Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

Conference documentation

World Standard-setters Conference

A two-day conference for World Standard-setters

IFRS™

World Standard-setters Conference

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The Renaissance Chancery Court Hotel (London)

A two-day conference for World Standard-setters

Monday 20 September 2010

08:00 ***Optional pre-conference closed education sessions***

1. Emissions trading schemes (Allison McManus, IASB staff) ***CLEMENTS THAVIES LINCOLN***
2. Extractive activities (Michael Stewart, IASB staff) ***LITTLETON BRYCE & TEMPLE***
3. XBRL IFRS taxonomy (Olivier Servais, IFRS Foundation staff) ***STAPLE & GRAYS***

Programme day-1:

Conference chair—Tatsumi Yamada, IASB member

09:30 ***Registration***
Tea/Coffee

10:30 ***Welcome***
Sir David Tweedie, IASB Chairman

10:45 ***IFRS implementation issues***

Presenters:
Alexsandro Broedel Lopes, Commissioner, SEC (Brazil)
Chungwoo Suh, Chairman, KASB
Alı Alp, Member, TASB
Wayne Upton, IASB staff

12:00 ***Lunch in foyer***

BALLROOM Leases

13:00 IASB project update
Barbara Davidson and Rachel Knubley, *IASB staff*

13:30 Break-out discussions (90 minutes)

Chairs:
Group 1: Felipe Perez-Cervantes (Mexico) **BALLROOM**
Group 2: Alex Watson (South Africa), **LITTLETON BRYCE & TEMPLE, GROUND FLOOR**
Group 3: Andrew Lee (Singapore**), MANSFIELD SUITE, GROUND FLOOR**
Group 4: Liesel Knorr (Germany), **STAPLE AND GRAYS, LOWER GROUND FLOOR**
Group 5: Isabelle Grauer-Gaynor (France), **CLEMENTS THAVIES LINCOLN**

15:00 Tea/Coffee

15:30 Group feedback (five groups x max 10 minutes each)

16:30 ***Keynote speaker***
Tomoyuki Furusawa,
Director, Corporate Accounting and Disclosure, Planning and Coordination Bureau, FSA (Japan)

17:15 Close Day 1 and Group photo

18:30 ***Reception and Dinner, Ballroom***

Tuesday 21 September 2010

Programme day-2

Conference chair—Tatsumi Yamada, IASB member

09:00 ***IASB planning and priorities (post 2011 agenda)***
Sir David Tweedie, IASB Chairman
Alan Teixeira, Director of Technical Activities, IASB
Peter Clark, Director of Research, IASB

10:00 ***Engaging with the IASB***
Stephen Cooper, IASB member

10:45 ***Advisory Council update***
Paul Cherry, Chairman, Advisory Council

11:00 Tea/Coffee

11:30

Option 1—IFRS for SMEs Adoption and implementation update BALLROOM Chair: *Jan Engström (IASB member)* Presenters include: • *Paul Pacter, IASB member and Chairman of the SME Implementation Group* • *Michael Wells, IFRS Foundation staff* • *A selection of country representatives: Omodele Jones, Alex Watson and Ian Mackintosh* Topics 1. Adoption update - *Paul Pacter* 2. Training material and regional workshops - *Michael Wells* 3. SME Implementation Group - *Paul Pacter* 4. Country perspectives—main adoption and implementation issues - *All participants*	***Option 2—selected projects*** *Insurance contracts MANSFIELD* *Warren McGregor (IASB member) and Peter Clark (IASB staff)* *Financial statement presentation STAPLE & GRAYS* *Philippe Danjou (IASB member) and Denise Gomez (IASB staff)* *Revenue recognition LITTLETON BRYCE & TEMPLE* *Prabhakar Kalavacherla ('PK'), (IASB member), Henry Rees and April Pitman (IASB staff)* *Financial instruments: replacing IAS 39 CLEMENTS THAVIES LINCOLN* *Patrick Finnegan (IASB member) and Sue Lloyd (IASB staff)*

12:45 ***Lunch in foyer***

13:45

Option 1—IFRSs Technical update and Q&A BALLROOM 20 IASB Update IASB members and staff: • present progress on the active projects • answer questions from the floor. Chair: *Amaro Gomes, IASB member* Presenters: *Wei-Guo Zhang, IASB member* *Elke König, IASB member* *Wayne Upton, IASB staff*	***Option 2—selected projects*** *Fair value measurement MANSFIELD* *Pat McConnell (IASB member) and Hilary Eastman (IASB staff)* *Financial statement presentation STAPLE&GRAYS* *Philippe Danjou (IASB member) and Denise Gomez (IASB staff)* *Revenue recognition LITTLETON BRYCE & TEMPLE* *Prabhakar Kalavacherla ('PK'), (IASB member), Henry Rees and April Pitman (IASB staff)* *Financial instruments: replacing IAS 39 CLEMENTS THAVIES LINCOLN* *Patrick Finnegan (IASB member) and Sue Lloyd (IASB staff)*

15:00 ***Implementation activities update***
Michael Stewart, Director of Implementation Activities

15:30 ***Effective dates and transitional provisions***
Alan Teixeira, Director of Technical Activities, IASB

16:00 ***Concluding comments***
Tatsumi Yamada, IASB member

16:15 End of conference

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Welcome

SIR DAVID TWEEDIE
Chairman
IASB

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IFRS implementation issues

WAYNE UPTON
Staff
IASB

ALEXSANDRO BROEDEL LOPES
Commissioner
SEC (BRAZIL)

CHUNGWOO SUH
Chairman
KASB

ALI ALP
Member
TASB

IFRS Implementation Issues

Alexsandro Broedel
Commissioner
Securities and Exchange Commission of Brazil

Background

- Comments reflect discussions between Securities and Exchange Commission of Brazil (CVM) and the Brazilian Accounting Standards Board (CPC) – bodies which are responsible for accounting standard setting in Brazil

Environment

- Brazilian public and private firms have to adopt full IFRS in 2010
  - 22 companies already done
- Both consolidated and individual financial statements – except financial institutions
- Separation between tax and accounting reports
- Very pro-IFRS attitude in the country

Issues

1. First time adoption

   We reinforce our suggestion previously made that the Board allows that, when the local accounting standards and practice already has an equivalent requirement to an existing IFRS, in the first time adoption at the transition date the local practice may be accepted**.**

Issues

2.IFRIC 12 – Service Concession Arrangements

We reinforce our suggestion previously made that the Board allows that deemed cost be allowed IN THE FIRST TIME ADOPTION ONLY for intangibles stemming from service concession arrangements, and preferably in a separate amendment project rather than in the annual amendments publication that, in the case of Brazil, may come to light after the mandatory convergence date of December 31, 2010 is complied with. We kindly ask the participants in the 2nd IASB x CPC Brazil meeting on September 22, 2010 to convey this request to the Board.

Issues

3.Deferred Income Tax Liabilities Arising From Taxable Temporary Differences

We reinforce our suggestion previously made that the Board reconsiders the requirement to defer income tax liabilities that will most likely never become due or payable, either because they happen to be recognized in the incorrect accounting periods they actually belong to or because the economic event that will turn them due or payable shall likely never happen**.**

Issues

4. Regulatory Assets Arising from Alternative Revenue Programs

We understand that the Board should analyze whether the legal right supported by the law, in this case, may result in the recognition of regulatory assets. We suggest that the Board analyse the possibility of including at least one additional example to the standard to explain whether or not this situation would result in the recognition of regulatory assets.

Issues

5. Equity Method in Individual Financial Statements

We request the Board to allow our understanding that individual financial statements in Brazil are not separated financial statements and consequently it is possible to account for investments according to the equity method

Thanks

www.cvm.gov.br
www.cpc.org.br

IFRS Implementation Issues:
Korean experience

2010. 9. 20.

Chungwoo Suh
Chairman, Korea Accounting Standards Board (KASB)

Contents

I. Overview of IFRS Adoption in Korea

I. Overview of IFRS Adoption in Korea

- 2-tier financial reporting system from IFRS full adoption

Scope	2011~
Public company	IFRSs
Non-public company	Korean GAAP

* Any companies(excluding financial institutions) were permitted to apply the IFRS from 2009

I. Overview of IFRS Adoption in Korea (cont'd)

- Facing many challenges for successful IFRS adoption
  - Overhaul of relevant laws and regulations
    - external audit Act, corporate tax Law, and listing and disclosure regulations
  - Transition to IFRS-compliant regulatory policies
  - Enterprise-wide IFRS conversion for companies
  - Extensive IFRS education and training for almost all constituents, including preparers, users, auditors, and academia
  - Translation of all IFRSs within limited time frame

I. Overview of IFRS Adoption in Korea (cont'd)

- Overcoming the challenges and making successful stories
  - 59 companies early-adopted IFRS in 2009 and 2010
    - Consisting of 14 companies (including KT&G, STX) in 2009 and 45 companies (including Samsung and LG) in 2010
  - 93% of the approx. 1,900 public companies have almost completed preparation for IFRS adoption as of July 2010

I. Overview of IFRS Adoption in Korea (cont'd)

- IFRS Adoption in Korea has been changing economic systems

Regulatory bodies	▪ IFRS-compliant listing and disclosure regulation ▪ More principle-based regulatory policies
Companies	▪ Principle-based application of accounting standards ▪ Difficulty of fair value measurement ▪ Complex and burdensome disclosure
Auditors	▪ Working toward adoption of Clarified ISA ▪ Strengthened international cooperation
Analysts	▪ More constructive contributions to IFRSs ▪ Modified analysis techniques and models

I. Overview of IFRS Adoption in Korea (cont'd)

- Diverse implementation issues raised with IFRS adoption
- Among those issues the following two, useful for national standard setters, are discussed now.
  - Technical Enquiry: How to interpret and apply IFRSs rigorously
  - Translation: How to translate IFRSs precisely

II. Implementation Issue 1: Technical Enquiry

II. Implementation Issue 1: Technical Enquiry

- Problem solving mechanism for technical issues: Roundtables with IASB personnel
  - Common examples of technical issues
    - De facto control, discount rate of employee benefit, retrospective fixed date of IFRS 1, etc.
- Built a mechanism for identifying implementation issues and consulted with IASB personnel
  - Gathered local transition issues and held roundtable sessions by KASB
  - Invited IASB personnel(Director Wayne Upton) and discussed for solutions
  - Communicated with IASB staff directly for clearer interpretations

II. Implementation Issue 1: Technical Enquiry (cont'd)

- Other process for technical issues: Open seminar
- Invited international experts regarding IFRSs issues
  - Updated IFRS revisions, and shared implementation issues in other countries, etc.
  - Tatsumi Yamada(IASB member), Kevin Stevenson(AASB chairman), Kazuo Hiramatsu(ASBJ member), Steven Derrick(PWC East Cluster chief accountant), and many others joined the open seminars

II. Implementation Issue 1: Technical Enquiry (cont'd)

- Outcome from the roundtables and open seminars
- Thorough understanding of IFRSs helped companies and auditors to interpret and apply those IFRSs
- Proposed amendments of IFRSs
  - Weaknesses of IFRS found in the Roundtables were suggested to the IASB; now some amendments are in progress

III. Implementation Issue 2: Translation

III. Implementation Issue 2: Translation

- Translations in accordance with IFRS Foundation Copyright Waiver Contract
  - Common translation issues:
    - Illegal translation, precise translation, consistency across IFRSs, etc.
  - Followed the required translation procedures in the contract
    - No modification to any IFRSs
    - Word-for-word translation
    - Translation of new IFRSs within a year

III. Implementation Issue 2: Translation

(cont'd)

- Translations in accordance with IFRS Foundation Copyright Waiver Contract
  - Added KASB's more rigorous procedures to the contractual terms and conditions
    - KASB staff performed initial translation
    - More than 100 external professionals as well as KASB were involved with review of the translation

III. Implementation Issue 2: Translation

(cont'd)

- Ensuring consistent translation across IFRSs
  - The best solution was the 'word-for-word' translation policy
  - First defined key terminologies and common expressions for consistency and efficiency
    - The list of key terms provided by the IFRS Foundation was convenient
    - Defining additional terms as many as possible was also helpful
  - Communicated with IASB staff directly for precise translation

III. Implementation Issue 2: Translation

(cont'd)

- Outcome from contract-based translation
  - Successful completion of IFRSs translation
    - On-going concern about understandability of Korean version of IFRSs
  - Proposals for IASB to cure 'translator's block'
    - More plain English expressions, ideally 'Esperanto'-like language
    - Consistent usage of key terminology (e.g. 'significant' vs 'material')

IV. Suggestions

IV. Suggestions

For countries planning to adopt IFRS

- Early yet thorough preparation is the key to successful IFRS implementation
  - Comprehensive assessment of GAAP differences and their effects
  - Customized IFRS education and training for all different constituents
- Capitalize on prior experiences of IFRS adopted countries

THANK YOU!

TURKISH ACCOUNTING STANDARDS BOARD

(TASB)

Prof. ALİ ALP

Board Member

Summary of the Presentation

- Development of Accounting in Turkey
- Solution for Fragmented Standards "Turkish Accounting Standards Board"
- Problems Encountered in the Implementation of IFRSs around the world and Turkey

DEVELOPMENT OF ACCOUNTING IN TURKEY

Background (I)

- Fragmented Standards in Multiple Regulations
  - Turkish Commercial Code (TCC)(1956),
  - Tax Procedures Law (1950),
  - The Banking Law (1933, 2006),
  - Capital Markets Law (CML)(1981).

Background (II)

- Fragmented Standards from Multiple Authorities
  - Ministry of Industry and Trade
  - Ministry of Finance (MoF)
  - Banking Regulation and Supervision Agency (BRSA)
  - Capital Markets Board (CMB)
  - Undersecretariat of Treasury

Accounting Provisions in Turkey (I)

- Development of accounting standards in Turkey has taken place under the oversight of the government; and with the transfer of laws from western countries with which Turkey has intense economic and political relations.
- In accounting practices, initially French legislation and publications and then German legislation and publications have been adopted; after 1950, the development of relations with the US, both economically and culturally, have brought the effects of the US system to Turkey.

Accounting Provisions in Turkey (II)

- Turkish Commercial Code (TCC)
- Capital Market Law (CML)
- Tax Procedures Law (TPL)
- Varied practices with varied regulations

SOLUTION FOR FRAGMENTED STANDARDS:

TURKISH ACCOUNTING STANDARDS BOARD

SOLUTION FOR FRAGMENTED STANDARDS

TURKISH ACCOUNTING STANDARDS BOARD

- Established to solve the fragmented structure in the accounting regulations
- Sets uniform national accounting standards compatible with IFRS and EU regulations
- Has its own public legal entity, administrative and financial autonomy

Implementation of the IAS / IFRS in Turkey (cont'd)

- Those applying the TAS / TFRS (i.e. the IAS/IFRS) :
  - All of the financial institutions and their associates, joint ventures & subsidiaries - Banking Regulation and Supervision Agency
  - Insurance firms and their associates, joint ventures & subsidiaries - Undersecretariat of Treasury
  - Listed companies remaining – Capital Markets Board

Implementation of the IAS / IFRS in Turkey (cont'd)

- *The remaining chunk of the economy (SMEs)*
  - No statutory obligation on the application of the IAS / IFRS
  - Tax based reporting (the Turkish MoF)
  - Single regulation and chart of accounts *(compatible with the Directives to a great extent)*

PROBLEMS ENCOUNTERED IN THE IMPLEMENTATION OF IFRS

Problems Encountered in the Implementation of IFRS (I)

- The International Accounting Standards have become a globally accepted application. Yet, the transition from local applications to the current new standards has brought about some troubles and problems in almost all the countries. We also have been undergoing these kinds of troubles:
  - Translation
  - Complexity and Structure of the International Standards
  - Technical Issues
  - Lack of IFRS knowledge of the firms
  - Inexperience of the audit firms.
  - Ignorance of the investment environment

Problems Encountered in the Implementation of IFRS (II)

Translation: The translation of the international standards is a major challenge in the adoption and implementation of the standards.

Complexity and Structure of the International Standards: The international standards are increasingly becoming more longer, more complex, and rule-based, and that structure and complexity of the standards are affecting, largely in adverse way, both their adoption and implementation. After the global financial crisis this situation is changing. G20 and Financial Stability Board working with IASB to solve the issues.

Problems Encountered in the Implementation of IFRS (III)

Potential Knowledge Shortfall: The proliferation and complexity of the global issues, transactions, financial products, and standards present new challenges to the accountancy profession to ensure that it has the requisite knowledge and skills to carry out its responsibilities.

Technical Issues:

- Fair value measurements (Emerging markets)
  - Mathematical modeling. (Markets aren't fully efficient. Therefore market inputs are not reflect reliable and comparative information
  - Simulating a hypothetical market

Specific Problems Encountered in the Implementation of IFRS in Turkey

- At present, there is no statutory obligation on application of the TASs / TFRSs (Fragmented situation will be eliminated by full functioning of TASB in the near future).
- Problem of Tax Based Accounting
- Converging European Union vs. IFRS
- As an emerging market we have also additional problems:
  - Structure of firms (most of them SME or micro)
  - Exposure to risk (Currency, liquidity, operational e.t.c)
  - Structure of markets (not fully efficient)
  - Volatility of legal arrangements
  - Shortfall of human resource in this area

Project – Advisory Council within the body of TASB

- Issues related to Turkey affect the companies and audit firms in implementation of IFRSs (not general issues addressed by IFRICs).
- Solution of problems (Solved by TASB or other regulatory organizations)
- Developed by TASB a project to respond these problems one-stop solution (establish an advisory council whose members will be preparers, directors, auditors, academics and regulatory bodies' representative)
- Present Situation (Final stage – developing legal infrastructure)

Examples related to the problems encountered in the implemantation of IFRSs

CASE 1

- In October 2008 IASB permits reclassification of financial instruments to eliminate differences between the reclassification requirements of IAS 39 and US GAAP (non-derivative financial assets held for trading and available-for-sale financial assets to be reclassified in particular situations)
- BRSA and TASB consulted with each other to solve the problem of banks about classification of financial instruments and convergency with other countries concurrently
- TASB approved and issued the amendment immediately (October 30, 2008)
- BRSA amended Regulation on Measurement and Evaluation of Adequacy of Banks to comply with IFRSs.

CASE 2

- a tax based accounting system
- chart of accounts issued by Ministry of Finance (for non-financial institutions)
- chart of accounts will be revised according to IFRSs to ease the transition between the tax based system and IFRSs

CASE 3

- Negotiation process with EU
- Turkey should make its regulations parallel with EU
- at the same time adopts IFRSs
- TASB issues up-to-date comparative statements about the differences with full IFRSs and the IFRSs adopted by EU

THANK YOU FOR YOUR ATTENTION

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Leases project update

RACHEL KNUBLEY
Staff
IASB

BARBARA DAVIDSON
Staff
IASB

International Financial Reporting Standards

Exposure Draft –*Leases*

World Standard Setters Conference
20 September 2010

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

IFRS

Why a lease project?

- **Existing lease accounting doesn't meet users' needs**
  - Accounting depends on classification
  - Users adjust financial statements to recognise assets and liabilities arising in operating leases
- **Complexity**
  - Difficult to define dividing line between finance and operating

IFRS

Scope

- Includes simplified accounting for short-term leases
  - Lessee: recognise gross asset and gross liability
  - Lessor: use accrual accounting
- Includes certain requirements for sale/leasebacks
- Excludes:
  - Lessors with investment property at fair value under IAS 40
  - Purchase and sale contracts
  - Leases of intangible assets
  - Leases of biological assets or to explore for or use natural resources

IFRS

Lessee model

Lessee has acquired a right to use the underlying asset and is paying for that right with its lease payments

All leases in scope	
Balance sheet • Right-of-use asset* X • Liability to make lease payments X	**Income Statement** • Amortisation expense X • Interest expense X

* Shown in the property, plant and equipment category

IFRS

Lessee measurement

	Initial Measurement	Subsequent Measurement
Liability to make lease payments	PV of lease payments discounted using incremental borrowing rate	Amortised cost No revision of incremental borrowing rate
Right-of-use asset	Cost (= liability to make lease payments)	Amortised cost (option to revalue*)

*Revaluation of entire class of PP&E is required if right-of-use is revalued

IFRS

Lessor model

- Based on exposure to risks or benefits of the underlying asset during or subsequent to the expected term of the lease contract
- Counterparty credit risk is not considered

Does the lessor retain significant risks or benefits of the underlying asset?

No → **Derecognition approach**

Yes → **Performance Obligation approach**

IFRS

Lessor model

Does the lessor retain significant risks or benefits of the underlying asset?

No

Derecognition approach

Balance sheet	Income Statement
• Residual asset X • Right to receive lease payments X	• Revenue X • Cost of sales (X) (gross or net based on business model) • Interest income X

Lessor model

Does the lessor retain significant risks or benefits of the underlying asset?

Yes

Performance obligation approach

Balance sheet (Gross with linked presentation)	Income Statement (Separate presentation –IASB)
• Underlying asset X • Right to receive lease payments X • Lease liability (X) Net lease asset (liability) X	• Lease income X • Depreciation expense (X) • Interest income X

Lessor model - measurement

	Initial Measurement	Subsequent Measurement
Derecognition approach		
Right to receive lease payments	PV of lease payments discounted using the rate charged in the lease	Amortised cost
Residual asset	Allocated carrying amount	No remeasurement (except for impairment)
Performance Obligation approach		
Right to receive lease payments	PV of lease payments discounted using the rate charged in the lease	Amortised cost
Lease liability	Transaction price (= right to receive payments)	Recognise income as the liability is satisfied over the lease term

Options to extend lease term

- Include longest possible lease term that is more likely than not to occur
  - In lessee's liability to make lease payments
  - In lessor's right to receive lease payments
- Reassess if facts or circumstances indicate that there is a significant change
  - Adjust liability and right-of-use asset for lessees
  - Adjust right to receive and liability or residual asset for lessors
- Purchase options
  - Account for only when they are exercised

Contingent rentals

- Include expected outcome in lease asset and liability
  - Lessees must always include, Lessors only if measured reliably
- Include residual value guarantees
- Reassess if facts or circumstances indicate a significant change

Lessees	Lessors	
	Derecognition approach:	Performance obligation approach:
Adjust liability to make payments and profit or loss *for changes related to current or past periods* or right-of-use asset *for changes related to future periods*	Adjust right to receive rentals and profit or loss	Adjust right to receive rentals and profit or loss *to the extent liability is satisfied* or liability *to the extent not yet satisfied*

Options to extend and contingent rentals: potential concerns

Concerns	Response
Options to extend	
Subjectivity of judgement	Requirement to reassess (true-up information)
Renewals are avoidable –understates financial flexibility	Provides estimates of likely cash outflows
Contingent rentals	
Subjectivity of information	Requirement to reassess (true-up information)
Cost/benefit of determining information	Ignoring would lead to structuring
Reliable measurement	Some users prefer estimates to no information

Disclosures

- Identify and explain the amounts recognised in the financial statements arising from leases; and
- Describe how leases may affect the amount, timing and uncertainty of the entity's future cash flows.
- Include:
  - Nature of lease contracts
  - Accounting policy for models used (lessor)
  - Maturity analyses
  - Income recognition information
  - Discount rates
  - Roll-forward of right-of-use asset / liability to make lease payments (lessees)
  - Roll-forward of right to receive payments / lease liability or residual asset (lessors)

Transition

- All leases
  - Simplified retrospective approach
  - Present value of remaining lease payments
- First time adoption
  - Same treatment as transition

What next?

Discussion paper March 2009

↓

Exposure Draft 17 August 2010
Comment period ends 15 December 2010

↓

Outreach and fieldwork

↓

IFRS planned Q2 2011

IASB contacts

Outreach:

- Barbara Davidson (Technical Manager): **bdavidson@ifrs.org**

Project team:

- Rachel Knubley (Technical Principal): **rknubley@ifrs.org**
- Li Li Lian (Technical Manager): **llian@ifrs.org**
- Aida Vatrenjak (Assistant Technical Manager): **avatrenjak@ifrs.org**
- Sunhee Kim (Technical Associate): **skim@ifrs.org**

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.

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Leases
Break-out discussions

FELIPE PEREZ-CERVANTES
Chairman
CINIF

ALEX WATSON
Chairman, APC
SAICA

ANDREW LEE
Council Member
SINGAPORE ACCOUNTING STANDARDS COUNCIL

LIESEL KNORR
President
GASB

ISABELLE GRAUER-GAYNOR
Technical Director
AUTORITE DES NORMES COMPTABLES

Leases break-out discussion groups

13.30-15.00 Monday 20 September 2010

	CHAIR	ROOM
Group 1	Felipe Perez-Cervantes (Chairman, CINIF)	BALLROOM (LOWER GROUND FLOOR)
Group 2	Alex Watson (Chair, SAICA)	LITTLETON BRYCE & TEMPLE (GROUND FLOOR)
Group 3	Andrew Lee (Council Member, ASC)	MANSFIELD SUITE (GROUND FLOOR)
Group 4	Liesel Knorr (President, GASB)	STAPLE AND GRAYS (LOWER GROUND FLOOR)
Group 5	Isabelle Grauer-Gaynor (Technical Director, ANC)	CLEMENTS, THAVIES AND LINCOLN (LOWER GROUND FLOOR)

COUNTRY	ORGANISATION	NAME	GROUP
ALBANIA	Albanian Institute of Authorised Chartered Accountants	Agim Binaj	Group 1 BLUE
		Elira Hoxha	Group 2 GREEN
ARGENTINA	Argentine Federation of Professional Councils of Economic Sciences (FACPCE)	Jorge Jose Gil	Group 3 PINK
AUSTRIA	Austrian Financial Reporting and Auditing Committee (AFRAC)	Alfred Wagenhofer	Group 4 RED
		Gerhard Prachner	Group 5 YELLOW
AUSTRALIA	Australian Accounting Standards Board	Kevin Stevenson	Group 1 BLUE
BELGIUM	Commissie voor Boekhoudkundige Normen (BASB)	Jan Verhoeye	Group 2 GREEN
		Sadi Podevijn	Group 3 PINK
BRAZIL	CPC – Comitê de Pronunciamentos Contábeis	Nelson Carvalho	Group 4 RED
		Idesio Coelho	Group 5 YELLOW
BRAZIL	Accounting and Auditing Regulation Superintendency - Securities and Exchange Commission (CVM)	Alexsandro Broedel Lopes	Group 1 BLUE
		Osvaldo Zanetti Favero Junior	Group 2 GREEN
BRAZIL	Financial System Regulation Department - Central Bank of Brazil (BCB)	Renato Kiyotaka Uema	Group 3 PINK
		Fabiano de Oliveira Silva	Group 4 RED
BULGARIA	Institute of Certified Public Accountants in Bulgaria (ICPA)	Hristo Mavrudiev	Group 5 YELLOW
CANADA	Accounting Standards Board Canada	Tricia O'Malley	Group 1 BLUE

		Peter Martin	**Group 2 GREEN**
		Gordon Fowler	**Group 3 PINK**
CHINA	Ministry of Finance	Wenxian Xia	**Group 1 BLUE**
CZECH REPUBLIC	Ministry of Finance	Irena Vavrinova	**Group 4 RED**
		Tomas Severa	**Group 5 YELLOW**
DEMOCRATIC REPUBLIC OF CONGO	Institute De Reviseurs Comptables au Congo (IRC)	Jean-Pierre Pfingu	**Group 1 BLUE**
		Danny Nkuvu	**Group 2 GREEN**
DENMARK	FSR Danish Accounting Standards Committee	Jan Peter Larsen	**Group 3 PINK**
		Niels H Enevoldsen	**Group 4 RED**
EUROPEAN COMMISSION	European Commission	Jeroen Hooijer	**Group 5 YELLOW**
		Anne –Françoise Melot	**Group 1 BLUE**
ECSAFA	ECSAFA	Vickson Ncube	**Group 2 GREEN**
EFRAG	EFRAG	Françoise Flores	**Group 3 PINK**
		Pieter Dekker	**Group 4 RED**
FRANCE	Autorite des Normes Comptables	Jerome Haas	**Group 1 BLUE**
		Isabelle Grauer-Gaynor	**Group 5 YELLOW**
		Philippe Bui	**Group 2 GREEN**
GERMANY	German Accounting Standards Board (GASB)	Liesel Knorr	**Group 4 RED**
HONG KONG	Hong Kong Institute of Certified Public Accountants (HKICPA)	Clement Chang	**Group 3 PINK**
		Steve Ong	**Group 4 RED**
IASB	International Accounting Standards Board (IASB)	Amaro Gomes	**Group 1 BLUE**
		Stephen Cooper	**Group 2 GREEN**
		Philippe Danjou	**Group 2 GREEN**
		Barbara Davidson	**Group 1 BLUE**
		Jan Engström	**Group 3 PINK**
		Patrick Finnegan	**Group 4 RED**
		Prabhakar Kalavachera (PK)	**Group 5 YELLOW**
		Sunhee Kim	**Group 5 YELLOW**
		Elke König	**Group 1 BLUE**
		Rachel Knubley	**Group 3 PINK**
		Patricia McConnell	**Group 2 GREEN**
		Warren McGregor	**Group 4 RED**
		Paul Pacter	**Group 3 PINK**
		Wei-Guo Zhang	**Group 4 RED**
		Tatsumi Yamada	**Group 5 YELLOW**

INDIA	Institute of Chartered Accountants of India	Manoj Fadnis	**Group 5 YELLOW**
		Avinash Chander	**Group 1 BLUE**
INDONESIA	The Indonesian Institute of Accountants	Rosita Uli Sinaga	**Group 2 GREEN**
IPSASB	IPSASB - International Public Sector Accounting Standards Board	John Stanford	**Group 3 PINK**
IRAQ	Iraqi Union of Accountants and Auditors (IUAA)	Rafid Al Nawas	**Group 4 RED**
JAPAN	Accounting Standards Board of Japan (ASBJ)	Atsu Kato	**Group 5 YELLOW**
		Toru Yoshioka	**Group 1 BLUE**
JORDAN	Arab Society of Certified Accountants	Ahmad Abu Elhommos	**Group 2 GREEN**
KENYA	Institute of Certified Public Accountants of Kenya	Evan Muelera	**Group 3 PINK**
KOSOVO	Kosovo Board on Standards for Financial Reporting (KBSFR)	Fatmir Gashi	**Group 4 RED**
		Agron Dida	**Group 5 YELLOW**
LEBANON	Lebanese Association of Certified Public Accountants (LACPA)	Samer Doumani	**Group 1 BLUE**
MALAYSIA	Malaysian Accounting Standards Board	Mohammad Faiz Azmi	**Group 2 GREEN**
		Tan Bee Leng	**Group 3 PINK**
MALTA	Accounting & Auditing Committee The Malta Institute of Accountants	Jonathan Dingli	**Group 4 RED**
MEXICO	Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. (CINIF)	Felipe Perez-Cervantes	**Group 1 BLUE**
		Juan M Gras	**Group 5 YELLOW**
MEXICO 2	National Banking and Securities Commission	Flerida Gutierrez Vidal	**Group 2 GREEN**
		Carlos Madrid	**Group 3 PINK**
NETHERLANDS	Dutch Accounting Standards Board	Hans de Munnik	**Group 4 RED**
NEW ZEALAND	Financial Reporting Standards Board	Joanna Perry	**Group 5 YELLOW**
		Patricia McBride	**Group 1 BLUE**
NIGERIA	Nigerian Accounting Standards Board	Jim Osayande Obazee	**Group 2 GREEN**
		Godson Sunday Nnadi	**Group 3 PINK**
NORWAY	Norsk RegnskapsStiftelse (Norwegian Accounting Standards Board)	Harald Brandsas	**Group 4 RED**
		Erlend Kvaal	**Group 5 YELLOW**

POLAND	Polish Accounting Standards Committee	Agnieszka Stachniak	**Group 1 BLUE**
		Radoslaw Ignatowsk	**Group 2 GREEN**
ROMANIA	The Body of Expert and Licensed Accountants of Romania (CECCAR)	Maria Madalina Girbina	**Group 3 PINK**
RUSSIA	The Ministry of Finance of The Russian Federation	Leonid Shneydman	**Group 4 RED**
SAUDI ARABIA	Arab Society of Certified Accountants	Oussama Ali Tabbara	**Group 2 GREEN**
SIERRA LEONE	Council for Standards of Accounting, Auditing, Corporate & Institutional Governance (CSAAG)	Omodele R.N. Jones	**Group 5 YELLOW**
		Abu Bakarr Conteh	**Group 1 BLUE**
SINGAPORE	Accounting Standards Council	Euleen Goh	**Group 2 GREEN**
		Andrew Lee	**Group 3 PINK**
SOUTH AFRICA	The South African Institute of Chartered Accountants	Alex Watson	**Group 2 GREEN**
		Sue Ludolph	**Group 5 YELLOW**
SOUTH KOREA	Korea Accounting Standards Board	Chung-Woo Suh	**Group 1 BLUE**
		Soon Suk Yoon	**Group 4 RED**
SUDAN	The Sudanese Association of Certified Accountants	Zein EL Abdin Borai Ahmed	**Group 2 GREEN**
SWEDEN	Swedish Financial Reporting Board	Carl-Eric Bohlin	**Group 3 PINK**
SWITZERLAND	Swiss GAAP FER	Philipp Leu	**Group 4 RED**
TAIWAN	Accounting Research & Development Foundation	Conrad Chungyueh Chang	**Group 5 YELLOW**
TANZANIA	National Board of Accountants and Auditors Tanzania	Pius A Maneno	**Group 1 BLUE**
TURKEY	Turkish Accounting Standards Board	Ali Alp	**Group 2 GREEN**
UNITED KINGDOM	Accounting Standards Board	Ian Mackintosh	**Group 3 PINK**
		David Loweth	**Group 4 RED**
UNITED STATES	Financial Accounting Standards Board (FASB)	Bob Herz	**Group 5 YELLOW**
		Tom Linsmeier	**Group 1 BLUE**

IFRS

World Standard-setters Meeting

Staff Paper

Agenda reference	**Agenda Paper 1**
Date	**20 September 2010**

Contact(s)			
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Project **Leases**

Introduction

1. As part of their joint project under the Memorandum of Understanding, the IASB and the FASB aim to improve the accounting for leases by issuing a high quality joint standard. The goal of the standard is to:

   (a) eliminate the classification between finance (capital) leases and operating leases, thus improving comparability and providing users with complete information on cash flows that arise from leases; and

   (b) develop a consistent accounting model for lessees and lessors.

2. As a step towards that goal, in August 2010 the boards published the exposure draft *Leases*. The exposure draft can be downloaded from: http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/ed10/Ed.htm. The deadline for comments is 15 December 2010. During the comment period, the boards will perform fieldwork to assess the costs and benefits of applying the new proposals and undertake further outreach to discuss the proposals.

3. The staff would like to use the WSS break-out sessions to discuss and obtain feedback on some of the more contentious issues under the proposals.

Overview of the proposals

4. The boards are proposing a single accounting model, the ‘right-of-use’ model, for both lessees and lessors.

5. Under the right-of-use model, lessees would recognise a right to use the underlying asset (the ‘right-of-use’ asset) arising from all leases in the statement of financial position, along with a corresponding liability to make lease payments.

6. Lessors would recognise a right to receive lease payments arising from all leases. The lessors’ approach to accounting for the underlying asset would depend on whether they retain exposure to significant risks or benefits associated with the underlying asset. If they do not retain exposure to significant risks or benefits, they would derecognise the portion of the underlying asset that represents the lessee’s right to use the underlying asset during the term of the lease (the derecognition approach). If they retain exposure, they would keep the underlying asset on their statement of financial position and recognise a lease liability representing their obligation to permit the lessee to use the underlying asset over the lease term (the performance obligation approach).

Issues to discuss

7. The issues we would like to discuss with the WSS are:
   - (a) Treatment of complex features:
     - (i) options to extend or terminate
     - (ii) contingent rentals
     - (iii) purchase options
   - (b) Lessor accounting model: performance obligation versus derecognition approach
   - (c) Scope:

(i) service contracts versus leases

(ii) purchases or sales versus leases.

Treatment of complex features

Options to extend or terminate

8. Many leases include options to extend or terminate. Under the proposals, lessees and lessors would determine the longest possible term that is more likely than not to occur and recognise the related assets and liabilities based on that term. In addition, the lease term should be reassessed at each reporting date if there are changes in facts or circumstances that indicate that there is a material change in the assets or liabilities

9. Some note that determining the present value of lease payments on the basis of the most likely lease term might result in the recognition of an asset or liability that does not meet the definition of an asset or liability. Also this approach does not distinguish between a five-year, non-cancellable lease and a three-year lease with an option to extend for two years that is likely to be exercised.

10. However, the boards think that using the most likely lease term is a practical solution to the problems associated with the accounting for leases with options. If optional periods are not included in the lease term, the related assets and liabilities might be misstated or this may encourage structuring.

Question #1
Do you agree with the boards' proposed approach to recognition and measurement of options in lease contracts? If not, why not? What would you recommend?

Contingent rentals

11. Lease contracts may also include payments that are linked to usage of the underlying asset, an index or a rate, or lessee performance. Under the proposals, lessees would include in their liability to make lease payments amounts payable

under contingent rental arrangements and lessors would include these amounts in their right to receive lease payments if they can be measured reliably. The liability and the asset would be reassessed at each reporting date if there are changes in facts or circumstances that indicate that there is a material change in the liability or asset.

(a) Changes in contingent rentals for lessees: The changes in amounts payable under contingent rental arrangements arising from current or prior periods should be recognised in profit or loss. All other changes would be recognised as an adjustment to the lessee's right-of-use asset.

(b) Changes in contingent rentals for lessors: A change in contingent rentals should be recognised in profit or loss under the derecognition approach. Under the performance obligation approach, the boards propose to adjust the lease liability for any change in the amount of contingent rentals if it relates to unsatisfied obligations and to recognise any change in profit or loss if it relates to satisfied obligations.

12. Some think that the lessee's liability to pay and the lessor's right to receive contingent rentals do not exist until the future event requiring the payment occurs. Accordingly, they suggest that entities should only provide disclosure of contingent rentals.

13. However, in the boards' view, the liability to pay and the right to receive contingent rentals exist at the date of inception of the lease. Such contingent rentals meet the definition of a liability for the lessee and an asset for the lessor. It is only the amount to be paid that is uncertain.

Question #2
Do you agree with the boards' proposed approach to recognition and measurement of contingent rentals? If not, why not? What would you recommend? Do you think that different types of contingent rentals (eg those linked to usage, an index or a rate, or lessee performance) should have a different recognition and measurement requirement (including reassessment)?

Purchase options

14. The exposure draft proposes that purchase options should not be accounted for until they are exercised. The boards think that when a lessee exercises a purchase option, it terminates the lease and purchases the underlying asset. Thus, the exercise price of the option is not a lease payment and should not be included in the measurement of assets and liabilities arising from a lease.

15. Some think that purchase options should be treated consistently with options to extend or terminate because purchase options are the ultimate extension options.

Question #3
Do you agree with the boards' proposed approach to purchase options in lease contracts? If not, why not? What would you recommend?

Lessor accounting model

Performance obligation versus derecognition approach

16. The boards propose that the lessor's accounting for the underlying asset should differ depending on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term.

17. The derecognition approach views the lessor as having transferred significant economic risks and benefits associated with the underlying asset during or after the expected lease term to the lessee at the date of commencement of the lease. The lessor derecognises the economic benefits associated with the rights it transfers to the lessee when it transfers those rights. Under this approach, the lessor may recognise revenue on commencement of the lease. The remaining economic benefits, ie the lessor's residual interest in the underlying asset, are classified as a residual asset in the lessor's statement of financial position.

18. The performance obligation approach views the underlying asset as the lessor's economic resource. The lessor continues to recognise the underlying asset in the statement of financial position, and recognises a lease liability, representing its

obligation to permit the lessee to use the underlying asset during the lease term. That liability is satisfied over the lease term (on a systematic basis) as the lessor permits the lessee to use the underlying asset. Thus, the lessor would recognise lease income during the lease term.

Question #4
Do you agree with the boards' proposals regarding the different approaches to lessor accounting for the underlying asset? Specifically, do you agree that a lessor should apply (i) the derecognition approach if it does not retain exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term, and (ii) the performance obligation approach if it does? Why or why not? If not, what alternative approach would you propose and why?

Scope

<u>Service contracts versus leases</u>

19. To help entities determine whether an arrangement in within the scope of the proposals (ie is a lease contract or a service contract) the exposure draft carries forward the guidance in IFRIC 4 *Determining whether an Arrangement contains a Lease*. In particular, the exposure draft indicates that a contract is or contains a lease if:

    (a) fulfilment of the contract depends upon providing a specified asset; and

    (b) the contract conveys the right to control the use of a specified asset.

20. A contract conveys that right to control the use of an underlying asset if:

    (a) The entity has the ability or right to operate the asset (or direct others to operate the asset) while obtaining more than an insignificant amount of the output or utility of the asset; or

    (b) The entity has the ability or right to control physical access to the asset while obtaining more than an insignificant amount of the output or utility of the asset; or

(c) The entity will obtain all but an insignificant amount of the output or other utility of the asset and the price paid is neither contractually fixed per unit of output nor equal to the market price per unit of output.

Question #5
Do you think the proposed criteria for differentiating service contracts from leases is appropriate? If not, what alternative criteria would you use and why. Do you think that further guidance is needed to help differentiate leases from service contracts?

Purchases or sales versus leases

21. The exposure draft would not apply to transactions in which control and all but a trivial amount of the risks and benefits associated with the underlying asset is transferred at the end of the lease term, because such transactions represent purchases or sales of the underlying asset.

22. Some were concerned that attempting to distinguish between purchases or sales and leases would reintroduce a classification requirement that would increase the complexity of the proposals. However, the boards think that purchases or sales and leases have different economic effects and that the accounting should reflect those economic differences, regardless of the way that the contract describes the transaction.

23. Some note that the proposed lessee accounting is similar (but not identical) to purchase or sale accounting. In addition, the proposed lessor accounting under the derecognition approach (applied if a lessor has not retained exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term) is similar to purchase or sale accounting. Therefore, differentiation between purchases or sales and leases is not necessary.

Question #6
Do you agree with the boards' proposed approach to distinguishing between purchases or sales and leases? If not, why not? What would you recommend?

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Leases
Break-out feedback

FELIPE PEREZ-CERVANTES
Chairman
CINIF

ALEX WATSON
Chairman, APC
SAICA

ANDREW LEE
Council Member
SINGAPORE ACCOUNTING STANDARDS COUNCIL

LIESEL KNORR
President
GASB

ISABELLE GRAUER-GAYNOR
Technical Director
AUTORITE DES NORMES COMPTABLES

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Keynote speaker

TOMOYUKI FURUSAWA
Director, Corporate Accounting and Disclosure,
Planning and Coordination Bureau
FSA (JAPAN)

JFSA's collaboration with Standard-setters

September 2010
JFSA (Financial Services Agency, Japan)
Tomoyuki Furusawa

"IFRS" is now becoming a hot issue in Japan

Sir. David is one of the most famous people in Japan


国際会計基準の普及に力 ―― デービッド・トウィーディーさん
ニュースな人ビト
ルール共通化、議論重ねる

Nihon Keizai Shimbun, 2 September

JFSA engages in the development of IFRSs

- ✓ JFSA supports the IASB's global outreach activities with various stakeholders: JFSA supports regional exchanges among Asian-Oceanian Standard-setters and other stakeholders
  - □ AOSSG, India-Japan IFRS Dialogue
- ✓ JFSA collaborates with the ASBJ, ensuring its independence
- ✓ JFSA contributes to the sound development of IASB through the proper governance management of the IFRS Foundation
  - □ IFRS Foundation Monitoring Board

Asia-Oceania Region Activities

Important meetings in Japan
- ✓ India-Japan IFRS Forum (7/27)
- ✓ IFRS Conference (7/28-29)
- ✓ Asian-Oceanian Standard-Setters Group (AOSSG) Meeting (9/29-30)

Enhancement of the importance of the Asia-Oceania Region
- ✓ Adoption of IFRSs in this region has been expanding.
- ✓ The scale of economies in this region has become larger.

- ✓ gathering the Asian-Oceanian opinions
- ✓ strengthening the connection with IASB

JFSA collaborates with the ASBJ

- ✓ BAC (※) drew and issued the "Japan's Roadmap for IFRS Application"

  (※) Business Accounting Council; an advisory body to the commissioner of JFSA

- ✓ JFSA prepared the legal status of IFRSs in Japan
  ⇒ The legal designation system of IFRSs
- ✓ JFSA collaborates with the ASBJ in meeting the challenges for the adoption of IFRSs
  ⇒ Human resource development: ASBJ's critical challenge

Japan's Convergence Process

(Oct '02) Norwalk Agreement of IASB-FASB

EU's Actions →

- Adoption of EU Directives → ('03, '04)
- CESR Advice → (Jul '05)
- Establishment of Japan-EU Monitoring Meeting → (Nov '06)
- Decision on Equivalence of Japanese GAAP with IFRSs → (Dec '08)

← Japan's Actions

- (Jan '05) ← ASBJ – IASB launched a joint program for convergence
- (Jul '06) ← BAC report "Towards International Convergence of Accounting Standards"
- (Oct '06) ← ASBJ published the project plan
- (Aug '07) ← Tokyo Agreement
- (Dec '07) ← ASBJ published the revised project plan based on the Tokyo Agreement

BAC (Business Accounting Council) is an advisory body on accounting matters to the JFSA

Tokyo Agreement -> ASBJ agreed with IASB to accelerate convergence between J-GAAP and IFRSs

- Eliminate the major differences or provide compatible accounting standards by 2008
- Set a target date of 30 June 2011 for resolving other issues
- Enhance cooperation to facilitate Japan's greater contribution to the international standard-setting process

Japan's Roadmap for IFRSs Application

In addition to the need for continuing convergence between J-GAAP and IFRSs, many stakeholders express their opinions that Japan needs to consider an application of IFRSs.

2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016

Voluntary Application

Scope: Certain listed companies whose financial or business activities are conducted internationally

Applied to: Consolidated Financial Statements

From: Fiscal year ending 31 March 2010

Publication of Japan's Roadmap (June 30, 2009)

Minimum 3 Years

Decision on Mandatory Application

Possible Start of Mandatory Application

- ✓ Around 2012: Decision regarding mandatory application of IFRSs
- ✓ Preparation period: Minimum 3 years
- ✓ 2015 or 2016: Beginning of mandatory application (if decided in 2012)

Japan's Roadmap (June 2009): Basic Concept

Basic Concept for Application of IFRSs in Japan

- ✓ To improve quality and international comparability of financial reporting for investors; and
- ✓ To enhance the international competitiveness of Japanese financial market; etc.

must draw a roadmap with a concrete vision for the future toward a possible voluntary or mandatory application of IFRSs in the statutory disclosure of financial statements by Japanese companies

Application of IFRSs

Voluntary application from the end of March 2010:
-The consolidated financial statements of certain listed companies whose financial or business activities are conducted internationally

Decision of adoption around 2012:
-Decision regarding mandatory application of IFRSs for listed companies

Japan's Roadmap (June 2009): Key Conclusion

✓ Before making a decision regarding mandatory use of IFRSs, JFSA will consider the achievement of some points, such as:

- ➢ whether the governance of the IFRS Foundation is improved
- ➢ whether IFRSs appropriately reflect business practices
- ➢ whether Japanese accounting stakeholders express opinions to IASB proactively and effectively
- ➢ whether IFRSs are appropriately and promptly translated into Japanese
- ➢ whether education and training on IFRSs are sufficiently conducted

Legal status of IFRSs in Japan (1)

Financial Instruments and Exchange Act

Financial Statements shall be prepared in conformity with the terms, forms and preparation methods which the Commissioner of the JFSA prescribes in a Cabinet Office Ordinance in accordance with the manner generally accepted as fair and proper.

Regulation for Consolidated Financial Statements

Certain Japanese companies whose financial or operational activities are conducted internationally may prepare their consolidated financial statements in accordance with IFRSs designated by the Commissioner of the JFSA.

Legal status of IFRSs in Japan (2)

Requirements for IFRSs Designation by the Commissioner of the JFSA

i. clearly drafted and made generally known to the market in advance;
ii. carefully considered by various stakeholders;
iii. assessed by a large number of stakeholders as reasonable standards reflecting actual economic conditions; and
.widely received by stakeholders as fair and appropriate financial reporting standards.

- ✓ IFRSs are designated with no carve-ins or carve-outs.
- ✓ IFRS 9 was designated in March 2010 after public consultation process.

Challenges for the Adoption of IFRSs (1)

- ✓ Ensuring due process and governance improvement of the IFRS Foundation
- ✓ Maintenance of convergence progress between IFRSs and Japanese GAAP
- ✓ Quality of IFRSs appropriately reflecting business practices
- ✓ Human resource development; Education and training

Challenges for the Adoption of IFRSs (2)

✓ Human resource development; Education and training for

(1) Financial statement preparers

(2) Auditors

(3) Standard-setters

(4) Regulators

IFRS Foundation Monitoring Board

Monitoring Board (MB)

- ✓ First Meeting : April, 2009
- ✓ Role : To provide a formal link between the Trustees and public authorities
- ✓ Members : /Representative of the IOSCO Technical Committee
  /Commissioner of the Japan FSA
  /Representative of the IOSCO Emerging Markets Committee
  /Chairman of the US SEC
  /Commissioner for Internal Market and Services, EC
- ✓ Observer : /Representative of the Basel Committee on Banking Supervision

IFRS Foundation Governance Review (1)

Working Group for Governance Review of IFRS Foundation

- ✓ Working Group was established by the MB in July 2010
- ✓ Working Group aims to finish its job by the end of 2010
- ✓ Chaired by Masamichi Kono, Vice Commissioner for International Affairs of the JFSA

IFRS Foundation Governance Review (2)

Objective of Governance Review

✓ The review will focus on the overall governance model of IFRS Foundation including the composition of the MB, in order to assess whether the current governance structure adequately:

-provides appropriate representation for relevant authorities such as capital market and other public authorities;
-makes the IASB sufficiently transparent, and accountable to the relevant authorities, such as capital market and public authorities;
-ensures the appropriate involvement of all relevant stakeholders in the standards elaboration process;
-ensures that all relevant public policy objectives are taken into account in the standard setting process; and
-protects the IASB's independent standard setting process.

Thank you

Japan FSA
September 2010

http://www.fsa.go.jp/en/index.html

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IASB planning and priorities (post 2011 agenda)

SIR DAVID TWEEDIE
Chairman
IASB

ALAN TEIXEIRA
Staff
IASB

PETER CLARK
Staff
IASB

	World Standard-setters Meeting	Agenda reference	Agenda Paper 2
IFRS	Staff Paper	Date	21 September 2010

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Topic **IASB planning and priorities (post-2011 agenda)**

Background

1. Today, the primary focus of the Board is on the completion of its current agenda, with a particular emphasis on *financial instruments*, *revenue recognition*, *leases* and *insurance contracts*. Those projects are scheduled for completion by 30 June 2011. Between now and March 2011 the Board also expects to complete projects on derecognition-related disclosures, consolidations, joint arrangements, employment benefit plans, fair value measurement and management commentary, as well as two chapters of the Framework and some narrower improvements to IFRSs.

2. By July 2011 the Board will therefore have completed much of its current agenda and will have three new members, including a new Chairman. Planning has begun to develop a new agenda for this future phase in the IASB's work.

Constitutional review

3. In the second part of its constitutional review, the Trustees introduced a requirement that, in addition to consulting the Trustees and its advisory council annually on the current and future agenda, the IASB should undertake a three-yearly public consultation on its future technical agenda. The Trustees stated at the time that the requirement to give a formal opportunity for public

comment addresses one of the major issues raised by stakeholders. The IASB must begin the first public review before 30 June 2011.

4. The purpose of this consultation is to solicit input to guide and help the IASB in setting the agenda. The IASB has full discretion to develop and pursue its technical agenda.

Advice from the IFRS Advisory Council

5. In November 2009, February 2010 and June 2010, the IFRS Advisory Council discussed strategic considerations in the light of the financial reporting environment. The Advisory Council discussed a range of issues, including (i) the characteristics of an effective financial reporting system, (ii) a consideration of the state of IFRS as it is expected to exist in June 2011 and (iii) potential targets and milestones for important accomplishments. The Advisory Council's discussions were undertaken on the basis that the Board's current agenda would be completed successfully by June 2011. The Advisory Council did not discuss the implications for the post-2011 work plan if delays were to occur, and encouraged the Board to monitor closely its progress in meeting the June 2011 deadline.

6. The Advisory Council wrote to the Board in August 2010 outlining the collective views of council members. That letter summarised its advice as follows:

> **Basic policies**
>
> (a) Focus on serving those who have adopted or wish to adopt IFRS. Convergence is no longer a prime consideration.
>
> (b) Retain the current objective of serving the reporting needs of capital market participants for profit-oriented entities.
>
> **Short- to medium-term objectives**
>
> (c) Provide a period of calm in issuing new standards to bed down the numerous new and revised standards coming into effect. Stand ready to assist in resolving implementation issues. Assess proposals for new standard-setting projects against strict selection criteria. Provide some capacity and flexibility to deal with unforeseen urgent issues without disrupting the work plan.

(d) Allocate significant resources to ensuring that the standards are interpreted and applied with an appropriate degree of consistency, and that they are producing the intended results. Post-implementation reviews become a significant activity.

(e) Expedite completion of the conceptual framework project and developing a disclosure framework.

(f) Monitor trends and developments that are likely to affect financial reporting in the future.

Interaction with constituents

(g) Manage the relationship between IFRS and IFRS for SMEs. The first periodic update of IFRS for SMEs will be particularly challenging because of the recent spate of new or revised standards.

(h) Continue and expand outreach activities with particular emphasis on users and emerging markets.

The Advisory Council believes that this approach would allow the new Board to become better oriented before making extensive longer-term commitments, and would ease the transition from the old to the new Board.

Next steps

7. The Board is currently developing a plan for the first of the new three-yearly public consultations on its agenda. The Board will be seeking input on the strategic direction that it should take in developing its future agenda as well as identifying potential new projects.

8. To give WSS participants a sense of what we mean by strategic direction, the Board's informal consultation has already suggested that the Board could focus on four general areas: implementation and maintenance (including post-implementation reviews); the conceptual framework (including a disclosure framework); a strategic review of the future shape of financial reporting (including its interaction with XBRL); and 'some' major projects.

9. The Board will be interested in hearing views as to whether these are the right areas for it to focus on and, if so, what should be the relative balance (or effort) among these areas.

10. The Board has already identified some projects that should at least be considered as potential agenda items. Some of these are topics that have been on the agenda but for which work has been suspended—eg earnings per share and

common control. The Board has also published a discussion paper prepared by staff of national standard-setters on *extractive activities*, and it seems appropriate to consider this as a potential agenda topic. It is also possible that some projects that are currently on the agenda might be at a point where they should be assessed against other projects. In other words, are they still a priority? The Board is aware of other matters that some in the IFRS community would like the Board to address. The public consultation process should help the Board to identify whether its list of potential candidate projects is sufficiently comprehensive.

11. We encourage participants to think about the matters raised in this paper and hope that you will participate in the public consultation.

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Engaging with the IASB

STEPHEN COOPER
Member
IASB

International Financial Reporting Standards

Engaging with the IASB

Stephen Cooper

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

IFRS

What is outreach?

Formal Due Process

- Always: ED and comment letters
- When required: DP + comment letters, roundtables, working groups

Additional outreach

- Meetings
- Webcasts
- Discussion Forums
- Surveys
- Etc…

IFRS

Who does outreach?

Trustees

× Not at a technical level

Board members

Technical Staff

✓Director of International Activities

✓Project outreach managers

✓Technical staff

Communications team

IFRS

Outreach – what is the objective?

✓Identify issues and look for solutions when researching a project

✓Help us produce a good quality answer

✓Explain and clarify our proposals

IFRS

Types of non- Due Process outreach

- Discussion Forums
- Webcasts / webinars / podcasts
- Surveys
- Meetings with individual constituents

IFRS

Discussion Forum meetings

What is the format?

- Panel + audience style meeting, open to the public
- Held worldwide, hosted by a local organisation/NSS
- Usually update on the IASB workplan, followed by 1-3 sessions on individual projects (usually those which are open for comment)
- Short IASB presentation followed by Q&A

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Discussion Forum meetings

7

Who from the IASB will participate?

- At least one IASB member / Director to attend in person
- Additional participation from London by video if facilities are available

How will the agenda be set?

- Projects to be discussed will be agreed between the host organisation and the IASB's Outreach Co-ordinator, Jennifer Wilson

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Discussion Forum meetings

8

What is the purpose?

✓ Education: Summarise the proposals in EDs

✓ Clarification: Question IASB members and staff on points in exposure drafts

✓ Understanding: Qain insight into the rationale for the IASB's proposals

✓ Discussion: An opportunity for discussion with IASB members and staff

× Not intended to replace formal due process mechanisms (comment letters, roundtables)

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Discussion Forum meetings - schedule

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- Discussion Forum meetings are planned for Q4 in Belgium, Singapore, Malaysia, France, Denmark and Norway – latest schedule of confirmed meetings is available on IFRS Foundation website: http://www.ifrs.org/Outreach+activities/Discussion+Forums+meetings.htm
- For more information, or to discuss the possibility of hosting a Discussion Forum, please contact Jennifer Wilson – jwilson@ifrs.org

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Targeting Investors

10

- Key constituent group, but not always easy to reach and engage with
- Analyst Representative Group (ARG): Public meetings in London with IASB representatives three times a year
- Engagement with other organized groups – CFA, CRUF, etc
- Proactive work to meet individual analysts and investment companies
- Dedicated investor liaison manager: Luci Wright – lwright@ifrs.org

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Investor resources on our website

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- http://www.ifrs.org/Investor+resources/Investors+and+IFRS.htm

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IASB Director, International Activities

12

Wayne Upton: wupton@ifrs.org

- The senior member of the IASB staff tasked to work with countries on adoption and convergence
- Helping to identify problem areas and possible solutions through:
  - Amendments to IFRS 1
  - Improvements and Amendments to other standards
  - IFRIC interpretations
  - Local educational materials

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Project-specific outreach

13

- Key projects have a dedicated staff member to manage outreach activities
- Projects with very active outreach activities:
  - Revenue Recognition – April Pitman: apitman@ifrs.org
  - Leases – Barbara Davidson: bdavidson@ifrs.org
  - Insurance Contracts – Sandra Hack: shack@ifrs.org
  - Financial Instruments – Sue Lloyd: slloyd@ifrs.org
  - Financial Statement Presentation – Denise Gomez: dgomez@ifrs.org and Holger Obst: hobst@ifrs.org

Revenue Recognition outreach

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- A broad spectrum of participants – revenue affects a wide range of entities
- A diverse range of formats depending on objective – webcasts, podcasts, investor blogs, workshops as well as updates and conferences
- Target those most affected by change – constructors; telecoms; manufacturers' warranties
- Detail important in developing a workable standard
  - workshops with preparers to test key principles

Leases outreach

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- Exposure draft August 2010, final standard June 2011
- Focus on lessees as nearly all entities lease, but proposals for lessors as well
- A diverse range of outreach activities in all regions – webcasts, podcasts, user meetings, discussion forums, fieldwork, articles and conferences
- Treatment of contingent rentals, options to extend, P&L, services versus leases
- Analysis of costs and benefits (fieldwork) and user feedback key to finalising a workable standard

Insurance Contracts outreach

16

- ED published: 30th July 2010
- Outreach: meetings with constituents worldwide
  - outreach meetings, Working Group, field tests…
- Project webcasts and podcasts
- Comment period ends: 30th November 2010

Financial Instruments outreach

17

- Throughout the project to replace IAS 39 we have tried to get input from specific groups of constituents including:
  - Users – to understand what information is useful to them
    - do not routinely write comment letters
    - have used tailored surveys, utilised user groups and had numerous small group meetings
  - Preparers – to understand operational implications (particularly on impairment) and real world consequences
    - Have used industry groups and audit firms to arrange groups
    - Also numerous one-on-one meetings (particularly on hedge accounting)

Financial Instruments outreach

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  - Regulators – regular dialogue established
  - Audit firms – to understand operational issues and real world consequences of decisions
- In addition to the outreach targeted at particular constituents we have utilised web-based communications to access a wide audience
  - Email alert system for the project
  - Webcasts used to inform of ongoing developments during re/deliberations
  - Podcasts
  - Recorded Q&A on frequently asked questions

Financial Statement Presentation outreach

19

- Exposure draft (May 2010) – Presentation of Items of Other Comprehensive Income
- Staff draft of exposure draft (July 2010):
  - Replacement of IAS 1 and IAS 7
  - Discontinued operations
- Extended outreach activities on staff draft proposals (Aug – Nov 2010)
  - Benefits and costs
  - Implications for financial services entities
- All information available: http://go.ifrs.org/FSP

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How can National Standard Setters get involved?

20

- You are key constituents and a vital part of our outreach activities
- Contact Jennifer Wilson, Outreach Co-ordinator with any queries: jwilson@ifrs.org
- Alternatively, contact Wayne Upton, Director of International Activities: wupton@ifrs.org

IFRS

What do we need from you?

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- Contact us early
  - Project teams / outreach managers
  - Director of International Activities: Wayne Upton
  - Outreach Co-ordinator: Jennifer Wilson
- Be proactive
  - Suggest events / conferences / meetings
- Be efficient and productive
  - Coordinate with other local NSS
  - Use technology – video conferencing

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Questions or comments?

22

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World Standard-setters Conference

Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

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World Standard-setters Conference

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Advisory Council update

PAUL CHERRY
Chairman
ADVISORY COUNCIL

International Financial Reporting Standards

IFRS Advisory Council: A Progress Report

Paul Cherry, Chairman
Charles Macek, Vice-Chair
Patrice Marteau, Vice-Chair

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

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IAC Terms of Reference

- Advice on agenda decisions/priorities
- Views on major standard-setting projects
- Other advice to IASB or Trustees
- Promotion & adoption of IFRS

IFRS

Membership

- Appointed by Trustees
- In representative capacity
- Global network of influential organizations
- 47 members + 3 observer organizations

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Views and Advice (1/2)

- Current work plan “aggressive”
  - Quality more important than speed
  - Completion by June 2011 not essential
- Responding to financial crisis
  - Support a comprehensive new standard
  - Support a “mixed measurement” reflecting the business model
  - Prefer global standard but not FASB proposals

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Views and Advice (2/2)

- Enhance process for setting IASB technical agenda and priorities
  - Broad consultation
- Post-2011: a “settling in” period
  - Consistent interpretation/application
  - Updated conceptual framework + disclosure framework
- Resolving controversial issues
  - IASB on right track

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In Summary

- By 2012, robust IFRS standards will exist
- Focus post 2011 should be to “test” to see if the standards are working as intended
  - Take time to set path forward in a sensible way
- IASB agenda setting process needs improvement
- Council has made progress
  - Performance review underway

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Contact details

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- Public website of the IFRS Advisory Council:
  - http://www.ifrs.org/The+organisation/Advisory+bodies/The+SAC/Standards+Advisory+Council.htm
- IASB staff contact:
  - Jon A. Baldurs, Technical Manager
  - Email: jbaldurs@ifrs.org
  - Phone: +44 (0) 207 246 6467

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Questions or comments?

8

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IFRS for SMEs
Adoption and implementation update

JAN ENGSTRÖM
Member
IASB

PAUL PACTER
Member
IASB

MICHAEL WELLS
Staff
IFRS Foundation

Tuesday 21 September 11.30-12.45

BALLROOM

IFRS for SMEs Adoption and implementation update

Jan Engstrom, IASB Member
Paul Pacter, IASB Member
Mike Wells, IFRS Foundation Staff

NAME	ORGANISATION
Ahmad Abu Elhommos	Arab Society of Certified Accountants
Ali Alp	Turkish Accounting Standards Board
Agim Binaj	Albanian Institute of Authorised Chartered Accountants
Harald Brandsås	Norsk RegnskapsStiftelse (Norwegian Accounting Standards Board)
Avinash Chander	Accounting Standards Board Institute of Chartered Accountants of India
Clement Chang	Hong Kong Institute of Certified Public Accountants (HKICPA)
Abu Bakarr Conteh	Council for Standards of Accounting, Auditing, Corporate & Institutional Governance (CSAAG)
Samer Doumani	Lebanese Association of Certified Public Accountants (LACPA)
Niels H Enevoldsen	FSR Danish Accounting Standards Committee
Manoj Fadnis	Accounting Standards Board Institute of Chartered Accountants of India
Jorge Jose Gil	Argentine Federation of Professional Councils of Economic Sciences (FACPCE)
Maria Madalina Girbina	The Body of Expert and Licensed Accountants of Romania (CECCAR)
Elira Hoxha	Albanian Institute of Authorised Chartered Accountants
Radoslaw Ignatowski	Polish Accounting Standards Committee
Omodele R.N.Jones	Council for Standards of Accounting, Auditing, Corporate & Institutional Governance (CSAAG)
David Loweth	Accounting Standards Board (UK)
Ian Mackintosh	Accounting Standards Board (UK)
Pius A Maneno	National Board of Accountants and Auditors Tanzania
Hristo Mavrudiev	Institute of Certified Public Accountants in Bulgaria (ICPA)
Vickson Ncube	ECSAFA
Danny Nkuvu	Institute De Reviseurs Comptables au Congo (IRC)

Godson Sunday Nnadi	Nigerian Accounting Standards Board
Jim Osayande Obazee	Nigerian Accounting Standards Board
Steve Ong	Hong Kong Institute of Certified Public Accountants (HKICPA)
Gerhard Prachner	Austrian Financial Reporting and Auditing Committee (AFRAC)
Leonid Shneydman	The Ministry of Finance of The Russian Federation
Oussama Ali Tabbara	Arab Society of Certified Accountants
Alex Watson	The South African Institute of Chartered Accountants (SAICA)
Toru Yoshioka	Accounting Standards Board of Japan (ASBJ)

International Financial Reporting Standards

IFRS for SMEs

World Standard-Setters Meeting
London
13 September 2010

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The IFRS for SMEs

Adoption Update

Paul Pacter
Board Member
International Accounting Standards Board

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The IFRS for SMEs

“Good Financial Reporting Made Simple”

- 230 pages
- Simplified IFRSs, but built on an IFRS foundation
- Completely stand-alone
- Designed specifically for SMEs
  - User needs for information about cash flows, liquidity, and solvency
  - Costs and SME capabilities
- Final standard issued July 2009

IFRS

Who is the standard aimed at?

Millions of companies (over 99%)!

•The 52 largest stock exchanges in the world together have only 45,000 listed companies

•Europe: 25 million private sector enterprises

•USA: 20 million private sector enterprises

•UK alone: 4.7 million private sector enterprises

– 99.6% have fewer than 100 employees

IFRS

How does it differ from full IFRSs?

Simplifications from full IFRSs

1. Some topics in IFRSs omitted if irrelevant to private entities
2. Where IFRSs have options, include only simpler option
3. Recognition and measurement simplifications
4. Reduced disclosures
5. Simplified drafting

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Jurisdiction plans for adoption

66 jurisdictions have adopted or stated a plan to adopt. Some examples:

- **South America:** Argentina, Brazil, Guyana. Venezuela, Suriname
- **Caribbean:** Dominican Republic, Barbados, Trinidad, Bahamas, etc
- **Central America:** Belize, Costa Rica, El Salvador, Panama, Nicaragua
- **Africa:** South Africa, Botswana, Egypt, Namibia, Tanzania, Uganda, Ethiopia, Sierra Leone

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Jurisdiction plans for adoption

7

Adoption examples, continued:

- **Asia:** Cambodia, Philippines, Hong Kong, Malaysia (proposal), Singapore, Sri Lanka, Fiji
- **Europe:** United Kingdom (proposed), Ireland (proposed), Turkey, Denmark, Latvia. Others studying. Note that European Commission is currently consulting on the IFRS for SMEs. See next slide.
- **Available for use:** United States

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Adoption in Europe

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- **Nov. 2009:** EC consultations on IFRS for SMEs, Directives, Micro exemptions
- **Question:** Do you think adoption of the IFRS for SMEs should be provided for within the EU accounting legal framework?
- **Response:**

Yes – 19 Member States: BG, CY, CZ, DK, EE, EL, ES, HU, IE, LT, LU, MT, NL, PL, PT, RO, SE, SL, UK, EU Org and Registered Lobbyists

No – 6 Member States: AT, BE, DE, FR, IT, SK

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Consistent with EU Directives?

9

EFRAG: Compared thousands of requirements in Directives with thousands in IFRS for SMEs

Found only six differences

1. No income or expense called ‘extraordinary’
2. Measurement of some financial liabilities at FV
3. Goodwill amortisation 10 years if life is not known
4. Receivable for unpaid shares is offset to equity
5. Reversal of goodwill impairment is not permitted
6. Optional fallback to IAS 39 may result in differences

IFRS

Implementation Support

10

- Released with the *IFRS for SMEs*
  - Illustrative financial statements
  - Presentation and disclosure checklist
- IFRS Foundation training material
- Facilitate regional ‘train the trainers’ workshops organised by others
- IFRS for SMEs Update newsletter
- SME Implementation Group to address questions

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IFRS for SMEs

11

IFRS Foundation Training Material and Regional Train-the-Trainer Workshops

Michael Wells
Director
IFRS Foundation Education Initiative

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IFRS for SMEs training material

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- IFRS Foundation does not certify accountants
- Training material developed for use by others
  - developed by IFRS Foundation education staff
  - multi-level peer review
  - not IASB approved
- 35 standalone modules (1 for each section of the *IFRS for SMEs*)
- Training material = $\pm$2,000 A4 pages

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Access to training material

- **Free to download (PDF files of modules)**
  www.ifrs.org/IFRS+for+SMEs/Training+modules.htm
- Self study
- You can incorporate the modules (PDF files) into your *IFRS for SMEs* education and training programmes
- Translations underway
  - Russian-language (funded by USAID)
  - Spanish-language (funded by Spanish government facilitated by World Bank)

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Content of training material

- **Each module includes**
  - Introductory material
  - Explanation of the requirements
    - full text of the requirements
    - 'how to' examples
    - other explanations
  - Discussion of important judgements
  - Comparison with full IFRSs
  - Test your knowledge – multiple choice
  - Apply your knowledge – case studies

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Train-the-trainers workshops

- **3-day regional workshops**
- Organised and funded by development agencies (World Bank, Asian Development Bank, etc) and regional professional associations (CAPA, ECSAFA, etc)
- IFRS Foundation/IASB provides:
  - workshop material
  - workshop facilitators (usually Paul Pacter and Michael Wells)

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IFRS Foundation 3-day training workshops

Where	Participants
Kuala Lumpur (Jan 2010)	Asia – 11 jurisdictions
Hyderabad (Jan.)	Asia – 11 jurisdictions
Dar es Salaam (May)	Africa – 10 jurisdictions
Cairo (June)	Egypt, Lebanon, others
Rio de Janeiro (August)	Brazil (Portuguese)
Helsinki (Sept. 1½ days)	Nordic/Baltic Countries
Vienna (Sept. 1 day)	REPARIS countries
Panama (October 3½ days)	Latin America (Spanish)
Maputo (December)	Africa (Portuguese)
Singapore (Jan 2011)	Asia

Training workshop material

- **Three-day regional workshops**
- 20 PowerPoint presentations covering 24 hours (8 hours a day)
- English, Portuguese and Spanish (other languages to follow)
- Covers most sections of *IFRS for SMEs*
- Includes quizzes and several case studies
- Free to download from the IFRS Foundation website
  http://www.ifrs.org/Conferences+and+Workshops/IFRS+for+SMEs+Train+the+trainer+workshops.htm

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IFRS for SMEs

Implementation

Paul Pacter
Board Member
International Accounting Standards Board

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Translations

- **Completed**
  – Chinese, Spanish, Italian, Portuguese, Romanian, Arabic, Czech, Armenian
- **In process**
  – French, Serbian, Turkish, Japanese, Khmer
- **Proposed or in discussion**
  – Macedonian, Polish, Russian, Ukrainian, Mongolian

Newsletter

- **Monthly IFRS for SMEs Update newsletter**
  – Free subscription delivered by email
    – 4,000 subscribers
  – Topics typically covered:
    – New adoptions and translations
    – SMEIG activity
    – All draft and final Q&As
    – Training materials
    – Train the trainers workshops
    – Staff commentaries
    – Links to resources

SME Implementation Group (SMEIG)

Two responsibilities

•Develop non-mandatory guidance on IFRS for SMEs in the form of Q&As

•Make recommendations to the IASB on, the need to amend the IFRS for SMEs:
  – For implementation issues that cannot be addressed by Q&As; and
  – For new and amended IFRSs that have been adopted since the IFRS for SMEs was issued

SME Implementation Group (SMEIG)

Membership

•Nearly 90 applications

•Trustees selected 21 people

•From 16 jurisdictions

•Paul Pacter will chair

•Initially focus on resolving pervasive implementation issues by developing unofficial guidance in the form of Q&As

•Initially work via email rather than meetings

SME Implementation Group (SMEIG)

Membership by region

Africa	3
Asia/Oceania	3
Europe	5 + EC + EFRAG
North America	4
Latin America/Caribbean	6

Of those from public accounting

Big 4	5 (2 from developing countries)
Not Big-4	8

SME Implementation Group (SMEIG)

Criteria for Q&As

•Pervasive issue (affects broad group of SMEs in many jurisdictions

•Due to lack of clarity, unintended or inconsistent implementation is likely to result

•SMEIG can reach consensus on timely basis

•Q&A will not change or conflict with the IFRS for SMEs

SME Implementation Group (SMEIG)

Due process for developing Q&As (1 of 2)

- Identify the issue
- Decide if Q&A needed and, if yes, proposed answer
- Tentative consensus by simple majority
- Negative clearance by IASB. Draft Q&A released for public comment unless 4 or more IASB members object.
- Invite public comment on draft Q&A – minimum 30 day exposure period

SME Implementation Group (SMEIG)

Due process for developing Q&As (2 of 2)

- Responses will be public
- Staff summary of responses
- Redeliberation by SMEIG
- Final Q&A (simple majority vote) sent to IASB
- Negative clearance by IASB. Q&A adopted and published unless 4 or more IASB members object.
- Q&A published on IASB website and in newsletter

SME Implementation Group (SMEIG)

What kinds of issues in Q&As?

- Without yet soliciting, we have received about 40 technical enquiries
  - Many are about eligibility to use IFRS for SMEs
- We plan to have a formal solicitation of issues

SME Implementation Group (SMEIG)

What kinds of issues in Q&As?

- Examples – eligibility to use IFRS for SMEs
  - Group uses full IFRS. Can parent use SMEs?
  - Captive insurance company?
  - Property/casualty insurance company?
  - Venture capital fund with just a few investors?
  - Balance sheet (only) submitted to government agency?
  - Unlisted parent with a listed subsidiary?
  - Not-for-profit entity? Governmental entity?

SME Implementation Group (SMEIG)

What kinds of issues in Q&As?

- Examples – other issues
  - What if a company makes a single departure (eg revalues PP&E)?
  - Can we follow government-prescribed formats for financial statements?
  - Could my country require use of full IFRS if an issue is not addressed in IFRS for SMEs?
  - Does the allowed use of IAS 39 now also allow use of IFRS 9?

SME Implementation Group (SMEIG)

What kinds of issues in Q&As?

- A few more examples of other issues
  - If I use equity method for associates, do I have to use FVTPL for quoted associates?
  - Meaning of ‘undue cost or effort’?
  - Must investment property treated as PP&E be disclosed separately from other PP&E?
  - Initial measurement of NCI include goodwill?
  - In measuring value in use, discount using the incremental borrowing rate or the weighted average cost of capital?

Free downloads from IASB

IFRS for SMEs (full standard, multiple languages):
http://go.ifrs.org/IFRSforSMEs
Training materials: http://go.ifrs.org/smetraining
PowerPoint Training Modules:
http://go.ifrs.org/trainingppts
Update Newsletter:
http://www.ifrs.org/IFRS+for+SMEs/
Implementation Group Q&As and proposals:
http://go.ifrs.org/smeig

IFRS for SMEs

Jurisdiction plans and approaches:

- **South Africa: Alex Watson**
- **Sierra Leone: Dele Jones**
- **UK and Ireland: Ian Mackintosh**

Then others from the floor:

Albania	Denmark	Jordan	Russia
Argentina	DR Congo	Lebanon	Singapore
Austria	ECSAFA	Nigeria	Tanzania
Bulgaria	Hong Kong	Norway	Turkey
Czech Rep.	India	Poland	
DR Congo	Japan	Romania	

Questions or comments?

Thank you to all.

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Insurance contracts

WARREN McGREGOR
Member
IASB

PETER CLARK
Staff
IASB

Tuesday 21 September 11.30-12.45

MANSFIELD SUITE, GROUND FLOOR

Insurance contracts

Warren McGregor, IASB Board Member
Peter Clark, IASB Staff

NAME	ORGANISATION
Zein El Abdin Borai Ahmed	The Sudanese Association of Certified Accountants
Philippe Bui	Autorité des Normes Comptables
Tan Bee Leng	Malaysian Accounting Standards Board
Agron Dida	Kosovo Board on Standards for Financial Reporting (KBSFR)
Azmi Mohammad Faiz	Malaysian Accounting Standards Board
Fatmir Gashi	Kosovo Board on Standards for Financial Reporting (KBSFR)
Jeroen Hooijer	European Commission
Tom Linsmeier	Financial Accounting Standards Board (FASB)
Carlos Madrid	National Banking and Securities Commission (Mexico)
Peter Martin	Accounting Standards Board Canada
Tricia O'Malley	Accounting Standards Board Canada
Anne-Françoise Melot	European Commission
Felipe Perez-Cervantes	Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. (CINIF)
Joanna Perry	Financial Reporting Standards Board (New Zealand)
Chung-Woo Suh	Korea Accounting Standards Board
Rosita Uli Sinaga	The Indonesian Institute of Accountants
Wenxian Xia	Ministry of Finance (China)

21/09/2010

International Financial Reporting Standards

Exposure Draft *Insurance Contracts*

Peter Clark
Director of Research

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

IFRS

Agenda

2

IASB project on Insurance Contracts

- Project basics
- Proposals in the Exposure Draft
  - Measurement model
  - Presentation and disclosures
  - Recognition
  - Transition
- What are the next steps? How can you get involved?

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Project basics

3

Project history

- IFRS 4 *Insurance Contracts*
  - started in 1997
  - standard issued in 2004 ('Phase I')
    - aimed at making only limited improvements
- Discussion Paper *Preliminary Views on Insurance Contracts* ('Phase II')
  - issued in 2007
  - further discussed since early 2008
  - 162 comment letters received

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Project basics continued

4

- FASB
  - joint project since 2008
  - issues a Discussion Paper to further solicit input from constituents
- Due process documents
  - Exposure Draft: published 30th July 2010
  - Standard: expected for Q2 2011

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Why are we doing this project? Accounting for insurance contracts TODAY

5

- IFRS 4 (Phase I) temporary solution
- Wide variety of
  - accounting practices for different contract types and jurisdictions
  - measurement models

→lack of comparability and transparency

→current insurance accounting does not provide users with relevant information

Insurance accounting TODAY is a black box

IFRS

What did respondents tell us about the Discussion Paper?

6

- Measurement model: current exit value ☒ ED
  - Typically no transfer, but fulfilment
- Non-performance risk ☒ ED
  - Should not be reflected
- Building block approach to measurement ☑ ED
  - Supported, but some concerns

IFRS

What did respondents tell us about the Discussion Paper? continued

- Current estimates based on observable market prices for interest rates and equity prices ☑ ED
  - Generally supported
  - Market consistent where available, if not, entity's own inputs
- Explicit risk margin ☑ ED
  - Generally supported
  - For comparability reasons, limited number of techniques

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Advantages of the proposed model

- Principles - not detailed guidance
- Comparability – global standard, consistent accounting
- Coherent framework to deal with:
  - more complex contracts
  - emerging issues (no need for 'add – on' rules)

continued…

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Advantages of the proposed model
continued

- Relevant information for users:
  - focus on drivers of profitability of insurance contracts
  - amount, timing and uncertainty of future cash flows
  - current estimates
  - income recognised in line with release from risk
  - eliminate accounting mismatches
  - consistent accounting for embedded options and guarantees

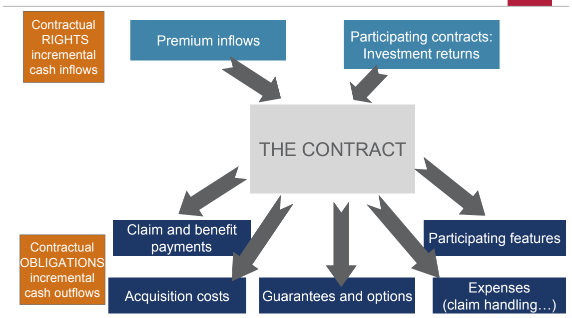
IFRS

Scope of the project

- Accounting for insurance contracts
  - The contract
    - Combination of rights and obligations
    - Presented on a net basis
  - One model for all insurance types
  - Not about the insurer's other assets or liabilities
  - For the time being: not policyholder accounting
  - Definition
  - Investment contracts with discretionary participating feature

IFRS

What does "accounting for the contract" mean?



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Related projects

- Financial Instruments
  - Classification and measurement
- Revenue Recognition
  - Contracts with customers
- Liabilities (Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets)*
  - Measurement of uncertain liabilities

Eliminate accounting mismatches
Use of OCI
Aligning of effective dates

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Proposals in the Exposure Draft
overview

13

- Measurement model
  - inputs and estimates
  - building blocks
- Presentation and disclosures
- Recognition
  - contract boundaries
  - unbundling
  - reinsurance
- Transition

Measurement model

14

- Current measurement of an insurance contract
  - remeasured each reporting period
  - not locked-in
  - not updated for own credit risk
- Reflect insurer's perspective of the contract
- Building block approach
  - Four (or three) building blocks
- No deposit floor

Measurement model continued

15

Inputs and changes in estimates

- Inputs
  - Financial market variables: consistent with observable market prices
  - Other variables: use all available information
  - unbiased
- Changes in insurance liabilities
  - profit or loss

Measurement model continued

16

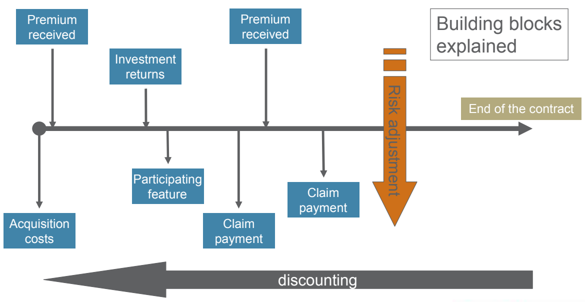
- Building blocks
  - Expected (probability-weighted) future incremental cash flows (that arise from the contract)
  - Time value of money
  - Risk adjustment

Cash flows	Discounting	Risk adjustment	Margin

- No day one gains: residual margin
- Day one losses recognised in profit or loss

Measurement model continued

17



Measurement model continued

18

Cash flows	Discounting	Risk adjustment	Margin

Expected (probability-weighted) future incremental cash flows

- current estimates
- on a portfolio level
- expected to arise from the contract, including
  - incremental acquisition costs
  - cash flows arising from participating features

Measurement model continued

Cash flows | Discounting | Risk adjustment | Margin

Acquisition costs

- Costs of selling, underwriting and initiating an insurance contract
- Some insurers currently defer all acquisition costs
- Proposal in the ED:
  - incremental acquisition costs (on a contract level) are included in the cash flows
  - non-incremental acquisition costs are expensed

Measurement model continued

Cash flows | Discounting | Risk adjustment | Margin

Participating contracts

- Cash flows from participating features
  - (incremental) Participating benefits an insurer expects to pay arising from participating insurance contracts

  → Contract cash flows like any other

- Mutual insurers?

Measurement model continued

Cash flows | Discounting | Risk adjustment | Margin

Time value of money

- Discount rate:
  Reflecting characteristics of the insurance contract
  - Non-participating: risk-free plus adjustment for illiquidity
  - Participating: consider performance of assets
- Excluded: non-performance risk

Measurement model continued

Cash flows | Discounting | Risk adjustment | Margin

Risk adjustment

- Explicitly measures the effects of uncertainty associated with future cash flows
  - insurer's view of uncertainty
- Remeasured each reporting period
- Measured at portfolio level
- Permitted measurement techniques

Confidence interval/ Conditional Tail Expectation/ Cost of Capital

Measurement model continued

Cash flows | Discounting | Risk adjustment | Margin

Residual margin

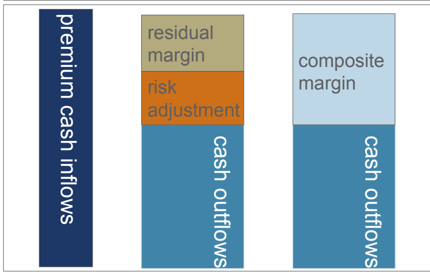
- Allocation of 'day-one gain' - releasing it to profit or loss over the coverage period in a systemic way
  - passage of time, or
  - pattern that better reflects the occurrence of benefits and claims
- 'Day-one loss' exists when:
  cash inflows < cash outflows + risk adjustment

Premium received 12 < Expected claim payments 10 / Risk adjustment 3

- Accretion of interest (locked-in)

Measurement model continued

Cash flows | Discounting | Risk adjustment | Margin



Margins

Two approaches considered

Measurement model continued

Cash flows | Discounting | Risk adjustment | Margin

The Board also considered as an alternative: Composite margin (not part of the proposal!)

- Allocation of ‘day-one gain’ - subsequent release to profit or loss
  - over coverage period plus claims handling period
  - amortisation according to the exposure from
    - providing insurance coverage
    - uncertainties related to future cash flows
- ‘Day-one loss’ exists when: cash inflows < cash outflows

Premium received 12 < Expected claim payments 13

IFRS

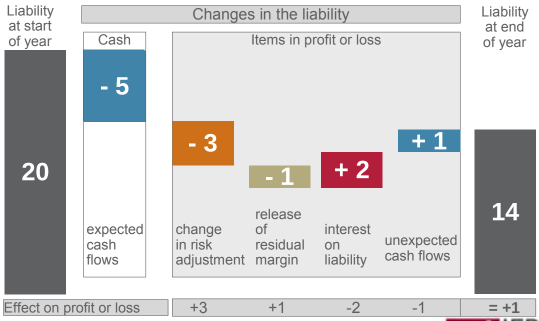
Measurement model continued

Modified approach

- Premium allocation model (‘unearned premium’)
- Required for pre-claim liability of most short-duration contracts
- General measurement model for claim liability (risk adjustment, discounting…)

IFRS

Measurement model continued
Performance reporting



IFRS

Presentation and disclosures

Presentation of income statement

- Margin-based approach
  - **follows the direct measurement model**
  - what insurers expect to earn from providing insurance services and investment return
  - treating insurance premiums as deposits
  - broadly showing:
    - change in the risk adjustment and the release of the residual margin
    - gross inflows and outflows in the disclosures

IFRS

Presentation and disclosures continued

Income statement	Year X	Year X-1
Risk adjustment	3	2
Residual margin	1	1
Underwriting margin	4	3
Experience adjustment	(0.5)	1
Changes in estimates	(0.5)	0
Underwriting result	3	4
Investment income	5	3
Interest on insurance liability	(2)	(1.5)
Net interest and investment	3	1.5
Profit	**6**	**5.5**

IFRS

Presentation and disclosures continued

Disclosures

- Disclosure principle aims at
  - explaining **the amounts** recognised in the financial statements arising from insurance contracts; **and**
  - **the nature and extent of risks** arising from those contracts.
- Auditable information about effectiveness in risk management practices (vs. non-audited MD&A info)
- Risk disclosures similar to IFRS 7
  - Sensitivity analyses

IFRS

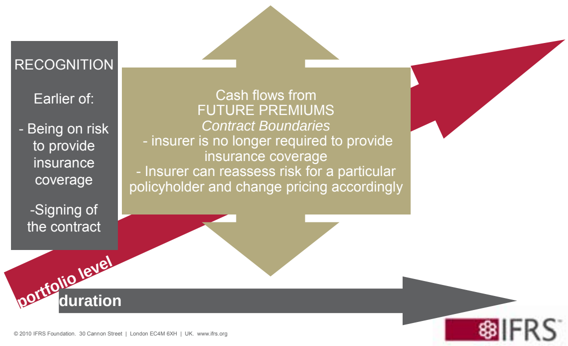
Recognition

Recognition
- At the earlier of
  - the insurer being on risk to provide insurance coverage
  - the signing of the contract

Recognition continued

Contract boundaries
- Where does an ‘existing contract’ end?
- Existing contract ends if insurer
  - is no longer required to provide coverage, or
  - can reassess the risk for a particular policyholder and change the pricing accordingly

Which future cash flows are included?



Recognition continued

Unbundling
- Account for components of a contract as if they were separate contracts
- Unbundle components of an insurance contract that are **not closely related** to the insurance coverage
- Most common examples:
  - Policyholder account balances
  - Embedded derivatives
  - Goods and services that are not closely related to insurance
- Not permitted otherwise

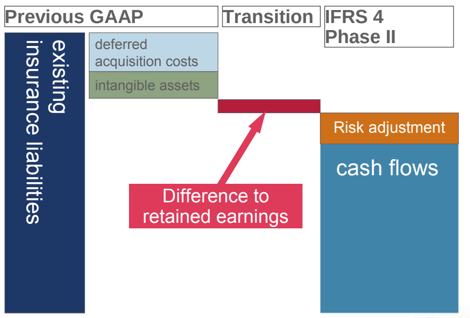
Recognition continued

Reinsurance
- One model for all insurance and reinsurance contracts
  - No anti-abuse rules necessary
- Cedant: same measurement as used for underlying direct insurance contracts
  - Initial measurement: residual margin
  - Ceding commission reduces premium
- No offsetting
  - unless requirements for offsetting are met
- No derecognition of ceded contracts
  - unless obligation is discharged, cancelled or expired

Recognition continued

Derecognition
- When the insurance liability no longer qualifies as a liability
  - When it is extinguished, ie when the obligation is discharged or cancelled or expires
  - Clarification in guidance:
    at that point where the insurer is
    - no longer at risk and
    - no longer required to transfer any economic resources for the insurance obligation

What happens on transition?



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Transition continued

- Redesignation of financial assets
  - permitted
  - measured at fair value through profit or loss
  - to reduce inconsistency in measurement or recognition
  - adjustment to retained earnings
- Disclosure exemption
  - previously undisclosed claim development information
  - > 5 years

IFRS

What are the next steps?

- ED published: 30th July 2010
- FASB: issues a Discussion Paper
- Outreach: Working Group, field tests…
- Comment period ends: 30th November 2010
- Final standard by mid-2011

IFRS

How can you get involved?

Staying up to date

- www.ifrs.org
- go.ifrs.org/insurance_contracts
- IASB Update
- Board meeting webcasts
- Project webcasts and podcasts

Contacts

- Peter Clark
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  pclark@ifrs.org
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  Assistant Technical Manager
  shack@ifrs.org

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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.

IFRS

World Standard-setters Conference

Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

NOTES

Contact(s)	**Peter Clark**	pclark@ifrs.org	+44 (0)20 7246 6451

Project	**Insurance contracts**
Topic	**The Exposure Draft *Insurance Contracts***

Introduction

1. The IASB aims to improve the financial reporting for insurance contracts by issuing a high quality standard for all types of insurance contracts that provides a consistent basis for the accounting and analysis of financial statements that contain insurance contracts. The accounting following from the proposal is supposed to present clearly how insurance contracts affect the insurer's financial position, performance and its cash flows. The proposal also intends to enhance comparability across business sectors and entities.

2. The IASB published the Exposure Draft *Insurance Contracts* on 30 July 2010 (which can be downloaded from: http://www.ifrs.org/Current+Projects/IASB+Projects/Insurance+Contracts/Exposure+draft+2010/Exposure+draft+and+Comment+letters.htm) with a comment period until 30 November 2010. In addition to that, the IASB intends to undertake further outreach, including a second round of field tests.

3. The staff would like to use the WSS break-out session in two ways:

   (a) to present the main features of the exposure draft; and

   (b) to discuss the measurement model and some specific components of the measurement model.

Overview of the proposal

4. The exposure draft proposes a comprehensive measurement approach for all types of insurance contracts issued by entities (and reinsurance contracts held by entities), with a modified approach for some short-duration contracts. The measurement approach is based on the following building blocks:

   (a) a current estimate of the future cash flows

   (b) a discount rate that adjusts those cash flows for the time value of money

   (c) an explicit risk adjustment

   (d) a residual margin.

5. For most short-duration contracts, a modified model would apply. During the coverage period, the insurer would measure the contract using an allocation of the premium received. The insurer would use the building block approach to measure claims liabilities.

Issues to discuss

6. Some of the key issues of the measurement model are listed below to facilitate the discussion with the WSS.

Risk adjustment

7. The proposal introduces an explicit risk adjustment, which represents the maximum amount that an insurer would rationally pay to be relieved of the risk that the ultimate fulfilment cash flows exceed those expected. The risk adjustment has to be calculated with one of three permitted methods: confidence interval, conditional tail expectation or cost of capital.

Discount rate

8. Time value of money is one of the building blocks of the measurement. The discount rate shall reflect the characteristics of the insurance liability. For non-

participating insurance contracts, the proposal suggests a current, risk-free discount rate, which is adjusted for liquidity.

Residual margin

9. The residual margin eliminates any gain at inception of the contracts and shall subsequently be recognised in profit or loss over the coverage period in a systemic way. The residual margin does not act as a 'shock absorber', which means that the residual margin is not being updated, but 'locked-in' at inception.

Acquisition costs

10. Insurers often incur significant costs to sell, underwrite and initiate a new insurance contract. The proposal requires an insurer to include incremental acquisition costs as part of the contract cash flows, and therefore, in the measurement for the insurance contract. All other acquisition costs are recognised as expense when incurred.

Questions
Do you think the proposed measurement model will produce relevant information that will help users of an insurer's financial statements to make economic decisions? Why or why not? If not, what changes do you recommend and why? What are your views on the individual components of the measurement model?

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Financial statement presentation

PHILIPPE DANJOU
Member
IASB

DENISE GOMEZ
Staff
IASB

Tuesday 21 September 11.30-12.45

STAPLE & GRAYS, LOWER GROUND FLOOR

Financial statement presentation

Philippe Danjou, IASB Board Member
Denise Gomez, IASB Staff

NAME	ORGANISATION
Carl-Eric Bohlin	Swedish Financial Reporting Board
Fabiano de Oliveira Silva	Financial System Regulation Department - Central Bank of Brazil (BCB)
Pieter Dekker	EFRAG
Sue Ludolph	The South African Institute of Chartered Accountants (SAICA)
Liesel Knorr	German Accounting Standards Board (GASB)
Hans de Munnik	Dutch Accounting Standards Board
Jan Peter Larsen	FSR Danish Accounting Standards Committee
Agnieszka Stachniak	Polish Accounting Standards Committee
Alfred Wagenhofer	Austrian Financial Reporting and Auditing Committee (AFRAC)

13.45-15.00 STAPLE & GRAYS, LOWER GROUND FLOOR

NAME	ORGANISATION
Ali Alp	Turkish Accounting Standards Board
Felipe Perez-Cervantes	Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. (CINIF)
Samer Doumani	Lebanese Association of Certified Public Accountants (LACPA)
Gordon Fowler	Accounting Standards Board Canada
Jeroen Hooijer	European Commission
Anne–Françoise Melot	European Commission
Sadi Podevijn	Commissie voor Boekhoudkundige Normen (BASB) (Belgium)
Leonid Shneydman	The Ministry of Finance of The Russian Federation

International Financial Reporting Standards

Financial Statement Presentation (FSP) *Update*

a joint FASB/IASB project

World Standard Setters Meeting September 2010

The views expressed in this presentation are those of the presenters, not necessarily those of the IASB, the IFRS Foundation, the FASB or the Financial Accounting Foundation.

IFRS

Project timeline

Timeline	
October 2008	Discussion Paper issued (6-month comment period)
July 2010	Staff draft issued
Q3 2010 – Q4 2010	Field testing & extended stakeholder outreach program
Q1 2011	Exposure Draft
Q4 2011	Final standard

IFRS

Why a project on FSP?

- ***Today*** in the financial statements:
  - Lack of comparability
  - Lack of linkage
  - Lack of disaggregation

IFRS

What are the project's main proposals?

Standardise the organisation and presentation of information in financial statements (cohesiveness)

- Clarify links between financial statements
- Separate business and financing activities

Obtain more disaggregated information (by function, nature, measurement basis)

- Improve comparability and understandability
- Facilitate analysis as information is more apparent

IFRS

Key features and changes from the discussion paper

- Financial statements should be cohesive at the category level
  - Don't have to align on a line-by-line basis
- Common sections and categories
  - More specific and less subjective definitions:
    - Business section includes *operating* and *investing* categories and an *operating finance* subcategory
    - Financing section includes *debt* and *equity* categories

IFRS

Key features and changes from the discussion paper *(continued)*

- Disaggregation by function, nature and measurement bases
- Disaggregation of income and expenses
  - By-function on the face of the statement of comprehensive income (SCI)
  - IASB: by-nature may be in the notes
  - FASB: by nature as part of the segment note and disclose additional operating measures per segment

IFRS

Key features and changes from the discussion paper *(continued)*

- Present operating cash receipts and payments in the statement of cash flows (SCF):
  - Less disaggregation of operating cash flows
  - Need not align with line items on the SCI
- Provide a *reconciliation* of operating income to operating cash flows
  - as an integral part of the SCF

Key features and changes from the discussion paper *(continued)*

- The reconciliation schedule replaced by disclosure of:
  - An *analysis of changes* between the beginning and ending balances of line items that are important for understanding changes in an entity's financial position
    - IASB: include a net debt "roll-forward"
  - All *remeasurements* in a single note

Proposed structure

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
Business section	**Business section**	**Business section**
Operating category	Operating category	Operating category
Operating finance subcategory	Operating finance subcategory	
Investing category	Investing category	Investing category
Financing section	**Financing section**	**Financing section**
Debt category	Debt category	Debt and equity
Equity category		
	Multi-category transaction section	**Multi-category transaction section**
Income tax section	**Income tax section**	**Income tax section**
Discontinued operation section	**Discontinued operation section**, net of tax	**Discontinued operation section**
	Other comprehensive income, net of tax	

Statement of Financial Position (SFP)

Changes from current practice:

- Assets and liabilities grouped by function (sections and categories) – not by elements
- Short- and long-term subcategories *or* arranged in order of liquidity
- Display total assets and total liabilities at bottom of SFP
- Classify cash balance in operating category

Benefits for users:

- Operating assets segregated from non-operating investments; operating liabilities segregated from financing liabilities
- Easier to calculate "activity based" metrics eg. return on operating assets, return on investing assets, cost of debt and equity financing

Statement of Comprehensive Income

Changes from current practice:

- Income and expenses grouped by function (sections and categories)
- More disaggregation by function and nature
- Distinction between profit or loss/net income and other comprehensive income (OCI).
- OCI items identified as operating, investing, or financing activities

Benefits for users:

- Detailed function and nature information – enables better analysis and forecasting of revenue and expenses
- Profit or loss subtotal still presented as a basis for EPS

Statement of Cash Flows

Changes from current practice:

- Present operating cash receipts and payments (direct method)
- Reconciliation of *operating* income to operating cash flows (integral to SCF)
- Elimination of notion of *cash equivalents*
- Definitions of operating, investing and financing are different

Benefits for users:

- Operating cash movements are more explicit
- Provides a meaningful depiction of how an entity generates and uses cash
- Allows new metrics – Cash gross margin, Cash op margin

Some possible areas of concern

Cohesiveness	Should the structure apply to the SFP?
Cash flow information	How to improve it?
Notes	Are disclosures on analyses of changes and remeasurements useful?
Disaggregation	What's the right balance?

Cohesiveness – some issues

Response in Staff Draft:

The SFP is not a good starting point for classification – better to start with SCI	Useful to have information about the activity in which an asset and liability is used
Some assets & liabilities not easily classified (e.g., pensions)	*New:* Operating finance subcategory for items with operating and financial nature
"The SFP does not balance"	Asset & liability totals required; alternate formats illustrated

We'd like your input on: *cohesiveness*

- Will the revised structure and modified cohesiveness principle result in a meaningful presentation?
- Will the benefit of segregating operating finance liabilities and related income/expenses in the business section outweigh any additional complexity in the format of the SFP and SCI?
- Should assets and liabilities be classified in sections and categories on the SFP?

Cash flows – what is wrong today?

- Lack of standardisation – format and level of disaggregation
- Mix of cash flows, non-cash adjustments and SFP changes in the operating section is confusing
- Starting point for reconciliation of profit to operating cash flows varies in practice
- Information not linked with other statements

We'd like your input on: *cash flows*

- Should there be more details about operating cash flows in the statement of cash flows?
  - If so, what is the right level of disaggregation (specific line items to be presented)?
- Is the proposed disaggregation of operating cash flows more useful for financial services entities?

Notes – analyses of changes

Response in Staff Draft:

Analyses of changes might result in reconciling every line item in the SFP	Management uses its judgement to determine which A/L are important
Existing IFRS and US GAAP already require reconciliations	Not meant to be duplicative, need to integrate with current requirements

Notes – remeasurements

Response in Staff Draft:

The definition captures a variety of changes in assets and liabilities including changes in estimates	Users want to understand how changes in estimates affect carrying amounts
Information already required as part of the analyses of changes	Remeasurements should be understood in the context of an entity's financial performance -- not just in the context of a specific account

We'd like your input on: *the notes*

- Is the proposed requirement to disclose analyses of changes in asset and liability line items operational? Cost beneficial?
  - Should an entity be required to analyse the changes in all SFP line items?
- Is the remeasurements note operational? Cost beneficial?

Disaggregation – some concerns

Response in Staff Draft:

Disaggregation principle will lead to very detailed information on the face of the financial statements

- Provides better starting point for analysis and the best representation of how resources are used
- By-nature income and expense information presented in the notes
- Flexibility on amount of disaggregation (by-function not relevant for some entities)

We'd like your input on: *disaggregation*

- Are the three disaggregation attributes (function, nature, and measurement basis) appropriate?
  - Should an attribute be added or removed?
- Is the requirement to disaggregate income and expenses by-nature (for each function) operational? Cost beneficial?
- Should by-nature information be presented for each reportable segment (as proposed by FASB)?

What is next?

- The boards welcome constituents to engage in their outreach activities that will be addressing:
  - the costs and benefits of the proposals
  - the implications of the proposals for financial reporting by financial services entities
- Outreach activities will be in the form of:
  - field visits and field tests
  - meetings with users, preparers, other stakeholders
- More information on the website

How can you get involved?

Staying up to date

- www.ifrs.org
- http://go.ifrs.org/FSP
- www.fasb.org
- IASB Update and FASB Action Alert
- Board meeting webcasts
- Project webcasts and podcasts

Contacts

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  hobst@ifrs.org

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Project **Financial Statement Presentation (FSP)**

Introduction

1. In June 2010, the boards decided to engage in additional outreach activities before finalising and publishing an exposure draft on financial statement presentation. In July 2010 the staff of the IASB and the FASB posted on each board's website a staff draft (which can be downloaded from: http://www.ifrs.org/Current+Projects/IASB+Projects/Financial+Statement+Presentation/Phase+B/Staff+draft+of+proposed+standard.htm) of an exposure draft that reflects the boards' cumulative tentative decisions on financial statement presentation, concluding with their joint meeting in April 2010. The proposals in that staff draft (draft proposals) are the basis for the staff outreach activities.

2. These activities will include: field tests where participating companies will be recasting their financial statements according to the draft proposals; field visits in which staff will meet with companies to discuss the types of systems and process changes that would be involved in implementing the draft proposals; and conference calls with users of financial statements, accounting firms, and other constituents. The activities will focus primarily on two areas:

    (i) the perceived benefits and costs of the proposals, and

    (ii) the implications of the proposals for financial reporting by financial services entities.

3. The staff would like to use the WSS break-out session in two ways:

   (a) to present the key features of the draft proposals and m ajor changes from the discussion paper; and

   (b) to discuss some of the areas where concerns have been raised.

4. The staff would like to discuss the following issues during the break-out session:

   (a) Cohesiveness principle and classification

   In a change from the discussion paper, cohesiveness will no longer be required on a line item by line item basis. The financial statements will align at either the section or category level as illustrated in the following table.

Statement of financial position	Statement of comprehensive income	Statement of cash flows
Business section	**Business section**	**Business section**
Operating category	Operating category	Operating category
Operating finance subcategory	Operating finance subcategory	
Investing category	Investing category	Investing category
Financing section	**Financing section**	**Financing section**
Debt category	Debt category	
Equity category		
	Multi-category transaction section	**Multi-category transaction section**
Income tax section	**Income tax section**	**Income tax section**
Discontinued operation section	**Discontinued operation section**, net of tax	**Discontinued operation section**
	Other comprehensive income, net of tax	

Questions on cohesiveness and the proposed structure
1. Do you think that the revised structure and modification to the cohesiveness principle will result in a meaningful presentation of financial information?

2. Do you think that the benefit of segregating operating finance liabilities and related income/expense in the business section will outweigh any additional complexity that it may add to the format of the statements of financial position and comprehensive income?

3. Do you think that assets and liabilities should be classified in sections and categories (consistent with cohesiveness principle) on the statement of financial position?

(b) Statement of cash flows

The draft proposals require to present:

– actual operating cash inflows and outflows (direct method), and separately

– a reconciliation of operating income to operating cash flows as an integral part of the statement of cash flows.

Questions on the statement of cash flows

4. Should there be more details about operating cash flows in the statement of cash flows? If so, what is the right level of disaggregation of operating cash flows information (e.g., what specific line items should be disaggregated)?

5. Do you think that disaggregation of operating cash flows as proposed in the staff draft will be more useful for financial services entities (than the statement of cash flows they prepare today)?

(c) Analyses of changes and remeasurements

The draft proposals require disclosure in the notes to the financial statements an analyses (or roll-forwards) of changes between the opening and closing balances of asset or liability line items (or groups of line items) that management regards as important for understanding the current period change in the entity's financial position.

In addition, more detailed information would be provided in the notes on information about remeasurements. A remeasurement is a change in the net carrying amount of an asset or liability arising from amounts recognized in comprehensive income (for example, the effects of fair value remeasurements, as well as the effects of changes in estimates of the value of assets and liabilities, such as goodwill impairment).

Questions on new note disclosures
6. Do you think that the proposed requirement to disclose analyses of changes of asset and liability line items is operational? Do you think it will be cost beneficial? Should an entity be required to analyse the changes in **all** asset and liability line items?
7. Do you think that the remeasurement note requirement is operational? Do you think it will be cost beneficial?

(d) Disaggregation

One of the core principles of the draft proposals is disaggregation, with its three main attributes being: function, nature, and measurement basis.

In a change from the discussion paper, entities do not have to present their disaggregated by-nature income and expense information on the face of the statement of comprehensive income – it can be in the notes to financial statements. In fact, the FASB is proposing that the information be disaggregated in the segment note.

Questions on disaggregation
8. Do you think that the three proposed disaggregation attributes (function, nature, and measurement basis) are appropriate? Is there an attribute that should be either added or removed from the disaggregation principle?
9. Do you think that the requirement to disaggregate income and expenses by nature (for each function) is operational? Do you think it will be cost beneficial?
10. Do you think that by-nature income and expense information should be presented for each reportable segment as proposed by the FASB?

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Revenue recognition

PRABHAKAR KALAVACHERLA (PK)
Member
IASB

HENRY REES
Staff
IASB

APRIL PITMAN
Staff
IASB

Tuesday 21 September 11.30-12.45

LITTLETON BRYCE AND TEMPLE, GROUND FLOOR

Revenue recognition

Prabhakar Kalavercherla (PK), IASB Board Member
Henry Rees, IASB Staff
April Pitman, IASB Staff

NAME	ORGANISATION
Rafid Al Nawas	Iraqi Union of Accountants and Auditors (IUAA)
Alexsandro Broedel Lopes	Accounting and Auditing Regulation Superintendency - Securities and Exchange Commission (CVM)
Conrad Chungyueh Chang	Accounting Research & Development Foundation (Taiwan)
Françoise Flores	EFRAG
Euleen Goh	Accounting Standards Council (Singapore)
Andrew Lee	Accounting Standards Council (Singapore)
Philipp Leu	Swiss GAAP FER
Patricia McBride	Financial Reporting Standards Board (New Zealand)
Jan Verhoeye	Commissie voor Boekhoudkundige Normen (BASB)

13.45-15.00 LITTLETON BRYCE AND TEMPLE, GROUND FLOOR

NAME	ORGANISATION
Tan Bee Leng	Malaysian Accounting Standards Board
Agim Binaj	Albanian Institute of Authorised Chartered Accountants
Carl-Eric Bohlin	Swedish Financial Reporting Board
Idesio Coelho	CPC – Comitê de Pronunciamentos Contábeis (Brazil)
Jonathan Dingli	Accounting & Auditing Committee The Malta Institute of Accountants
Jorge Jose Gil	Argentine Federation of Professional Councils of Economic Sciences (FACPCE)
Elira Hoxha	Albanian Institute of Authorised Chartered Accountants
Jan Peter Larsen	FSR Danish Accounting Standards Committee
Sue Ludolph	The South African Institute of Chartered Accountants
Carlos Madrid	National Banking and Securities Commission (Mexico)
Evan Muelera	Institute of Certified Public Accountants of Kenya
Danny Nkuvu	Institute De Reviseurs Comptables au Congo (IRC)
Jim Osayande Obazee	Nigerian Accounting Standards Board
Tricia O'Malley	Accounting Standards Board Canada
Sadi Podevijn	Commissie voor Boekhoudkundige Normen (BASB)
Gerhard Prachner	Austrian Financial Reporting and Auditing Committee (AFRAC)
Alexandra Watson	The South African Institute of Chartered Accountants (SAICA)
Toru Yoshioka	Accounting Standards Board of Japan (ASBJ)

International Financial Reporting Standards

Exposure Draft: Revenue from Contracts with Customers

World Standard Setters 21 September, 2010r

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

Agenda

- Project objective
- The exposure draft
- Summary of the revenue proposals
- Steps to apply the model including discussion points:
  - Distinct performance obligations
  - Transfer of control
  - Accounting for warranties
  - Accounting for licenses

Project objectives

- Single model based on clear principles
- Improve accounting for contracts with customers by:
  - providing a more robust framework for addressing revenue issues
  - increasing comparability across industries and capital markets
  - providing enhanced disclosures
  - clarifying accounting for contract costs

The exposure draft

- Converged proposal with unanimous support of both the IASB and the FASB
- Published for public comment on 24 June 2010. Comments due 22 October 2010.
- Based on further development of the principles proposed in the December 2008 discussion paper
- Developed using feedback from over 220 comment letters and input from other outreach activities

Summary of the revenue proposals

Core principle:

Recognise revenue to depict the *transfer* of goods or services in an amount that reflects the consideration expected to be received in exchange for those goods or services

Steps to apply the core principle:

1. Identify the contract(s) with the customer → 2. Identify the separate performance obligations → 3. Determine the transaction price → 4. Allocate the transaction price → 5. Recognise revenue when a performance obligation is satisfied

Step 1

1. Identify the contract(s) with the customer → 2. Identify the separate performance obligations → 3. Determine the transaction price → 4. Allocate the transaction price → 5. Recognise revenue when a performance obligation is satisfied

Key proposal: price interdependence

- combine contracts if prices are interdependent
- segment a contract if prices are independent
- contract modifications accounted for separately if priced independently

Step 2

1. Identify the contract(s) with the customer → 2. Identify the separate performance obligations → 3. Determine the transaction price → 4. Allocate the transaction price → 5. Recognise revenue when a performance obligation is satisfied

Key proposal: distinct goods or services

- separate performance obligation is a promise to transfer a *distinct* good or service to the customer
- a good or service is distinct if it:
  - is sold separately, or
  - has a distinct function and a distinct profit margin

Distinct performance obligations

- Is the guidance adequate?
- How would you identify separate performance obligations within a complex construction contract?
- Significance of distinct profit margin

Step 3

1. Identify the contract(s) with the customer → 2. Identify the separate performance obligations → 3. Determine the transaction price → 4. Allocate the transaction price → 5. Recognise revenue when a performance obligation is satisfied

Key proposal: expected amount

- transaction price is the expected (probability-weighted) consideration from the customer, and reflects:
  - reasonable estimates of contingent amounts
  - credit risk
  - implicit financing

Step 4

1. Identify the contract(s) with the customer → 2. Identify the separate performance obligations → 3. Determine the transaction price → 4. Allocate the transaction price → 5. Recognise revenue when a performance obligation is satisfied

Key proposal: relative selling price allocation

- transaction price allocated to the separate performance obligations on relative selling price basis
- selling prices estimated if necessary
- no residual method

Step 5

1. Identify the contract(s) with the customer → 2. Identify the separate performance obligations → 3. Determine the transaction price → 4. Allocate the transaction price → 5. Recognise revenue when a performance obligation is satisfied

Key proposal: transfer based on control

- recognise revenue when a performance obligation is satisfied by transferring a good or service to customer
- transferred when customer obtains control
- for development or construction contracts, revenue recognised continuously only if customer controls WIP

Example - equipment manufacturer

Scenario 1

Contract to build highly customised equipment

- Customer has unconditional obligation to pay throughout contract
- Customer specifies design and has involvement in manufacturing
- Customer has ability to take possession during construction

Customer controls equipment as built—contract is for manufacturing services. Revenue recognised continuously.

Scenario 2

Contract for standard equipment built to order

- Customer makes payments on account throughout contract
- Customer specifies only minor aspects of design
- Customer cannot take possession until built

Customer controls equipment on delivery—contract is for manufactured equipment. Revenue recognised on delivery.

Transfer of control

•Is the guidance adequate?
•Are the indicators useful?
•How would you solve the particular problems associated with services?

Accounting for warranties

- Cover for latent defects ('quality assurance' warranty)
  - not a performance obligation
  - requires evaluation of whether the performance obligation to transfer product is satisfied
  - revenue not recognised until the defective product or component is replaced
- Cover for faults post-delivery ('insurance' warranty)
  - is a performance obligation
  - revenue is recognised over the warranty period

Example: Product warranties

A company sells 1,000 products for CU10 each. Each product costs CU 8. The company expects that 5% of products will need to be replaced after sale for latent defects.

US GAAP and IFRS
- When the products are delivered, recognise revenue of CU10,000 and expected warranty costs of CU400

Proposed model
- When the products are transferred, recognise revenue of CU9,500 and a contract liability of CU500 for unsatisfied performance obligations (selling price 50 defective products)
- Recognise revenue of CU500 when the company satisfies its performance obligations by replacing faulty goods

Accounting for warranties

•Do you think it is useful to try to distinguish between different types of warranties?
•Do you agree with the articulation of two types of warranties proposed?
•Do you agree with the accounting treatment proposed?

Accounting for licenses

- Customer obtains control of the entire licensed IP (eg exclusive license for economic life)
  - sale of the IP, not a license
- Exclusive license, but customer does not obtain control of entire licensed IP
  - performance obligation to permit customer to use IP
  - revenue over time
- Non-exclusive license
  - performance obligation to transfer licenses
  - revenue when the customer is first able to use the license

Accounting for licenses

•Do you agree with the accounting proposed?

World Standard-setters Conference

Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

NOTES

IFRS	**World Standard-setters Meeting** Staff Paper	Agenda reference	**Agenda Paper 5**
		Date	**21 September 2010**

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Project	**Revenue from contract with customers**
Topic	**Exposure draft out for comment**

Background

1. The IASB and the FASB jointly issued an exposure draft *Revenue from Contracts with Customers* on 24 June 2010 (which can be downloaded from: http://www.ifrs.org/Current+Projects/IASB+Projects/Revenue+Recognition/Revenue+Recognition.htm.The proposed standard is out for comment until 22 October 2010.

2. The staff would like to discuss four questions from the exposure draft's invitation to comment with members of the world standard setters' forum:

    (a) Do you agree that an entity should identify separate performance obligations based on whether the promised good or service is distinct?

    (b) Do you think the proposed guidance is sufficient for determining when control of a good or service has been transferred to the customer?

    (c) Do you agree with the proposed distinction between types of warranties and the proposed accounting for each?

    (d) Do you agree with the patterns of revenue recognition proposed by the boards for licences?

3. A presentation that summarises the proposed standard and includes examples illustrating each question to prompt discussion will be made available at the conference.

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Financial instruments: replacing IAS 39

PATRICK FINNEGAN
Member
IASB

SUE LLOYD
Staff
IASB

Tuesday 21 September 11.30-12.45

CLEMENTS THAVIES LINCOLN, LOWER GROUND FLOOR

Financial instruments: replacing IAS 39

Patrick Finnegan, IASB Board Member
Sue Lloyd, IASB Staff

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Gordon Fowler	Accounting Standards Board Canada
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Juan M Gras	Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. (CINIF)
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Evan Muelera	Institute of Certified Public Accountants of Kenya
John Stanford	IPSASB - International Public Sector Accounting Standards Board
Kevin Stevenson	Australian Accounting Standards Board
Renato Kiyotaka Uema	Financial System Regulation Department - Central Bank of Brazil (BCB)
Flerida Gutierrez Vidal	National Banking and Securities Commission (Mexico)

13.45-15.00 CLEMENTS THAVIES LINCOLN, LOWER GROUND FLOOR

Financial instruments: replacing IAS 39

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Project to replace IAS 39
Update on status and recent decisions

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ED FVO for Financial Liabilities

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To address 'own credit risk' :

- Retain IAS 39 measurement requirements for financial liabilities:
  - held for trading ➔ fair value through P&L
  - hybrid liabilities ➔ bifurcation requirements in IAS 39
  - 'vanilla' liabilities ➔ amortised cost
  - maintain FVO (with current eligibility conditions)

BUT

- Separate out 'own credit risk' for FVO
- 'Own credit risk' portion would be separated in a manner similar to that used in IFRS 7 for disclosure (IFRS 7 B4)

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FVO proposals

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Profit or Loss (liabilities under FVO)	
Total change in FV	XX
Change in FV due to 'own credit'	(X)
Profit for the year	XXX

Financial liability on balance sheet at (full) fair value

Statement of Comprehensive Income (liabilities under FVO)	
Other Comprehensive Income:	
Change in FV due to 'own credit'*	X

* Not recycled

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Tentative decisions in September

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IAS 39 replacement – phase II

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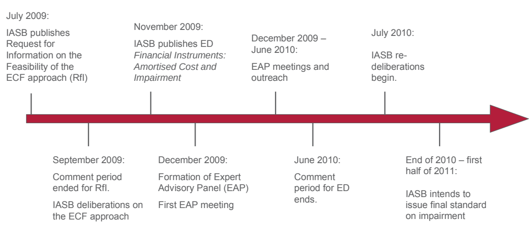

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Major operational issues – decoupling

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Major operational issue #1:

- Allocation of initial expected losses (EL)
  - ED requires allocating the *initial* EL estimate over the expected life of the financial asset
  - Allocation mechanism: the (credit cost adjusted) effective interest rate (EIR)
- Potential simplification: 'decoupling' of interest and credit loss calculations

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Major operational issues – lifetime EL

Major operational issue #2:

- Estimating lifetime EL
  - Consider and use best available information
  - Based on historical information adjusted for management expectations of future conditions and likely changes in the portfolio
  - Basel II EL can be used as one possible starting point but would require adjustments
  - Reasonable estimates over 1 to 3 years, then revert to long-term average loss rate

Major operational issues – Open portfolios

Major operational issue #3:

- Application of impairment model to open portfolios
  - Significant operational challenges
  - ED would involve carrying forward historical information from date of initial recognition (initial EL or EIR)
  - Most financial institutions only have forward-looking information
  - Hard to differentiate whether the revision of expected loss relates to:
    - loans already in the portfolio (→ catch up adjustment)
    - new loans (→ initial EL recognised over life of instrument)

Overview – expected loss considerations

ISSUE	◄ TO BE CONSIDERED ►			
Which expected losses?	Over the life or shorter?	All EL or only 'more-likely-than-not' to occur (for single instruments)		Through-the-cycle or not
When are initial loss expectations recognised?	◄ Spread over life ►			Upfront (likely be same treatment for changes in estimates)
	Integrated in EIR	Separately as an annuity	Separately straight-line	
How are changes in loss estimates treated?	Full catch-up to profit or loss in period of change	Partial catch-up to profit or loss	No catch-up (adjust prospectively)	Combination based on good/bad book
Allowance account floor?	No floor	Floor (eg 'incurred' losses)		

Outlook…

Approach for re-deliberations (the 'game plan'…)

- First develop an impairment model for *open portfolios*
  - Basic architecture
  - Details
- Ascertain whether that approach 'fits all'…
  - Single instruments
  - Short-term trade receivables
  - Variable-rate instruments
  - Loan commitments
  - Other instruments
- Revisit presentation and disclosure

Outlook… (cont'd)

Topics to be considered in finalising the project…

- Probability weighting of possible outcomes
  - Expected loss = expected value?
- How does the impairment model fit into amortised cost?
  - 'Cost plus' vs present value notion
- Extent of guidance
  - Application guidance
  - Implementation guidance
  - Illustrative examples
- Scope: off balance sheet credit exposures…

Tentative decisions to date

- The Board has tentatively decided:
  - to move forward using an expected loss impairment approach.
  - to consider an expected loss approach based on lifetime expected losses.
  - that entities should consider all reasonable and supportable information (including forecasts of future conditions) when calculating expected losses.

Tentative decisions in September

Introduction

- The Board is considering hedge accounting **comprehensively**
- Addressing hedging of both financial and non-financial exposures
- Overall approach:
  - Use existing architecture
  - Address specific problem areas
  - Use clear and explicit principles
  - Identify any exceptions clearly

Hedged items – groups and net positions

- Issues:
  - Alignment of hedge accounting with common risk management practice
  - Identification and tracking of hedged items in a group hedge
  - Net positions – allocation of hedge gains/losses:
    - profit or loss geography (single line vs grossing up of derivative gains or losses)
    - groups that include income/expense items and assets/liabilities

Hedged items – groups and net positions continued

- Tentative decisions (deliberations continuing):
  - Change in fair value of individual hedged items need not be proportional to that of the group
  - Permit layer approach (eg bottom layer) to identifying hedged items from a group (in some circumstances)
  - Separate line item presentation of hedging instrument gains or losses for net position hedges (in some circumstances)

Test hedge effectiveness

- Objective
  - **Hedging relationship should produce an unbiased result and minimise *expected* hedge ineffectiveness**
  - To achieve this:
    - Risk management determines the 'optimal' hedge ratio

      ie no expectation that changes in the value of the hedging instrument will *systematically* exceed or be less than changes in the value of the hedged item
    - Demonstrate offset in hedge relationship is *not* accidental

Test hedge effectiveness continued

- Tentative decisions:
  - No bright-line (ie no 80% to 125% range)
  - The characteristics of the hedging relationship and the potential sources of ineffectiveness determine:
    - whether a qualitative or quantitative assessment is appropriate
    - what method of assessment is appropriate
  - The assessment is forward looking and performed at inception and on an ongoing basis
  - Rebalancing of the hedge ratio and a change of the assessment method can become necessary

Fair value hedge mechanics

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- Issues
  - Different mechanics used for fair value and cash flow hedges increase complexity
  - Adjusting hedged item results in a measurement that is neither cost nor fair value
  - Cash Flow hedge accounting mechanics create OCI volatility
  - Presentation of hedging gains or losses

Tentative approach to hedge accounting

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	Cash flow hedge accounting	Fair value hedge accounting
Ways to account today		
Tentative changes to the way we account for hedges today…	•Unchanged	•Cumulative gain or loss on the hedged item attributable to the hedged risk as a separate line item in the balance sheet •Hedged item's carrying amount not changed •The fair value changes for hedging instruments and hedged items are taken to other comprehensive income and any ineffectiveness is transferred immediately to profit or loss

Knock-on effects of other project phases

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- Equity investments for which the OCI presentation alternative is elected
  - Tentative decision:
    - → Prohibit the application of hedge accounting for instruments designated at fair value through OCI

Tentative decisions in September

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Questions or comments?

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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.

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Project **Project to replace IAS 39**

Topic **Update on phases**

Introduction

1. All three phases of the project to replace IAS 39 are currently active. The classification and measurement of financial liabilities and impairment phases are being redeliberated and the hedge accounting deliberations are ongoing.

2. In addition, the IASB has requested that its constituents provide the FASB with comments on their comprehensive exposure draft on financial instruments –the comment period for that documents ends on 30 September 2010. The IASB and FASB have undertaken to investigate ways to address any differences that ultimately remain between their models to assist the users of financial statements.

3. The staff would like to use the WSS break-out session in the following ways:

    (a) to obtain feedback on possible ways to bridge any remaining gaps between the FASB and IASB models;

    (b) to provide an update on the tentative decisions that have been made in each of the three phases; and

    (c) to obtain feedback on some of the tentative decisions made to date.

Issues to discuss

4. The FASB ED (which can be downloaded from: http://www.fasb.org) proposes a symmetrical model for financial assets and liabilities with most financial

instruments required to be measured at fair value on the balance sheet. If an entity has a business strategy of holding debt instruments for collection or payment of contractual cash flows and those debt instruments are not bifurcatable under current US GAAP then the entity can *elect* 'FV-OCI' presentation - this means both fair value and amortised cost information is provided on the face of the balance sheet, amortised cost information is reflected in net income and other changes in fair value are recognised in Other Comprehensive Income.

5. This contrasts with IFRS 9 *Financial Instruments* which *requires*[1] financial assets to be measured at amortised cost if an entity has a 'hold to collect' business model and the financial asset has contractual cash flows that only represent the payment of principal and interest. The IASB has proposed that the accounting for financial liabilities be unchanged from IAS 39 except in respect of the treatment of changes in fair value due to own credit.

6. The FASB is yet to finalise its classification and measurement model. It is possible that their final position will be closer to IFRS 9. While the IASB is committed to a mixed measurement model, we are interested in considering how any remaining differences between the models are best addressed such as by providing parenthetical disclosure of fair value information on the face of the balance sheet.

Question 1
Do you have any suggestions for how best to reconcile any differences that may remain between the FASB and IASB financial instrument classification and measurement models in order to assist users of financial statements?

[1] Subject to the fair value option which is available for accounting mismatches.

Impairment

7. The exposure draft *Amortised Cost and Impairment* proposed an expected loss impairment approach for all financial assets measured at amortised cost including short-term trade receivables. However, it was noted that practical expedients could be used for short-term trade receivables (so for example the effect of discounting could be ignored if immaterial and/or a provision matrix of historical loss experience could be used to determine expected credit losses). Application of the proposals would result in revenue being recognised adjusted for expected credit losses. (This is consistent with the exposure draft *Revenue from Contracts with Customers.* However, some respondents felt that recognising revenue related to short-term accounts receivables should only be dealt with in the Revenue Recognition project and not addressed in the Amortised Cost and Impairment project).

8. Many respondents (especially those from non-financial institutions and those with a professional interest in non-financial institutions) to the exposure draft commented on a need for a different approach for non-interest bearing financial instruments (eg short-term trade receivables) and non-financial institutions, in general.

9. Most of the respondents that commented on the treatment of short-term trade receivables in the ED also provided their concerns on the proposed treatment of related revenue (see comment above). They state that allocating the expected losses against revenue when first recording the receivable is inconsistent with the treatment for the other financial assets in the ED which allocate the expected credit losses over the life of the asset. They also state that the losses incurred on trade receivables are a business expense and should be shown separately from revenue.

10. Whilst most respondents that commented on the treatment of non-interest bearing short-term financial assets agree that such instruments should not be treated the same as financial assets created solely as a result of lending

transactions, they provided different suggestions for how to resolve the treatment. Some suggestions received included:

(a) provide more practical expedients (for example related to presentation and disclosure); or

(b) scope out such transactions, and maybe even non-financial institutions in general, from the final standard.

Question 2 – Impairment for short term trade receivables

(a) Do you believe that the initial and subsequent measurement and presentation of non interest bearing short term trade receivables should be as proposed in the exposure draft *Amortised Cost and Impairment*? If not why not and what would you propose instead?

(b) Do you believe that short-term trade receivables and non-financial institutions should remain in the scope of the proposed impairment approach? If not, why and what would you suggest?

Hedge accounting

Fair value hedge accounting mechanics

11. Earlier in the hedge accounting deliberations (September 2009), the IASB tentatively decided to improve hedge accounting requirements by replacing the mechanics used for fair value hedge accounting with an approach that is similar to cash flow hedge accounting (the tentative approach).

12. This decision was made in response to concerns raised by users about the current fair value hedge accounting mechanics which results in hedged items being carried neither at (amortised) cost nor at fair value but rather at an adjusted amount that depends on what risks have been hedged, and how and when that hedging has occurred. This makes the carrying amounts of hedged items difficult to understand.

13. However, during the outreach activities we received feedback that the tentative approach would give rise to OCI volatility that was considered by many to be problematic. As a result of this feedback the Board changed its tentative decision to an approach for fair value hedge accounting that presents the cumulative gain or loss on the hedged item attributable to the hedged risk as a separate line item in the balance sheet. That line item is presented within assets (or liabilities) for those reporting periods for which the hedged item is an asset (or liability). The fair value changes of the hedging instrument and the hedged item attributable to the hedged risk are taken to other comprehensive income, and any ineffectiveness is transferred immediately to profit or loss. (See further Agenda Paper 8A July 2010 which can be downloaded from: http://www.ifrs.org/Meetings/IASB+Board+Meeting+22+July+2010.htm).

Question 3 – Fair value hedge accounting mechanics
Does the proposed change in fair value hedge accounting mechanics improve the decision usefulness of information for users of financial statements? Why or why not?

Hedge accounting – eligibility criteria

14. The Board has discussed the hedge effectiveness testing that should be required to determine whether a relationship qualifies for hedge accounting.

15. The Board has tentatively agreed on a hedge effectiveness testing approach for hedge qualification as follows:

    (a) The objective of the effectiveness assessment is to ensure that the hedging relationship that will produce an unbiased result and minimise expected ineffectiveness. Thus, for accounting purposes hedging relationships should not reflect a deliberate mismatch between the weightings of the hedged item and hedging instrument within the hedging relationship.

(b) In addition to that objective, hedging relationships are expected to achieve other than accidental offsetting of changes between the hedged item and hedging instrument attributable to the hedged risk.

(c) The assessment is forward looking and performed at inception and on an ongoing basis.

(d) The type of assessment (quantitative or qualitative) depends on the relevant characteristics of the hedging relationship and the potential sources of ineffectiveness. Entities' risk management is the main source of information to perform the effectiveness assessment.

(e) No particular methods for assessing hedge effectiveness are prescribed. However, the method used should be robust enough to capture the relevant characteristics of the hedging relationship including the sources of ineffectiveness.

(f) Changes in the method for assessing effectiveness are mandatory if there are unexpected sources of ineffectiveness (ie new sources not initially anticipated) or if upon a rebalancing in the hedging relationship the method used previously is no longer capable of capturing the sources of ineffectiveness and therefore is not capable of demonstrating whether the hedge produces an unbiased result and minimises ineffectiveness.

(See further Agenda Paper 4A 24 August 2010 meeting which can be downloaded from: http://www.ifrs.org/Meetings/IASB+Meeting+24+August+2010.htm).

Question 4 –Hedge accounting effectiveness testing (for hedge accounting qualification)
Will the proposed hedge accounting effectiveness test (for hedge qualification purposes) address the existing issues with hedge qualification criteria? Why or why not?

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IFRSs Technical update and Q&A

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Tuesday 21 September 13.45-15.00

BALLROOM

IFRS – Tech update & Q&A

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Wei-Guo Zhang, IASB Member
Elke König, IASB Member

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Harald Brandsås	Norsk RegnskapsStiftelse (Norwegian Accounting Standards Board)
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International Financial Reporting Standards

IFRS Update

September 2010

Chair—Amaro Gomes (IASB member)

Presenters: Wayne Upton (IASB's Director of International Activities) and IASB members, Elke Koenig and Wei-Guo Zhang

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Agenda

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- Overview (Amaro Gomes)
- Selected projects (Elke Koenig)
- Financial instruments (Wayne Upton)
- Selected projects (Wei-Guo Zhang)

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International Financial Reporting Standards

Overview

Amaro Gomes

IFRS

The importance of 2011

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- IASB commitment remains
- A number of countries adopting or converging to IFRS around that time (2011/2012)
- G20 target date
- MoU target date
- US (2011) / Japan (2012) decision on adoption

However:

Primary focus: achieve significant improvements to financial reporting without compromising due process

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Modified strategy and work plan

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Target date for priority projects remains June 2011

- Prioritise major projects to permit sharper focus on those areas in most urgent need for improvement in both IFRS and US GAAP
- Phasing of publication of EDs and related consultations to enable broad-based, effective stakeholder participation
- Publication of separate consultation document seeking stakeholder input about effective dates and transition methods

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The Major Projects

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Crisis (MoU)

- Financial instruments
- Fair value measurement
- Consolidation
- Derecognition

Other (Non MoU)

- Insurance contracts

Other (MoU)

- Revenue recognition
- Leases
- Post-retirement benefits
- Financial statement presentation
- Liability/Equity

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The Major Projects

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Project	ED issued	Completion
Derecognition	✓	▪ Q3 2010
Consolidation	✓	▪ Q4 2010
Financial statement presentation (OCI)	✓	▪ Q4 2010
Liability/Equity		
Fair value measurement	✓	▪ Q1 2011
Post-retirement benefits	✓	▪ Q1 2011

The Major Projects

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Project	ED issued	Completion
Financial instruments	Q3 & Q4 2010	▪ Q2 2011
Revenue recognition	✓	▪ Q2 2011
Leases	✓	▪ Q2 2011
Insurance	✓	▪ Q2 2011

International Financial Reporting Standards

Selected projects

Elke Koenig

Financial crisis projects - Derecognition

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Project	Objective	Target dates
Derecognition	▪ Near-term priority: improving and converging US GAAP and IFRS disclosure requirements ▪ Additional research and post-implementation review of FASB amendments to assess future of the project (2012)	Q3 2010: finalised improved disclosure requirements similar to US GAAP

Derecognition Disclosures Amendments to IFRS 7

11

- Converge the disclosures on transfers of financial assets
- Similar to those in ED *Derecognition - Proposed amendments to IAS 39 and IFRS 7* (published March 2009)

Derecognition Disclosures Background

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- **Feb 2006:**
  - Original MoU
- **March 2009:**
  - IASB ED on transfers of financial instruments
- **June 2009:**
  - FASB ED on transfers of financial instruments
- **June 2010:**
  - Boards' near-term priority on increasing transparency, comparability and convergence of disclosure requirements

Disclosures: Objectives

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On-balance sheet disclosures

To help understand the relationship between financial assets that are not derecognised and associated liabilities

Off-balance sheet disclosures

To help evaluate the nature of and risks from continuing involvement in derecognised financial assets

Users' concern!

IFRS

On-balance sheet disclosures

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Currently required (IFRS 7)

- Nature of (non derecognised) financial assets
- Nature of risks to which entity remains exposed
- Carrying amounts of assets and associated liabilities

New

- Description of nature of relationship between assets and associated liabilities (incl. restrictions on use of assets)
- If recourse only to assets: FV of assets, associated liabilities and net position

IFRS

Off-balance sheet disclosures… all new

15

QUANTITATIVE disclosures – Part 1

- Carrying amount and FV of continuing involvement
- Maximum exposure to loss from continuing involvement
- Cash outflows to repurchase assets
- Maturity analysis of future cash outflows

Aggregate disclosures when more than one category of continuing involvement with same derecognised assets

IFRS

Off-balance sheet disclosures … all new

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QUANTITATIVE disclosures - Part 2

- Gain or loss at date of derecognition
- Income and expense recognised from continuing involvement
- If transfer activity not evenly distributed in reporting period:
  - (a) Total amount of activity and related gain or loss in period and
  - (b) When greatest activity within period took place

IFRS

Off-balance sheet disclosures … all new

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QUALITATIVE disclosures

Terms of the transaction that resulted in derecognition of financial assets:

(a) Description of the derecognised assets

(b) Nature and purpose of continuing involvement

(c) Risks to which entity remains exposed:

- (i) How entity manages risk from continuing involvement
- (ii) Whether entity bears losses before other parties + ranking and loss amounts borne by each category of party involved
- (iii) Events/circumstances that would trigger financial support or repurchase of derecognised asset

IFRS

Financial crisis projects – Consolidation

18

Project	Objective	Target date
Consolidation	▪ Boards agreed that standard should include common objectives and principles. ▪ IASB project in three parts	Full completion (IASB): Q4 2010

IFRS

– Consolidation continued

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Project part	Target dates
Replacement of IAS 27	▪ Q3 2010: FASB round tables on IASB's proposed standard ▪ Q4 2010: finalised IASB standard ▪ possible FASB ED on IASB standard?
Disclosures about unconsolidated SPEs/structured entities	Q4 2010: finalised IASB standard
Investment companies (part of Consolidation project)	▪ Q4 2010: ED ▪ 1H 2011

IFRS

Prioritised projects - other

20

Project	Objective	Target dates
Presentation of OCI	develop presentation standards that improve the reported items of OCI and allow easier comparability between US GAAP and IFRSs	Q4 2010: converged and improved standard

IFRS

Other joint projects

21

Project	Status	Target dates
Financial statement presentation	▪ DP feedback indicated concerns that benefits could be outweighed by expected implementation costs. ▪ Boards decided to engage in additional outreach activities and potentially reconsider proposals	▪ Q3 2010: staff draft of proposed standard ▪ Q4 2010: completion of outreach ▪ Q1 2011: ED

IFRS

Financial crisis projects - Other

22

Project	Status	Target dates
Financial Instruments with characteristics of equity	Effects of proposal in draft ED being explored	▪ Q1 2011: Joint ED (re-exposure) ▪ Q3 2011: round tables ▪ Q4 2011: issuance of improved and converged standards
Fair Value Measurement	develop a converged definition of fair value and common implementation guidance (incl for illiquid markets)	Q1 2011: target for final, converged standard

IFRS

Other MoU projects

23

Project	Status	Target dates
Post-employment benefits – defined benefit plans	▪ ED issued in April 2010 ▪ Comments due 6 Sept 2010	▪ Q1 2011: IFRS expected

IFRS

Other joint projects

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Project	Status	Target dates
Insurance contracts	In 2009 the boards begin discussing the project jointly – agreed on joint approach in most areas	▪ IASB ED comments due 30/11/2010 ▪ FASB to issue DP compare the IASB's proposed model with the FASB's tentative decisions reached to date ▪ Q2 2011: final standard

IFRS

International Financial Reporting Standards

Financial instruments

Wayne Upton

Prioritised projects – Financial Instruments

Project	Objective	Target date
Financial instruments	Issuance of comprehensive improvements that foster international comparability of financial instruments	Full completion: Q2 2011

Differing development timetables and imperatives resulted in differing conclusions in a number of areas.

Strategy to address differences:

- Encouraged IFRS constituents to comment on FASB proposals
- FASB round-table meetings on their comprehensive FI proposals (IASB participation) - Q4 2010
- The *Expert Advisory Panel* is helping the boards to identify and resolve operational aspects of credit impairment models

Prioritised projects – Financial Instruments

Project part	Target date
Hedge accounting ED (Phase III)	ED: in time to enable 1H 2011 completion
Impairment (Phase II)	Completion 1H 2011
Classification and measurement: financial liabilities	IFRS Q4 2011
Asset and liability offsetting Responding to stakeholder concerns (BCBS and FSB and others) to address differences between IFRSs and US GAAP	▪ Q4 2010: ED publication (IASB and FASB) ▪ Q1 2011: round tables ▪ Q2 2011: publication of standards – timing aligned with other changes to the FI standards

IASB's work on financial instruments

- Financial instruments (replacement of IAS 39):
  - Phase I: Classification and measurement
  - Phase II: Impairment
  - Phase III: Hedge accounting
- Other FI projects (not included in this presentation)
  - Financial instruments with characteristics of equity
  - Offsetting
  - Derecognition—Disclosures

Phase I: Classification and measurement

IFRS 9—*for financial assets only*

Overview of classification model

Entity's business model for managing
+
Contractual cash flow characteristics
›
Amortised cost (one impairment method)
›
FVO for accounting mismatch (option)

Reclassification required when business model changes

• Equities
• Derivatives
• Some hybrid contracts
• …
›
Fair Value (No impairment)
›
Equities: OCI presentation available (alternative)

Financial liabilities—background

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Feedback on ED:
- Financial liabilities 'not broken'
- Financial liabilities less urgent
- Need to address 'own credit'

Excluded financial liabilities from the scope of IFRS 9 for 2009 year ends

To seek input on best way to address 'own credit'

IFRS

Results of outreach

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Preparers	'Own credit' hard to separate
	Bifurcation of liabilities means don't have to deal with complexity of identifying own credit
Users	Liabilities viewed differently to assets – symmetry not useful
	P&L volatility from own credit not useful
	Do not invent new measurement method: If remeasured prefer full fair value
	Bifurcation helps address own credit concerns
Overall	No consensus

IFRS

<u>Tentative</u> decisions

33

To address 'own credit risk' :

- Retain IAS 39 measurement requirements for financial liabilities:
  - Held for trading ➔ fair value through P&L
  - Hybrid liabilities ➔ bifurcation requirements in IAS 39
  - 'Vanilla' liabilities ➔ amortised cost
  - Maintain FVO (with current eligibility conditions) **<u>BUT</u>**
- Separate out 'own credit risk' for FVO
- 'Own credit risk' portion would be separated in a manner similar to that used in IFRS 7 disclosure (IFRS 7 B4)

IFRS

FVO proposals

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Profit or Loss (liabilities under FVO)	
Total change in FV	XX
Change in FV due to 'own credit'	(X)
Profit for the year	XXX

Financial liability on balance sheet at (full) fair value

Statement of Comprehensive Income (liabilities under FVO)	
Other Comprehensive Income:	
Change in FV due to 'own credit'*	X

* Not recycled

IFRS

Why this approach?

35

- Five alternatives explored during outreach. No consensus as to 'best' approach.
- Minimise disruption
  - Most entities bifurcate and will likely continue
  - Bifurcation method: IAS 39 similar outcomes to IFRS 9
- But addresses 'own credit'
  - Separate 'own credit' only if use FVO
  - Have to do that today for disclosure purposes

IFRS

Next steps

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- Redeliberations ongoing
- Final Standard: 2010

IFRS

Phase II: Impairment

IAS 39 replacement – phase II

- July 2009: IASB publishes Request for Information on the Feasibility of the ECF approach (RfI)
- September 2009: Comment period ended for RfI. IASB deliberations on the ECF approach
- November 2009: IASB publishes ED *Financial Instruments: Amortised Cost and Impairment*
- December 2009: Formation of Expert Advisory Panel (EAP) First EAP meeting
- December 2009 – June 2010: EAP meetings and outreach
- June 2010: Comment period for ED ends.
- July 2010: IASB re-deliberations begin.
- End of 2010 – first half of 2011: IASB intends to issue final standard on impairment

Expert Advisory Panel

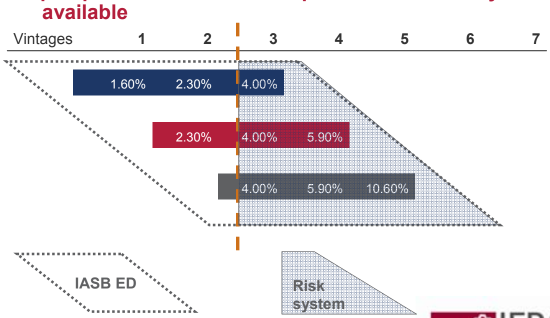
- What is it for?
  - To consider how to address operational challenges
- Who is on it?
  - Credit and risk experts from different regions and sectors
- How does it work?
  - Public meetings
  - Formed: Dec 2009   Ended: June 2010
  - EAP subgroups
    - Cash flow estimates
    - Effective interest method

Major operational issues #1

Infrastructure separates accounting (interest rate) systems and credit risk systems

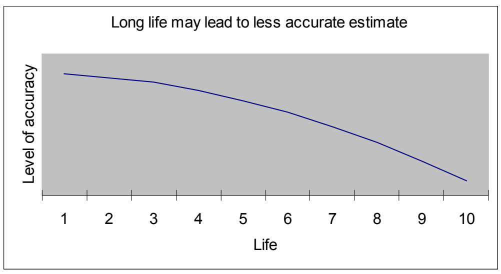
Major operational issues #2

Open portfolios—EL data required versus readily available



Major operational issues #3

Estimating lifetime EL



Overview – expected loss considerations

ISSUE	◄ TO BE CONSIDERED ►			
Which expected losses?	Over the life or shorter?	All EL or only 'more-likely-than-not' to occur (for single instruments)		Through-the-cycle or not
When are initial loss expectations recognised?	◄ Spread over life ►			Upfront (likely be same treatment for changes in estimates)
	Integrated in EIR	Separately as an annuity	Separately straight-line	
How are changes in loss estimates treated?	Full catch-up to profit or loss in period of change	Partial catch-up to profit or loss	No catch-up (adjust prospectively)	Combination based on good/bad book
Allowance account floor?	No floor	Floor (eg 'incurred' losses)		

Outlook…

Approach for re-deliberations (the 'game plan'…)

- First develop an impairment model for *open portfolios*
  - Basic architecture
  - Details
- Ascertain whether that approach 'fits all'…
  - Single instruments
  - Short-term trade receivables
  - Variable-rate instruments
  - Loan commitments
  - Other instruments
- Revisit presentation and disclosure

Outlook… (cont'd)

Topics to be considered in finalising the project…

- Probability weighting of possible outcomes
  - Expected loss = expected value?
- How does the impairment model fit into amortised cost?
  - 'Cost plus' vs present value notion
- Extent of guidance
  - Application guidance
  - Implementation guidance
  - Illustrative examples
- Scope: off balance sheet credit exposures…

Phase III: Hedge accounting

Introduction

- Extensive outreach has been undertaken throughout this phase.
- In response to overwhelming feedback the Board is considering hedge accounting **comprehensively**
- Overall approach:
  - Use existing architecture
  - Address specific problem areas
  - Use clear and explicit principles
  - Identify any exceptions clearly

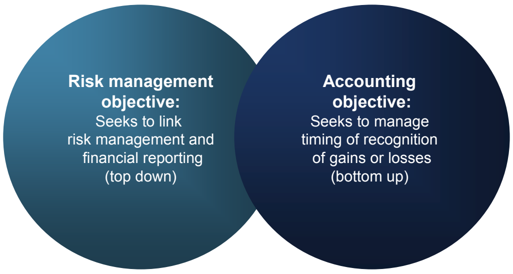
Hedge Accounting – broad direction

- Simplify hedge accounting
- Consider application to portfolios

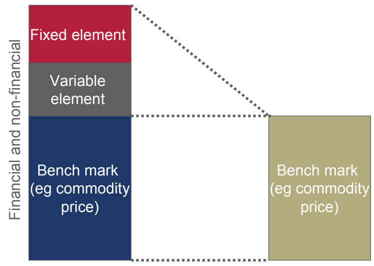
This project will not look at hedge accounting for

hedges of net investments in foreign operations

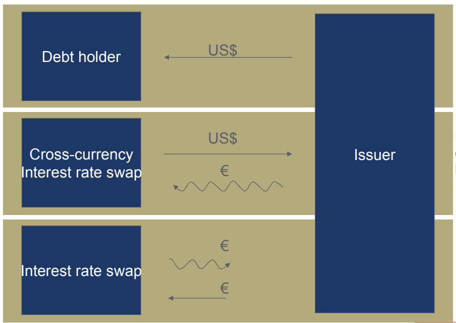
Objective



Hedged items – risk components



Hedged items – derivative as hedged item



Not allowed to be designated as a hedged item under IAS 39

Test hedge effectiveness

- Objective
  - **Hedging relationship should produce an unbiased result and minimise *expected* hedge ineffectiveness**
  - To achieve this:
    - Risk management determines the 'optimal' hedge ratio

      ie no expectation that changes in the value of the hedging instrument will *systematically* exceed or be less than changes in the value of the hedged item
    - Demonstrate offset in hedge relationship is *not* accidental

Test hedge effectiveness continued

- Tentative decisions:
  - No bright-line (ie no 80% to 125% range)
  - The characteristics of the hedging relationship and the potential sources of ineffectiveness determine:
    - whether a qualitative or quantitative assessment is appropriate
    - what method of assessment is appropriate
  - The assessment is forward looking and performed at inception on an ongoing basis
  - Rebalancing of the hedge ratio and a change of the assessment method can become necessary

Tentative approach to hedge accounting

	Cash flow hedge accounting	Fair value hedge accounting
Ways to account today		
Tentative changes to the way we account for hedges today…	•Unchanged	•Cumulative gain or loss on the hedged item attributable to the hedged risk as a separate line item in the balance sheet •Hedged item's carrying amount not changed •The fair value changes for hedging instruments and hedged items are taken to other comprehensive income and any ineffectiveness is transferred immediately to profit or loss

Next steps

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- Continue deliberations
- Exposure draft expected in Q4 2010
- Continued outreach
- IFRS in Q2 of 2011

IFRS

International Financial Reporting Standards

Selected projects

Wei-Guo Zhang

IFRS

Prioritised projects - other

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Project	Objective	Target date
Revenue Recognition	development of a single, common standard for a wide range of industries and transaction types	▪ ED comments due 22/10/2010 ▪ Q4 2010: round tables ▪ Q2 2011: joint standard
Leases	development of a joint lease standard that improves lease accounting and ensures that all lease contracts are recognised on the statement of financial position	▪ ED comments due 15/12/2010 ▪ Q4 2010: round tables ▪ Q2 2011: joint standard

Revenue project objectives

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- Single model based on clear principles
- Improve accounting for contracts with customers by:
  - providing a more robust framework for addressing revenue issues
  - increasing comparability across industries and capital markets
  - providing enhanced disclosures
  - clarifying accounting for contract costs

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The exposure draft

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- Converged proposal with unanimous support of both the IASB and the FASB
- Published for public comment on 24 June 2010. Comments due 22 October 2010.
- Based on further development of the principles proposed in the December 2008 discussion paper
- Developed using feedback from over 220 comment letters and input from other outreach activities

IFRS

Summary of the revenue proposals

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Core principle:

Recognise revenue to depict the *transfer* of goods or services in an amount that reflects the consideration expected to be received in exchange for those goods or services

Steps to apply the core principle:

1. Identify the contract(s) with the customer
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognise revenue when a performance obligation is satisfied

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1 Identify the contract

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- Most cases apply standard to a single contract
- Combine two or more contracts if prices are interdependent
- Segment a single contract into two or more contracts if some goods or services priced independently of other goods and services
- Account for a modification to a contract as a part of the original contract if price is interdependent with original contract. Otherwise accounted for as a separate contract.

2 Identify separate performance obligations

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A performance obligation is an enforceable promise in a contract with a customer to transfer a good or service to that customer

- Account for a performance obligation separately if promised good or service is distinct
  - good or service is distinct if an identical or similar good or service is sold separately
  - if not sold separately, goods and services are distinct if function and margin are distinct

Performance obligations - warranties

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- Cover for latent defects ('quality assurance' warranty)
  - not a performance obligation
  - requires evaluation of whether the performance obligation to transfer product is satisfied
  - revenue not recognised until the defective product or component is replaced
- Cover for faults post-delivery ('insurance' warranty)
  - is a performance obligation
  - revenue is recognised over the warranty period

Example: Product warranties

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A company sells 1,000 products for CU10 each. Each product costs CU 8. The company expects that 5% of products will need to be replaced after sale for latent defects.

US GAAP and IFRS

- When the products are delivered, recognise revenue of CU10,000 and expected warranty costs of CU400

Proposed model

- When the products are transferred, recognise revenue of CU9,500 and a contract liability of CU500 for unsatisfied performance obligations (selling price 50 defective products)
- Recognise revenue of CU500 when the company satisfies its performance obligations by replacing faulty goods

3 Determine the transaction price

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The transaction price is the amount of consideration the company receives, or expects to receive, from the customer

- Probability-weighted amount of uncertain consideration included in transaction price if:
  - experience of similar contracts
  - expects circumstances will not change significantly
- Adjust consideration for collectibility
- Adjust consideration for the time value of money
- Measure non-cash at fair value

4 Allocate the transaction price

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- Allocate transaction price to all separately identified performance obligations in proportion to standalone selling prices
- The standalone selling price of a good or service is the price at which the entity would sell that good or service if it was sold separately at contract inception
- Standalone selling prices estimated if not observable

5 Recognise revenue

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- Revenue is recognised when a performance obligation is satisfied by transferring a good or service to the customer
- Good or service transferred when customer obtains control of it

Control has transferred when the customer has the ability to direct the use of and receive the benefit from that good or service

- Transfer of control can be at a point in time or can be continuous

IFRS

Example - equipment manufacturer

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Scenario 1
Contract to build highly customised equipment

- Customer has unconditional obligation to pay throughout contract
- Customer specifies design and has involvement in manufacturing
- Customer has ability to take possession during construction

Customer controls equipment as built—contract is for manufacturing services. Revenue recognised continuously.

Scenario 2
Contract for standard equipment built to order

- Customer makes payments on account throughout contract
- Customer specifies only minor aspects of design
- Customer cannot take possession until built

Customer controls equipment on delivery—contract is for manufactured equipment. Revenue recognised on delivery.

IFRS

Disclosure

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Enhanced disclosures to help users understand the amount, timing and uncertainty of revenue and cash flows

- Information about contracts with customers
- Information about judgments and changes in judgments
- Disaggregation of revenue
  - eg by product lines, geography, customer type, type of contract
- Maturity analysis of remaining performance obligations

IFRS

Disclosure

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- Reconciliation of total contract balances, eg

Opening contract balances	XXXX
revenue from performance obligations satisfied during the reporting period	XXX
revenue from allocating changes in the transaction price to performance obligations satisfied in previous reporting periods*	XXX
cash received	XXX
transferred to receivables	XXX
contracts acquired in a business combination	XXX
Closing contract balances	XXXX

* eg because of a change in the estimate of contingent consideration

IFRS

Other joint projects

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Project	Status	Target dates
Emission trading schemes	While understanding the growing importance of the project, the boards agreed that other MoU projects have a higher priority.	▪ H2 2011: ED ▪ 2012: Converged standard
Income taxes	Significant negative comments on ED; Board considers limited scope ED	▪ H2 2010: ED expected ▪ H1 2011: IFRS expected
Joint ventures		▪ Q3 2010: IFRS expected

IFRS

Other projects

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Annual improvements 2009-2011	▪ Q4 2010: ED planned ▪ Q2 2011: IFRS planned
Extractive activities (oil and gas and mining)	▪ Comments due 30 July 2010 ▪ planned agenda decision
Measurement of liabilities under IAS 37	▪ Q3 2010: deliberations on re-exposure draft (Jan 2010)
Management commentary	▪ Q4 2010: Final 'guidance' document expected
Rate-regulated activities	▪ Q3: decision on next steps
Effective date and transition	▪ Q3: discussion document expected that will guide other final IFRSs

IFRS

Conceptual Framework (joint with FASB)

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Documents currently being developed:

Phase A Objective and qualitative characteristics	▪ Final chapter expected 3Q 2010
Phase B Elements and recognition	▪ To be determined
Phase C Measurement	▪ Discussion Paper planned 4Q 2010 or 1Q 2011
Phase D Reporting entity	▪ ED was issued March 2010 ▪ Comments due 15 July 2010 ▪ Final chapter expected 4Q 2010

Conceptual Framework (joint with FASB)

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Potential future phases:

Phase E Presentation and disclosure	Not yet active
Phase F Purpose and status of framework	Not yet active
Phase G Phase G Applicability to not-for-profit entities	Not yet active

Questions or comments?

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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.

World Standard-setters Conference

Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

NOTES

World Standard-setters Conference

Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

Fair value measurement

PATRICIA McCONNELL
Member
IASB

HILARY EASTMAN
Staff
IASB

Tuesday 21 September 13.45-15.00

MANSFIELD SUITE, GROUND FLOOR

Fair value measurement

Pat McConnell, IASB Board Member
Hilary Eastman, IASB Staff

NAME	ORGANISATION
Nelson Carvalho	CPC – Comitê de Pronunciamentos Contábeis
Clement Chang	Hong Kong Institute of Certified Public Accountants (HKICPA)
Pieter Dekker	EFRAG
Juan M Gras	Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. (CINIF)
Radoslaw Ignatowski	Polish Accounting Standards Committee
Erlend Kvaal	Norsk RegnskapsStiftelse (Norwegian Accounting Standards Board)
Vickson Ncube	ECSAFA
Godson Sunday Nnadi	Nigerian Accounting Standards Board
Steve Ong	Hong Kong Institute of Certified Public Accountants (HKICPA)
Joanna Perry	Financial Reporting Standards Board (New Zealand)
Jean-Pierre Pfingu	Institute De Reviseurs Comptables au Congo (IRC)
John Stanford	IPSASB - International Public Sector Accounting Standards Board
Renato Kiyotaka Uema	Financial System Regulation Department - Central Bank of Brazil (BCB)
Jan Verhoeye	Commissie voor Boekhoudkundige Normen (BASB)
Flerida Gutierrez Vidal	National Banking and Securities Commission (Mexico)

September 2010

International Financial Reporting Standards

Fair Value Measurement

Patricia McConnell, IASB Member
Hilary Eastman, IASB Staff

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IFRS

Agenda

- Project overview
- Potential differences between FASB and IASB standards
- Preliminary comment letter overview
- IFRS Foundation educational material
- Appendix: Comparison of tentative decisions

IFRS

International Financial Reporting Standards

Project overview

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IFRS

This project…

- ✓ Clarifies the measurement objective
- ✓ Creates a single source of guidance
- ✓ Improves and harmonises disclosures
- × Does **not** introduce new fair values
- × Does **not** change the measurement objective in another IFRS

IFRS

Why are we doing the project?

IFRSs	US GAAP
Existing fair value measurement guidance	Topic 820 *Fair Value Measurements and Disclosures* (codified SFAS 157)
May 2009 exposure draft *Fair Value Measurement*	

Objective:
Common IFRS and US GAAP fair value measurement and disclosure standards

IFRS

Fair value measurement timeline

2003 — Jun 2003: **FVM project added to FASB's agenda**

2004 — Jun 2004: **FASB exposure draft published**; Sep 2004: **FASB round table meetings**

2005 — Sep 2005: **FVM project added to IASB's agenda**

2006 — Sep 2006: **FASB issued SFAS 157**; Nov 2006: **IASB discussion paper published** (using SFAS 157 as starting point)

2007

IFRS

Fair value measurement timeline
continued

2008 | 2009 | 2010 | 2011

Oct 2008
IASB Expert Advisory Panel report
Measuring and disclosing the fair value of financial instruments in markets that are no longer active

FASB FSP FAS 157-3 published
Determining the Fair Value of a Financial Asset when the Market for that Asset is Not Active

May 2009
FASB FSP FAS 157-4 published
Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly

May 2009
IASB Exposure draft published

Nov-Dec 2009
IASB Round table meetings

June 2010
FASB exposure draft and IASB disclosure exposure draft published

Sep 2010
Comment periods end

Oct 2010 – Jan 2011
Redeliberations

Q1 2011
Common IFRS and US GAAP fair value measurement standards

Q2 2011
IFRS Foundation educational material

IFRS

Questions for WSS

1. Has the work to develop common fair value measurement standards in IFRSs and US GAAP been worthwhile?
   - Are there improvements to US GAAP?
   - Have the modifications to the IASB's original proposals helped clarify the requirements?

IFRS

International Financial Reporting Standards

Potential differences between FASB and IASB standards

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Potential differences

	Reason for difference
Scope exceptions	Different assets and liabilities are measured at fair value in IFRSs and US GAAP
Wording and style	Spelling and grammar differences between American and British English
Investments in investment company entities	There are different requirements in IFRSs and US GAAP for accounting by investment companies

IFRS

Potential differences continued

	Reason for difference
Disclosures	• IFRSs do not distinguish between 'recurring' and 'non-recurring' fair value measurements • IFRSs do not generally allow net presentation for derivatives and the amounts disclosed for Level 3 fair value measurements may differ • IFRS 7 addresses disclosures for third-party credit enhancements • In the IFRS, entities would not be encouraged to make additional disclosures as long as they meet the objective of the minimum disclosure requirements • In the IFRS, disclosures for plan assets would only be addressed in IAS 19 *Employee Benefits*

IFRS

Questions for WSS

2. Do you think there are differences in the fair value measurement guidance proposed that would result in a lack of comparability between IFRSs and US GAAP?

IFRS

International Financial Reporting Standards

Preliminary comment letter overview

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IFRS

Comments received

Measurement uncertainty analysis disclosure

- Current disclosure for financial instruments is important
- Correlation between inputs is necessary for the disclosure to be meaningful
- Not necessary to require for all assets and liabilities
  - most important for financial instruments,
  - least important for specialised, operating PP&E

IFRS

Comments received continued

Measurement uncertainty analysis disclosure

- Unclear how to include effect of correlation
  - when is correlation 'relevant'?
  - how do you know which inputs are correlated?
  - portfolio or individual item level?
  - why limit to unobservable inputs?
  - is it a statistical analysis?
- What is the threshold for 'significant'? Is it the same as the materiality test?

IFRS

Comments received continued

Measurement uncertainty analysis disclosure

- Example is not realistic or detailed enough
- Alternative disclosures suggested:
  - standardise the disclosure by requiring a +/- X standard deviation change in key inputs
  - retain current 'sensitivity analysis' instead (excluding correlation)

IFRS

Questions for WSS

3. Do you have any other observations about the measurement uncertainty analysis disclosure?

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International Financial Reporting Standards

IFRS Foundation educational material

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IFRS

What do we mean by 'how to'?

Knowledge about valuation

Measurement for financial reporting

Guidance for measuring fair value	Guidance for measuring value in use
Guidance for measuring expected value	etc…

IFRS

Fair value thought process

- How do I identify the principal market?
- How do I identify market participants?
- How do I know what is the highest and best use of an asset?

These three questions should be answered together and be internally consistent—it is an iterative process

IFRS

Fair value thought process continued

- How do I value unquoted equity instruments?
- What do I do when trading in the asset is restricted or infrequent?
- How do I select an appropriate valuation technique?
- Where do I find inputs to valuation techniques?

IFRS

Fair value thought process continued

- How do I determine appropriate classes for disclosures?
- How do I determine whether an asset or liability is a Level 2 or Level 3 fair value measurement when it uses both observable and unobservable inputs?
- How do I know which unobservable inputs are correlated for the measurement uncertainty analysis?

IFRS

Example:
Selecting a valuation technique

	Market approach • Market price is available	Income approach • Directly identifiable cash flows	Cost approach • Not income producing • No identical market price • Price needs adjustment
Level 1	• Price is for an identical asset or liability and must be used • No adjustment is necessary or allowed		
Leve 2	• Price needs adjustment • Observable inputs	• Observable inputs	• Observable inputs
Level 3	• Price needs adjustment • Unobservable inputs	• Unobservable inputs	• Unobservable inputs

IFRS

Questions for WSS

4. What other topics should the educational material cover?
5. How soon after publication of the final IFRS is the educational material needed? Is the current plan of 3-4 months sufficient?

IFRS

Questions or comments?

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IFRS

International Financial Reporting Standards

Appendix: Comparison of tentative decisions

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IFRS

Definition of fair value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Definition of fair value	Unchanged	Unchanged

IFRS

Scope

- All assets and liabilities for which fair values are measured in the statement of financial position or are disclosed in the notes

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Scope exceptions	IFRS 2 *Share-based Payment* and IAS 17 *Leases* to be excluded from the scope	Unchanged

IFRS

The transaction

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Use of principal market	IASB proposed using most advantageous market. Tentative decision refers to principal market	Unchanged
Definition of principal market	Unchanged	Proposed ASU clarifies that principal market is the market with the greatest volume and level of activity for the asset or liability, not the entity's transaction volume
Determination of most advantageous market	Unchanged	Proposed ASU clarifies that transport costs are to be taken into account (in addition to transaction costs)

IFRS

Market participants

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Knowledge	IASB proposed that there is no information asymmetry. Tentative decision specifies that market participants have a reasonable understanding of the asset or liability or the transaction (information asymmetry may exist)	Unchanged
Independence	Tentative decision clarifies that the price in a related-party transaction may be used	Proposed ASU clarifies that: • market participants need to be independent of each other, not necessarily independent of the reporting entity • the price in a related-party transaction may be used

IFRS

Highest and best use and valuation premise

- Highest and best use and valuation premise are only relevant for non-financial assets
  - – not relevant for financial assets or for liabilities because they do not have alternative uses

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Non-financial assets only	IASB proposed that the in-exchange valuation premise must be used for financial assets. Tentative decision specifies that the valuation premise is only relevant for non-financial assets	Proposed ASU clarifies that the highest and best use and valuation premise concepts only apply to non-financial assets

IFRS

Highest and best use and valuation premise continued

- Describe the meaning of physically possible, legally permissible, financially feasible

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Highest and best use criteria	Unchanged	Proposed ASU describes the meaning of physically possible, legally permissible, financially feasible

IFRS

Highest and best use and valuation premise continued

- Assumes that the asset is sold consistently with its unit of account (which might be the individual asset)

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Describing what is being sold	Unchanged	Proposed ASU clarifies that the objective is to determine the price for an individual asset (at the given unit of account)

IFRS

Highest and best use and valuation premise continued

- Assumes complementary assets <u>and liabilities</u> are available to market participants

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Complementary liabilities	IASB proposal did not describe 'complementary liabilities'. Tentative decision describes them as liabilities that fund working capital, but do not fund assets other than those within the group	Proposed ASU describes them as liabilities that fund working capital, but do not fund assets other than those within the group

IFRS

Highest and best use and valuation premise continued

- Eliminate the terms 'in use' and 'in exchange'
  - – in use: used in combination with other assets or with other assets and liabilities (complementary assets and liabilities)
  - – in exchange: used on a stand-alone basis

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
'In use' and 'in exchange'	Tentative decision is to remove these terms because they have been confusing and instead describe the objective of the valuation premise	Proposed ASU does not use these terms and instead describes the objective of the valuation premise

IFRS

An entity's own equity instruments

- Assumes perspective of a market participant who holds the entity's equity instrument as an asset

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Own equity	Unchanged	In addition to stating that the definition of fair value also applies to own equity instruments, the proposed ASU contains explicit guidance on measuring the fair value of an entity's own equity instruments

IFRS

Fair value of net positions of financial instruments

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- Can measure the fair value of the net position
  - bid-ask spread guidance
  - offsetting positions in a particular market risk (or risks)
  - offsetting positions with a particular counterparty

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Fair value of net position	IASB proposed requiring in-exchange valuation premise, implying that each instrument must be measured on a stand-alone basis. Tentative decision clarifies that an entity can measure the fair value of the net position in specific circumstances	Topic 820 is not explicit about measuring fair value when there are offsetting positions in market or credit risks. Proposed ASU clarifies that an entity can measure the fair value of the net position in specific circumstances

Liabilities

38

- A market participant would require compensation for undertaking the activity and for assuming the risk associated with the obligation

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Compensation	IASB proposal was not explicit about the compensation market participants would require. Tentative decision is to specify the compensation market participants would require	Proposed ASU specifies the compensation market participants would require

Premiums and discounts

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- Distinguish blockage factors from other premiums and discounts (eg control premiums)

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Level 1	Unchanged—no adjustment for blockage factors or other premiums and discounts	Unchanged—no adjustment for blockage factors or other premiums and discounts
Levels 2 and 3	IASB proposal implied that no premium or discount could be applied in Levels 2 or 3. Tentative decision clarifies that blockage factors are prohibited when using a quoted price, but that other premiums or discounts are applied if applicable in Levels 2 and 3	Proposed ASU clarifies that: • in Level 2 using a quoted price, a blockage factor cannot be applied and when using a valuation technique it is not relevant (no market price to depress) • other premiums and discounts are applied if applicable given the unit of account

Inactive markets

40

- Focus on whether transaction is orderly, not on market activity
- Consider observable prices unless there is evidence that the transaction is not orderly

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Orderly transactions	Tentative decision clarifies proposal	Unchanged

Valuation adjustments

41

- Describe valuation adjustments entities might need to make when using a valuation technique
  - model risk
  - liquidity risk
  - non-performance (credit) risk
  - measurement uncertainty

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Valuation adjustments	IASB proposal implicitly included valuation adjustments. Tentative decision is to describe the valuation adjustments	Proposed ASU describes valuation adjustments

Fair value at initial recognition

42

- List of indicators that the transaction price does not equal fair value will be labelled as *examples*

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Indicators that transaction price does not equal fair value	IASB proposal implied that the conditions listed are the only reasons the transaction price could differ from fair value. Tentative decision clarifies that these are examples	Unchanged

This is only relevant when another standard requires fair value at initial recognition—most standards use the transaction price

Disclosure

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- Enhanced disclosures about fair value measurements

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Classes of assets and liabilities	IASB proposal did not include guidance for determining appropriate classes of assets and liabilities for disclosure purposes. Tentative decision is to provide such guidance	Unchanged
Policy for transfers between levels	IASB proposal did not include guidance for determining a policy for determining when transfers between levels of the hierarchy are recognised. Tentative decision is to provide examples of such policies (eg actual date of transfer, beginning of period, end of period)	Unchanged

IFRS

Disclosure continued

44

	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Measurement uncertainty analysis for Level 3	IASB proposed (and IFRS 7 *Financial Instruments: Disclosures* currently requires) disclosure of sensitivity of fair value to changes in unobservable inputs. Tentative decision requires disclosure of changes in fair value from changing unobservable inputs, including the effect of correlation between those inputs	Topic 820 does not currently contain such a disclosure. Proposed ASU requires disclosure of changes in fair value from changing unobservable inputs, including the effect of correlation between those inputs
Level of hierarchy for items disclosed but not recognised at fair value	Unchanged (and currently required in IFRS 7 for financial instruments)	Topic 820 does not currently contain such a disclosure. Proposed ASU requires disclosure of the level of the fair value hierarchy

IFRS

Disclosure continued

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	Comparison with IASB May 2009 exposure draft	Comparison with current Topic 820
Difference between highest and best use and current use	IASB proposed that an entity should present the difference between the fair value and current use value, along with a related disclosure. Tentative decision is not to require presentation, but to disclose the fact that highest and best use is different from current use	Topic 820 does not currently contain such a disclosure. Proposed ASU requires disclosure if the highest and best use is different from current use

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Implementation activities update

MICHAEL STEWART
Staff
IASB

September 2010

International Financial Reporting Standards

IFRS

Agenda

- The IFRS Interpretations Committee
- Interpretations
- Current agenda topics
- Annual Improvements
- Other amendments

September 2010

International Financial Reporting Standards

IFRS

The IFRS Interpretations Committee: What it does

- Seeks possible solutions to questions:
  - Develop an Interpretation
  - Change existing standards
    - Annual Improvements project
  - Include in a current IASB project
  - Explain via Committee agenda decision
    - Reason for not adding to the Committee's agenda

The IFRS Interpretations Committee: Activity in the 12 months to August 2010

Issues considered	**63**
Of which	
Interpretations	**1**
Draft interpretations	**1**
Taken on formal agenda	**2**
Referred to *Annual Improvements*	**21**
Referred to Board	**2**
Other agenda decisions	**28**
Pending/WIP	**8**
	63

September 2010

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Interpretations:
Issued in the last 12 months

- IFRC 19 – *Extinguishing Financial Liabilities with Equity (was D25)*
  - Issue
    - How to measure the equity instruments issued to settle financial liability, fully or partially
  - Draft consensus
    - Shares issued are part of consideration paid to extinguish financial liability
    - Fair value measurement of equity instrument issued
    - Difference between the FV of shares issued and carrying amount of financial liability extinguished in profit or loss
  - Scope exclusions
  - Transition and effective date

Interpretations:
Draft published for public comment

- DI/2010/1 – *Stripping Costs in the Production Phase of a Surface Mine*
  - Open for comment until 30 November 2010
  - Issue: how to account for stripping (waste removal) costs?
    - Development phase – usually capitalised; little diversity
    - Production phase – accounting diversity
  - Consensus
    - Stripping activity creates benefit → improved access to ore
    - Identify a stripping campaign – differs from routine stripping
    - Costs of stripping campaign must be **specifically associated** with the quantity of ore **directly benefiting** from the campaign
    - Benefit is realised as the ore is mined

Interpretations:
Draft published for public comment continued

- DI/2010/1 – *Stripping Costs in the Production Phase of a Surface Mine*
  - Current period benefit: stripping costs included in current costs of production
  - Future period benefit: stripping costs accounted for as addition to/enhancement of an existing asset
    - Component accounting → 'stripping campaign component'
  - Measurement:
    - Initial – accumulated costs of the stripping campaign
    - Subsequent – stripping campaign component carried at cost less amounts amortised, less impairment
  - Amortisation: over the reserved that directly benefit from the stripping campaign

September 2010

International Financial Reporting Standards

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Current agenda topics

- IFRS 2: Vesting/non-vesting conditions
  - Need for clearer definitions
  - Proposals to distinguish more clearly between
    - Service conditions, performance conditions, other vesting conditions
    - Non-vesting conditions, contingent features
    - Interaction between multiple vesting conditions, and impact on attribution period
  - Next steps
    - In September 2010, the Committee referred the issue to the Board for recommendation on how to proceed (Interpretation, Annual Improvement or separate amendment)

Current agenda topics continued

- Put options over non-controlling interests
  - Request
    - How to account for changes in carrying amount of 'NCI put' liability in consolidated financial statements
    - Focused on NCI puts after 2008 amendments to IFRS 3 and IAS 27
  - Issue
    - Potential conflict between IAS 32/IAS 39 and guidance in IAS 27
      - IAS 32/IAS 39 → subsequent changes in profit or loss
      - IAS 27: transactions with NCI → subsequent changes in equity
  - Next steps
    - Committee recommended that the issue be addressed as part of the Board's FICE project

September 2010

International Financial Reporting Standards

Annual Improvements

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Annual Improvements

- For non-urgent but necessary amendments
  - Resolve inconsistencies between standards
  - Clarify fuzzy wording
- Process
  - Annual cycle: ED and IFRS
  - 90 day comment period
- Benefits
  - Improved use of IASB's time
  - Less burdensome for constituents

Annual Improvements: Committee's involvement

- Additional role from January 2010
- Committee's involvement
  - identifying and discussing new issues
  - deliberating comments received on exposure drafts
  - recommendations to the Board
- Board discusses recommendations
- *Improvements to IFRSs* issued by the Board
  - exposure drafts
  - final standards

Annual Improvements: Issued May 2010

- 10 amendments to 6 standards and 1 interpretation
- Noteworthy amendments
  - IFRS 3
    - Measurement of non-controlling interests
    - Un-replaced and voluntarily replaced share-based payment awards
  - IFRS 7
    - Clarification on disclosures about the nature and extent of risks arising from financial instruments
  - IAS 34
    - Emphasis on general principles for disclosures in interim financial reports

Annual Improvements: Issues to be included in the 2009 – 2011 cycle

- IFRS 1 - Clarification of borrowing costs exemption
  - Repeat application of IFRS 1
- IFRS 3 - Regrouping and consistency of contingent consideration guidance
- IAS 1 - Comparative information
- IAS 16 - Clarification of accounting for servicing equipment
- IAS 24 - Key management personnel
- IAS 32 - Tax effect of distributions to holders of equity instruments
- IAS 34 - Consistency in disclosure of total segment assets

Consultation on Annual Improvements Criteria

- Review of AIP criteria requested by the Trustees' Due Process Oversight Committee
- Proposed enhanced criteria published August 2010
  - Comments due 30 November 2010
- Proposed criteria as follows:
  - A proposed amendment must result in **clarifying and/or correcting** IFRSs;
  - It must have a **narrow and well-defined purpose**;
  - The IASB will be able to conclude on the issue on a **timely basis**; and
  - If the proposed amendment is to IFRSs subject to a current/planned IASB project, is there a **pressing need** to make the amendment sooner?

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Other amendments

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Other amendments

- IAS 32 *Classification of Rights Issues*
  - financial instrument = equity instrument
    - when holder has right to acquire
      - fixed number of entity's own equity instruments
      - for fixed amount of cash, and
      - regardless of currency in which exercise price is denominated
    - if, and only if, offer is pro rata to all existing owners
  - applies retrospectively – annual periods commencing on or after 1 February 2010

Other amendments continued

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
  - Proposal to replace fixed date of 1 January 2004 with 'date of transition to IFRSs' in:
    - derecognition exception
    - day 1 gains/losses exemption
  - ED/2010/10 published August 2010
    - comments due 27 October 2010

Other amendments continued

- IAS 29 *Financial Reporting in Hyperinflationary Economies* – Reporting in accordance with IFRSs after a period of severe hyperinflation
  - Request: how to resume presenting IFRS financial statements after a period when unable to comply with IAS 29?
  - Solutions considered:
    - amendment to IAS 29; or
    - amendment to IFRS 1
  - Discussed at July 2010 Board meeting. Issue to be re-presented at September 2010 Board meeting

Questions or comments?

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Effective dates and transitional provisions

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International Financial Reporting Standards

Effective dates and transitional provisions

Alan Teixeira | Director of Technical Activities

Overview

2

- The Board has heard some reports that preparers and users are concerned about their ability to cope with a wave of new requirements.
- They are concerned about:
  - having to make many consecutive changes or many simultaneous changes, or both; and
  - comparability of information.
- Recent exposure drafts have not included effective dates. The Board is seeking more general input on effective dates and transition.

Effective dates

3

- Preparers need sufficient time to prepare for change.
- Preparers and users tell us that they prefer stability in the requirements, not changes month after month.
- Some preparers are worried about having to make too many chnages at the same time.

Transition – early adoption

4

- In general, IFRSs allow for early adoption
  - Analysts tell us early adoption undermines comparability.
  - Some preparers want to bring in improvements as soon as possible.
  - First time adopters do not want to be prevented from adopting requirements that take effect soon after they have adopted IFRS for the first time.
- Should we allow early adoption?

Transition – retrospective application

5

- New IFRSs's are generally required to be applied retrospectively
- Retrospective application:
  - Enhances comparability
  - Places greater demands on preparers
- Are there any ways that we can make it easier to apply a new IFRS without undermining the benefits of retrospective application?

Helping manage change

6

- In 2009 the Board decided, as far as possible:
  - To limit effect dates to periods beginning on or after 1 January or 1 July.
  - For major changes to provide a minimum of a year from the date an IFRS is issued to the effective date.
    - IFRSs issued in 2010 would have an effective date of 1 January 2012 or later.
    - IFRSs issued in 2011 would have an effective date of 1 January 2013 or later.

Helping manage change

- In June 2010 the Board announced modifications to its work programme:
  - Completion of the joint arrangements, consolidations and related disclosure standards was aligned;
  - The plans for derecognition and liabilities / equity were modified;
  - The timetable for the Financial Statement Presentation project has pushed completion beyond 2011.
- The number of projects scheduled for completion in June 2011 was reduced significantly.

Public consultation

- In the next month the Board will, in conjunction with the FASB, seek input on:
  - Whether some projects should be paired together when the Board sets effective dates.
  - Whether some projects need a longer lead-time before the effective date.
  - Early adoption.
  - Transition.
- The feedback and input received will:
  - be discussed in public
  - help the Board set effective dates for the MoU project IFRSs.

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Concluding comments

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