Thursday 25 and Friday 26 October 2012
The Grange City Hotel (London)

Meeting documentation

World Standard-setters Meeting

A two-day meeting for World Standard-setters

IFRS™

World Standard-Setters Meeting

Thursday 25 and Friday 26 October 2012
The Grange City Hotel, Tower Hill (London)

A two-day meeting for World Standard-Setters

Thursday 25 October 2012

Programme day-1

Conference chair—Amaro Gomes, IASB member

08:30 ***Registration***
Tea/Coffee

09:00 ***Welcome* Auditorium**
Hans Hoogervorst, IASB Chairman

09:15 ***IASB's future agenda***
Ian Mackintosh, Vice-Chairman, IASB
Alan Teixeira, Senior Director, Technical Activities, IASB

<table>
<tr><th></th><th>Option 1—comprehensive review of the IFRS for SMEs
Auditorium</th><th>Option 2—'education' sessions
(The Beauchamp Suite)</th></tr>
<tr><td>09:45</td><td rowspan="2">Background about the review:
Darrel Scott, IASB member

Discussants:
'Pro' viewpoint / 'Con' viewpoint
1 Andrew Braithwaite / Kimberley Crook
2 Sue Ludolph / Lirola Keri,
3 Michelle Sansom / Nelson Carvalho
4 Rolf Ulrich / Omodele Jones
5 Radoslaw Ignatowski / Tom Linsmeier
6 Sungsoo Kwon / Jorge Gil
7 Mohammad Faiz Azmi / Modest Hamalanni
8 TBA / Gerhard Prachner</td><td>General hedge accounting
Stephen Cooper, IASB member and Martin Friedhoff, IASB staff

Using worked examples the presenters will explain the requirements of the review draft.</td></tr>
<tr><td>11:15</td><td>Leases
Jan Engström, IASB member and Patrina Buchanan IASB staff, Anna Heining, IASB staff

Using worked examples the presenters will explain the proposed requirements being developed for inclusion in the exposure draft.</td></tr>
</table>

12:45 ***Lunch***

13:45 ***Working together—IASB and standard-setters* Auditorium**
Hans Hoogervorst, IASB Chairman
Yael Almog, Executive Director, IFRS Foundation
Michael Wells, Director, IFRS Education Initiative, IASB
Sonja Lardeau, Manager, Stakeholder Programmes, IFRS Foundation

- *IFRS indicators database*
- *Accounting standards forum*

15:45 ***IFRS Interpretations Committee update***
Wayne Upton, Chairman, IFRS Interpretations Committee

16:15 ***IFRS Advisory Council update***
Paul Cherry, Chairman, IFRS Advisory Council

16:30 Close Day 1

18:30 ***Dinner***

Friday 26 October 2012

Programme day-2

Conference chair—Amaro Gomes, IASB member

08:00 ***Optional early riser session*** XBRL IFRS taxonomy **Crown Suite**
Presenter:
Olivier Servais, Director of XBRL Activities, IASB

09:00 ***Post-implementation reviews* Auditorium**
Hans Hoogervorst, Chairman, IASB
Alan Teixeira, Senior Director, Technical Activities, IASB
April Pitman, Technical Manager, IASB

10:00 Tea/Coffee break

	Option 1—updates on new standards and staff drafts	Option 2—smaller group discussions
10:30	**Auditorium** **IFRS 9 *Financial Instruments*** Chair: Martin Edelmann, *IASB Member* Presenters: Classification and measurement, *Yulia Feygina, IASB staff* Impairment: *Manuel Kapsis, IASB staff* Hedge accounting: *Martin Friedhoff IASB staff*	*Choose 1 of:* • *Insurance contracts: Darrel Scott, IASB member and Izabela Ruta, IASB staff* Flint room • *Leases: Jan Engström IASB member and Patrina Buchanan IASB staff, Anna Heining, IASB* Wakefield Suite • *Revenue recognition Patricia McConnell, IASB member and Glenn Brady, IASB staff* Crown Suite • *Disclosure Framework Stephen Cooper, IASB member, Alan Teixeira, IASB staff* Bowyer room

12:30 ***Lunch***

	Option 1—updates on new standards and staff drafts **Auditorium** Chair: Martin Edelmann, *IASB Member*	Option 2—smaller group discussions
13:30	**IFRS 10 *Consolidations,*** **IFRS 11 *Joint Arrangements and*** **IFRS 12 *Disclosure of Interests in Other Entities*** Consolidations, *Jana Streckenbach, IASB staff* Joint arrangements, *Mariela Isern, IASB staff* Interests in Other Entities: *Jana Streckenbach, IASB staff*	*Choose 1 of:* • *Conceptual Framework: Patricia McConnell, IASB member and Peter Clark, IASB staff* Flint room • *Leases: Jan Engström IASB member and Patrina Buchanan IASB staff, Anna Heining, IASB* Wakefield Suite • *Revenue recognition Darrel Scott, IASB member and Glenn Brady, IASB staff* Crown Suite • *Disclosure Framework Stephen Cooper, IASB member, Alan Teixeira, IASB staff* Bowyer room
14:45	**IFRS 13 *Fair Value Measurement*** Hilary Eastman and Mariela Isern, *IASB staff*	
15:30	***Investment entities*** Sarah Geisman, *IASB staff*	

16:00 End of conference

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Welcome

Hans Hoogervorst
Chairman
IASB

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NOTES

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IASB's future agenda

Chair:
Amaro Gomes
Member
IASB

Ian Mackintosh
Vice-Chairman
IASB

Alan Teixeira
Senior Director, Technical Activities
IASB

International Financial Reporting Standards

Future Agenda

Ian Mackintosh
Vice Chairman , IASB

Alan Teixeira
Senior Director, Technical Activities

October 2012

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

IASB agenda consultation

- **Public review of the IASB's technical programme every three years**
- Helps the IASB establish a broad strategic direction for its work plan:
  - Establish a balance between:
    - improvements (new IFRSs); and
    - maintenance (implementation)
  - Determine whether to return to projects that have been deferred
  - Identify areas where improvements are needed

The Board's initial thinking

- **Development of financial reporting**
  - Investing in researching key strategic issues
  - Completion of the conceptual framework
  - Completing MoU projects
  - Selected standards-level projects
- **Maintenance of existing IFRSs**
  - Post-implementation reviews
  - Responding to implementation needs
- **Expansion of research function**

Consultation

2010-2011
IASB discusses the agenda consultation with the IFRS Advisory Council

July 2011
Request for views published

July – November
Extensive and focused consultation with investors – intervoiews and surveys. Public forums.

November 2011
Comment deadline – 246 comment letters received

December – January
The IASB hosts four public round table discussions

Consultation

January 2012
Comment summary presented to Board

February 2012
Feedback received discussed with the Advisory Council

May 2012
The Board considers, and endorses, a summary of the feedback received and a draft strategy and initial identification of project priorities.

Q3 2012
The IASB will publish a Feedback Statement, including a statement of priorities for the coming three years.

Feedback

- **Common views**
  - Complete the four current projects
  - Focus on maintenance over development of IFRSs in the near future
  - Utilise research from national-standard setters and academics
  - Complete the Conceptual Framework

International Financial Reporting Standards

New technical work plan

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

Technical Programme

- Conceptual Framework
- Post-implementation Reviews
- Implementation and Maintenance
- Major projects
  - Research programme
  - Standards-level programme

Conceptual Framework

- Priority will be given to five chapters of the framework
  - Reporting Entity
  - Presentation (including OCI)
  - Disclosure (including interim reporting)
  - Elements
  - Measurement
- Working methods
  - IASB-led projects
  - Developed together
  - Informed by standards-level problems

Research programme

- A broad research and development programme
- Emphasis on defining the problem
  - Identify whether there is a financial reporting matter that justifies an effort by the IASB
  - Evidence based
- Discussion Papers
  - IASB staff papers
- Research Papers
  - Commissioned from others in the IFRS network
- Leads to project proposals, or recommendations not to develop an IFRS

Priority research projects

- Prepare project proposals
  - Agriculture – the bearer asset problem
  - Rate-regulated activities
  - Separate financial statements – the equity method
- Begin analysis – with a discussion paper being the most likely next step
  - Emissions trading schemes
  - Business combinations under common control

Priority research projects

- Analysis – with others
  - Discount rates
  - The equity method of accounting
  - Extractive activities | Intangible assets | Research and Development activities
  - Financial Instruments with the Characteristics of Equity
  - Foreign Currency Translation
  - Liabilities – amendments to IAS 37
  - Hyperinflation, and high inflation

Standards-level Programme

- Major projects feed from the research programme
- Narrower scope improvements feed from the interpretations committee and the other implementation outreach
- More focused and disciplined development of standards

Other activities

- Disclosure forum
- Implementation of the Interpretations Committee review
- Consultative Group on effect analysis
- Formalising the IFRS networks
- Developing a research capability
- Due Process handbook

Thank you

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Option 1–comprehensive review of the IFRS for SMEs

Darrel Scott
Member
IASB

Discussants

	'Pro' viewpoint	**'Con' viewpoint**
1	Andrew Braithwaite	Kimberley Crook
2	Sue Ludolph	Lirola Keri
3	Michelle Sansom	Nelson Carvalho
4	Rolf Ulrich	Omodele Jones
5	Radoslaw Ignatowski	Tom Linsmeier
6	Sungsoo Kwon	Jorge Gil
7	Mohammad Faiz Azmi	Modest Hamalanni
8	TBA	Gerhard Prachner

STAFF PAPER

Thursday 25 October 2012

World Standard-setters Meeting

Project	**IFRS for SMEs**		
Paper topic	Comprehensive review of the *IFRS for SMEs*		
CONTACT(S)	Darrel Scott	dscott@ifrs.org	+44(0)20 7246 6410

Purpose

The purpose of this agenda paper is to support discussion at the World Standard-setters meeting about eight of the topics in the IASB's Request for Information and focus discussion on those.

Background information

When the IASB issued the *IFRS for SMEs* in July 2009, it said that it would undertake an initial comprehensive review of the Standard to enable the IASB to assess the first two years' experience in implementing the Standard and consider whether there is a need for any amendments. Companies have been using the *IFRS for SMEs* in 2010 and 2011. Therefore, the initial comprehensive review commenced in 2012.

On 26 June 2012 the IASB issued a Request for Information as the first step in that initial comprehensive review the deadline for comment is 30 November 2012. (see http://www.ifrs.org/IFRS-for-SMEs/Documents/RequestforInformation_IFRSforSMEs_WEBSITE.pdf).

Session format

09:45–10:15 Presentation of Comprehensive Review of IFRS for SMEs

Darrel Scott, IASB member

10:15–10:30 Discussion Topic 1 – Use by publicly traded entities

Use by publicly traded entities (Section 1)

The *IFRS for SMEs* currently prohibits an entity whose debt or equity instruments are traded in a public market from using the *IFRS for SMEs* (paragraph 1.3(a)). The IASB concluded that all entities that choose to enter a public securities market become publicly accountable and, therefore, should use full IFRSs.

Some interested parties believe that governments and regulatory authorities in each individual jurisdiction should decide whether some publicly traded entities should be eligible to use the *IFRS for SMEs* on the basis of their assessment of the public interest, the needs of investors in their jurisdiction and the capabilities of those publicly traded companies to implement full IFRSs.

Are the scope requirements of the IFRS *for SMEs* currently too restrictive for publicly traded entities?

a. No—do not change the current requirements. Continue to prohibit an entity whose debt or equity instruments trade in a public market from using the *IFRS for SMEs*.

b. Yes—revise the scope of the *IFRS for SMEs* to permit each jurisdiction to decide whether entities whose debt or equity instruments are traded in a public market should be permitted or required to use the *IFRS for SMEs*.

c. Other—please explain.

Discussion:

3 minutes 'yes'— Andrew Braithwaite, Caribbean

3 minutes 'no'— Kimberley Crook

8 minutes—general discussion by WSS participants

1 minute—show of hands: yes, no or other?

10:30–10:45 Discussion Topic 2 – Use by financial institutions

Use by financial institutions (Section 1)

The *IFRS for SMEs* currently prohibits financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the *IFRS for SMEs* (paragraph 1.3(b)). The IASB concluded that standing ready to take and hold funds from a broad group of outsiders makes those entities publicly accountable and, therefore, they should use full IFRSs.

In every jurisdiction financial institutions are subject to regulation. In some jurisdictions, financial institutions such as credit unions and micro banks are very small. Some believe that governments and regulatory authorities in each individual jurisdiction should decide whether some financial institutions should be eligible to use the *IFRS for SMEs* on the basis of their assessment of the public interest, the needs of investors in their jurisdiction and the capabilities of those financial institutions to implement full IFRSs.

Are the scope requirements of the *IFRS for SMEs* currently too restrictive for financial institutions and similar entities?

a. No—do not change the current requirements. Continue to prohibit financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the *IFRS for SMEs*.

b. Yes—revise the scope of the *IFRS for SMEs* to permit each jurisdiction to decide whether financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses should be permitted or required to use the *IFRS for SMEs.*

c. Other—please explain.

Discussion:

3 minutes ‘yes’—Sue Ludolph, South Africa

3 minutes ‘no’—Lirola Keri, Albania

8 minutes—general discussion by WSS participants

1 minute—show of hands: yes, no or other?

10:45–11:00 Discussion Topic 3 – Revaluation of PPE

Revaluation of property, plant and equipment (Section 17)

The *IFRS for SMEs* currently prohibits the revaluation of property, plant and equipment (PPE). Instead, all items of PPE must be measured at cost less any accumulated depreciation and any accumulated impairment losses (cost-depreciation-impairment model—paragraph 17.15). Revaluation of PPE was one of the complex accounting policy options in full IFRSs that the IASB eliminated in the interest of comparability and simplification of the *IFRS for SMEs*.

In full IFRSs, IAS 16 *Property, Plant and Equipment* allows entities to choose a revaluation model, rather than the cost-depreciation-impairment model, for entire classes of PPE. In accordance with the revaluation model in IAS 16, after recognition as an asset, an item of PPE whose fair value can be measured reliably is carried at a revalued amount—its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation increases are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus (unless an increase reverses a previous revaluation decrease recognised in profit or loss for the same asset). Revaluation decreases that are in excess of prior increases are recognised in profit or loss. Revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Should an option to use the revaluation model for PPE be added to the *IFRS for SMEs*?

a. No—do not change the current requirements. Continue to require the cost-depreciation-impairment model with no option to revalue items of PPE.

b. Yes—revise the *IFRS for SMEs* to permit an entity to choose, for each major class of PPE, whether to apply the cost-depreciation-impairment model or the revaluation model (the approach in IAS 16).

c. Other—please explain.

Discussion:

3 minutes ‘yes’— Michelle Sansom, UK

3 minutes ‘no’— Nelson Carvalho, Brazil

8 minutes—general discussion by WSS participants

1 minute—show of hands: yes, no or other?

11:00–11:15 Discussion Topic 4 – Capitalisation of development costs

Capitalisation of development costs (Section 18)

The *IFRS for SMEs* currently requires that all research and development costs be charged to expense when incurred unless they form part of the cost of another asset that meets the recognition criteria in the *IFRS for SMEs* (paragraph 18.14). The IASB reached that decision because many preparers and auditors of SME financial statements said that SMEs do not have the resources to assess whether a project is commercially viable on an ongoing basis. Bank lending officers told the IASB that information about capitalised development costs is of little benefit to them, and that they disregard those costs in making lending decisions.

In full IFRSs, IAS 38 *Intangible Assets* requires that all research and some development costs be charged to expense, but development costs incurred after the entity is able to demonstrate that the development has produced an asset with future economic benefits should be capitalised. IAS 38.57 lists certain criteria that must be met for this to be the case*.

Should the *IFRS for SMEs* be changed to require capitalisation of development costs meeting criteria for capitalisation (based on the criteria in IAS 38)?

a. No—do not change the current requirements. Continue to charge all development costs to expense.

b. Yes—revise the *IFRS for SMEs* to require capitalisation of development costs meeting the criteria for capitalisation (the approach in IAS 38).

c. Other—please explain.

*IAS 38.57 states: "An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.

(b) its intention to complete the intangible asset and use or sell it.

(c) its ability to use or sell the intangible asset.

(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development."

Discussion:

3 minutes ‘yes’—Rolf Ulrich, Germany

3 minutes ‘no’— Omodele Jones, Sierra Leone

8 minutes—general discussion by WSS participants

1 minute—show of hands

11:15–11:30 Coffee/tea break

11:30–11:45 Discussion Topic 5 – Amortisation period for goodwill and other intangibles

Amortisation period for goodwill and other intangible assets (Section 18)

Paragraph 18.21 requires an entity to amortise an intangible asset on a systematic basis over its useful life. This requirement applies to goodwill as well as other intangible assets (see paragraph 19.23(a)). Paragraph 18.20 states “If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years.” Some interested parties have said that, in some cases, although the management of the entity is unable to estimate the useful life reliably, management’s judgement is that the useful life is considerably shorter than ten years.

Should paragraph 18.20 be modified to state: “If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years unless a shorter period can be justified”?

a. No—do not change the current requirements. Retain the presumption of ten years if an entity is unable to make a reliable estimate of the useful life of an intangible asset (including goodwill).

b. Yes—modify paragraph 18.20 to establish a presumption of ten years that can be overridden if a shorter period can be justified.

c. Other—please explain.

Discussion:

3 minutes ‘yes’—Radoslaw Ignatowski, Poland

3 minutes ‘no’—Tom Linsmeier, US

8 minutes—general discussion by WSS participants

1 minute—show of hands: yes, no or other?

11:45–12:00 Discussion Topic 6 – Capitalisation of borrowing costs

Capitalisation of borrowing costs on qualifying assets (Section 25)

The *IFRS for SMEs* currently requires all borrowing costs to be recognised as an expense when incurred (paragraph 25.2). The IASB decided not to require capitalisation of any borrowing costs for cost-benefit reasons, particularly because of the complexity of identifying qualifying assets and calculating the amount of borrowing costs eligible for capitalisation.

IAS 23 *Borrowing Costs* requires that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (ie an asset that necessarily takes a substantial period of time to get ready for use or sale) must be capitalised as part of the cost of that asset, and all other borrowing costs must be recognised as an expense when incurred.

Should Section 25 of the *IFRS for SMEs* be changed so that SMEs are required to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, with all other borrowing costs recognised as an expense when incurred?

a. No—do not change the current requirements. Continue to require all borrowing costs to be recognised as an expense when incurred.

b. Yes—revise the *IFRS for SMEs* to require capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (the approach in IAS 23).

c. Other—please explain.

Discussion:

3 minutes 'yes'—Sungsoo Kwon, South Korea

3 minutes 'no'—Jorge Gil, Argentina

8 minutes—general discussion by WSS participants

1 minute—show of hands: yes, no or other?

12:00–12:15 Discussion Topic 7 – Accounting for income taxes

Approach for accounting for deferred income taxes (Section 29)

Section 29 of the *IFRS for SMEs* currently requires that deferred income taxes must be recognised using the temporary difference method. This is also the fundamental approach required by full IFRSs (IAS 12 *Income Taxes*).

Some hold the view that SMEs should recognise deferred income taxes and that the temporary difference method is appropriate. Others hold the view that while SMEs should recognise deferred income taxes, the temporary difference method (which bases deferred taxes on differences between the tax basis of an asset or liability and its carrying amount) is too complex. They propose replacing the temporary difference method with the timing difference method (which bases deferred taxes on differences between when an item of income or expense is recognised for tax purposes and when it is recognised in profit or loss). Others hold the view that SMEs should recognise deferred taxes only for timing differences that are expected to reverse in the near future (sometimes called the 'liability method'). And still others hold the view that SMEs should not recognise any deferred taxes at all (sometimes called the 'taxes payable method').

Should SMEs recognise deferred income taxes and if so, how should they be recognised?

a. Yes—SMEs should recognise deferred income taxes using the temporary difference method (the approach currently used in both the *IFRS for SMEs* and full IFRSs).

b. Yes—SMEs should recognise deferred income taxes using the timing difference method.

c. Yes—SMEs should recognise deferred income taxes using the liability method.

d. No—SMEs should not recognise deferred income taxes at all (ie they should use the taxes payable method), although some related disclosures should be required.

e. Other—please explain.

Discussion:

3 minutes 'yes'— Mohammad Faiz Azmi, Malaysia

3 minutes 'no'— Modest Hamalanni, Zambia

8 minutes—general discussion by WSS participants

1 minute—show of hands: yes, no or other?

12:15–12:30 Discussion Topic 8 – Further need for Q&As

Further need for Q&As

One of the key responsibilities of the SMEIG has been to consider implementation questions raised by users of the *IFRS for SMEs* and to develop proposed non-mandatory guidance in the form of questions and answers (Q&As). These Q&As are intended to help those who use the *IFRS for SMEs* to think about specific accounting questions.

The SMEIG Q&A programme has been limited. Only seven final Q&A have been published. Three of those seven deal with eligibility to use the *IFRS for SMEs*. No additional Q&As are currently under development by the SMEIG.

Some people are of the view that, while the Q&A programme was useful when the *IFRS for SMEs* was first issued so that implementation questions arising in the early years of application around the world could be dealt with, it is no longer needed. Any new issues that arise in the future can be addressed in other ways, for example through education material or future three-yearly updates to the IFRS for SMEs. Many who hold this view think that an ongoing programme of issuing Q&As is inconsistent with the principle-based approach in the *IFRS for SMEs*, is burdensome because Q&As are perceived to add another set of rules on top of the *IFRS for SMEs*, and has the potential to create unnecessary conflict with full IFRSs if issues overlap with issues in full IFRSs.

Others, however, believe that the volume of Q&As issued so far is not excessive and that the non-mandatory guidance is helpful, and not a burden, especially to smaller organisations and in smaller jurisdictions that have limited resources to assist their constituents in implementing the *IFRS for SMEs*. Furthermore, in general, the Q&As released so far provide guidance on considerations when applying judgement, rather than create rules.

Do you believe that the current, limited programme for developing Q&As should continue after this comprehensive review is completed?

a. Yes—the current Q&A programme should be continued.

b. No—the current Q&A programme has served its purpose and should not be continued.

c. Other—please explain.

Discussion:

3 minutes 'yes'— TBA

3 minutes 'no'— Gerhard Prachner, Austria

8 minutes—general discussion by WSS participants

1 minute—show of hands: yes, no or other?

12:30–12:45 Other issues and wrap up

International Financial Reporting Standards

Comprehensive review of the *IFRS for SMEs*

Darrel Scott, IASB Member

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Work Plan

Initial comprehensive review: After 2 years implementation experience

- Fix errors and omissions, lack of clarity, and other implementation problems
- Also consider need for improvements based on recent IFRSs and amendments

Thereafter: Once every three years (approximately) omnibus exposure draft of updates

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Request for Information

- Request for Information issued June 2012
  - Comments due 30 November 2012
  - Includes questions about individual technical issues plus general questions
- Responses will help IASB decide whether there is a need for any amendments and which ones
- ED planned 2H 2013
- Revisions (if any) early 2014, effective 2015
- http://www.ifrs.org/IFRS+for+SMEs/Review2012.htm

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Request for Information continued

The Request for Information includes

- 19 questions on specific accounting issues
- 5 general questions
- Plus respondents can add their own issues

Examples of general questions

- Is there further need for Q&As
- Whether to incorporate existing Q&As into the IFRS for SMEs

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Request for Information continued

Examples of specific questions

- Use by small publicly traded entities
- Use by small financial institutions
- Use by not-for-profit entities
- Fair value measurement guidance
- Revaluation of PP&E
- Capitalisation of borrowing costs
- Recognition of deferred income taxes

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Publicly traded entities

Are the scope requirements too restrictive for publicly traded entities?

a. No—Continue to prohibit an entity whose debt or equity instruments trade in a public market from using the IFRS for SMEs.
b. Yes—permit each jurisdiction to decide whether such entities should be permitted or required to use the IFRS for SMEs.

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Financial Institutions

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Are the scope requirements too restrictive for financial institutions and similar entities?

a. No—continue to prohibit financial institutions and other entities that hold assets for a broad group of outsiders as one of their primary businesses from using the IFRS for SMEs.
b. Yes—permit each jurisdiction to decide whether such entities should be permitted or required to use the IFRS for SMEs.

IFRS

Revaluation of PPE

8

Should an option to use the revaluation model for PPE be added to the *IFRS for SMEs*?

a. No—continue to require the cost-depreciation-impairment model with no option to revalue items of PPE.
b. Yes—revise the IFRS for SMEs to permit an entity to choose, for each major class of PPE, whether to apply the cost-depreciation-impairment model or the revaluation model.

IFRS

Capitalisation of development costs

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Should the capitalisation of development costs meeting criteria for capitalisation (like IAS 38) be required?

a. No—continue to charge all development costs to expense.
b. Yes—revise the IFRS for SMEs to require capitalisation of development costs meeting the criteria for capitalisation (the approach in IAS 38).

IFRS

Amortisation period of intangibles

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Should paragraph 18.20 be modified to state: "If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten years unless a shorter period can be justified"?

a. No—retain the presumption of ten years if an entity is unable to make a reliable estimate of the useful life of an intangible asset (including goodwill).
b. Yes—modify paragraph 18.20 to establish a presumption of ten years that can be overridden if a shorter period can be justified.

IFRS

Capitalisation of borrowing costs

11

Should SMEs be required to capitalise qualifying borrowing costs (like IAS 23)?

a. No—continue to require all borrowing costs to be recognised as an expense when incurred.
b. Yes—revise the IFRS for SMEs to require capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (the approach in IAS 23).

IFRS

Deferred income tax

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Should SMEs recognise deferred income taxes and if so, how should they be recognised?

a. Yes—using the temporary difference method (the approach currently used in both the IFRS for SMEs and full IFRSs).
b. Yes—using the timing difference method.
c. Yes—using the liability method.
d. No—SMEs should not recognise deferred income taxes (ie taxes payable method), although some disclosures should be required.

IFRS

Further need for Q&A's

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Do you believe that the current, limited programme for developing Q&As should continue after this comprehensive review is completed?

a. Yes—the current Q&A programme should be continued.
b. No—the current Q&A programme has served its purpose and should not be continued.

Other issues

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Thank you

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World Standard-setters Meeting

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The Grange City Hotel (London)

NOTES

World Standard-setters Meeting

Thursday 25 and Friday 26 October 2012
The Grange City Hotel (London)

Option 2–education sessions
General hedge accounting and Leases

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International Financial Reporting Standards

Financial Instruments: Hedge Accounting

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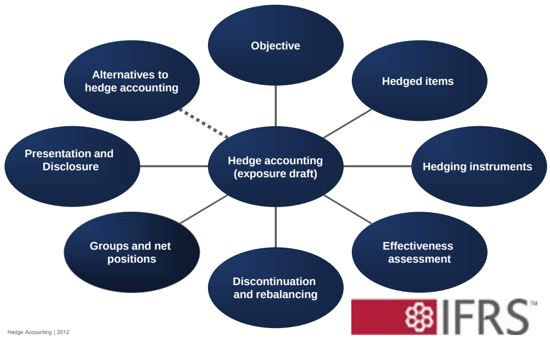
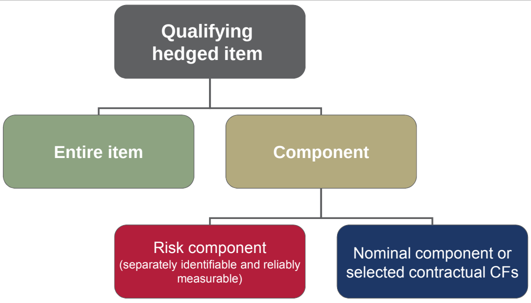
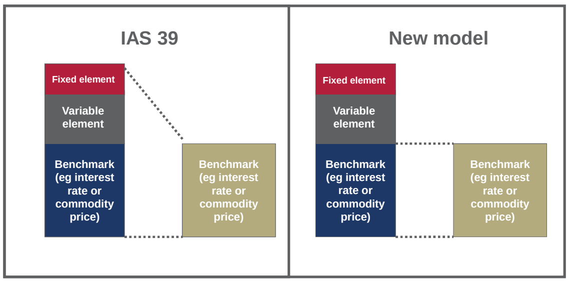
Components of the general hedge accounting model



Hedged items

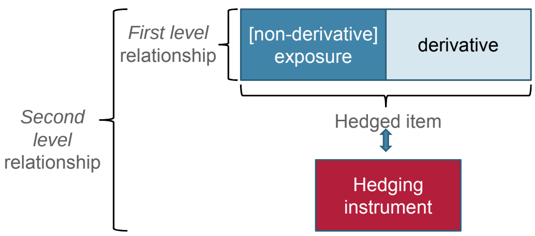


Hedged items: risk components



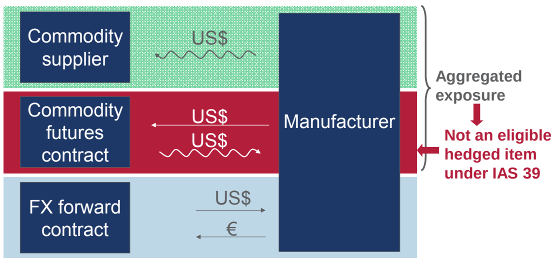
Hedged items: aggregated exposures

Aggregated exposure—combination of: (a) another exposure and (b) a derivative



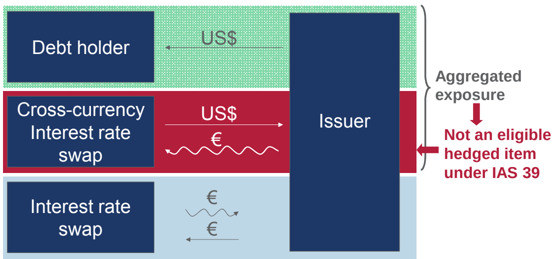
Hedged items: aggregated exposures

Example 1: hedging commodity price & FX risk

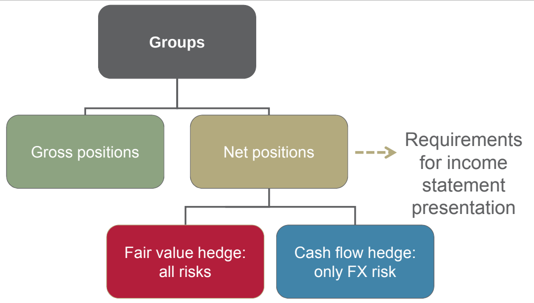


Hedged items: aggregated exposures

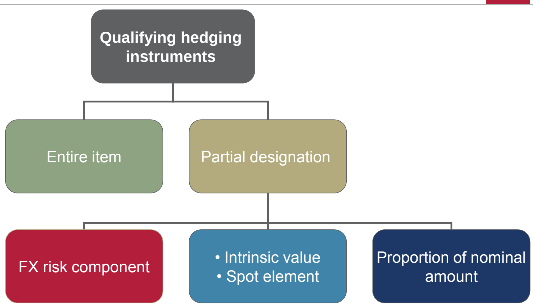
Example 2: hedging FX & interest rate risk



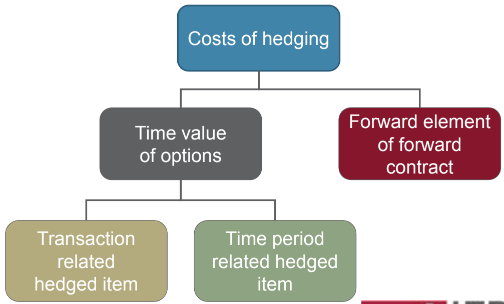
Hedged items: groups of items



Hedging instruments

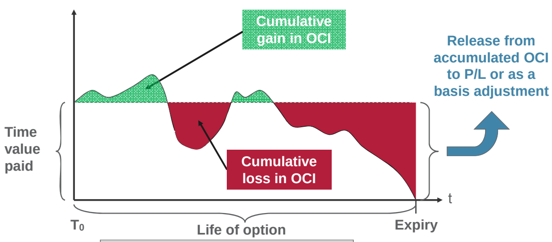


Costs of hedging



Option: time value

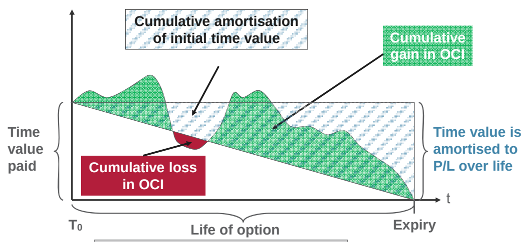
Accounting if the hedged item is <u>transaction related</u>



Treatment as a cost of hedging reflects economics

Option: time value

Accounting if the hedged item is <u>time period related</u>



Treatment as a cost of hedging reflects economics

Hedge effectiveness

Hedge effectiveness

- Hedge effectiveness test:
  1. Economic relationship
  2. Effect of credit risk
  3. Hedge ratio
  - Rebalancing
  - Discontinuation
- Measuring and recognising hedge ineffectiveness

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Disclosures

Hedge accounting disclosures

- Risk management strategy
- Amount, timing and uncertainty of future cash flows
- Effects of hedge accounting on the primary financial statements
- Specific disclosures for dynamic strategies and credit risk hedging

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Alternatives to hedge accounting

Alternatives

- 'Own use' scope exception in IAS 39
  - Eligible for FVO in IFRS 9
- Credit derivatives
  - Elective FVTPL
    - At initial recognition or subsequently
    - At discontinuation: amortisation

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Transition

Generally prospective application

- Qualifying criteria must be met on date of transition
- If qualified under IAS 39 before transition treated as a continuing hedging relationship

Exceptions (=retrospective application)

- For new treatment of costs of hedging:
  - time value of options (mandatory)
  - forward points (optional but election for all such instances not hedge by hedge)
- Only for hedging relationships that existed at the beginning of the earliest comparative period or were designated thereafter

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Open topics and timeline

- All decisions have been taken
- No open topics

- Review draft (on website)
- Timing: Sept 2012 (for ≈ 90 days)

- Issue as final (= part of IFRS 9)
- Timing: H2 2012

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Thank you

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International Financial Reporting Standards

Leases: Project update

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Agenda

- Background
- 'Right-of-use' model
- Lessee accounting
- Lessor accounting
- Definition of a lease
- Short-term leases

Why a leases project?

- Existing lease accounting does not meet users' needs
  - assets and liabilities are off-balance sheet
  - limited disclosure requirements
  - users adjust financial statements
- Structuring opportunities
  - current lease classification often based on bright lines
  - significant difference in accounting on either side of operating/finance lease line

Facts

- Huge amounts of corporate debt off-balance sheet
- Impact on key financial ratios
- Users adjust financial statements
  - Rough estimation techniques used
  - Estimates can vary significantly
- Strong support for a new standard

Benefits

- Greater transparency about true leverage of lessees
  - better information
  - reduced costs for users
- Greater comparability between leases and purchases
- Greater transparency about leverage of lessors

Main issues

- Recognition of assets and liabilities by lessee
  - Leases are different from services
- One or two models
- Definition of a lease
- Cost and complexity
- Resistance from some interested parties

Leases are different from services

- Control over ROU asset
  - Physical possession of (access to) underlying asset
  - Lessor cannot retrieve underlying asset
- Unconditional obligation to pay (lessee)
  - Lessee cannot return underlying asset (terminate lease), and avoid paying, without breaching contract

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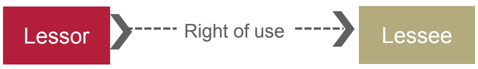
Right-of-use model

- A lease contract is one in which the right to control the use of an asset (for a period of time) is transferred to the lessee.



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Initial measurement (lessee)

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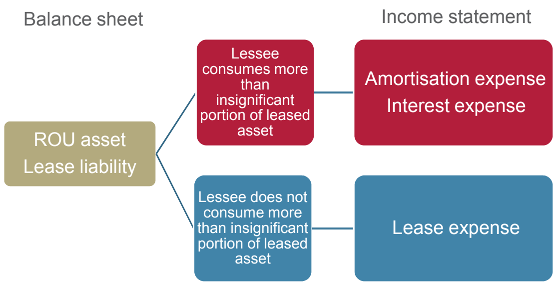
Lessee model



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The rationale

- Importance of underlying asset
- What does right-of-use represent?
  - consumption of underlying asset + financing, OR
  - use of underlying asset
- Practical expedient
  - equipment versus property

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Lessee example–Equipment

- Assumptions and workings:

Fair value of equipment	CU1,000
Lease term	3 years
Rents (annual in arrears)	CU217
Rate implicit in lease	6%
No initial direct costs	
PV of lease payments	CU580

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Lessee example–Equipment continued

Periods	0	1	2	3
Balance Sheet				
ROU asset	580	387	193	-
lease liability	(580)	(398)	(205)	-
Income Statement				
Amortisation		193	193	193
Interest expense		35	24	12
Total Lease Expense		**228**	**217**	**206**

Lessee example–Property

- Assumptions and workings:

Fair value of property	CU1,000
Lease term	3 years
Rents (annual in arrears)	CU60
Rate implicit in lease	6%
No initial direct costs	
PV of lease payments	CU160

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Lessee example–Property continued

Periods	0	1	2	3
Balance Sheet				
ROU asset	160	110	57	-
lease liability	(160)	(110)	(57)	-
Income Statement				
Total Lease Expense		**60**	**60**	**60**
Amortisation		*50*	*53*	*57*
unwinding of discount		*10*	*7*	*3*

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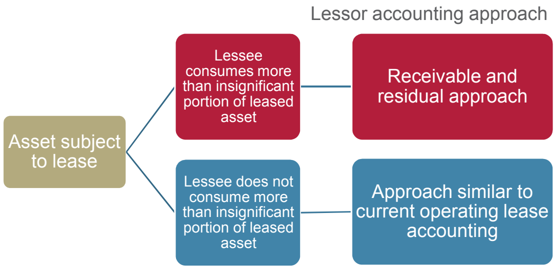
Lessor model



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The rationale

- Importance of underlying asset
- What does right-of-use represent?
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  - equipment versus property

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Lessor receivable and residual approach

Balance Sheet		Income Statement	
Right to receive lease payments[1]	X	Profit on transfer of right-of-use (gross or net based on business model)	X
Residual asset[2]	X	Interest income—on receivable and residual[3]	X

[1] Present value of lease payments, plus initial direct costs
[2] Measured at an allocation of carrying amount of leased asset
[3] Interest on residual based on estimated residual value—any profit on the residual asset is not recognised until asset sold or re-leased at end of lease term

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Lessor approach similar to current operating lease accounting

Balance Sheet		Income Statement	
Leased asset[1]	X	Rental income[2]	X
		Depreciation[3], or	(X)
		Fair value changes[4]	X/(X)

[1] Lessor measures leased asset (eg property) at fair value or cost
[2] Rental income recognised on a straight-line basis or another systematic basis, if more representative of pattern of earning rentals
[3] If property measured at cost, rental income plus depreciation recognised
[4] If property measured at fair value, rental income plus fair value changes recognised

Lessor example–Equipment

- Assumptions and workings:

Fair value of leased asset	CU1,000
Carrying amount of leased asset	CU950
Lease term	3 years
Residual (future value)	CU500
Residual (present value)	CU420
Rents (annual in arrears)	CU217
Rate implicit in lease	6%
Initial direct costs	none
PV of lease payments = Lease receivable	CU580

Total profit on transaction = FV of UA – CA of UA	1,000 - 950 = 50
Profit on ROU = lease rec/FV of UA * Total profit	580/1,000 * 50 = 29
Unearned income (profit relating to residual) = total profit – profit on ROU	50 – 31 = 21

Lessor example–Equipment continued

Periods	0	1	2	3
Balance Sheet				
Lease receivable	580	398	205	-
Gross residual asset	420	445	472	500
Unearned income	(21)	(21)	(21)	(21)
net residual asset	399	424	451	479
Income Statement				
Gain on sale	29			
Interest on receivable		35	24	12
Interest on residual asset		25	27	28
Total Lease Income	29	60	51	41

Classification of leases*

Lessee consumes more than insignificant portion of leased asset

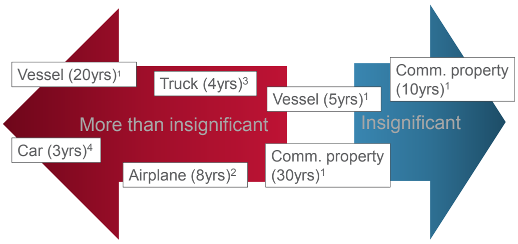
- Leases of assets other than property *unless*:
  - Lease term is insignificant relative to economic life of asset
  - PV of lease payments is insignificant relative to FV of asset

Lessee does not consume more than insignificant portion of leased asset

- Leases of property (land and/or a building) *unless*:
  - Lease term is major part of economic life of asset
  - PV of lease payments is substantially all of FV of asset

* Both lessee and lessor

Classification of leases—examples



Assumed economic life of:
[1] 40 years
[2] 25 years
[3] 10 years
[4] 6 years

Definition of a lease

- 'Contract in which the right to use an asset is conveyed, for a period of time, in exchange for consideration'
- Notion of control changed
  - 'ability to direct the use' and receive benefits
  - if entity obtains substantially all output ≠ control
    - pricing does not determine control

Definition of a lease

- Identifiable asset
  - explicitly or implicitly specified
  - no substantive right to substitute asset
- Right to control the use during the lease term
  - decision-making authority over the use of the asset
  - receive substantially all benefits from use

Example–Definition of a lease

- Facts:
  - 5 year contract for 10 rail cars, specified in contract
  - Customers determines when, where and which goods are transported using rail cars
  - Customer can use rail cars for different purpose
  - Service and maintenance done by supplier

Example–Definition of a lease continued

Does the contract contain a lease?

Example–Definition of a lease continued

- Assessment: **identifiable asset**
  - Rail cars explicitly specified in contract ✔
  - substitutable only when not operating properly ✔

➡ Rail cars are identifiable assets

Example–Definition of a lease continued

- Assessment: **right to control the use**
  - Ability to direct the use of the rail cars ✔
    - Customer determines how and for what purpose the rail cars are used
  - Ability to receive benefits from use ✔
    - Rail cars are available for customer's use throughout lease term

➡ right to control the use of the rail cars

Example–Definition of a lease continued

The contract contains a lease.

Example–Definition of a lease

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- Facts:
  - 5 year contract for transportation services, equivalent to use of 10 rail cars
  - Supplier can choose from a pool of similar rail cars
  - Supplier provides rail cars, driver and engines
  - Rail cars are stored in supplier's premises

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Example–Definition of a lease continued

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- Assessment:
  - Rail cars = identifiable asset?
    - Supplier can choose from a pool of similar rail cars
    - ⇒ Rail cars ≠ identifiable asset
  - Right to control the use of the rail cars?
    - Lessee has no ability to make decisions about how the rail cars are used
    - ⇒ **No** right to control the use of the rail cars

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Example–Definition of a lease continued

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The contract does not contain a lease.

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Short term leases

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- Short-term lease
  - maximum possible term of the contract < = 12 months
  - maximum possible term includes any options to extend
  - does not contain a purchase option

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Example–Short-term leases

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- Facts
  - 12-month lease of a commercial vehicle
  - Option to extend for another 12 months
  - No significant economic incentive to exercise the option

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Example–Short-term leases continued

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- Assessment:
  - maximum possible lease term > 12 months
  - ⇒ lease ≠ short-term lease
- Accounting:
  - lessee recognises ROU asset and liability
  - lease term = 12 months
    - no significant economic incentive to exercise option

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Reducing complexity and cost

	2010 ED	Post-ED simplifications
Options to extend the lease term (term options)	• Included if more likely than not to occur • Reassessed	• Included if significant economic incentive to exercise • Reassessed other than for market conditions
Variable lease payments	• Included in lease liability on probability-weighted basis • Reassessed	• Excluded, unless based on index or rate • Accounted for as incurred • Reassessed for spot/index
Short–term leases	• Liability/asset recognised with no discounting	• No liability/asset recognised • Rent expense • IAS 17 operating lease model

What happens next?

Q1 2013	2013	TBD
Publish Revised Exposure Draft	**Consultation**	**Issue Final Standard**
Comment period 120 days	Outreach Working group meetings Redeliberations	Effective date: TBD

Why a leases project?

- Existing lease accounting does not meet users' needs
  - – assets and liabilities are off-balance sheet
  - – limited disclosure requirements
  - – many users adjust financial statements
- Structuring opportunities
  - – current lease classification often based on bright lines
  - – significant difference in accounting on either side of operating/finance lease line

Thank you

Other aspects

Information on other aspects of the leases proposals

Redeliberations – other issues

- Multi-element contracts
  - – separately account for non-lease elements
  - – lessee: allocate between lease and non-lease elements if observable prices or reliably estimable
  - – lessor: allocate using revenue recognition guidance
- Residual value guarantees
  - – lessee: include in lease payments amounts expected to be payable
  - – lessor: considered when assessing residual asset for impairment but not recognised separately

Redeliberations – other issues continued

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- Lessor impairment
  - financial asset impairment guidance for receivable
  - non-financial impairment guidance for residual asset
- Sale and leaseback transactions
  - if sale, account for as sale then leaseback

Redeliberations – lessee presentation

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- Balance sheet
  - ROU asset presented as if owned
  - Liability to make lease payments
- Statement of cash flows
  - lease payments relating to principal: financing
  - lease payments relating to interest as other interest payments are presented
  - lease payments when single lease expense recognised: operating
  - variable lease payments: operating
  - short term lease payments: operating

Redeliberations–lessor presentation

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- Balance sheet

Receivable Residual	on the face or notes
Lease assets	on the face

- Statement of cash flows
  - cash inflows from leases → operating activities

Redeliberations – lessee disclosure

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- Required lessee disclosures will include:
  - qualitative information about leasing activities
  - ROU asset and liability to make lease payments roll-forward for both classes of lease
    - ROU asset roll-forward: disaggregated by asset class
  - maturity analysis for liability
  - disclose significant leases not yet commenced
  - disclose expense relating to variable lease payments not included in lease liability

Redeliberations–lessor disclosure

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- Reconciliation of lease receivable and residual asset*
- Maturity analysis
- A table of all lease income, including short-term
- Details of contingent rentals and options
- Details on residual asset risk management including quantitative exposure*
- Similar requirements for leases to which an approach similar to operating lease accounting is applied

* Receivable and residual approach only

Redeliberations – transition*

48

- Retrospective approach but based on information available at beginning of earliest comparative period
- Reliefs available
  - use of hindsight
  - no evaluation of initial direct costs for contracts before effective date
  - lessee: use 'portfolio level' discount rate calculated at transition
- No requirement to make adjustments for leases currently classified as finance/capital leases

* An entity can choose to fully retrospectively apply the new leases standard

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Working together–IASB and standard-setters

Hans Hoogervorst
Chairman
IASB

Yael Almog
Executive Director
IFRS Foundation

Michael Wells
Director, IFRS Education Initiative
IASB

Sonja Lardeau
Manager, Stakeholder Programmes
IFRS Foundation

25 October 2012

International Financial Reporting Standards

Application of IFRSs around the world

An initial analysis

Sonja Lardeau, IFRS Foundation

About the survey

- 2011 Trustee Strategy Review asked the organisation to seek an understanding on the application of IFRSs around the world.
- The survey was initiated in August this year among the World Standard-Setting community.
- The survey closed 15 October – further contributions are welcome.

Survey objectives

1. **Better understanding:** Not a binary assessment of IFRS adoption yes/no, but understanding the individual pathway and circumstances of IFRS adoption and endorsement.
2. **Provide a platform for information** from authoritative sources on the adoption and endorsement of IFRSs.
3. **Targeted support:** understand where *we* can do more and what we can do *better* to support adoption of IFRSs.

Method

- **Three parts:**
  - Whether and how IFRSs have been adopted
  - Endorsement mechanisms and other matters
  - Use of IFRS for SMEs
- Sent to WSS and related contacts; overwhelming majority of feedback from relevant standard-setting bodies.

Assumptions in preliminary analysis

- EU responses counted as representative of the 27 member states.
- One 'entry' per jurisdiction.
- Raw survey data used for analysis (ie wrong entries remain uncorrected).
- Cross-comparison with detailed responses pending.

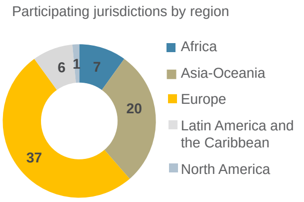
International Financial Reporting Standards

Adoption and use of IFRSs

Majority of jurisdictions committed to IFRSs…

7

- Responses from **71 jurisdictions** around the world (incl. the EU).
- **90% of the G20** countries participated.

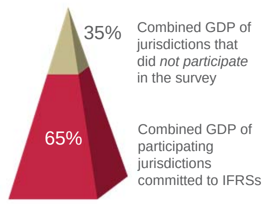


96% of responding jurisdictions are publically committed to IFRSs.

..representing majority of world GDP.

8

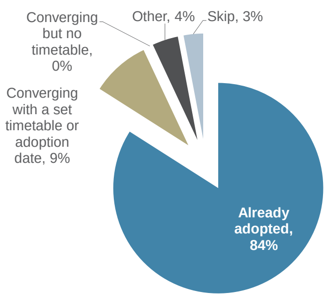
- Participating IFRS-committed jurisdictions represent 65% of the global GDP.
- The majority allow or require the use of IFRSs for domestic companies.



GDP source: IMF, World Economic Outlook Database, 2012.

Widespread adoption of IFRSs is a reality.

9



Survey question:
At which stage is your jurisdiction in the process towards the adoption of IFRSs for companies whose shares are publicly traded?

In most cases, IFRSs are a requirement not an option.

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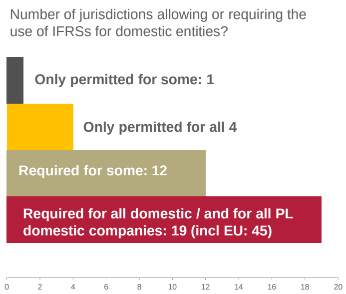

- ✓ **Over 90%** out of those that are committed to IFRSs, REQUIRE the use of IFRSs for at least some of their domestic companies (incl. EU countries).
- ✓ Among those, ALL permit or require the use of IFRS for foreign companies (72% require its use).
- ✓ A closer analysis seems to indicate a tendency to use IFRSs beyond financial reports for listed companies.

Full IFRSs?

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Based on those jurisdictions that allow or require the use of IFRSs for domestic companies. Two jurisdictions did not answer all or part of the questions.

Footnote/ Auditors statement	IFRSs as issued by the IASB	...with some options eliminated	...with some minor modifications
IFRSs	**23**	1	0
IFRSs as adopted in your jurisdiction	4	1	**30 (incl. the EU)**
Home GAAP	2	0	0

Endorsement mechanisms exist in most jurisdictions, but differ in style.

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- Most countries have an endorsement process (85%).
- A few countries opt for incorporation of IFRSs into the legal framework.
- Main difference seems to be the degree of ‘deliberation’ in addition to IASB due process.

Other matters

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- Out of the 36 jurisdictions (excl EU) that use IFRSs for all or some domestic entities, 23 have a contractual relationship with the IFRS Foundation and 12 do not.
- Approximately 50% translate IFRSs into local language, with the majority working in cooperation with the IFRS Foundation translation function.

Growing use of the IFRS for SMEs.

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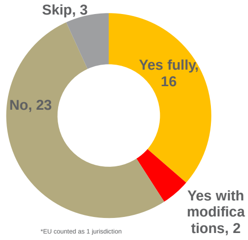
- Little correlation between use of full IFRSs and IFRS for SMEs.
- Approx. 50% of those that have yet to adopt the IFRS for SMEs are considering doing so.
- Where used, approx. 50/50 split between permitting and requiring the standard.

Use of the IFRS for SMEs among participating jurisdictions*



*EU counted as 1 jurisdiction

Summary of observations

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- Use of IFRSs is widespread, the Standards are usually mandatory for domestic listed entities and most often in accordance with IFRSs as issued by the IASB. Modifications and changes are the exception.
- Further analysis is needed regarding the detail of application and endorsement mechanisms.
- The use of the IFRSs seems to broaden across entities (incl. the use of the IFRS for SMEs).

Next steps

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- Detailed analysis of each submission.
- Contacting jurisdictions to better understand and follow up queries.
- Consider development of 'jurisdictional profiles' – owned by the jurisdiction and posted on IFRSs website.
- Consider results under strategic planning.

Related material: *The Case for Global Accounting Standards: Arguments and Evidence***,** Ann Tarca, Professor of Accounting, University of Western Australia; Academic Fellow - Research, IFRS Foundation (available on the Use around the world section on www.ifrs.org).

Thank you

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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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IFRS Interpretations Committee update

Wayne Upton
Chairman
IFRS Interpretations Committee

International Financial Reporting Standards

IFRS Interpretations Committee update

Wayne Upton
Chairman, IFRS Interpretations Committee

International Financial Reporting Standards

IFRS implementation issues

IFRS Implementation Issues

- Current agenda topics & work in progress
  - Meaning of ‘continuous transfer of control’ in real estate transactions (IFRIC 15)
  - Levies and taxes – analogies to IFRIC 6 (ED of an interpretation)
  - Definition of a business
  - Purchase of interest in joint operation
  - Contingent pricing of PPE and intangible assets

Meaning of ‘continuous transfer of control’ in real estate transactions (IFRIC 15)

- Issue: Sale of apartments/condominiums “off-plan”
  - Limited customer-specific specification
- Does control of apartment/condominium transfers to customer as construction takes place?
  - If yes: developer recognises revenue as construction progresses, ie on percentage of completion basis
  - If no: developer recognises revenue only when construction complete
- Consideration of all facts and circumstances, including:
  - Customer rights to replace developer
  - Customer rights if developer goes bankrupt

Levies and taxes – analogies to IFRIC 6

- Issue: Some government levies arise as a result of participation in a specific market/activity, and liability based on combination of
  - Activity in one period (eg 2011); and
  - Amount payable calculated based on activity in earlier period (eg 2010)
- When should entity recognise liability (and corresponding charge)?
  - Rateably over 2010?
  - Rateably over 2011?
  - In full on 1 January 2011?

Definition of a business

- Issue: Acquisition of a “single asset”, with obligation to provide associated processes
  - Eg purchase investment property with existing tenants, and obligation to provide maintenance, cleaning and security services
- Does this single asset, with the associated obligations, represent a business?
  - Consequences for recognition of:
    - Goodwill
    - Deferred tax
    - Transaction costs
    - Contingent consideration

Purchase of interest in joint operation

- Issue: Interest purchased in joint operation that includes a business, including goodwill (focus on IFRS 11).
  - Goodwill present, for example, due to synergies
- Should share of goodwill be recognised separately?
  - If yes, how should it be measured?
  - If no, how should amount ‘paid’ for goodwill be accounted for?
- Other related issues:
  - Should deferred tax be recognised on initial recognition?
  - Should transaction costs be expensed?
  - How should contingent consideration be accounted for?

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Contingent pricing of PPE and intangibles

- Issue: Asset purchased but amount payable to vendor is variable
- How to account for variable element of price:
  - Recognise liability when asset received?
    - If yes, at what value?
  - Recognise liability at later date, eg when contingency resolved?
- Does contingent element of price form part of cost of asset?
- Are changes in liability recognised as adjustments to cost of asset?
  - Accretion of discount
  - Revisions in estimate of amount payable

IFRS™

Some other recent issues

- Employee benefits – Contribution-based promises
- Land rights
- Telecom towers – Investment properties?
- Sovereign debt issues
- NCI puts (exposure draft)
- Financial instruments with negative yield
- Reverse acquisitions that do not constitute a business
- Valuation of biological assets

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IFRS interpretations processes and application

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The IFRS Interpretations Committee:

- Interpretive body of the IASB
- 14 members plus non-voting chair
- Experienced practitioners in the day-to-day application of IFRSs
  - Variety of countries and professional backgrounds
- Mandate:
  - To review widespread accounting issues on current IFRSs and to provide authoritative guidance (IFRICs) on those issues

The IFRS Interpretations Committee: What it does

- Seeks possible solutions to questions:
  - Develop an Interpretation
  - Change existing standards
    - Annual Improvements project
    - Undertake narrow-scope project on behalf of IASB
    - Recommend implementation guidance
  - Explain via Committee agenda decision
    - Reason for not adding to the Committee’s agenda

International Financial Reporting Standards

IASB's international activities

JANUARY 2012

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IFRS™

IASB International activities

- Two simple rules
  - We only go when asked
  - We need to have an agenda of issues/problems to be discussed
- Our emphasis is on working with local standard setters and their constituents
  - To understand their problems with particular IFRSs
  - To help them solve those problems
  - Or to carry what we learn back to the Board

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.

World Standard-setters Meeting

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World Standard-setters Meeting

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IFRS Advisory Council update

Paul Cherry
Chairman
IFRS Advisory Council

International Financial Reporting Standards

IFRS Advisory Council Update

Paul Cherry
London, 25 Oct 2012

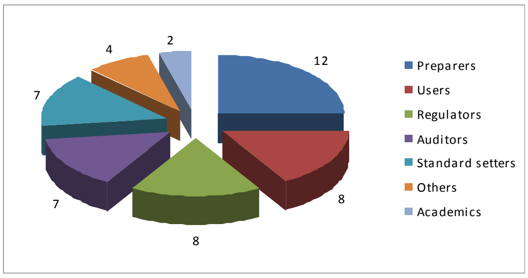
IFRS

Current Membership

- 48 members + 3 observer organizations representing various stakeholder groups and geographic regions
- Under-represented
  - Emerging markets
  - SMEs
- Approximately 20 members retire in 2013

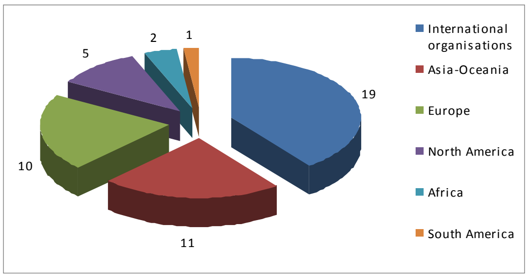
IFRS

Membership by Stakeholder Group



IFRS

Membership by Region



IFRS

Major Items in 2012

- Trustees/Monitoring Board strategy reviews
  - Satisfied with process and outcomes
- IASB Agenda Consultation
  - Satisfied with process and outcomes to date
- External involvement in IASB processes/ building global IFRS network

IFRS

Looking Ahead

- Completion of remaining FASB/IASB projects
- Consistent interpretation/application of IFRSs
- Standard setting processes/working with NSS
- Due process Oversight- working with DPOC
- Disclosure “overload”/complexity
- Comprehensive review of IFRS-SMEs
- Standards-level project proposals

IFRS

Thank you


individual comments
questions
expressions of
individual views
comments
questions or comments
expressions of individual views
comments
comment
feedback
questions
feedback
question
question
questions
expressions of individual views
expressions
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World Standard-setters Meeting

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Day 2

World Standard-setters Meeting

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Optional early riser session
XBRL IFRS taxonomy

Olivier Servais
Director of XBRL Activities
IFRS Foundation

October 2012

International Financial Reporting Standards

XBRL activities at IASB & IFRS Foundation

World Standard Setter

26 October 2012

Olivier Servais

Director – XBRL Activities

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Agenda

- The IFRS taxonomy, the activities for 2012 and beyond
- The adoption of the IFRS taxonomy
- The potential role of a Standard Setter

IFRS™

30 Nvember 2011

International Financial Reporting Standards

XBRL activities at the IASB & IFRS Foundation

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IFRS™

The IFRS XBRL initiative

- Established by the Trustees in 2001
- Part of the adoption and implementation of IFRSs; recognised that XBRL could:
  - Become the de facto standard for electronic reporting
  - Support the presentation of financial statements
  - Support convergence through the codification of concepts
  - Improve access to financial information
  - Increase the range of users of financial information (i.e. translation)
  - Ease IFRS conversion, understanding and implementation

The mission* of the XBRL team is to create and provide a framework for the consistent adoption and implementation of IFRSs with a high quality IFRS Foundation-developed IFRS Taxonomy in the same languages and at the same time as the IFRSs

** The mission of XBRL activities is currently being reviewed and will be amended shortly*

IFRS™

XBRL advisory committees

XBRL Board Committee

- 3 IASB members: J. Engstrom (Chair), M. Edelmann & P. Finnegan
- Three directors: Y. Almog, A. Teixeira & O. Servais
- Seek for further integration of XBRL into standard setting
- Provide advice on the long term strategy for XBRL activities
- Facilitate coordination of IFRS and XBRL due processes and work efforts

XBRL Advisory Council (XAC)

- Strategic external advisory committee
- Provide strategic advice on IFRS Taxonomy adoption and implementation across the globe

XBRL Quality Review Team (XQRT)

- Technical external advisory committee
- Review developed taxonomies
- Provide input and practical recommendations on taxonomy usability (XBRL technology and financial reporting)

IFRS™

What we provide

- **A licence-free IFRS Taxonomy** consistent with the IFRSs and the IFRSs for SMEs, with effective standards and standards for early adoption
- **Translations of the IFRS Taxonomy** available in more than 10 languages
- **Support materials**
  - **IFRS Taxonomy Illustrated**, presents a simplified view of the Taxonomy in an easy to read, visual format, with non-technical language
  - **xIFRS (IFRSs with XBRL)**, presents a view of the electronic IFRSs with embedded XBRL available for both the IFRSs and the IFRS for SMEs
  - **Illustrative examples in XBRL and iXBRL**, presents case studies for statements prepared with IFRS taxonomy available for both the IFRSs and the IFRS for SMEs
  - **IFRS Taxonomy Guide**, a technical guide for issuers and preparers, analysts, accountants, regulators, software vendors and service providers
- **Other activities** including
  - Taxonomy **tests** (TMS),
  - **Outreach** to national jurisdictions, regulators and supervisors, issuers and preparers, software vendors…

IFRS™

International Financial Reporting Standards

IFRS taxonomy

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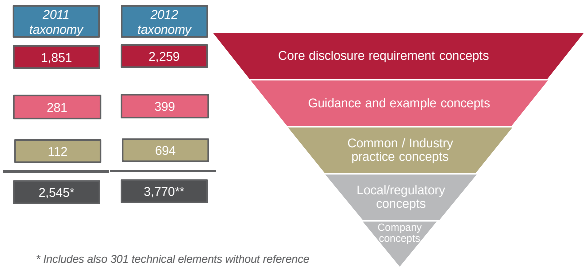
IFRS

The IFRS Taxonomy Building Blocks



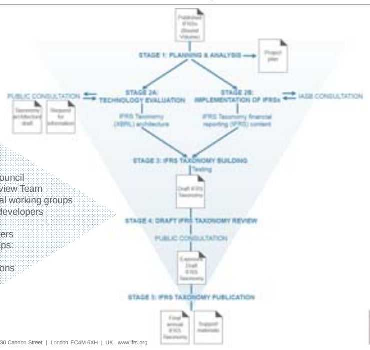
* Includes also 301 technical elements without reference

** Includes also 418 technical elements without reference

IFRS

XBRL Due Process stages

Input from:
- XBRL Advisory Council
- XBRL Quality Review Team
- XBRL International working groups
- Other taxonomy developers
- Regulators
- Software developers
- International groups:
  - Preparers
  - Financial institutions
  - Analysts
  - Users



IFRS

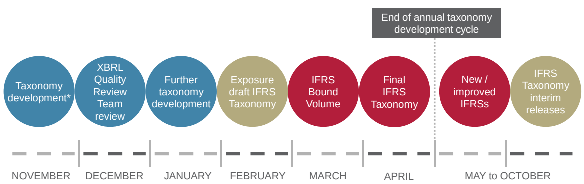
Some statistics

Number of taxonomy items	Final 2012 taxonomy	Final 2011 taxonomy	Final 2010 taxonomy
Total	3,769*	2,545	2,027
Full IFRS (excluding the *IFRS for SMEs*) (1)	3,658	2,426	1,936
IFRS for SMEs (2)	1,135	1,128	1,026
Disclosure requirements (part A of the Bound Volume)	2,259	1,851	1,688
Examples (part B of the Bound Volume)	399	281	2
Common Practices	694	112	114

**Also includes 418 technical elements without reference*

IFRS

IFRS Taxonomy: annual development time line



*including consolidation of IFRS Taxonomy interim releases

IFRS

International Financial Reporting Standards

Supporting materials & translations

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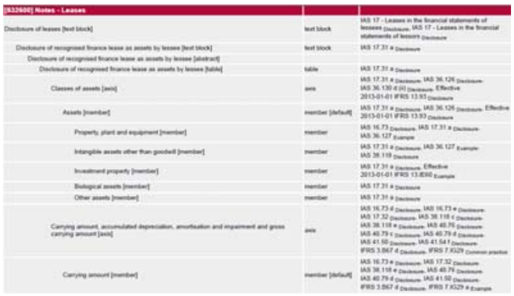
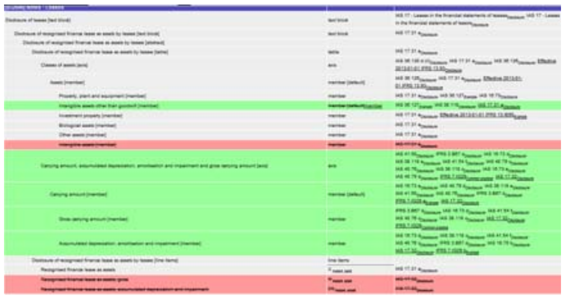
IFRS

IFRS Taxonomy Illustrated (ITI)



IFRS

Versioned IFRS Taxonomy Illustrated



IFRS

*x*IFRS

Disclosures

31 **Lessees shall, in addition to meeting the requirements of IFRS 7 *Financial Instruments: Disclosures*, make the following disclosures for** finance leases:

(a) for each class of asset, the net carrying amount at the end of the reporting period.

Investment property [member] Disclosure	member	IFRS 13.IE60 Example	823000, 832600
Biological assets [member] Disclosure	member		832600
Classes of assets [axis] Disclosure	axis	IAS 36.126 Disclosure, IAS 36.130 d (ii) Disclosure, IFRS 13.93 Disclosure	823000, 832410, 832600
Property, plant and equipment [member] Disclosure	member	IAS 16.73 Disclosure, IAS 36.127 Example	822100, 832410, 832600
Disclosure of recognised finance lease as assets by lessee [table] Disclosure	table		832600
Other assets [member] Disclosure	member		832600
Disclosure of recognised finance lease as assets by lessee [text block] Disclosure	text block		832600
Assets [member] Disclosure	member	IAS 36.126 Disclosure, IFRS 13.93 Disclosure	823000, 832410, 832600
Recognised finance lease as assets Disclosure	$X_{instant, debit}$		832600
Intangible assets other than goodwill [member] Disclosure	member	IAS 36.127 Example, IAS 38.118 Disclosure	823180, 832410, 832600

IFRS

Translations

- 10+ IFRS Taxonomy translations to date
  Arabic, Chinese (simplified and traditional), Dutch, French, German, Hungarian, Italian, Japanese, Korean, Portuguese, Spanish and Ukrainian
- Translated materials available:
  – IFRS Taxonomy files
  – IFRS Taxonomy Illustrated

		IFRS 2
		[٨٣٤١٢٠] ملاحظات- ترتيبات الدفع على أساس الأسهم
IFRS 2.44 Disclosure	text block	الإفصاح عن ترتيبات الدفع على أساس الأسهم [نص]
IFRS 2.45 Disclosure	text block	الافصاح عن بنود وشروط الاتفاق على دفع الأسهم [نص]

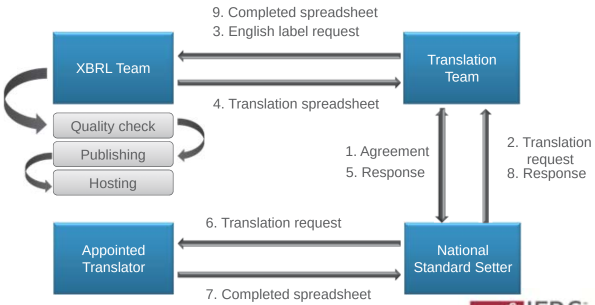
Arabic

IFRS 2		
[834120] Notas - Acuerdos con pagos basados en acciones		
Información a revelar sobre acuerdos con pagos basados en acciones [bloque de texto]	text block	IFRS 2.44
Explicación de las opciones sobre acciones en acuerdos con pagos basados en acciones	text	IFRS 2.45 a
Información a revelar del número y media ponderada de los precios de ejercicio de las opciones sobre acciones [bloque de texto]	text block	IFRS 2.45 b

Spanish

IFRS

IFRS Taxonomy translation process



IFRS

International Financial Reporting Standards

IFRS taxonomy expected Interim releases

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IFRS

Standards impacting Taxonomy - 2012

IASB FINAL STANDARDS

Topic	IASB due process stage	Timing	Impact
Annual improvements 2009-2011	Completed		3 string elements *
Transition Guidance (Amendments to IFRS 10)	Completed		2 string elements *
Consolidation – Investment entities	IFRS to be issued	H2 2012	significant
General hedge accounting **	IFRS to be issued	Q4 2012	significant

* - to be included with Interim Release for Investment Entities
** - most likely to be included in XQRT draft of IFRST 2013

Standards impacting Taxonomy - 2013

IASB FINAL STANDARDS AND EXPOSURE DRAFTS

Topic	IASB due process stage	Timing	Impact
Leases	Re-exposure Draft	Q4 2012	significant
Impairment	Re-exposure Draft	Q4 2012	significant
Insurance contracts	Re-exposure Draft	H2 2012	significant
IFRS 9: Classification and measurement	Exposure Draft	Q4 2012	limited
Macro hedge accounting	Discussion Paper	H2 2012	significant
Annual improvements 2010-2012	IFRS to be issued	Q1 2013	limited
Revenue recognition	IFRS to be issued	H1 2013	significant

International Financial Reporting Standards

Adoption

Adoption of the IFRS taxonomy

The following are examples of organisations that have adopted the IFRS taxonomy:

- Corporate/securities filing:
  - Accounting and Corporate Regulatory Authority of **Singapore** *ACRA Taxonomy*;
  - Danish Chamber of Commerce Association, **Denmark**;
  - *DART* System of the Financial Supervisory Service, **Korea**;
  - Financial Services Agency of **Japan** *EDINET*;
  - **Israel** Securities Authority *MAGNA* platform;
  - Ministry of Finance, **PR of China** *Chinese Accounting StandardsTaxonomy*;
  - Standard Business Reporting Program in **Australia** and **The Netherlands**;
  - Superintendencia de Valores y Seguros información del Mercado de Valores of **Chile**;
  - Johannesburg Stock Exchange, **South Africa** *SA Taxonomy*;
  - Comisión Nacional del Mercado de Valores of **Spain**;
  - **UK HRMC** and **Companies House** *UK-IFRS Taxonomy;*
  - Emirates (**UAE**) Securities and Commodities Authority (SCA) *UAE taxonomy;*
  - Financial Supervisory Commission of the Executive Yuan (**Taiwan**) & the Taiwan Stock Exchange
- Banking/Insurance regulation:
  - **EBA** (European Banking Authority) *Financial Reporting framework taxonomy;*
  - **Bermuda Monetary Authority** *Solvency II XBRL Taxonomy* and *IFRS for Insurance XBRL Taxonomy*
  - **EIOPA-Solvency II** *Solvency II XBRL Taxonomy* and *IFRS for Insurance XBRL Taxonomy*
  - **Microfinance** Information eXchange *MIX Microfinance Taxonomy*

Other XBRL (not IFRS and/or non financial) initiatives that are consistent with our development: **Carbon Disclosure, WICI, GRI**…
Most countries that have adopted IFRSs are also considering whether to adopt XBRL and the IFRS taxonomy. These countries include Brazil, Canada, India, Indonesia, Italy, Korea, Luxembourg, Malaysia, Mexico, Panama, Peru, Poland, Switzerland, Ukraine and others.

Focus

Our focus today is to:

- Support the regulators (primary users) who have already implemented
- Facilitate the decision for new adopters
- Foster the consumption by users
- Seek/strive for interoperability with other initiatives

by way of outreach activities: conferences, webinars, education, face-to-face meetings…

International Financial Reporting Standards

Cooperation between a National Standard Setter and IASB on XBRL

What can a National Standard-Setter do?

- Facilitate local implementation by interacting with stakeholders (i.e. regulators)
  - ‘Global’ facilitator
  - Development/review of extensions
  - Education and training
- Active contribution in a jurisdiction
  - To contribute to the development of existing jurisdictions, especially in the development of local taxonomies
  - To assist the inception of new jurisdictions

IFRS

Ways to cooperate

- Education & outreach
- Review of materials: taxonomy (TMS test), translation, filing samples…
- Assistance on related topics i.e. inception of jurisdiction, conference and other public events…
- Contact with peers
- Others…

IFRS

Thank you

IFRS

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Post-implementation reviews

Chair:
Amaro Gomes
Member
IASB

Presenters:
Hans Hoogervorst
Chairman
IASB

Alan Teixeira
Senior Director, Technical Activities
IASB

April Pitman
Technical Manager
IASB

October 2012

International Financial Reporting Standards

Post-implementation review: IFRS 8 *Operating segments*

World standard-setters

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Post-implementation reviews: Due process requirement

- The IASB reviews each new IFRS or major amendment
- Timing of the review
- An opportunity to assess the effect of new requirements
  - the goal of improving financial reporting underlies any new IFRS
  - important or contentious issues identified during development of the standard, or subsequently
  - unexpected costs or implementation problems encountered

The post-implementation review of IFRS 8 is the first

Methodology developed & extended Q1

- Phase A: initial assessment and public consultation
  - identify the issues to focus on in the review
  - establish the scope of the review
  - publish a Request for Information (RFI) setting out the matters for which we seek feedback by formal, public consultation (ie comment letters)
  - undertake a review of academic literature
- Phase B: consider evidence and present findings
  - evidence includes RFI comment letter analysis supplemented by analyses of financial statements; reviews of academic literature; surveys; interviews; and other consultation
  - present findings in a public report

Effect of implementing IFRS 8: Comparison of IFRS 8 with IAS 14

IFRS 8

- Segment operations on the basis of internal reporting
- Each reported item is measured on the basis used for management reporting
- Reported items are not defined
- Convergence with US

IAS 14

- Segment operations by goods and services or by geography
- Each reported item is measured on the basis used in IFRS
- Reported items are defined
- Segment reporting agrees with financial statements

Evidence gathering

- Evidence gathering methodology developed collaboratively with standard-setters and others
- Initial source of evidence is the Request for Information
  - Q1 Data about the respondents
  - Q2 Effect of using the management perspective
  - Q3 Effect of using non-IFRS measures
  - Q4 Reporting only internal line-items
  - Q5 Effect of disclosure on your role
  - Q6 Experience of implementing IFRS 8
- Supplemented by extensive outreach

Effect of the management perspective

Benefits

- Convergence with US GAAP
- 'Management eyes' perspective improves investors' ability to predict and communication
- Highlights risks management think are important

Contentious issues

- Inconsistent segments between entities
- Frequent reorganisations - lose the trend
- Geographical analyses not available
- Non-IFRS measures not understood-not reliable?

Discussion point 1: Basis of segmentation

Financial reporting

- Does 'management eyes' perspective improve communication?
- Comparability between entities? Over time?
- Geographical information?

Implementation issues

- Easy to identify segments?
- Omitted segments?
- Link with internal reporting?
- Effect of management's segmentation basis on enforcement?

Effect on implementation

- Expected benefits to preparers of applying IFRS 8
  – management perspective means little incremental costs
  – timely information – interim reporting
- Issues for investigation include:
  – identification of a single chief operating decision maker
  – subjectivity and complexity of segment aggregation criteria
  – commercial sensitivity - effect on smaller entities
  – costs of implementation

Discussion point 2: Implementation experience

Financial reporting

- Identification & disclosure of CODM?
- Effect of aggregation guidance?
- Commercial effect on smaller entities?

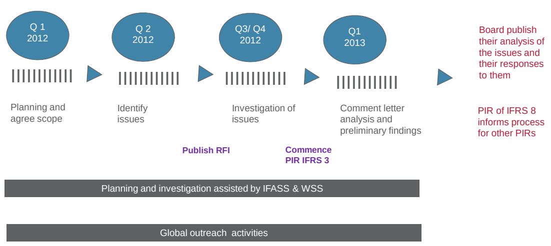
Implementation issues

- What one-off costs were incurred when IFRS 8 was implemented?
- What recurring costs were incurred?
- How easy was it to apply IFRS 8?

Outreach: some early messages…..

- Some geographies didn't change
- Fewer single-segment entities and greater granularity
- When MD&A, segment analysis and investor presentations agree, provides validation of all three
- But some industries report differing segments in different types of reports
  – some mistrust between investors and management
- Definitions of reported operating results vary
- Investors can find reconciliations difficult to understand

What next?



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Option 1–updates on new standards and staff drafts

IFRS 9 Financial instruments:

- Classification and measurement
- Impairment
- Hedging accounting

Chair:
Martin Edelmann
Member
IASB

Yulia Feygina
Practice Fellow
IASB

Martin Friedhoff
Associate Director
IASB

Manuel Kapsis
Technical Manager
IASB

International Financial Reporting Standards

Financial Instruments: Replacement of IAS 39

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IFRS

International Financial Reporting Standards

Effective Date of IFRS 9 and Transition

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IFRS

IFRS 9 Effective date amendment

- IFRS 9 effective date deferred to 1 January 2015
  - Early application permitted
- Restatement of comparative financial statements not required
  - Enhanced disclosures on transition

IFRS

International Financial Reporting Standards

Classification and Measurement: Taking a Second Look…

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IFRS

Limited modifications to IFRS 9: Why?

IFRS 9 is sound and operational—but…

- Address specific application issues
- Consider the interaction of IFRS 9 and insurance project
- Seek to reduce key differences with the FASB's classification and measurement model
  - Both are mixed measurement models
  - Both consider characteristics of the instrument and business model
  - Joint deliberations but separate exposure drafts

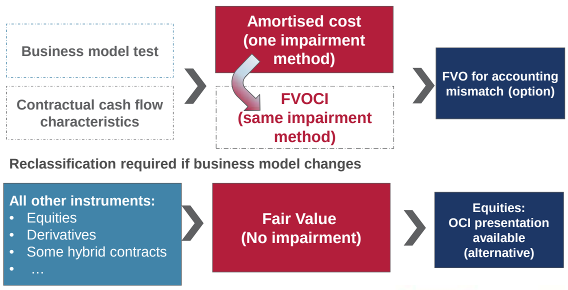
IFRS

Limited modifications to IFRS 9: Scope

- Clarify the contractual cash flow characteristics test
- Reconsider the need for bifurcation of financial assets
- To address interaction with the insurance project and align with the FASB's model, consider:
  - Introducing a third business model
  - Whether some debt instruments should be remeasured through OCI
- Knock on effects, eg interrelated issues for financial liabilities, transition and disclosure

IFRS

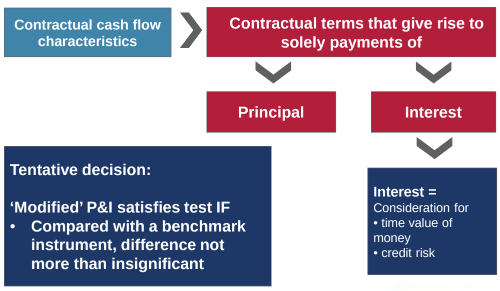
Limited modifications to IFRS 9: Scope



Cash flow characteristics assessment

- Tentative decision **February 2012**
- Affirms the principle in IFRS 9
  - If cash flows are not solely principal and interest (P&I), measure at FVPL
  - If cash flows are solely P&I, measurement depends on the business model
- Minor change to IFRS 9 to clarify the application of the principle
  - Introduces the notion of modified relationship between P&I
  - Determine by comparing with a benchmark instrument

Contractual cash flow characteristics for amortised cost and FVOCI



Business model/strategy

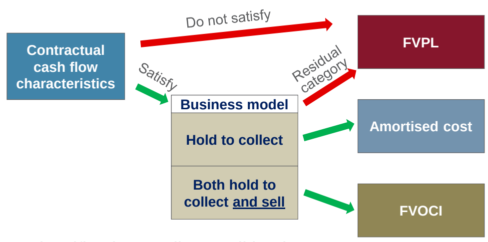
- Tentative decisions **April 2012**
- Affirm the principle in IFRS 9
- Amortised cost is based on the notion of holding to collect contractual cash flows
- Clarification of when sales are consistent with the 'hold to collect' notion
- Application guidance to support classification at amortised cost

Business model/strategy

- Tentative decisions **May 2012**
- Introduce a 'third' business model: FVOCI
- Accounting for FVOCI :
  - Interest revenue: effective interest method
  - Impairment: same as amortised cost
  - Gain/loss: recycle to P/L on derecognition
  - ⇒P/L same as for amortised cost

Business model/strategy

Tentative decisions **May 2012** *(continued)*



Reclassification applies to all business models

Transition and early application

- IFRS 9
  - Generally retrospective with some exceptions
  - Interim versions of IFRS 9 can be applied early
  - Must apply all earlier versions if a later version is applied
  - May apply an earlier version but not the later version(s)
- Tentative decisions **July and September 2012**
  - Once IFRS 9 is finalised
    - Can no longer choose to early apply an interim version but can early apply the *entire* IFRS 9
    - Can early apply ‘own credit’ requirements
    - If already early applied an interim version, can continue to apply that version

Sweep issue

- IASB agenda **October 2012**
- Regulated interest rates – markets with centralised interest rates

International Financial Reporting Standards

Impairment
Credit deterioration approach

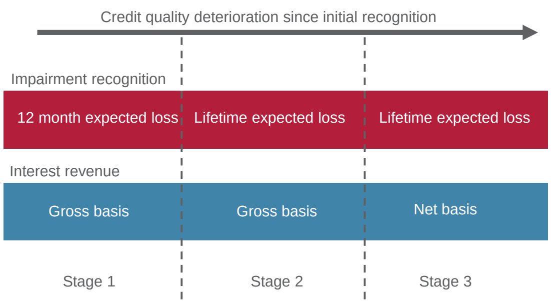
The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

Impairment: General overview

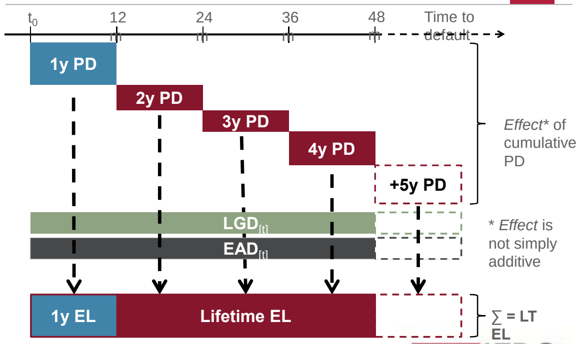
Guiding principle: Reflect general pattern of deterioration and improvement of credit quality of financial assets

- Expected loss model
- Responsive to changes in information that impact credit expectations
- Inappropriate to recognise full lifetime losses on initial recognition of financial assets priced at market
- Deterioration in credit quality leads to recognition of lifetime losses
- Robust disclosures to support principle and support comparability

General deterioration model



Amount of LLA by population segment



When to measure lifetime expected loss

- Measure lifetime losses if:
  – Credit quality has deteriorated *more than insignificantly* since initial recognition; and
  – The likelihood that contractual cash flows will not be collected is at least *reasonably possible*
- Symmetrical model

When to calculate net interest

- Calculate interest on net basis when satisfies IAS 39 criteria for impairment
- Consistent with population considered impaired under IAS 39 today (excluding IBNR)
  – therefore accounting stays the same for these assets

Credit-impaired on initial recognition

7

- Scope
  - Both *originated* and *purchased* credit-impaired
  - same population as IAS 39 impaired
- Always outside general deterioration model
- Use credit-adjusted effective interest rate
  - No day 1 allowance balance
  - No day 1 impairment loss recognised
- Allowance balance represents *changes* in lifetime loss expectations

IFRS

Trade and lease receivables

8

Without a significant financing component (eg short term):

- Measure receivable at invoice amount
- Allowance is always lifetime expected losses
- Provision matrix can be used

With a significant financing component (eg long term) and lease receivables:

- Policy election:
  - general deterioration model or
  - always recognise lifetime expected losses

IFRS

Loan commitments and financial guarantee contracts

9

Apply general deterioration model

- Instruments that create a present legal obligation to extend credit
- Maximum contractual period exposed to credit risk
- Estimate usage behaviour over the lifetime
- Expected losses presented as liability

IFRS

Disclosures

10

- Inputs, assumptions and techniques used in:
  - estimating expected credit losses; and
  - assessing whether the recognition of lifetime expected losses have been met.
- Roll-forward of the carrying amount and allowance balance
- Disaggregation of carrying amount by credit quality
- Credit-impaired assets at initial recognition
- Collateral
- Assets evaluated on individual basis

IFRS

Disclosures (cont')

11

- Qualitative information related to the discount rate
- Modifications of assets with lifetime losses
- Balance of financial assets:
  - defaulted assets
  - 90 days past due that are measured with a 12 months' expected credit loss measurement objective
- Interest revenue: Amount and measurement

IFRS

Transition

12

- On transition, use initial credit quality unless requires undue cost or effort
- If initial credit quality not used, evaluate based on second criteria for lifetime losses
- Permit but not require restatement of comparatives
- The disclosures in paragraph IAS 8.28(f):
  - Should be required for the current period
  - Should be permitted but not required for prior periods

IFRS

Key messages from limited outreach

- Support for a model that distinguishes assets that have deteriorated from those that have not (IF it passes cost/benefit test)
- Clarify criteria for lifetime loss recognition:
  - what is reasonably possible?
  - should capture "significant" rather than any deterioration
  - application to retail loans (use of delinquencies)
- Some question the conceptual merits of the model in the absence of convergence and prefer TPA (without a floor for the good book) or original IASB ED

Thank you

International Financial Reporting Standards

Accounting for hedging activities

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International Financial Reporting Standards

Hedge Accounting

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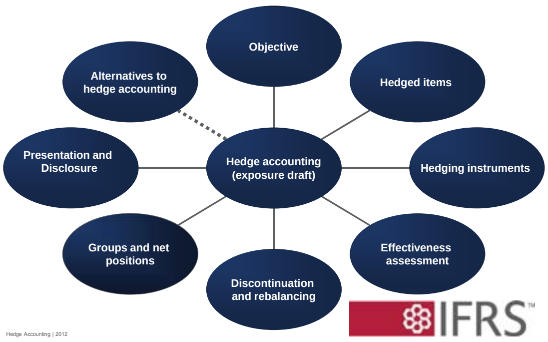
Components of the general hedge accounting model



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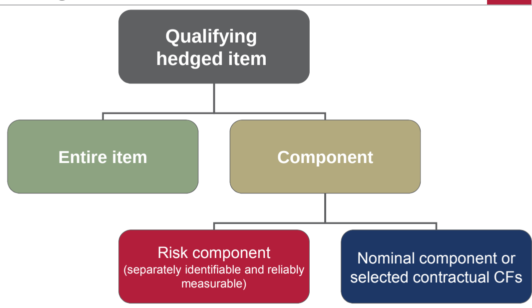
Hedged items



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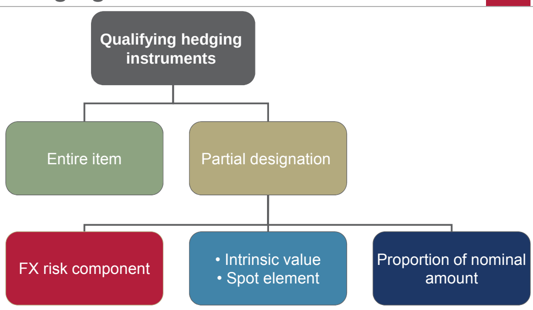
Hedging instruments



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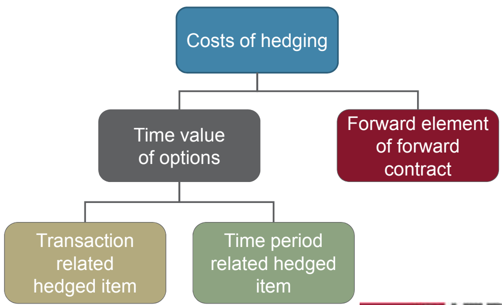
Costs of hedging



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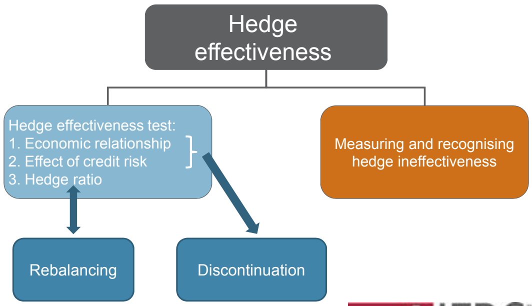
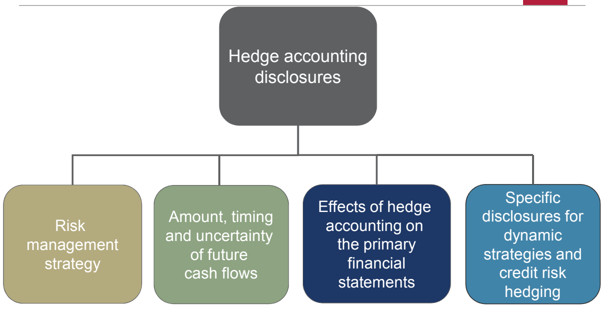
Hedge effectiveness



Disclosures



Open topics and timeline

International Financial Reporting Standards

Accounting for Macro Hedging

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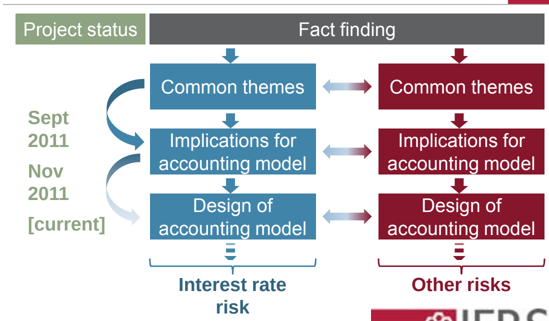
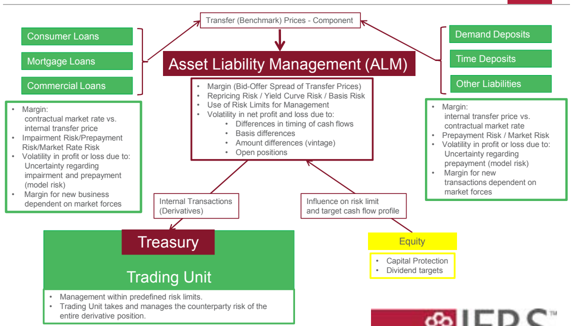
Status of the project



Typical interest rate risk management structure of a bank



Discussion of interest rate risk using 11 Steps

13

Full fair value measurement – Step 1

- Step 2 - Limit valuation to interest rate risk
- Step 3 - Net margin as hedged risk

December 2011

- Step 4 - Valuation on the basis of a (closed) portfolio
- Step 5 - Open portfolios as unit of account
- Step 6 - Timing difference of cash flows (bucketing)

January 2012

- Interim Step: Summary of discussion

Feb/March 2012

- Step 7 - Multi-dimensional risk management objectives

July 2012

- Step 8 - Floating leg of derivatives
- Step 9 - Counterparty risk

Oct 2012

- Step 10 - Internal derivatives
- Step 11 - Risk limits

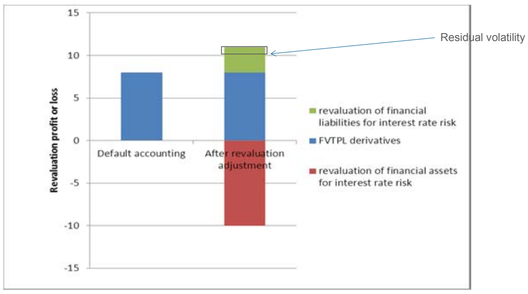
Sept 2012

Risk Management

IFRS

Mechanics of the valuation approach

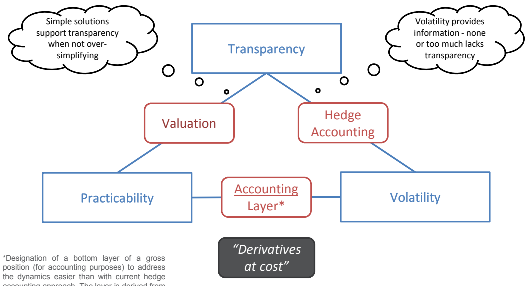
14



IFRS

Accounting alternatives and financial reporting objectives

15



*Designation of a bottom layer of a gross position (for accounting purposes) to address the dynamics easier than with current hedge accounting approach. The layer is derived from the actual net risk position.

IFRS

Macro hedge accounting: timetable

16

- Initial discussions in Sept/Nov 2010
- Board's deliberation began in Sept 2011

- First develop a model for interest rate risk
- Then address other risks (2012/2013)

- Targeting issue of a DP in 2013

IFRS

Decoupling accounting for macro hedging from IFRS 9

17

Why create a separate accounting standard?

Developing something very new

- Extra research and input needed

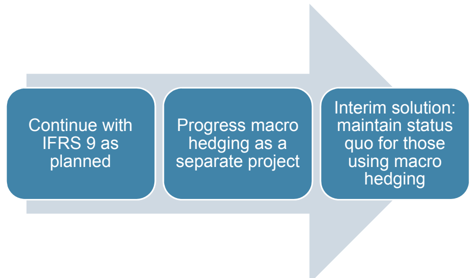
Affected entities

- Postponing the *entire* FI standard for one issue relevant to entities that do macro hedging is not appropriate
- Demand for IFRS 9 and for a stable accounting basis => IFRS 9 should be available as soon as possible
- Not simply an FI issue anyway (→ non-financial risks)

IFRS

Road map

18



IFRS

Thank you

IFRS™

World Standard-setters Meeting

Thursday 25 and Friday 26 October 2012
The Grange City Hotel (London)

NOTES

World Standard-setters Meeting

Thursday 25 and Friday 26 October 2012
The Grange City Hotel (London)

Option 1–updates on new standards and staff drafts (afternoon session)

- IFRS 10 Consolidations
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- Investment entities

Chair:
Martin Edelmann
Member
IASB

Mariela Isern
Senior Technical Manager
IASB

Jana Streckenbach
Senior Technical Manager
IASB

Hilary Eastman
Investor Liaison
IASB

Sarah Geisman
Technical Manager
IASB

International Financial Reporting Standards

IFRS 10 *Consolidated Financial Statements* including related disclosures in IFRS **12**

Jana Streckenbach
Senior Technical Manager, IASB

IFRS

Overview

IFRS 10 *Consolidated Financial Statements*

- Refined definition of control

IFRS 12 *Disclosure of Interests in Other Entities*

Recent developments

IFRS

Why we undertook the project

Issues – IAS 27 / SIC12	Solution – IFRS 10, 12
Inconsistencies in practice • Tension between IAS 27 (control) and SIC 12 (risk and rewards) • Inconsistent application	• A single control model for all entities • Clear principle of control • Additional application guidance
Disclosures and financial crisis • Sufficient guidance for structured entities? • Reputational risk as a basis for consolidation? • Inadequate disclosures?	• SIC 12 performed well. Use of existing principles to create a sound foundation for SPEs • Enhanced disclosures particularly for unconsolidated structured entities

IFRS

Definition of control

Definition of control:
An investor controls an investee when the investor is exposed, or has rights, to **variable returns** from its involvement with the investee and has the **ability to affect those returns** through its **power** over the investee.

✓ Single consolidation model for all entities, including structured entities

✓ Consolidation based on control – 'power so as to benefit' model
- Controller must have some exposure to risks and rewards.
- Exposure is an indicator of control but is not control of itself
- Power arises from rights—voting rights (either majority or less than a majority), potential voting rights, other contractual arrangements, or a combination thereof.

IFRS

Main decisions

1. "De facto" control
- Entity can control with less than 50% of voting rights.
- Factors to consider include:
  - Size of the holding relative to the size and dispersion of other vote holders
  - Potential voting rights
  - Other contractual rights
- If the above not conclusive consider additional facts and circumstances that provide evidence of power (eg voting patterns at previous board meeting, etc)

2. Structured entities
- General principles apply for assessing control for all types of entities.

IFRS

Main decisions

3. Potential Voting Rights
- Substantive potential voting rights (PVR) can give the holder power
- Consider the terms and conditions, including:
  - Whether there are any barriers that prevent the holder from exercising
  - Whether exercise of the rights would be beneficial to the holder
  - Whether the rights are exercisable when decisions need to be made

4. Agency relationships
- Consider all of the following factors:
  - scope of the decision-making authority
  - rights held by other parties (ie kick-out rights)
  - remuneration of the decision-maker
  - other interests that the decision maker holds in the investee

IFRS

Other features

Effective Date

- Aligned effective date for IFRS 10 and IFRS 12
  - Annual periods beginning on or after 1 January 2013
  - Earlier application permitted if applied as a package

Transition (Final amendments to IFRS 10 in June 2012)

- Clarifications:
  - Date of initial application is 1 January 2013 for a calendar-year entity, assuming no early adoption
  - No retrospective adjustment required for entities disposed of in the comparative period(s)
- Additional relief:
  - Requirement to present adjusted comparatives limited to immediately preceding period
  - Line-by-line information required by IAS 8 paragraph 28(f) limited to immediately preceding period

Related project—Investment entities

An investment entity is one:

- Who obtains funds from investor(s) and provides those investor(s) with professional investment management services
- Whose only substantive activities are investing for returns from investment income, capital appreciation or both
- That measures and evaluates performance of investments on a fair value basis

Accounting

- An investment entity measures investments in subsidiaries at fair value
- Any parent of an investment entity (that is not an investment entity) consolidates subsidiaries

Effective date: 1 January 2014 with early application permitted

Final amendments to IFRS 10: expected Q4 2012

International Financial Reporting Standards

IFRS 12

Objective and scope

To disclose information that helps users of financial statements evaluate:

(a) the nature of, and risks associated with, an entity's interests in other entities, and
(b) the financial effects of those interests on the entity's financial position, financial performance and cash flows

Combined disclosure standard for:

- Subsidiaries
- Joint arrangements
- Associates
- Unconsolidated structured entities

Unconsolidated structured entities

Nature and extent of interests in unconsolidated structured entities

- eg nature, purpose, size, activities and financing
- For sponsors not providing other risk disclosures
  - Type of income earned
  - The carrying amount of all assets transferred

Nature of, and changes in, the risks associated with an entity's interests

- Carrying amount of the assets and liabilities recognised
- Maximum exposure to loss and comparison to carrying amounts
- Non-contractual support provided

Transition

Transition (Final amendments to IFRS 12 in June 2012)

- Additional relief:
  - Requirement to present comparatives limited to immediately preceding period
  - Disclosures relating to unconsolidated structured entities are not required for periods beginning before the first annual period for which IFRS 12 is applied

Thank you

International Financial Reporting Standards

IFRS 11 *Joint Arrangements*
including related disclosures in IFRS **12**

Mariela Isern
Senior Technical Manager, IASB

Overview

IFRS 11 *Joint Arrangements*

IFRS 12 *Disclosure of Interests in Other Entities*

Recent developments

International Financial Reporting Standards

IFRS 11

IAS 31: What needed to be improved

Structure of the joint arrangement

- **Not structured through an entity**
  - Jointly controlled operations
  - Jointly controlled assets
  - → Accounting for assets, liabilities, revenues and expenses in accordance with the contractual arrangements
- **Structured through an entity**
  - Jointly controlled entities
  - → **option**: Proportionate consolidation / Equity method

*The structure of the arrangement is the **only** driver for the accounting*

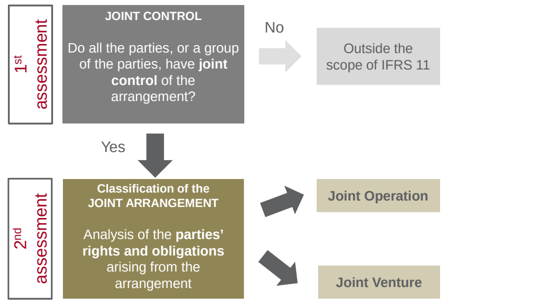
*When arrangements are structured in entities, preparers have an **accounting option***

The principle in IFRS 11

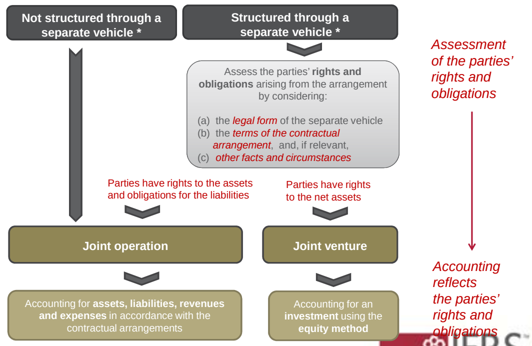
IFRS 11 establishes a **principle-based approach** for the accounting for joint arrangements:

Parties to a joint arrangement recognise their **rights and obligations** arising from the arrangement

IFRS 11: The assessments required

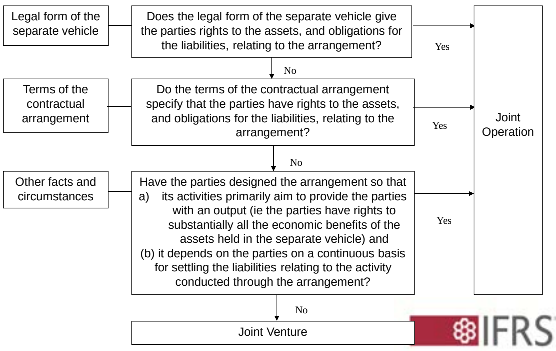


Classification of the arrangements



(*): A *separate vehicle* is a separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

Structured in separate vehicles



Structured in separate vehicles
continued

- Does the existence of a separate vehicle lead to a rebuttable presumption that the arrangement is a joint venture?
- Will there be many joint operations structured through separate vehicles? How common will the following two instances be?
  - a) contractual terms reverse the legal feature of the separate vehicle, or
  - b) 'other facts and circumstances' convey the parties with rights to the assets and obligations for the liabilities relating to the arrangement

Example - Other facts and circumstances - *continued*

- The **parties are each obliged to purchase half of the output produced** by entity C. Entity C cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.
- The price of the output is set at a level that is **designed to cover the costs of production and administrative expenses incurred by entity C**. On the basis of this operating model, the arrangement is intended to operate at a break-even level.

Improvements

Enhanced *verifiability* and *understandability*

- the accounting reflects more faithfully the economic phenomena that it purports to represent

Improved *consistency*

- it provides the same accounting outcome for each type of joint arrangement

More *comparability* among financial statements

- it will enable users to identify and understand similarities in, and differences between, different arrangements

Effective date

Effective date

- Aligned effective date for IFRS 10, IFRS 11 and IFRS 12
  - Annual periods beginning on or after 1 January 2013
  - Earlier application permitted if applied as a package

Simplified transition

- Amendment to IFRS 11 published in June 2012 will simplify the transition requirements by:
  - requiring an entity to present the quantitative information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, **for the immediately preceding period** when the IFRS is first applied (instead of requiring adjustments to the beginning of the **earliest period presented**).

International Financial Reporting Standards

IFRS 12

Disclosure objective

To disclose information that helps users of financial statements evaluate:

(a) the nature of, and risks associated with, an entity's interests in other entities, and

(b) the financial effects of those interests on the entity's financial position, financial performance and cash flows

Joint arrangements and associates

Nature, extent and financial effects of interests in joint arrangements and associates, eg

- List and nature of interests in individually-material joint arrangements and associates
- Detailed quantitative summarised financial information for each individually-material JV and associate, and in total for all others
- Fair value of investments in individually material JVs and associates (if published quoted prices available)
- Unrecognised share of losses of JVs and associates
- Nature and extent of any significant restrictions on transferring funds

Nature of, and changes in, the risks associated with the involvement

- Commitments and contingent liabilities

International Financial Reporting Standards

Recent developments

Acquisition of an Interest in a Joint Operation that constitutes a Business

- The IASB discussed a recommendation from the IFRS Interpretations Committee (the Interpretations Committee) to clarify the application of IFRS 3 *Business Combinations* by joint operators (as defined) when those joint operators acquire an interest in a joint operation whose activity constitute a business as defined in IFRS 3.
- The IASB tentatively agreed with the recommendation from the Interpretations Committee to add new guidance in IFRS 11 for such transactions in order to reduce the significant diversity in practice.
- Such guidance should:
  - make general reference to the relevant principles of business combination accounting and related disclosure requirements in IFRS 3 and other Standards;
  - include minimal application guidance on the issues on which the Interpretations Committee noted diversity in practice;
  - address the accounting for the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business; and
  - be applied prospectively to acquisitions of interests in a joint operations that constitute businesses on or after the effective date.
- Tentatively agreed comment period for the Exposure Draft of 120 days.

Thank you


individual comments
questions
expressions of
individual views
comments
feedback
questions
feedback
questions or comments
expressions of individual views
comments
expressions of individual views

International Financial Reporting Standards

IFRS 13
Fair Value Measurement

Mariela Isern, IASB Senior Technical Manager

IFRS™

Agenda

- **Fair value measurement principles**
- **Answering what, where, who and how**
- **Measuring the fair value of non-financial assets and financial and non-financial liabilities**
- **Valuation techniques**
- **Bid and ask, premiums and discounts and portfolios**
- **Disclosures**
- **Effective date**
- **Recent developments**

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International Financial Reporting Standards

Fair value measurement principles

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When does IFRS 13 apply?

If you own a biological asset

IAS 41
A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less cost to sell

What and when

IFRS 13

How

IFRS™

The previous definition of fair value

Fair value definition	Its weaknesses
The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arms length transaction. ?	It did not specify whether an entity is buying or selling the asset.
	It was unclear about what settling meant because it did not refer to the creditor.
	It was unclear about whether it was market-based.
	It did not state explicitly when the exchange or settlement takes place.

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IFRS 13's 'new' definition of fair value

New fair value definition	Its improvements
… 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.	It specifies that the entity is selling the asset.
	It refers to the transfer of a liability.
	It is not a forced or distressed sale.
	It is clear it is market-based.
	It states explicitly when the sale or transfer takes place.

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International Financial Reporting Standards

Answering what, where, who and how

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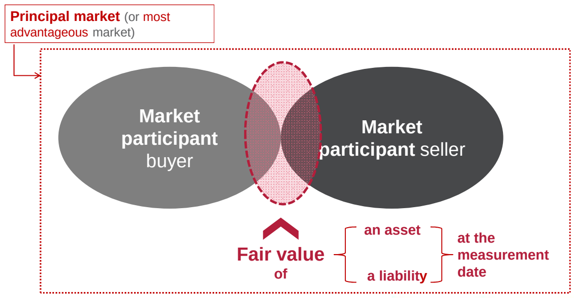
IFRS

A hypothetical transaction price



IFRS

What is being measured?

- Unit of account
  - IAS 41: A biological asset shall be measured … at its fair value less costs to sell…
- Characteristics
  - Which characteristics would a market participant buyer take into account?
    - age and remaining economic life?
    - condition
    - location
    - restrictions on use or sale
    - contractual terms

IFRS

Where would the transaction take place?

Fair value is the price in the …	
Principal market	Or, if no principal market, the most advantageous market
The market with the greatest volume and level of activity for the asset or liability	The market that maximises the amount that would be received to sell the asset and minimises the amount that would be paid to transfer the liability

- In most cases, these markets will be the same
  - arbitrage opportunities will be competed away
- The entity must have access to the principal (or most advantageous) market

IFRS

Who would transact for the item?

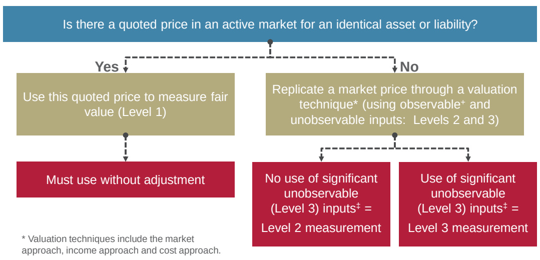
- Market participants are buyers and sellers in the principal (or most advantageous) market who are:

Independent	Knowledgeable
Able to enter into a transaction	Willing to enter into a transaction

- Market participants act in their economic best interest
  - Maximise the value of the asset
  - Minimise the value of the liability

IFRS

How do we arrive to a market-based measurement?



* Valuation techniques include the market approach, income approach and cost approach.

\+ Maximise the use of *relevant* observable inputs and minimise the use of unobservable inputs. Observable inputs include market data (prices and other information that is publicly available.

‡ Unobservable inputs include the entity's own data (budgets, forecasts) which must be adjusted if market participants would use different assumptions.

IFRS

International Financial Reporting Standards

Measuring the fair value of non-financial assets and financial and non-financial liabilities

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IFRS

Highest and best use

- Fair value assumes a non-financial asset is used by market participants at its highest and best use
  - the use of a non-financial asset by market participants that maximises the value of the asset
    - physically possible
    - legally permissible
    - financially feasible

IFRS

Highest and best use *continued*

- Highest and best use is usually (but not always) the current use
  - if for competitive reasons an entity does not intend to use the asset at its highest and best use, the fair value of the asset still reflects its highest and best use by market participants (defensive value)
- Does not apply to financial instruments or liabilities

IFRS

Valuation premise

- A non-financial asset either:
  - provides maximum value through its use in combination with other assets and liabilities as a group
    - is its value influenced by it being 'operated' with other assets?
    - an example: equipment used in production facility
    - market participants are assumed to hold complementary assets
  - provides maximum value through its use on a stand-alone basis
    - is its value independent of its use with other assets?
    - an example: a vehicle or an investment property
- Does not apply to financial instruments or liabilities

IFRS

Transfer notion

- Fair value assumes a transfer to a market participant who takes on the obligation. The transfer assumes:

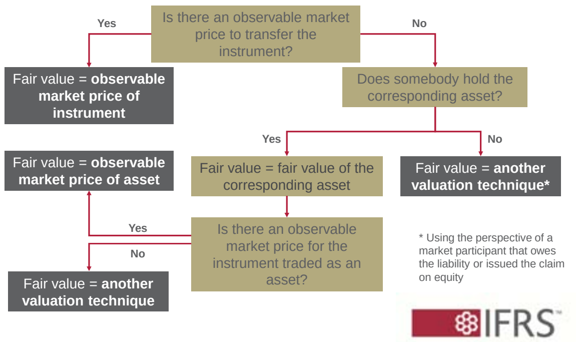
Liability or equity remains outstanding

Restrictions on transfer are already reflected in inputs; no additional adjustment required

Fair value of a liability reflects the effect of non-performance risk

IFRS

Is there a corresponding asset?



* Using the perspective of a market participant that owes the liability or issued the claim on equity

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Valuation techniques

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Valuation techniques

Measure fair value using valuation techniques that are appropriate in the circumstances and for which sufficient data are available.

- Market approach
  - prices from market transactions for identical or similar assets or liabilities, for example:
    - using market multiples (eg of earnings or cash flows) from a set of comparable companies and applying those multiples to the earnings or cash flows of the company being valued

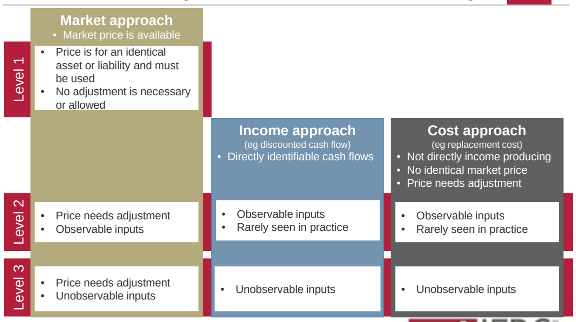
IFRS

Valuation techniques *continued*

- Income approach
  - converts future amounts (eg cash flows) to a single current amount, for example:
    - discounted cash flow/present values
    - option pricing models
    - multi-period excess earnings method
- Cost approach
  - the cost to acquire or reconstruct a substitute asset of comparable utility, adjusted for physical, functional and economic obsolescence
  - often used for PP&E and some intangibles

IFRS

Valuation techniques and fair value hierarchy



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Bid and ask spread, premiums and discounts and portfolios

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Pricing within a bid-ask spread

- If an asset or a liability measured at fair value has a bid and an ask price, use the price within the bid-ask spread that is most representative of fair value
- Mid-market pricing or other pricing conventions can be used as a practical expedient for fair value measurements within a bid-ask spread if these conventions do not contravene the principle

IFRS

Premiums and discounts

25

- Any premium or discount applied must be consistent with:
  – characteristics of asset or liability
  – the unit of account in the IFRS requiring fair value
- No block discounts
  – an adjustment to a quoted price for reduction that would occur if a market participant were to sell a large holding of assets or liabilities in one or a few transactions

IFRS

Premiums and discounts *continued*

26

Is a level 1 input available?	Would market participants incorporate premium or discount in transaction?	Does fair value include premium or discount
Yes	n/a	FV = Level 1 price x quantity held (P x Q)
No	Yes	Yes
	No	No

IFRS

Portfolios of financial instruments

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- IFRS 13 permits an entity to measure a group of financial assets and financial liabilities on the basis of the net risk exposure to either market risks or credit risks.
- This practice was already allowed in IAS 39/IFRS 9
- The "exception" was permitted because:
  – derivatives often cannot be sold, but management can mitigate risk exposure by entering into an offsetting position
  – portfolio composition is entity specific (depends on entity's risk preferences)
- ,

IFRS

Portfolios of financial instruments
continued

28

- Conditions that need to be met:
  – Entity must have documented risk management strategy
  – The entity provides information on the basis of the net risk exposure to key management personnel
  – Only for portfolios of instruments measured at FV
- Accounting policy decision
- Does not affect presentation in IAS 32.
  – Allocations shall be performed on a reasonable and consistent basis.
- Portfolio-level adjustments may need to be allocated to the unit of account for presentation purposes.

IFRS

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Disclosures

IFRS

General

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- Fair value at end of reporting period
- Level in hierarchy
- Transfers between levels
- Valuation techniques and inputs used
- If highest and best use is different from current use

IFRS

More information about Level 3

31

- Quantitative disclosure of unobservable inputs and assumptions used
- Description of valuation process in place
- Sensitivity analysis:
  - – narrative discussion about sensitivity to changes in unobservable inputs, including inter-relationships between inputs that magnify or mitigate the effect on the measurement
  - – quantitative sensitivity analysis for financial instruments

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Effective date

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IFRS

Effective date

33

- Effective 1 January 2013
- Earlier application permitted
- Prospective application, no comparatives

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Recent developments

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Recent developments

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- Educational material
  - The IASB is aware of concerns about applying FVM principles. Those concerns were reiterated at the Emerging Economies Group (EEG) meeting in Beijing in July 2011.
  - IFRS Foundation Education Initiative is developing educational material with assistance from a valuation expert group. Will cover a number of topics in chapters.
  - A staff draft of the first chapter covering measurement of unquoted equity instruments at fair value will be published in October 2012. Final publication expected December 2012.
  - The chapter will be published by the IFRS Foundation. Its content will be non-authoritative.

IFRS

Recent developments *continued*

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- Annual improvement ED May 2012: Short-term receivables and payables

  Deletion of paragraph B5.4.12 of IFRS 9 and paragraph AG79 of IAS 39

  B5.4.12 /AG79 […] Short-term receivables and payables with no stated interest rate **may be measured at the original invoice amount** if the effect of discounting is **immaterial.**

- Annual improvement ED (publication expected in November 2012): Clarification of the scope of the portfolio exception (set out in paragraph 52 of IFRS 13)

  52 The exception in paragraph 48 applies only to **financial assets** and **financial liabilities** within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*.

- Interpretations Committee: Request for clarification on paragraph 25 of IAS 41 *Agriculture*

  25 Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is, the biological assets, raw land, and land improvements, as a package. An entity may use information regarding the combined assets to measure the fair value of the biological assets. **For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of biological assets.**

IFRS

Thank you

IFRS

International Financial Reporting Standards

Introducing *Investment Entities Amendments*

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Investment Entities amendments

- *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) will be published Q4 2012
- Agenda:
  - Background
  - Accounting requirements
  - Definition and typical characteristics
  - Parents of investment entities
  - Other requirements

IFRS™

Background: The issue

- General IFRS requirements:
  - No exceptions from consolidation for controlled entities (subsidiaries)
- Issue:
  - Would users of financial statements be better served if all investments held by investment entities, including subsidiaries, were measured at fair value through profit or loss?
- Other national accounting standards provide exceptions from consolidation for investment entities
  - Deliberated jointly with FASB
- Exposure Draft published August 2011

IFRS™

Accounting requirements

- Investment entities shall account for all controlled entities at fair value through profit or loss (no consolidation)
- Service subsidiaries are consolidated
- No explicit accounting requirements for other investments held by investment entities—should be able to use guidance in IFRSs to arrive at fair value measurement

IFRS™

Definition

- A parent shall determine whether it is an investment entity. An investment entity is an entity that:
  - (a) obtains funds from one or more investors for the purpose of providing the investor(s) with investment management services;
  - (b) commits to its investor(s) that its business purpose is investing funds solely for returns from capital appreciation, investment income, or both; and
  - (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

IFRS™

Typical characteristics

- Typical characteristics of an investment entity:
  - More than one investment
  - More than one investor
  - Unrelated investors
  - Ownership interests
- An investment entity is expected (not required) to have these typical characteristics

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Parents of investment entities

- If parent not an investment entity, consolidation of all subsidiaries required (fair value accounting is not “rolled up”)
- If parent is also an investment entity, measure investment in investment entity subsidiary at fair value

Other requirements

- Additional disclosures in IFRS 12 *Disclosure of Interests in Other Entities*
- Retrospective application with limited transition reliefs
- Effective date 1 January 2014; early application permitted

Thank you

World Standard-setters Meeting

Thursday 25 and Friday 26 October 2012
The Grange City Hotel (London)

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Thursday 25 and Friday 26 October 2012
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Option 2–smaller group discussion
Insurance contracts

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International Financial Reporting Standards

IASB Update: Insurance contracts

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Today's topics

- An overview of the IASB's proposals
- Interaction with FASB's project on insurance contracts
- Main focus of the forthcoming exposure draft
- A closer look

IFRS™

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An overview of the IASB's proposals

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What are the perceived problems with insurance contracts accounting today?

- Insurance entity orientation
- A huge variety of accounting models for different types of contract
- Estimates for traditional long duration contracts locked in at inception
- Little information about economic value of embedded options and guarantees
- Discount rate typically based on estimates of investment returns determined at inception
- Lack of discounting for non-life liabilities

Complex to understand

IFRS™

What are the IASB's project objectives?

Improve comparability

- One accounting model that provides a coherent, principles-based framework for all types of insurance contracts

Increase transparency

- Provide information about how much risk and uncertainty there is
- Highlight information about what drives performance
- Explain what an insurer expects to pay to fulfil its insurance contracts
- Expose the hidden value of embedded options and guarantees

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Benefits of a coherent framework for all insurance contracts

- Reflect the many different ways in which insurers make money
  - asset management services
  - spread business
  - protection business.
- Accommodates insurance contracts that blend different activities
  - eg some contracts that combine underwriting risk (ie whether the insured event will occur) and investment risk (irrespective of whether the insured event occurs)
  - One model for underwriting and investment reflects both elements with no 'cliff effects'

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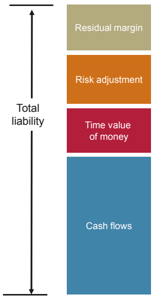
Core proposal: measurement of the insurance contracts liability



What each building block represents

Quantifies the unearned profit the insurer expects to earn as it fulfils the contract

Quantifies the difference between the certain and uncertain liability

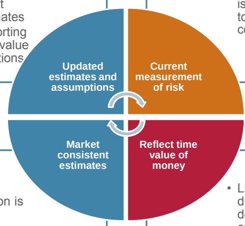
An adjustment that reflects the time value of money

The amounts the insurer expects to collect from premiums and pay out as it acquires, services and settles the contract, estimated using up-to-date information

What we hope to achieve with this model

- Relevant, complete information about changes in estimates
- Transparent reporting of the economic value of embedded options and guarantees

- An uncertain liability is a greater burden to the insurer than a certain liability



- When available, market information is more objective

- Liabilities have different values depending on expected due dates

Presentation model linked to measurement model

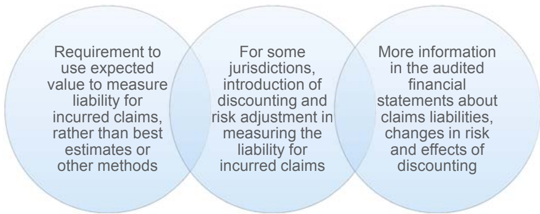
ED proposals

- For life: All premiums treated as deposits, all payments as return of deposits
- For non-life: Gross up underwriting margin to present premium revenue
- All changes in estimate presented in profit and loss

Statement of comprehensive income

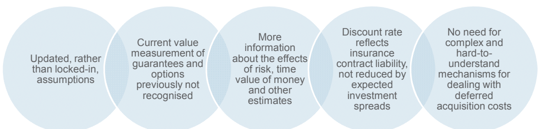
	20XX
Risk adjustment	X
Residual margin	X
Experience adjustments and changes in estimates	X
Underwriting result	X
Investment income	X
Interest on insurance liability	X
Net interest and investment	X
Profit or loss	X

What will really change for non-life?



What will really change for life?

A single accounting model for all life insurance contracts, rather than different accounting models based on product type. That model gives:



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Interaction with FASB's project on insurance contracts

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IASB and FASB working jointly

- October 2008:
  - FASB join IASB's longstanding project
  - not part of Memorandum of Understanding with FASB
- September 2010:
  - FASB published discussion paper *Preliminary Views on Insurance Contracts*
- December 2010 to date: joint deliberations

Common decisions in fundamental areas

Through joint deliberations, IASB and FASB have common decisions in fundamental areas

- Measurement of insurance contract using all cash flows expected to fulfil contract
- Measurement and presentation of a performance linked participation feature should be consistent with the measurement of the underlying item (the 'mirroring approach')
- Cash flows discounted using a rate that reflects only the characteristics of the liability
- No gain at inception
- Presentation that shows information about key drivers of profitability
- Effects of changes in discount rates presented in OCI

Confirmed differences in view between IASB and FASB

Topic	IASB view	FASB view
Risk adjustment	Risk: •explicitly determined •remeasured each period through P&L	Risk: •included implicitly in single margin •not remeasured over the contract term
Residual/ single margin	•Changes in estimates of future cash flows offset in the measurement of the residual margin	•All changes in cash flow estimates recognised in P&L
Acquisition costs	Residual margin shows expected profit after deducting all costs of acquiring and fulfilling the insurance contract liability	Residual margin shows expected profit after deducting all costs of acquiring and fulfilling the insurance contract liability excluding the portion deemed to not result in the issuance of particular contracts
Premium allocation approach	***Permit*** premium allocation approach for contracts when it produces similar measurements to building block approach	***Require*** premium allocation approach for all contracts meeting specified criteria

Next steps for IASB and FASB

- H1 2013
  - IASB expects to publish targeted exposure draft
- Q4 2012/Q1 2013
  - FASB expects to publish exposure draft
- IASB and FASB do not plan to deliberate jointly the response to their respective exposure drafts

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Main focus of the forthcoming exposure draft

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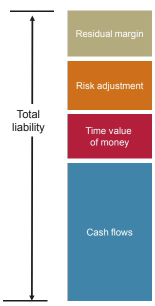
How has the measurement model evolved since July 2010?



Adjust residual margin prospectively for changes in estimates of cash flows ('unlocking')

Remove restriction of techniques
Reflect diversification to the extent considered by the insurer in assessing the compensation it requires for bearing risk

Add guidance that both 'top down' and 'bottom up approach acceptable to meet principle that rate should exclude factors not relevant to the liability

Include all direct costs incurred in acquiring and originating a portfolio of insurance contracts

How has the presentation model evolved since July 2010

- Information about premiums and claims and expenses on face of statement of comprehensive income
  - Amount of premiums presented each period to be discussed in October
- Present in OCI changes in the insurance liability arising from changes in the discount rate

Statement of comprehensive income

	20XX
Premiums	X
Changes in insurance liability	X
Claims and expenses	(X)
Underwriting result	X
Investment income	X
Interest on insurance liability, based on locked in discount rate	X
Net interest and investment	X
Profit or loss	X
Effect of discount rate changes in insurance contract liability	X
Total comprehensive income	X

Minor changes in other areas

Exposure draft	Decisions so far
Definition and scope	No significant change from ED except partial scope exclusion for financial guarantee contracts
Which cash flows, including acquisition costs	Minor changes in response to comment letters • Included cash flows • Recognition point • Contract boundary
Reinsurance	Minor changes from ED in response to comment letters
Premium allocation approach	Minor changes from ED in response to comment letters
Disclosures	Minor changes from ED in response to comment letters

What sort of changes has the IASB made?

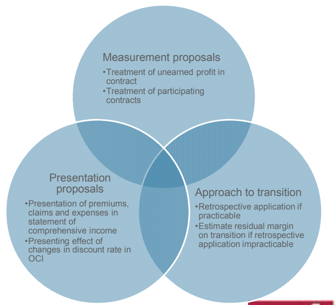
Type of change

- Reconsider alternative previously rejected in the Basis for Conclusions to the ED
- Make practical accommodation in applying principles in ED
- Clarify intentions in the ED (by articulating proposals differently or by adding guidance)
- Simplifies proposals in the ED

Drivers of change

- Relative weighting of arguments following review of the comment letters and outreach
- Response to concerns raised by interested parties

Focus of targeted re-exposure on main changes



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A closer look

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Presentation of information about premiums and claims/benefits

- Why is it important?

To provide information that can be used to assess growth or shrinkage

To give basic information about volume

To give information about the amount of new business written in the year

To provide an approximation to cash collected

To help assess profitability (by permitting comparison of amount of activity required to generate net profit)

Should premium revenue be consistent with the general concept of revenue?

Today, insurers measure revenue from insurance contracts in different ways….

- × May include deposit-like receipts
- × May not reflect timing of service provided by insurer
  - × May be included on a 'cash-receivable' basis
  - × May be included when contract is written
  - × May not reflect the compensation for risk borne in each period
- × Single premiums and recurring premiums given same weight

Premiums may be an amalgam of amounts calculated on different bases

Consequences of presenting premiums in the statement of comprehensive income

- Premiums should be allocated in the statement of comprehensive income on an earned basis
- Part of premium that relates to investment components should be excluded from the premium presented in the statement of comprehensive income

Premium revenue would represent the price the insurer charged for insurance coverage in that period

IASB's emerging view on presenting premiums and claims/benefits

- Acknowledges that information about different measures of premium can be useful
- Believes that:
  - Premiums in the income statement should be consistent with the concept of revenue, ie
    - Exclude investment components
    - Reported as earned (not as billed, not as written)
  - Premiums in the income statement should be consistent with the measurement model for insurance contract liabilities
  - Claims/benefits should be reported as incurred

Presentation of discount rate changes

- ED proposed current value measurement of the insurance contract liability with gains and losses presented in the profit and loss
- We were told that many were concerned about reporting the effects of period to period changes in discount rate in profit and loss
- Suggested solutions
  - Cost-based measurement
  - 'Locked-in' discount rate
  - Present effects of changes in discount rate in OCI

We believe current value information about the insurance contract liability is useful

- ✓ We confirmed the insurance contract liability should be discounted using a rate that:
  - Reflects only the characteristics of the insurance contract liability
  - Is current and updated each reporting period
- + We provided guidance on determining the discount rate
  - Do not prescribe method – 'top-down' and 'bottom-up' both acceptable
  - Remove any factors that influence observable rates not relevant to the liability
- ❖ We decided that changes arising from changes in the discount rate should be presented in other comprehensive income
  - Underwriting information is not overshadowed by effects of changes in discount rate
  - Changes that reverse over time are presented separately from other changes

Proposed approach to reporting performance

Comprehensive income

A current view of performance

Profit or loss

Performance based on a locked in discount rate

OCI

Effect of changes in discount rate

Measurement of the unearned profit

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- Residual margin determined at inception of contract
  - Represents the unearned profit in the contract at inception
  - Recognised as the insurer fulfils the contract
- ED proposed that changes in estimate would be recognised in profit and loss

→Inconsistent treatment of estimates made at inception and estimates made after inception

We revised accounting for estimates to be consistent with measurement at inception

32

- Offsetting changes in estimates of future cash flows in the residual margin maintains consistency after inception
  - Changes in estimates of future cash flows affect the unearned component of the residual margin (not recognised as immediate loss)
  - Cash flow experience adjustments recognised in profit or loss

→Anchors residual margin to the premium charged

→Residual margin represents unearned profit over contract term

→Avoids reporting profits in years after a change in estimate means contract expected to be loss-making

Measurement: better depiction of the economics of participating contracts

33

✓Discount rate reflects dependence of cash flows on specific assets

❖Introduced "mirroring approach" when liability contractually based on performance of underlying assets or groups of assets:
- Adjust cash flows to reflect the measurement basis of the items underlying participation
- Present changes in estimates consistently with equivalent changes in underlying item
- Options and guarantees measured at current value

Transition

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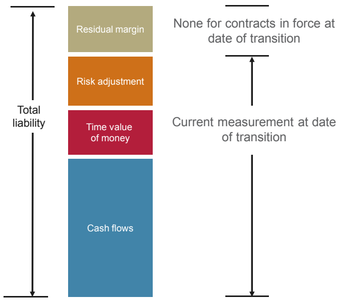
ED proposals

Tentative decisions



Include margin for in force contracts at date of transition:
- Determine retrospectively if practicable
- If not practicable because of lack of objective data, estimate maximising use of objective data
- Otherwise, determine by reference to previous carrying amount

Guidance provided for determining locked-in discount rate to adjust accumulated OCI at date of inception and subsequent interest expense in P&L

Timelines

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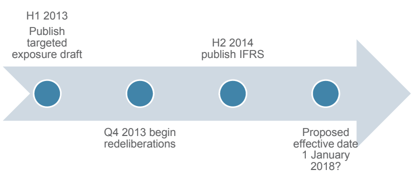

For more information…

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Resources

- IASB Update
- Meeting webcasts
- Project podcasts
- Investor resources
- High level summary of progress on the project
- Detailed summary of boards' tentative decisions
- Topics reports on IASB's tentative decisions and working drafts

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Option 2–smaller group discussion
Leases

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International Financial Reporting Standards

Leases: Project update

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Agenda

- Background
- 'Right-of-use' model
- Lessee accounting
- Lessor accounting
- Definition of a lease
- Short-term leases

Why a leases project?

- Existing lease accounting does not meet users' needs
  – assets and liabilities are off-balance sheet
  – limited disclosure requirements
  – users adjust financial statements
- Structuring opportunities
  – current lease classification often based on bright lines
  – significant difference in accounting on either side of operating/finance lease line

Facts

- Huge amounts of corporate debt off-balance sheet
- Impact on key financial ratios
- Users adjust financial statements
  – Rough estimation techniques used
  – Estimates can vary significantly
- Strong support for a new standard

Benefits

- Greater transparency about true leverage of lessees
  – better information
  – reduced costs for users
- Greater comparability between leases and purchases
- Greater transparency about leverage of lessors

Main issues

- Recognition of assets and liabilities by lessee
  – Leases are different from services
- One or two models
- Definition of a lease
- Cost and complexity
- Resistance from some interested parties

Leases are different from services

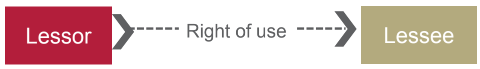
7

- Control over ROU asset
  - Physical possession of (access to) underlying asset
  - Lessor cannot retrieve underlying asset
- Unconditional obligation to pay (lessee)
  - Lessee cannot return underlying asset (terminate lease), and avoid paying, without breaching contract

Right-of-use model

8

- A lease contract is one in which the right to control the use of an asset (for a period of time) is transferred to the lessee.



Initial measurement (lessee)

9

Lessee model

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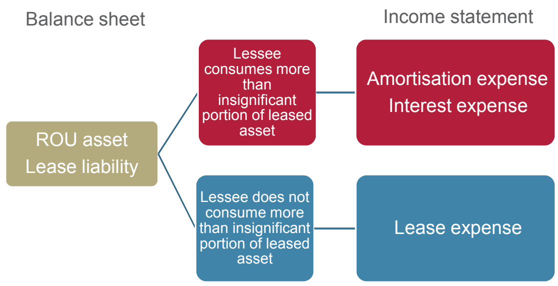

The rationale

11

- Importance of underlying asset
- What does right-of-use represent?
  - consumption of underlying asset + financing, OR
  - use of underlying asset
- Practical expedient
  - equipment versus property

Lessee example–Equipment

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- Assumptions and workings:

Fair value of equipment	CU1,000
Lease term	3 years
Rents (annual in arrears)	CU217
Rate implicit in lease	6%
No initial direct costs	
PV of lease payments	CU580

Lessee example–Equipment continued

Periods	0	1	2	3
Balance Sheet				
ROU asset	580	387	193	-
lease liability	(580)	(398)	(205)	-
Income Statement				
Amortisation		193	193	193
Interest expense		35	24	12
Total Lease Expense		**228**	**217**	**206**

Lessee example–Property

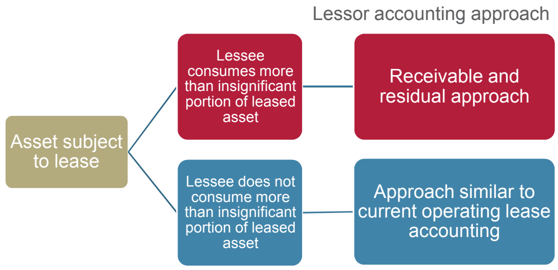
- Assumptions and workings:

Fair value of property	CU1,000
Lease term	3 years
Rents (annual in arrears)	CU60
Rate implicit in lease	6%
No initial direct costs	
PV of lease payments	CU160

Lessee example–Property continued

Periods	0	1	2	3
Balance Sheet				
ROU asset	160	110	57	-
lease liability	(160)	(110)	(57)	-
Income Statement				
Total Lease Expense		**60**	**60**	**60**
Amortisation		*50*	*53*	*57*
unwinding of discount		*10*	*7*	*3*

Lessor model



The rationale

- Importance of underlying asset
- What does right-of-use represent?
  - consumption of underlying asset + financing, OR
  - use of underlying asset
- Practical expedient
  - equipment versus property

Lessor receivable and residual approach

Balance Sheet		Income Statement	
Right to receive lease payments[1]	X	Profit on transfer of right-of-use (gross or net based on business model)	X
Residual asset[2]	X	Interest income—on receivable and residual[3]	X

[1] Present value of lease payments, plus initial direct costs
[2] Measured at an allocation of carrying amount of leased asset
[3] Interest on residual based on estimated residual value—any profit on the residual asset is not recognised until asset sold or re-leased at end of lease term

Lessor approach similar to current operating lease accounting

Balance Sheet		Income Statement	
Leased asset[1]	X	Rental income[2]	X
		Depreciation[3], or	(X)
		Fair value changes[4]	X/(X)

[1] Lessor measures leased asset (eg property) at fair value or cost
[2] Rental income recognised on a straight-line basis or another systematic basis, if more representative of pattern of earning rentals
[3] If property measured at cost, rental income plus depreciation recognised
[4] If property measured at fair value, rental income plus fair value changes recognised

Lessor example–Equipment

- Assumptions and workings:

Fair value of leased asset	CU1,000
Carrying amount of leased asset	CU950
Lease term	3 years
Residual (future value)	CU500
Residual (present value)	CU420
Rents (annual in arrears)	CU217
Rate implicit in lease	6%
Initial direct costs	none
PV of lease payments = Lease receivable	CU580

Total profit on transaction = FV of UA – CA of UA	1,000 - 950 = 50
Profit on ROU = lease rec/FV of UA * Total profit	580/1,000 * 50 = 29
Unearned income (profit relating to residual) = total profit – profit on ROU	50 – 31 = 21

Lessor example–Equipment continued

Periods	0	1	2	3
Balance Sheet				
Lease receivable	580	398	205	-
Gross residual asset	420	445	472	500
Unearned income	(21)	(21)	(21)	(21)
net residual asset	399	424	451	479
Income Statement				
Gain on sale	29			
Interest on receivable		35	24	12
Interest on residual asset		25	27	28
Total Lease Income	**29**	**60**	**51**	**41**

Classification of leases*

Lessee consumes more than insignificant portion of leased asset

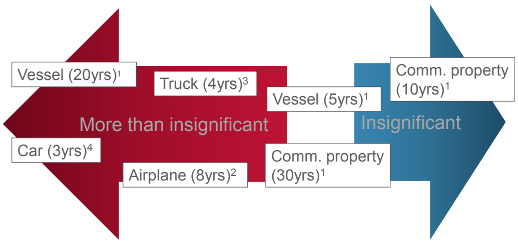
- Leases of assets other than property *unless*:
  - Lease term is insignificant relative to economic life of asset
  - PV of lease payments is insignificant relative to FV of asset

Lessee does not consume more than insignificant portion of leased asset

- Leases of property (land and/or a building) *unless*:
  - Lease term is major part of economic life of asset
  - PV of lease payments is substantially all of FV of asset

* Both lessee and lessor

Classification of leases—examples



Assumed economic life of:
[1] 40 years
[2] 25 years
[3] 10 years
[4] 6 years

Definition of a lease

- ‘Contract in which the right to use an asset is conveyed, for a period of time, in exchange for consideration’
- Notion of control changed
  - ‘ability to direct the use’ and receive benefits
  - if entity obtains substantially all output ≠ control
    - pricing does not determine control

Definition of a lease

- Identifiable asset
  - explicitly or implicitly specified
  - no substantive right to substitute asset
- Right to control the use during the lease term
  - decision-making authority over the use of the asset
  - receive substantially all benefits from use

Example–Definition of a lease

- Facts:
  - 5 year contract for 10 rail cars, specified in contract
  - Customers determines when, where and which goods are transported using rail cars
  - Customer can use rail cars for different purpose
  - Service and maintenance done by supplier

Example–Definition of a lease continued

Does the contract contain a lease?

Example–Definition of a lease continued

- Assessment: **identifiable asset**
  - Rail cars explicitly specified in contract ✔
  - substitutable only when not operating properly ✔

➡ Rail cars are identifiable assets

Example–Definition of a lease continued

- Assessment: **right to control the use**
  - Ability to direct the use of the rail cars ✔
    - Customer determines how and for what purpose the rail cars are used
  - Ability to receive benefits from use ✔
    - Rail cars are available for customer's use throughout lease term

➡ right to control the use of the rail cars

Example–Definition of a lease continued

The contract contains a lease.

Example–Definition of a lease

31

- Facts:
  - 5 year contract for transportation services, equivalent to use of 10 rail cars
  - Supplier can choose from a pool of similar rail cars
  - Supplier provides rail cars, driver and engines
  - Rail cars are stored in supplier's premises

IFRS™

Example–Definition of a lease continued

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- Assessment:
  - Rail cars = identifiable asset?
    - Supplier can choose from a pool of similar rail cars
    - ⇒ Rail cars ≠ identifiable asset
  - Right to control the use of the rail cars?
    - Lessee has no ability to make decisions about how the rail cars are used
    - ⇒ **No** right to control the use of the rail cars

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Example–Definition of a lease continued

33

The contract does not contain a lease.

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Short term leases

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- Short-term lease
  - maximum possible term of the contract < = 12 months
  - maximum possible term includes any options to extend
  - does not contain a purchase option

IFRS™

Example–Short-term leases

35

- Facts
  - 12-month lease of a commercial vehicle
  - Option to extend for another 12 months
  - No significant economic incentive to exercise the option

IFRS™

Example–Short-term leases continued

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- Assessment:
  - maximum possible lease term > 12 months
  - ⇒ lease ≠ short-term lease
- Accounting:
  - lessee recognises ROU asset and liability
  - lease term = 12 months
    - no significant economic incentive to exercise option

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Reducing complexity and cost

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	2010 ED	Post-ED simplifications
Options to extend the lease term (term options)	• Included if more likely than not to occur • Reassessed	• Included if significant economic incentive to exercise • Reassessed other than for market conditions
Variable lease payments	• Included in lease liability on probability-weighted basis • Reassessed	• Excluded, unless based on index or rate • Accounted for as incurred • Reassessed for spot/index
Short–term leases	• Liability/asset recognised with no discounting	• No liability/asset recognised • Rent expense • IAS 17 operating lease model

What happens next?

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Q1 2013 — 2013 — TBD

Publish Revised Exposure Draft

Comment period 120 days

Consultation

Outreach

Working group meetings

Redeliberations

Issue Final Standard

Effective date: TBD

IFRS

Why a leases project?

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- Existing lease accounting does not meet users' needs
  - – assets and liabilities are off-balance sheet
  - – limited disclosure requirements
  - – many users adjust financial statements
- Structuring opportunities
  - – current lease classification often based on bright lines
  - – significant difference in accounting on either side of operating/finance lease line

IFRS

Thank you

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IFRS

Other aspects

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Information on other aspects of the leases proposals

IFRS

Redeliberations – other issues

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- Multi-element contracts
  - – separately account for non-lease elements
  - – lessee: allocate between lease and non-lease elements if observable prices or reliably estimable
  - – lessor: allocate using revenue recognition guidance
- Residual value guarantees
  - – lessee: include in lease payments amounts expected to be payable
  - – lessor: considered when assessing residual asset for impairment but not recognised separately

IFRS

Redeliberations – other issues continued

- Lessor impairment
  - financial asset impairment guidance for receivable
  - non-financial impairment guidance for residual asset
- Sale and leaseback transactions
  - if sale, account for as sale then leaseback

Redeliberations – lessee presentation

- Balance sheet
  - ROU asset presented as if owned
  - Liability to make lease payments
- Statement of cash flows
  - lease payments relating to principal: financing
  - lease payments relating to interest as other interest payments are presented
  - lease payments when single lease expense recognised: operating
  - variable lease payments: operating
  - short term lease payments: operating

Redeliberations–lessor presentation

- Balance sheet

Receivable	on the face or notes
Residual	
Lease assets	on the face

- Statement of cash flows
  - cash inflows from leases → operating activities

Redeliberations – lessee disclosure

- Required lessee disclosures will include:
  - qualitative information about leasing activities
  - ROU asset and liability to make lease payments roll-forward for both classes of lease
    - ROU asset roll-forward: disaggregated by asset class
  - maturity analysis for liability
  - disclose significant leases not yet commenced
  - disclose expense relating to variable lease payments not included in lease liability

Redeliberations–lessor disclosure

- Reconciliation of lease receivable and residual asset*
- Maturity analysis
- A table of all lease income, including short-term
- Details of contingent rentals and options
- Details on residual asset risk management including quantitative exposure*
- Similar requirements for leases to which an approach similar to operating lease accounting is applied

* Receivable and residual approach only

Redeliberations – transition*

- Retrospective approach but based on information available at beginning of earliest comparative period
- Reliefs available
  - use of hindsight
  - no evaluation of initial direct costs for contracts before effective date
  - lessee: use 'portfolio level' discount rate calculated at transition
- No requirement to make adjustments for leases currently classified as finance/capital leases

* An entity can choose to fully retrospectively apply the new leases standard

World Standard-setters Meeting

Thursday 25 and Friday 26 October 2012
The Grange City Hotel (London)

NOTES

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Option 2–smaller group discussion
Revenue recognition

Patricia McConnell
Member
IASB

Jana Streckenbach
Technical Manager
IASB

Glenn Brady
Senior Technical Manager
IASB

International Financial Reporting Standards

Revenue from Contracts with Customers

World Standard-Setters
October 2012

IFRS

Speakers

- Patricia McConnell / Darrel Scott
  IASB member
- Glenn Brady
  Senior Technical Manager, IASB

IFRS

Agenda

- Project objective & status
- Overview of the revenue proposals
- Overview of feedback received
- Steps to apply the revenue model
  – decisions to date & issues for redeliberation
- Redeliberations plan
- Q&A

IFRS

Project objective

Objective: To develop a single, principle-based revenue standard for US GAAP and IFRSs

- The revenue standard aims to improve accounting for contracts with customers by:
  – Providing a more robust framework for addressing revenue issues as they arise
  – Increasing comparability across industries and capital markets
  – Requiring better disclosure

IFRS

Project status

2010 | 2011 | 2013

June 2010
Exposure draft
Revenue from Contracts with Customers
974 comment letters

November 2011
Revised exposure draft
Re-exposure of *Revenue from Contracts with Customers*
358 comment letters

March 2012
Comment letter deadline
April 2012
Roundtables
May 2012 onwards
Redeliberations

H1 2013
IFRS issued
Retrospective transition proposed
Effective date to be determined

IFRS

Overview of revenue proposals

Core principle:

Recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled 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

IFRS

Overview of feedback

Project objective and proposals are generally supported, but…

- Requests to clarify and refine the proposals
  - Identifying separate performance obligations
  - Determining revenue over time
- Difficulties in practically applying proposals
  - Time value of money
  - Retrospective transition
- Disagreement
  - Disclosure requirements
  - Onerous performance obligations
  - Application to the telecommunications industry

Step 1: Identify the contract(s)

- Specified criteria must be met to apply the model to a contract
- Some contracts would be combined and accounted for as one contract
- Contract modifications
  - Some accounted for as a separate contract
  - Otherwise, reevaluate remaining performance obligations

Step 2: Identify the separate performance obligation(s)

Proposal	Feedback

A good or service is distinct if either:
• The entity regularly sells it separately
• The customer can benefit from the good or service on its own or together with other readily available resources
However, it is not distinct if:
• It is part of a bundle of goods or services that are highly interrelated so that a significant 'integration service' is required
• That bundle is significantly modified or customised to fulfil the contract
	• Support for identifying a separate performance obligation on the basis of whether the good or service is distinct
	• 'Distinct' criteria has improved from 2010 ED, but:
	  • Two-step approach is confusing
	  • Some concepts should be clarified (eg significant integration service)
	  • Difficulties in applying the criteria to some contracts (eg software customization contracts)

As a practical expedient, two or more distinct goods or services may be treated as a single performance obligation if they have the same pattern of transfer	• Viewed as an accounting policy choice • Unclear whether repetitive services would have the same pattern of transfer • Consequential effects (eg onerous test)

Step 2… Tentative decision

- A promise to transfer a good or service (or a bundle of goods or services) is a separate performance obligation only if the promised good or service is:
  - capable of being distinct—the customer can benefit from the good or service on its own or together with other readily available resources; and
  - distinct within the context of the contract—the good or service is not highly dependent on, or highly interrelated with, other promised goods or services in the contract
- Indicators that a good or service is distinct within context of the contract

Entity does not provide a significant service of integrating the good or service into a combined item (inputs to produce an output)	The good or service does not significantly modify or customise other promised goods or services	Purchasing (or not purchasing) the good or service would not significantly affect the remainder of the contract	The good or service is not part of a series of consecutively delivered goods or services accounted for as performance obligations satisfied over time with a single measure of progress

Step 3: Determine the transaction price

Proposal	Feedback
The transaction price is the amount of consideration to which the entity expects to be entitled in exchange for promised goods or services • Includes estimates of any variable consideration • Use *expected value* or the *most likely amount* depending on which is better prediction	• General agreement on the changes made in 2011 ED
Account for time value of money only if there is a financing component that is significant to the contract	• Complex and costly to implement • Captures contracts where primary intent of payment terms is not to provide financing • Mixed views on 12-month practical expedient
Effects of customer credit risk excluded from revenue but presented adjacent to revenue line on income statement	• Most agree with excluding customer credit risk from the transaction price • Many preparers disagree with proposed impairment loss presentation

Step 3… Redeliberations update

Time value of money (tentative decisions)

- Clarify the factors in paragraph 59 that indicate whether a contract has a significant financing component
- Retain the 1 year practical expedient

Customer credit risk (further discussion required)

- Presentation of impairment loss
  - Should impairments arising from contracts with customers *with* significant financing components also be co-located adjacent to revenue?
- Should the revenue standard include a minimum collectibility recognition threshold?

Step 4: Allocate the transaction price

13

Proposal	Feedback
Allocate to each separate performance obligation the amount to which the entity expects to be entitled	• Some disagreement with the proposed basis for allocating the transaction price—a common view among those in the telecommunications industry
Allocating on a relative standalone selling price basis will generally meet the objective • Estimate selling prices if they are not observable • Residual estimation techniques may be appropriate	• Additional guidance requested on allocating the transaction price when more than one good or service has a selling price that is highly variable or uncertain
Discounts and contingent amounts are allocated entirely to one performance obligation if specified criteria are met	• Some requests for greater flexibility

Step 4… Issues for redeliberation

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- Application of the residual approach to estimate stand-alone selling prices
  - eg mobile phone handsets sold as part of a bundled arrangement or software contracts whereby two or more of the promised goods or services have highly variable or uncertain stand-alone selling prices
- Consider the basis for allocating discounts or variable consideration

Overview of Step 5: Recognise revenue

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Revenue is recognised when (or as) the entity satisfies a performance obligation by transferring a promised good or service to the customer

Performance obligations satisfied over time

A performance obligation is satisfied over time if the criteria in paragraph 35 are met (see following slide)

Revenue is recognised by measuring progress towards complete satisfaction of the performance obligation

Performance obligations satisfied at a point in time

All other performance obligations are satisfied at a point in time

Revenue is recognised at the point in time when the customer obtains control of the promised asset.
Indicators of control include:
- Present right to payment
- Legal title
- Physical possession
- Risks and rewards of ownership
- Customer acceptance

Step 5: Recognise revenue

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An overview of the paragraph 35(b) criteria (2011 ED)

- A performance obligation is satisfied over time if:
  - The entity's performance does not create an asset with alternative use to the entity; and
  - At least one of the following three criteria is met:
    - The customer benefits as the entity performs, or
    - Another entity would not need to re-perform work to date (other entity would not have benefit of any WIP), or
    - The entity has a right to payment for work completed to date

Step 5: Recognise revenue

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Feedback

- Support for the criteria for revenue over time
  - generally captures appropriate contracts, but some concerns about consistency with control principle
- Suggestions to clarify the criteria in paragraph 35
  - meaning of 'alternative use', and the relevance of contractual restrictions
  - whether 'no need to substantially re-perform' criterion should apply only to service contracts
  - additional guidance on determining whether an entity has a 'right to payment for work performed to date'

Step 5… Tentative decision

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- An entity satisfies a performance obligation and recognises revenue over time if one of the following criteria are met:
  a. the customer receives and consumes the benefits of the entity's performance as the entity performs
     - o an objective basis for assessing benefit—hypothetically, would another entity need to substantially re-perform the work the entity has completed to date if that other entity were to fulfil the remaining obligation to the customer?
  b. the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced
  c. the entity's performance does not create an asset with an alternative use to the entity and the entity has a right to payment for performance completed to date and it expects to fulfil the contract as promised

Step 5: Constraint on the cumulative amount of revenue recognised

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Proposal	Issues for redeliberation include
When consideration is variable, the cumulative amount of revenue recognised is limited to the amount to which an entity is reasonably assured to be entitled An entity is reasonably assured if: • it has experience with similar types of performance obligations • its experience is predictive of the amount of consideration to which the entity will be entitled Various factors might indicate that the entity's experience is not predictive	• Use of the term 'reasonably assured' • Clarify meaning of 'predictive experience' • Clarify principles to address royalties (paragraph 85)

Constraint… Redeliberations update

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- Topics discussed at the September board meeting included:
  - the objective of the constraint—ie revenue should be constrained if the amount of transaction price allocated to a satisfied performance obligation could reduce significantly
  - three options for determining when revenue should be constrained

Option 1 **Indicator Approach** (2011 ED)	Option 2 **Determinative Approach** (Qualitative/Quantitative)	Option 3 **Threshold Approach** (Quantitative)
Retain the indicators in paragraph 82 of the 2011 ED for assessing whether revenue should be constrained	Revenue should be constrained when: • there are possible outcomes to the transaction that would result in a significant reversal of revenue recognised; and • those possible outcomes have a reasonable chance of happening.	In assessing whether revenue should be constrained, an entity only has predictive experience when it is "highly confident" that the amount of revenue recognised will not change Is a definition of "highly confident" needed?

Contract costs

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Costs of obtaining a contract	Costs of fulfilling a contract
Recognised as an asset if they are incremental and are expected to be recovered (eg sales commissions) *Feedback:* *Some agree but others prefer to expense*	Recognised as an asset if they: • Relate directly to a contract • Relate to future performance • Are expected to be recovered (eg pre-contract or setup costs)

Onerous test… Tentative decision

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- The revenue standard will not include an onerous test
- Instead, an entity will apply the onerous tests in existing IFRSs or US GAAP

IFRSs	Requirements in IAS 37 for onerous contracts would apply to all contracts with customers
US GAAP	Existing guidance for recognition of losses will be retained, including guidance in Subtopic 605-35 for losses on construction and production contracts

Disclosure

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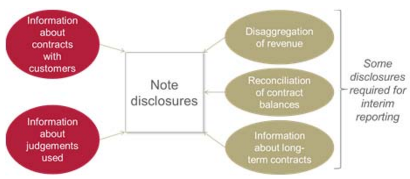

- Redeliberations to consider costs and benefits of annual and interim disclosures
  - Users—level of disclosure is appropriate (or more is required)
  - Preparers and others—disclosure proposals are excessive, overly prescriptive and requires information not used by management

Application guidance: Licences

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Proposal	Feedback
A promise to grant a licence to a customer is a performance obligation that an entity satisfies at a point in time But, if the licence is not distinct: • an entity would combine the licence with other promises in the contract to identify a separate performance obligation; and • the entity would recognise revenue when (or as) that performance obligation is satisfied	• Many agreed with change from 2010 ED, which had proposed accounting for licences based on exclusivity • Some disagreed with the 2011 proposals because they consider that an entity's performance is not complete once the licence has transferred to the customer. (Some of that disagreement appears to have arisen because of a misunderstanding of the effect of the proposals)

Licences… Redeliberations update

- Further discussion required after initial board meeting in July
  - Differing views on nature of the promise to transfer a license

Latest staff thinking

- An entity should determine whether the licence being granted to a customer transfers resources to the customer at a point in time or over time
  - Consequently, some licences would give rise to performance obligations satisfied at a point in time and other licences would give rise to performance obligations satisfied over time
- For licences that transfer resources over time, the licence is a right to access to a portion of underlying intellectual property
  - Customer expects the entity to perform some actions that maintain/add value to the underlying intellectual property

Transition and effective date

Proposal	Feedback
Retrospective application with some practical expedients	• Users mostly agree • Others think costs would outweigh benefits • Strong support to allow prospective application
Effective date no earlier than annual reporting periods beginning on or after 1 January 2015 (but depends on when standard issued)	• Retrospective application requires longer time between issuance and effective date

Redeliberations plan

MONTH	REDELIBERATION TOPIC
Complete	• Identification of separate performance obligations (Step 2) • Satisfaction of performance obligations (Step 5) • Onerous test • Time Value of Money (Step 3) • Contracts with customers that contain nonrecourse, seller-based financing • Contract issues (Step 1)
Discussed, but no decisions	• Licences • Constraining the cumulative amount of revenue recognised (Step 5) • Collectibility (Step 3)
October 2012	• Contract modifications • Measures of progress (Step 5)
Upcoming topics	• Allocation of the transaction price (Step 4) • Costs • Nonfinancial assets • Scope • Disclosures • Transition, effective date & early adoption • Sweep issues & consequential amendments • Cost-benefit analysis

To be re-discussed

More information

Additional information about the revised proposals and the revenue recognition project is available at www.ifrs.org and www.fasb.org.

Thank you

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Option 2–smaller group discussion
Disclosure Framework

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Member
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Alan Teixeira
Senior Director, Technical Activities
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International Financial Reporting Standards

Disclosure

Including electronic reporting

Stephen Cooper, *IASB member*

Alan Teixeira, *IASB Senior Technical Director*

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Annual financial reports

- Annual financial reports are an important means for entities to inform investors
  - They reduce information asymmetry (between the entity and investors)
  - They are not, and cannot, provide all of the information an investor needs. They are only part of the information system.
- We often hear that annual financial reports are not providing the clarity preparers and users think they should.

What others have said

- UK ASB
  - Cutting Clutter: *Combating clutter in annual reports*

“Clutter in annual reports is a problem, obscuring relevant information and making it harder for users to find the salient points about the performance of the business and its prospects for long-term success.”

“Improving financial reporting is not just about issuing standards. We want to encourage a change in behaviours, where annual reports are clear and clutter-free, focusing on the disclosures that really aid an understanding of the business and its long-term prospects.”

What others have said

- ICAS – NZICA
  - Losing the excess baggage - *reducing disclosures in financial statements to what’s important*

“While the requirements of each standard seemed reasonable at the time of that standard‘s development, the combined impact of the existing requirements has led to lengthy financial statements cluttered by excessive detail.”

What is the problem?

- Is the overall objective of financial reporting not sufficiently clear?
- Are the disclosure requirements in IFRSs perceived to be too prescriptive?
  - ie do you have the impression that you must disclose everything mentioned in the disclosure section of an IFRS?
- Do you think *materiality* as it applies to disclosures is well understood, or applied appropriately?

What is the problem?

- Are auditors forcing entities to disclose matters that are not material?
- Are securities regulators treating reviewing disclosures with a ‘check-box’ approach?
- Are investors demanding that entities disclose more rather than less?

Recent work

- EFRAG / UK FRC / ANC
  - Towards a Disclosure Framework for the Notes
- US FASB
  - Disclosure Framework
- Both papers focus only on the notes to the financial statements.
- The IASB will consider the matters raised in these discussion papers as we develop our project.

IASB plans

- The IASB thinks that assessing disclosure requirements as a whole is important.
- Disclosure requirements need to be discussed in conjunction with presentation.
- The IASB is developing two new chapters for its Conceptual Framework, addressing presentation (including OCI) and disclosure.

Disclosure Framework

- A disclosure chapter of the framework will need to:
  - include principles to help the IASB establish disclosure requirements that are appropriate for a particular issue;
  - help ensure that the disclosures in a financial report taken as a whole are appropriate.
- Do you agree?

Disclosure principles

- Examples of the type of principle the IASB might need to consider include:
  - Disaggregation
    - What level of aggregation is appropriate in the main financial statements?
    - When should information presented in the financial statements be disaggregated?
      - Segments? Different types of expenses?
  - Supplementation
    - When should the financial statements be supplemented?
      - Measurement or estimation uncertainty?
      - Unrecognised risks or opportunities?
      - Reconciliations?

Standards-level project

- Will the *Financial Statement Presentation* project be re-opened?
  - Likely that the work already undertaken in the financial statement presentation project will be helpful in the concepts work.
- Will the IASB need to develop an additional disclosure standards (or review existing requirements)?

Discussion Forum

- The IAS plans to hold a discussion forum in early 2013.
  - Bring together regulators, auditors, investors and preparers.
  - Identify ways that financial reporting disclosures can be "improved" within the existing IFRS requirements.
  - Identify areas where the IASB should focus its efforts.

Questions

- Are there any 'quick win' amendments to IFRSs the IASB should consider making?
- Which IFRSs (or sections of financial reports) do you think would benefit most from a review by the IASB?

Electronic reporting

XBRL

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Electronic tagging and filing

- Efforts have been made in recent years to reduce the cost of accessing financial statement information.
  - Electronic filing
  - Standardisation of electronic formats
- Advantages
  - Reduces the barriers to accessing data
  - Lowers the costs to users
- Challenges
  - Developing accepted filing 'standards'
  - Reducing the cost to preparers

Electronic tagging

Effective electronic tagging has two important parts:

- An agreed classification system to label or 'tag' financial statement information.
- A system for managing the data, and allowing consumers to retrieve the data.

IFRS Taxonomy

A classification scheme

Allows IFRS Financial Statements to be "tagged" so that a consumer of the information can read the data into their analysis tool.

The IFRS Taxonomy is managed using XBRL.

XBRL

The computer "language" and structure used to manage business data and the taxonomies that define the data.

XBRL

- e**X**tensible **B**usiness **R**eporting **L**anguage
  - A standard for tagging data
- Features
  - Uses XML, a low technology format
  - Has additional technical features that facilitate validation and structure
    - Dimensions
    - Link-bases
  - Developed in the public domain as an open specification
  - Interoperable
    - allows financial information to be presented with information from other sources

Who consumes XBRL formatted data?

- Regulators
  - US GAAP financial statements consumed by the US SEC
  - Other regulators around the world consume XBRL tagged data for different purposes
    - Banking, statistics, tax
- Data Aggregators
  - Consume the data and convert it into their proprietary databases
  - Uptake is increasing
- Investors
  - Consume company-specific XBRL data directly
  - Limited uptake

XBRL is an enabling technology

- Facilitates fast retrieval
  – Items can be fed directly into spread sheets or valuation models
  – Notes or information can be retrieved and viewed on-screen
- Analysis
  – Data mining capabilities are enhanced
  – Exception reporting
  – Trend analysis

IFRS Foundation

- Became involved in electronic tagging in 2002.
- Since 2009 we have produced a taxonomy covering IFRS disclosure requirements.
- In 2012 the taxonomy included common practice elements
  – 2012 IFRS Taxonomy has over 3,500 elements, including over 1,000 reflecting common practice.
- From the beginning of 2012 the team responsible for electronic tagging developments has been integrated into the IASB Technical Team.
- The IASB is undertaking a strategic review of these activities this year.

Questions

- Do you think electronic filing of financial statements should be made mandatory (by securities regulators)?
- Do you see XBRL tagging of IFRS Financial Statements as a benefit or a burden?
- Does *presentation* matter? ie Is XBRL data all that investors need, or does the way the information is presented and classified by an entity important?

Thank you

World Standard-setters Meeting

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The Grange City Hotel (London)

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Option 2–smaller group discussion
Conceptual Framework

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International Financial Reporting Standards

Conceptual Framework

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

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Session overview

- Why the Framework is important
- Review – the first seven years of the project
- The new priorities
  - Reporting Entity
  - Presentation
  - Disclosure
  - Elements
  - Measurement

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Why the Framework is important

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Standard setters – the IASB

- Conceptual Framework sets out agreed concepts that underlie financial reporting
- enhances consistency across standards
- enhances consistency over time
- provides benchmark for judgments
- IFRS Interpretations Committee

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Preparers

- IAS 8 hierarchy
  - Use judgement to
    - develop a policy that results in relevant information that faithfully represents (ie complete, neutral and error free)
  - Hierarchy:
    - IFRS dealing with similar and related issue
    - Conceptual Framework definitions, recognition criteria etc
    - Can also in parallel refer to GAAPs with a similar framework

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Review – the first 7 years

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The first seven years

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- Two chapters
  - Objectives
  - Qualitative characteristics
- Reporting entity
  - Discussion paper and exposure draft
- Elements
  - IASB papers, but no public exposure document
- Measurement
  - IASB papers, but no public exposure document

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Objective of financial reporting

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- Provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity

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Objective of financial reporting

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- Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity.
  - Decisions by investors about buying, selling or holding equity and debt instruments depend on the returns that they expect from an investment in those instruments, eg dividends, principal and interest payments or market price increases.
  - Decisions by lenders about providing or settling loans and other forms of credit depend on the principal and interest payments or other returns that they expect.

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Objective of financial reporting

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- To assess an entity's prospects for future net cash inflows, existing and potential investors, lenders and other creditors need information about:
  - the resources of the entity;
  - claims against the entity; and
  - how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources
    - eg protecting the entity's resources from unfavourable effects of economic factors such as price and technological changes

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Qualitative characteristics

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- If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent (ie fundamental qualities).
- The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable (ie enhancing qualities—less critical but still highly desirable)

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Fundamental qualitative characteristics

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- Relevance
  - capable of making a difference in users' decisions
    - predictive value
    - confirmatory value
    - materiality (entity-specific)
- Faithful representation (formerly reliability)
  - faithfully represents the phenomena it purports to represent
    - completeness (depiction including numbers and words)
    - neutrality (unbiased)
    - free from error (ideally)

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Enhancing Qualitative Characteristics

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- Comparability
  - like things look alike; different things look different
- Verifiability
  - knowledgeable and independent observers could reach consensus, but not necessarily complete agreement, that a depiction is a faithful representation
- Timeliness
  - having information available to decision-makers in time to be capable of influencing their decisions
- Understandability
  - classify, characterise, and present information clearly and concisely

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Pervasive constraint

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- Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information.
- In applying the cost constraint, the IASB assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. Those assessments are usually based on a combination of quantitative and qualitative information.

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The new priorities

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New chapters

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- Reporting Entity
- Presentation
- Disclosure
- Elements
- Measurement

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Process

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- IASB-only project
  - Other standard setters will be involved
  - International working group
- Five chapters developed together
  - The chapters are related
- Informed by some of the more difficult standards-level issues
- Timetable:
  - Discussion paper mid 2013
  - Finalise by September 2015

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Reporting Entity

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Reporting entity

- Some tentative decisions were exposed in a draft of the reporting entity chapter:
  - A reporting entity is a *circumscribed area of economic activity*
  - A reporting entity does not need to be a legal entity
    - branch or segment of a legal entity could be a reporting entity
  - Consolidated financial statements are general purpose
    - may also be a group of entities under common control
    - parent-only financial statements useful with consolidated financial statements, but not on their own

Matters to consider

- Separate financial statements
  - Separate financial statements are important in many jurisdictions
- The entity versus proprietary perspective
  - Important in understanding to which investors an entity is reporting
- Common control – does ultimate ownership matter?
  - Business combinations under common control
  - Push-down accounting

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Presentation

Presentation

- What is the purpose of each of the main financial statements?
- Is one statement more important than the others?
  - Performance, position, cash flows
- How should the statements be related together?
  - Articulation (a closed system)
  - Cohesiveness

Classification

- How should the information in the financial statements be classified?
  - Should financial statement classification be influenced by an entity's business model?
  - Comparability versus consistency
- How important is other comprehensive information (OCI)?
- Should the IASB consider industry-specific presentation models?
- What has happened to the *Financial Statement Presentation* project?

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Disclosure

Disclosure

- What information needs to be provided by an entity to its investors?
- The disclosure chapter will need to set out principles for
  - Aggregating and disaggregating information
  - When information in the main financial statements should be supplemented
  - When additional information about risks and opportunities should be provided
- It will be important to ensure that materiality is explained and that the IASB and preparers understand the importance of providing information that is sufficient but not superfluous.

International Financial Reporting Standards

Elements

Elements – the current definitions

- Asset
  - resource controlled by the entity
  - result of past event
  - expected inflow of economic benefits
- Liability
  - present obligation
  - arising from past event
  - expected outflow of economic benefits
- Equity = assets – liabilities
- Income and expenses are derived from the asset and liability definitions

Perceived weaknesses

- What does expected mean? Is it different from probable?
- Why focus on future inflow/outflow of economic benefits, rather than present position?
- Why do we need to identify past transactions?
- What does control mean in the asset definition?
- How does liability definition apply to non-contractual obligations?
- Should we define equity? If so, how?

Recognition

- Recognise item that meets element definition when
  - probable that benefits will flow to/from the entity
    - What does *probable* mean?
  - has cost or value that can measured reliably
    - What does *measure reliably* mean?
- Do we need recognition criteria if control is part of the element definition?
- Do we need separate derecognition criteria?

First principles

- Element definitions are anchored on assets and liabilities (the stocks), not revenues and expenses (the flows)
  - Some observers believe that this relegates the role of the income statement, making it ancillary to the balance sheet
- Defining each part and expecting it to equal the whole can be difficult
  - eg. Separate definitions for assets, liabilities, equity versus assets less liabilities equals equity

Some fundamental questions

- Is an asset a bundle of rights or are separable rights also, potentially, assets?
  - Leases, rate-regulated activities
- When is an entity obliged (liable)?
  - Insurance, non-financial liabilities (lawsuits, emissions trading schemes)
- What does 'unit of account ' mean? Is this the same as unit of presentation?
  - Investment properties, property, plant and equipment

Some fundamental questions

- Is there a difference between something that is self generated and something that is acquired?
- Does measurement uncertainty affect the existence of an asset or liability?

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International Financial Reporting Standards

Measurement

Measurement concepts

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- Measurement is the process of determining monetary amounts at which elements are recognised and carried. (CF.4.54)
- To a large extent, financial reports are based on estimates, judgements and models rather than exact depictions. The Conceptual Framework establishes the concepts that underlie those estimates, judgements and models. (CF.OB11)

Measurement 'concepts'

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- Measurement section of Framework is weak—only lists some measurement methods used in practice:
  - historical cost: cash/cash equivalents paid or fair value of consideration given at time of acquisition.
  - current cost: cash that would be paid if acquired now
  - realisable (settlement) value: cash that could be obtained by selling the asset now
  - present value: present discounted value of future net cash inflows that the item is expected to generate
  - market value: listed but not described in Framework.

Measurement

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- Conceptual Framework should help the IASB identify the most appropriate measurement attribute for the components of a particular transaction, and the resulting assets or liabilities.
- Measurement concepts should be based on objective of financial reporting, qualitative characteristics, and elements definitions
  - objective of financial reporting is the place to start
  - elements tell us what we are trying to measure
  - qualitative characteristics and cost constraint would be measurement selection factors

Some fundamental questions

- Should the way an entity intends to use an asset or settle a liability influence or determine the measurement basis?
  - Financial Instruments
  - Inventory
  - Non-financial liabilities
- If an expense reflects the consumption of an asset should we measure the value consumed or the service consumed?
  - Property, plant and equipment

Some fundamental questions

- Should uncertainty about the asset or liability be reflected in the measurement attribute or recognition of that asset or liability?
- Should uncertainty about the outcome affect the measurement attribute?
  - Insurance
  - A lawsuit or environmental clean-up obligation
- When are proxies appropriate?
- When should difficulties in measuring items influence the measurement attribute?
  - Agriculture

STAFF PAPER

Friday 26 October 2012

World Standard-setters Meeting

Project	**Conceptual Framework**		
Paper topic	Misunderstandings about the IASB's conceptual framework project		
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Misunderstandings about the IASB's conceptual framework project

The IASB decided in September 2012 how to restart its project on the conceptual framework. People sometimes say things that suggest they have misunderstood what the IASB is likely to do in the project. The following table presents some of those misunderstandings, and provides some insights into how the IASB has approached those topics recently.

Misunderstanding	*Reality*
The IASB cares only about the balance sheet and believes that financial performance is just the difference between this year's balance sheet and last year's balance sheet.	Financial statements provide information about an entity's financial position (its economic resources and claims against the entity) and its financial performance. Moreover, to provide reasonably complete information about its financial performance, an entity must identify and measure its economic resources and the claims against the entity. Consequently, the IASB did not designate one type of information (about financial position or about financial performance) as the primary focus of financial reporting. (paragraph BC 1.32 of

Misunderstanding	*Reality*
	the *Basis for Conclusions* on the *Conceptual Framework*) In other words, although the Conceptual Framework's definitions of income and expense refer to changes in assets and liabilities, this does not mean that the IASB prioritises the statement of financial position over others. These statements are complementary—for example, financial performance information will sometimes capture how an entity has benefited from activities not captured on the statement of financial position (such as some intangible assets or a competitive advantage in market). Recent changes to IAS 1 indicate that the IASB does not believe that comprehensive income (ie the total of profit or loss and other comprehensive income) should be the only, or indeed main, measure of performance. In the presentation chapter of the Framework the IASB will consider how an entity can best present various components of financial performance to help users assess the amount, timing and uncertainty of the entity's cash flows.

Misunderstanding	*Reality*
The IASB will abolish the traditional income statement by merging it with 'Other Comprehensive Income' (OCI).	Clearly the IASB needs to clarify why different gains and losses should be classified or reported in different ways, which could ultimately change the way performance is reported. However, the IASB has no plans to eliminate profit or loss as a measure of performance Many respondents to recent exposure drafts and discussion papers have urged the IASB to consider: • whether to retain OCI as a separate category. • whether to present OCI in a statement separate from the income statement. • how to distinguish OCI from profit or loss. • whether some, all or no items presented initially in OCI should be 'recycled' subsequently to profit or loss. The IASB has not yet considered these issues, but will do so in this project.
The IASB will abolish hedge accounting.	As illustrated by recent decisions in developing IFRS 9 *Financial Instruments*, the IASB thinks that hedge accounting can enable entities to faithfully report financial position and performance. The IASB plans: • to add revised requirements on hedge accounting to IFRS 9 by the end of 2012.

Misunderstanding	*Reality*
	• to publish a discussion paper on accounting for macro hedges in 2013.
The IASB will create volatility that does not reflect economic reality.	The IASB does not believe that concealing or artificially smoothing volatility is appropriate when such volatility faithfully reflects economic effects that users need to understand if they are to understand the business. When volatility is real, accounting should reflect that reality and present its effects clearly. The IASB will consider how best to present the effects of volatility so that users can readily understand: • which aspects of an entity's business cause, and are subject to, volatility. • how various components of an entity's financial performance might be relevant for assessing the amount, timing and uncertainty of the entity's cash flows.
The IASB does not care about reporting transactions.	Much of financial reporting is currently transaction based and will continue to be so. Information about transactions is relevant to users. The IASB will consider how best to present and disclose income and expense to distinguish, for example: • amounts generated by transactions. • amounts generated by other events. • value changes.

Misunderstanding	*Reality*
The IASB has abandoned prudence, by: • prohibiting entities from booking liabilities when cash outflows are highly likely but do not meet the technical definition of a liability. • permitting entities to book unrealised gains.	The qualitative characteristics do not include prudence or conservatism that would be inconsistent with neutrality. Understating assets or overstating liabilities in one period frequently leads to overstating financial performance in later periods—a result that cannot be described as prudent or neutral. (BC3.27-29) The IASB removed prudence as a fundamental concept because of concerns over how this was interpreted and its use to justify excessive provisioning and hidden reserves. Nevertheless the IASB continues to exercise caution over how accounting standards are written to ensure that gains and losses are reported only when the IASB is confident that the amounts reported represent faithfully what has happened during the period.
The IASB wants to measure all liabilities in a way that implies the entity will not be able to pay its debts (the effect of 'own credit'), even when such an outcome is highly unlikely.	'Own credit' is a feature of amortised cost as well as of fair value measures for liabilities. Its recognition does not imply an entity will default. However, the performance implications of changes in own credit need to be carefully considered (the IASB's awareness of this is illustrated by the treatment of these changes in IFRS 9). Under IFRS 9, which is a recent standard, most non-derivative financial liabilities are measured at amortised cost, an amount that does not reflect changes in own credit.[1]
The IASB does not care about accounting mismatches that arise if assets are measured inconsistently with liabilities.	The IASB does not expect to conclude in the framework project that one single measurement attribute should be applied to all assets and liabilities. Although it is

[1] Own credit is implicit in amortised cost at inception, but subsequent changes in own credit do not affect amortised cost.

Misunderstanding	*Reality*
	possible that accounting mismatches arise from time to time, the approaches taken in the projects on financial instruments and insurance contracts demonstrate that the IASB thinks it is important to address such mismatches.
The IASB is putting form above substance, by: • including in the balance sheet only those items that meet the IASB's technical definitions of assets and liabilities. • accounting for all items that meet its technical definitions of assets and liabilities. Users: • will not understand a balance sheet based on the IASB's technical definitions of assets and liabilities. • will not understand an income statement based solely on movements between two balance sheets.	The definitions of assets and liabilities refer to resources and obligations. These definitions are not just technicalities. Resources and obligations differ substantively from accounting entries that are merely unexpired residuals from a matching process. An organised summary of an entity's resources and obligations provides users with more relevant information about the entity's financial position than does a statement of unexpired residuals from a matching process. The IASB will consider how best to present income and expense, and where appropriate disaggregate them, so that they provide relevant information to users.
The IASB wants entities to account for all 'executory contracts', such as purchase and sale contracts and forward contracts.	In various standards and projects, the IASB has typically retained existing current practice that entities do not account for executory contracts until at least one of the parties begins to perform under the contract (unless the contract becomes onerous).

Misunderstanding	*Reality*
	The IASB has no plans to change that conclusion.
The IASB will use fair value to measure everything.	The IASB does not intend to require entities to measure all assets and liabilities at fair value. In previous discussions, both in this project and in others, IASB members have made it clear that they do not believe that a single measurement attribute is appropriate for all assets and liabilities. The measurement chapter of the Framework should, when developed, provide guidance for the IASB to use when it decides in particular projects which measurement attribute(s) to select for particular items.
The IASB wants entities to show the value of their whole business in the financial statements.	This is not only untrue but also practically impossible without adding a balancing figure that has no separate meaning. Paragraph OB7 of the Framework, issued in 2010, states: "General purpose financial reports are not designed to show the value of a reporting entity; but they provide information to help existing and potential investors, lenders and other creditors to estimate the value of the reporting entity."

Misunderstanding	*Reality*
The IASB wants accounting that conflicts with entities' business models.	The business model plays an important role in several aspects of IASB standards, including: • the long-standing distinction between inventories and property, plant and equipment. • the classification requirements for financial assets, for which the IASB has recently re-affirmed that the business model would continue to be central. In developing the conceptual framework, the IASB needs to decide exactly what role the business model should play.
The IASB wants to measure all assets at break-up value, even when an entity has no wish or need to sell assets at such values.	As noted above, the IASB has no plans to require the use of a single measurement attribute for all assets. The IASB does require some assets to be measured at fair value. However, fair value does not reflect a break-up value. For example, for an asset used in a production process, fair value typically does not reflect a sale for scrap value only but is more likely to reflect the value after considering its use in an operating business activity.
The IASB will create accounting that is too complex.	The IASB will adopt a simple approach if it gives users of financial statements the information they need. The Framework, issued in 2010, notes that:

Misunderstanding	*Reality*
	• classifying, characterising and presenting information clearly and concisely makes it understandable. (QC30) • some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from financial reports might make the information in those financial reports easier to understand. However, those reports would be incomplete and therefore potentially misleading. (QC31) • financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena. (QC32)
The IASB will create accounting that does not pass a cost-benefit test.	The IASB takes the costs benefit assessment very seriously. Paragraphs QC35-QC38 of the *Framework*, issued in 2010, note the need for the IASB to assess whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. The IASB is paying increasing attention to the likely effects of its proposals. The IASB gains insight on those likely effects through formal exposure of proposals and through its fieldwork, analysis and outreach.
The IASB wants to use expected value (probability-weighted averages) for everything.	Expected value can sometimes be a valuable tool for measuring and presenting economic effects. The IASB discussed in February 2011 a staff

Misunderstanding	*Reality*
	paper that considered what approach to use when an asset or a liability is measured by reference to future cash flows for which there is a range of possible outcomes. The paper reviewed the following approaches, and discussed when each was most likely to be more appropriate: • expected value • maximum amount that is more likely than not to occur • most likely outcome • minimum or maximum amount in range of possible outcomes • midpoint of range of possible outcomes • possible outcome nearest to expected value The paper did not recommend a single approach for all circumstances.
The IASB has ignored the important role of financial statements for assessing management's stewardship of the entity and its resources.	Paragraph OB4 of the Framework, issued in 2010, notes that users need information not only about the resources of the entity and claims against the entity, but also about "how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources". The IASB did not intend to imply that assessing prospects for future cash flow or assessing the quality of management's

Misunderstanding	*Reality*
	stewardship is more important than the other. Both are important for making decisions about providing resources to an entity, and information about stewardship is also important for resource providers who have the ability to vote on, or otherwise influence, management's actions. (paragraph BC1.27)
In developing standards, the IASB will insist on complying with an abstract and theoretical Conceptual Framework, rather than on providing users with useful information.	The Conceptual Framework is not an end in itself, but means to end: giving users information that is useful for economic decisions (at a cost that does not exceed the benefits). The IASB will continue to develop the Conceptual Framework with that aim in mind. In rare cases, the IASB may issue an IFRS conflicting with the *Conceptual Framework* if the IASB concludes that the departure is necessary for the IFRS to produce financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors for decisions about providing resources to the entity. In such cases, the IASB should describe the departure, and the reasons for it, in the Basis for Conclusions on the IFRS.

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