

Example: provisions
Nokia 2007 financial report

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as an asset only when the reimbursement is virtually certain. At each balance sheet date, the Group assesses the adequacy of its pre-existing provisions and adjusts the amounts as necessary based on actual experience and changes in future estimates.

Warranty provisions

The Group provides for the estimated liability to repair or replace products under warranty at the time revenue is recognized. The provision is an estimate calculated based on historical experience of the level of repairs and replacements.

Intellectual property rights (IPR) provisions

The Group provides for the estimated future settlements related to asserted and unasserted past IPR infringements based on the probable outcome of potential infringement.

Tax provisions

The Group recognizes a provision for tax contingencies based upon the estimated future settlement amount at each balance sheet date.

Restructuring provisions

The Group provides for the estimated cost to restructure when a detailed formal plan of restructuring has been completed and the restructuring plan has been announced.

Other provisions

The Group recognizes the estimated liability for non-cancelable purchase commitments for inventory in excess of forecasted requirements at each balance sheet date.

The Group recognizes a provision for pension and other social costs on unvested equity instruments based upon local statutory law. In accordance with the requirements applying to cash-settled share-based payment transactions, this provision is measured at fair value and remeasurement of the fair value of the provision is recognized in profit or loss for the period.

The Group provides for onerous contracts based on the lower of the expected cost of fulfilling the contract and the expected cost of terminating the contract.

9

Example: provisions
Nokia 2007 financial report

27. Provisions

EURm	Warranty	Restructuring	IPR infringements	Tax	Other	Total
At January 1, 2007	1 198	65	284	402	437	2 386
Exchange differences	−10	—	—	—	—	−10
Acquisitions	263	—	—		134	397
Additional provisions	1 127	744	345	59	548	2 823
Change in fair value					16	16
Changes in estimates	−126	−53	−47	−9	−216	−451
Charged to profit and loss account	1 001	691	298	50	348	2 388
Utilized during year	−963	−139	−37	—	−305	−1 444
At December 31, 2007	1 489	617	545	452	614	3 717

- The role of judgment
  - Management judgment, based on current economic conditions, determines amounts charge to income, reversed through income and recorded on the balance sheet
    - What information would management need to make judgments about the four types of provisions reported in the table?
  - Cash flow impact determined by the interaction of the business model with the economic environment

10

Example: provisions

- Possible additional considerations
  - Losses on receivables, including bad debt allowance on trade receivables and loan loss allowances
  - IFRS guidance is in IAS 39, para. 46, 56
      - Measure at amortized cost, subject to impairment (para 58)
      - Impairment is based on incurred losses
    - Possible point of confusion:
      - US GAAP guidance is in SFAS 5 (guidance that is along the lines of the current IAS 37)
      - US GAAP uses the phrase "contingent liability" in approximately the same way that IAS 37 uses "provision"
  - The IASB is close to issuing a revised IAS 37
    - Substantial changes to accounting for provisions
    - How much discussion to devote to the revisions before they are effective?

11

Example: consolidation policy

- IAS 27
  - A subsidiary is an entity that is <u>controlled</u> by a parent
  - Para. 13: Control is the power to govern the financial and operating policies of an entity so as to gain benefits from its activities
    - Control is presumed to exist when
      - Parent has majority voting interest, by ownership or by agreement
      - Parent can govern the entity because of a statute or agreement
      - Parent can appoint/remove a majority of the governing board and/or cast a majority of votes of that board
    - Judgment is required when
      - Parent has *potential* voting rights (e.g., convertible instruments) para. 14

12

Example: consolidation policy

- Example 1: Nokia Siemens Networks
  - Nokia and Siemens each own 50%
  - Nokia can appoint key officers and the majority of the governing board

8. Acquisitions

Acquisitions completed in 2007

The Group and Siemens AG ("Siemens") completed a transaction to form Nokia Siemens Networks on April 1, 2007. Nokia and Siemens contributed to Nokia Siemens Networks certain tangible and intangible assets and certain business interests that comprised Nokia's networks business and Siemens' carrier-related operations. This transaction combined the worldwide mobile and fixed-line telecommunications network equipment businesses of Nokia and Siemens. Nokia and Siemens each own approximately 50% of Nokia Siemens Networks. Nokia has the ability to appoint key officers and the majority of the members of the Board of Directors. Accordingly, for

accounting purposes, Nokia is deemed to have control and thus consolidates the results of Nokia Siemens Networks in its financial statements.

Example: consolidation policy

- Example 2: based on Vodafone UK and its interest in Vodafone Italy
  - A owns 75% of C's voting interests and B owns 22% of C's voting interests
  - A governs C's financial and operating policies *except that*
    - Both A and B must approve C's dividends, capital transactions and major changes in business

- Example 3: based on Bouygues and TF1
  - A owns 43% of C and the other 57% is widely held
  - A appoints C's key executives and has a large number of board seats
  - A has had majority vote at recent shareholder meetings

Example: consolidation policy

- Why does consolidation policy matter?
  - Consolidation is intended to present all the assets under the control of a single governing board, and record all the related obligations
    - Shareholders of the parent receive the payoffs (gains and losses) of the entity regardless of whether the entity's assets, obligations and results of operations are consolidated
    - Shareholders cannot property value their holdings and assess risk unless they see all the payoffs and results of operations under the control of a single governing board
  - A key concern: <u>losses</u> in unconsolidated (off-balance sheet) entities
- What makes consolidation policy particularly difficult?
  - Latent control, via convertible instruments or other arrangements (IAS 27 para 14)
  - Effective control (example 3)
  - Control may exist but not through voting interests
    - SIC 12, *Consolidation—Special Purpose Entities*

    "….control may exist even in cases where an entity owns little or none of the SPE's equity. The application of the control concept requires, in each case, judgement in the context of all relevant factors" (para 9)

15

Example: consolidation policy

- IASB consolidation proposals
  - Exposure draft issued 12/08; comment period ended; redeliberations scheduled to begin 07/09. Intended to replace both IAS 27 and SIC 12
  - Apply a qualitative definition of control: the power to direct the activities of an entity so as to generate returns
    - Direct activities => determine strategic operating and financing policies
    - Control does not require majority ownership
      - Tentative decision is to allow effective control (substantial minority with a dispersed and not-organized majority) but not latent control (obtained by exercising options)
      - Tentative decision is to include interests held on behalf of the entity
    - Veto rights (the right to block actions) might negate control if the rights pertain to operating and financing policies implemented in the ordinary course of business (see example 2)
- *Observation*: The FASB recently issued SFAS 167 to provide consolidation guidance for entities for which control cannot be discerned by analysis of voting interests
  - Specifies both a power criterion (decision rights) and a payoff criterion (requirement to absorb losses or receive returns)

16

Example: measurement

- IFRS measurements are based on amortized cost (subject to impairment) and fair value
  - Some standards specify one measurement basis for given items
  - Some standards provide for free choice or constrained choice
  - *Examples:*
    - Fair value is required for derivatives, trading securities, defined benefit plan assets, hedged items in fair value hedges
    - Amortized cost subject to impairment is required for inventories and goodwill
    - Fair value is a choice for investment property, qualifying property plant and equipment, qualifying intangible assets, qualifying loans and receivables and qualifying debt issued by the reporting entity
  - There are also implicit choices that operate through classification
    - Held-to-maturity versus available-for-sale versus trading securities
      - Two balance sheet measurement bases are involved
      - Each of these classifications results in different income effects

17

Example: measurement

- The IASB has issued two proposals with potential classification and measurement implications
  - Proposed fair value measurement guidance
    - Similar but not identical to SFAS 157 in US GAAP
    - Would include three levels of inputs, with varying degrees of estimation and judgment implied
  - Proposed standard to replace IAS 39 (exposure draft issued July 14, 2009)
    - Specify that “basic loans” with contractual cash flows of principal and interest that are managed on a contractual yield basis are to be measured at amortized cost, with a fair value option under certain circumstances
    - Other items, including equity investments, would be at fair value
    - “Strategic” equity investment dividends, gains and losses could be recognized in other comprehensive income without recycling
- How much explanation and discussion should be devoted to:
  - The measurement guidance proposed standard (with, perhaps, illustrations from US GAAP filers)
  - The proposed standard to replace IAS 39

18

Example: measurement

- Most accounting measurements today require judgment
  - There is not much pure amortized cost measurement for assets, because of required impairment assessments
    - Apply impairment indicators
    - Estimate fair value
    - Determine if previous impairment should be reversed
  - Availability of a fair value option requires determination of whether to exercise that option
  - Fair value measurement often requires direct estimation
    - Prices of similar items, with adjustment
    - Measurement techniques applied to market inputs
      - *Example*: interest rate swap valued in part from market participant assessments of future interest rates
    - Measurement techniques applied to forecasted numbers
      - *Example:* value of a mortgage servicing right depends in part on prepayment speed which in turn is influence by interest rates

19

Example: how does judgment affect the quality of accounting measurements?

- What determines the quality of accounting measurements?
  - Quality of guidance for making the measurement
    - Specify the measurement objective
  - Quality of inputs
    - What is available in the marketplace?
      - *Examples:* Interest rates, prepayment speeds, default rates, exchange rates, commodity prices, prices of assets (bonds, shares, derivatives), credit ratings
    - How good are the entity's information systems?
  - Quality of measurement techniques
    - All models contain simplifying assumptions and therefore can omit features that could require outside-the-model adjustments
  - Expertise of the measurer
    - To what extent do accountants understand measurement techniques?
  - Incentives of the measurer

Questions to consider:

- What are the characteristics of commercial arrangements that create substantial measurement difficulties?
- What is the degree of measurement difficulty that would justify changing the accounting requirements?

20

Concluding observations—1

- Different types of accounting judgment
  - Is a criterion met (is a condition present at the measurement date)?
    - Consolidation policy
    - Recognition of a provision
    - Revenue recognition
      - Transfer of risk/reward, entity relinquishes involvement and control, reliable measurement of revenues and costs, probable that the entity will receive economic benefits
  - What is the measurement of the item?
    - A pervasive issue
    - Often, requires a specific forecast
      - *Examples:* measurement of deferred tax assets, certain asset impairments
    - Sometimes, requires use of a valuation technique or application of a model or formula
      - *Example:* apply contingent claims asset pricing to measure call options
  - Classification and display
    - *Example:* debt versus equity

21

Concluding observations—2

- Storey and Storey* provide a framework for analyzing certain recognition and classification decisions
  - What is the asset?
  - What is the liability?

  } Recognition
  - Did an asset or liability or its value change?
    - If a change, increase or decrease?
    - By how much?

  } Measurement
      - Did the change result from
        - Investment by owners?
        - Distribution to owners?
        - Comprehensive income (which component)?

- *Observation:* This decision framework recognizes the conceptual primacy of assets and liabilities. It does not directly address measurement or disclosure.
- R. Storey and S. Storey,1998, *The Framework of Financial Accounting Concepts and Standards,* FASB.

22

CPE Session #14
IFRS Teaching and Research

1 August 2009 – New York, USA

IFRS Research

Mary Barth
Professor of Accounting,
Stanford University *&*
former Member
IASB

July 2009

International Financial Reporting Standards

IFRS Research

Mary Barth
Former IASB member and Professor of Accounting, Stanford University

IASC Foundation

How does research inform?

- Helps standard setters:
  - – identify issues
  - – structure thinking
  - – provide evidence
- Unbiased analysis
- Concepts underlying financial reporting are comfortable for academic researchers

Research and standard setting

- Accounting standards are public goods and involve externalities
  - Desirability of accounting standards requires specifying social preferences
  - Even with market efficiency, relation to equity prices and returns is not sufficient to determine desirability or effects of particular standards

Operationalise Framework criteria

Research and standard setting continued

- Standard setters select rules
- Research informs standard setting
- But, cannot answer:
  - What should the standard be?

Motivating questions differ from research questions.

What research topics?

5

- Technical agenda topics
- Cross-cutting issues

Fair Value	Recognition/Disclosure	Uncertainty/Risk
Relevance/Faithful Representation		Incentives/Judgements
Liabilities/Equity	User Needs	Costs/Benefits

- Conceptual framework
- Globalization of financial reporting

Are IAS-based and US GAAP-based Accounting Amounts Comparable?

6

- Motivating questions
  - Are IAS amounts and US amounts comparable?
  - Has comparability increased?
- Research questions
  - Are there differences in value relevance and in net income correlation for IAS firms and US firms?
  - Are the differences smaller now than before IAS adoption and in more recent years?
  - Are the differences more pronounced for IAS firms in code law or common law countries?

Are IAS-based and US GAAP-based Accounting Amounts Comparable?

- Research design
  - Value relevance: R^2 measures from four regressions
    1. Price on equity book value and earnings
    2. Return on earnings and change in earnings
    3. and 4. Earnings on returns for good news and bad news firms
  - Net income correlation: Coefficient and R^2 from regression of net income for IAS firms on net income for US firms
  - Match IAS and US firms on size and industry
  - Control for country, industry, and share price differences
  - Before and after IAS adoption, different adoption and sample periods, and code/common law origins

Are IAS-based and US GAAP-based Accounting Amounts Comparable?

- Findings: differences between IAS and US firms
  - Value relevance
    - Higher for US firms
    - Closer after IAS firms adopt IAS
    - Closer for IAS adoption or sample years after 2005
    - Closer for firms from common law countries
  - Net income correlation
    - Coefficients and R^2 higher after IAS firms adopt IAS
    - Coefficients and R^2 higher after adoption for firms in code and common law countries; firms in code law countries increased more
    - R^2 higher, but no change in coefficient, for adoption years or sample years after 2005

Are IAS-based and US GAAP-based Accounting Amounts Comparable?

- Interpretation
  – IAS- and US GAAP-based amounts are not fully comparable
  – Comparability with IAS is higher than with non-US domestic standards
  – Comparability has been increasing over time
- => Widespread application of IAS by non-US firms and convergence efforts have enhanced comparability with US firms, but differences remain

Fair value

- Can we measure fair values reliably?
- Is fair value the right measurement objective? For all assets and liabilities?
- What information do investors need?
- Does recognition or disclosure matter?
- Are concerns about earnings volatility legitimate?

Fair value

- What are effects of management discretion in determining fair values?
- How will use of more fair values affect investor or management behavior?
- What are implications of incorporating more expectations about the future in financial statements today?
- What does profit or loss mean in such a world?

Revenue

- What is revenue?
- When should we recognise revenue?
  - Changes in assets and liabilities alone or with "earnings process" override?
  - Triggering events? Bundled offerings?
- How should we measure performance obligations?
  - Fair value?
  - Allocated customer consideration?

© 2009 IASC Foundation. 30 Cannon Street | London EC4M 6XH | UK. www.iasb.org

Liabilities and equity

- How should we define liabilities and equity?
- Can we reliably measure debt and equity components of hybrid instruments?
- Should we retain sharp distinction between debt and equity?
- What are implications for income statement?

Consolidations

- What are features of control?
- What are features of equity?
- SPEs: How to aggregate and measure different risks? Which ones?
- What information do investors need about separate entities?

Leases

- Contractual rights and obligations?
- Executory contracts?
- Gross versus net: assets and income?
- Fair values, again
- Liabilities and equity, again
- Revenue recognition, again

Insurance contracts

- How should we measure insurance liabilities?
- Fair values, again
- Revenue recognition, again
- Liabilities and equity, again

Financial statement presentation

- Purpose of income statement?
- Disaggregation criteria? Matrix?
- Operating, financing, and investing?
- Statement of comprehensive income?
- Recycling?
- Direct cash flow statement?
- What information do users need?

Conceptual framework

- Objective of financial reporting?
- Qualitative characteristics?
- Elements definitions?
- Effects of uncertainty?
- Measurement?
- Reporting entity?
- Unit of account?

Concluding remarks

- Do research!! We need your help!
- Look for opportunities
  - KPMG sponsored research
  - FASB research initiative
- Share your thoughts and knowledge
- Respond to due process documents
- Research has a central role to play in shaping global financial reporting!

Questions or comments?

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

CPE Session #14
IFRS Teaching and Research

1 August 2009 – New York, USA

IFRS Training

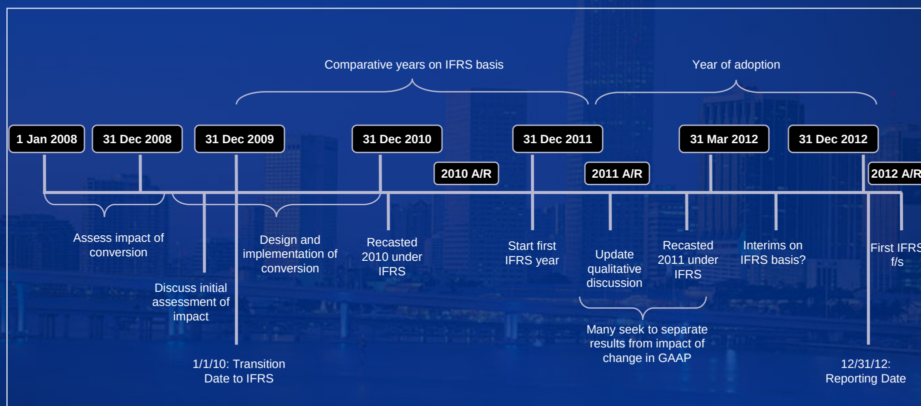
Paul Munter
Partner,
KPMG

The Rubics Cube Starts With

- **Who to train:**
  - Internal (auditors, advisory, tax)
  - External
    - Clients (CFOs, controllers, financial reporting/accounting policy, systems/controls, tax and compliance)
    - Users (creditors, investors, analysts)
    - Academics

KPMG

Then There Is When to Train



A/R – annual report

KPMG

The Evolution of IFRS Reporting

- Reporting packages for consolidation purposes
- Separate IFRS financial statements intended for limited distribution
- Consolidation of US operations prepared on IFRS basis for broader distribution
- What about SMEs?

KPMG

How to Train

- Live, instructor-led for targeted group(s)
- Web-based
- "Come one, come all"
- General vs industry-based

Training Starts With

- IFRS Awareness
  - "Lay of the land"
  - Dispelling some myths
    - It's not about principles vs. rules
    - Convergence doesn't actually mean convergence
    - Applying U.S. GAAP doesn't always fit within IFRS hierarchy

Then Moves To

- **In-depth discussion of IFRS topics**
  - Start out with accounting issues
  - Should it be just IFRS or should it be comparison to US GAAP?
- **What about disclosures?**

KPMG

Our Approach – Internal Training

- **Train all levels (staff to partners)**
- **Start with awareness, move to technical topics, add on reporting (disclosures) and auditing considerations**
- **Combination of web-based and live training**
- **"Credential" partners and managers**
  - Level B
  - Level A
  - IFRS Reviewing Partners

KPMG

Training Requirements

- *Awareness Training (built in to associate and senior associate training)*
- *Web Based –Trainings (requirement for Baseline attendance)*
- *Baseline – 2-day training*
- *IFRS Annual Update (monthly sessions each 2 hours WBT)*
- *IFRS Reviewing Partner Training (three days)*

KPMG

Pre-Issuance Review

- **Review IFRS financial statements prior to issuance**
  - Greater consistency in reporting
  - Feedback loop for identification of practice issues and developing areas of needs for training emphasis

KPMG

KPMG

Presenter's contact details

Paul Munter

KPMG LLP

(212) 909-5567

pmunter@kpmg.com

www.kpmg.com