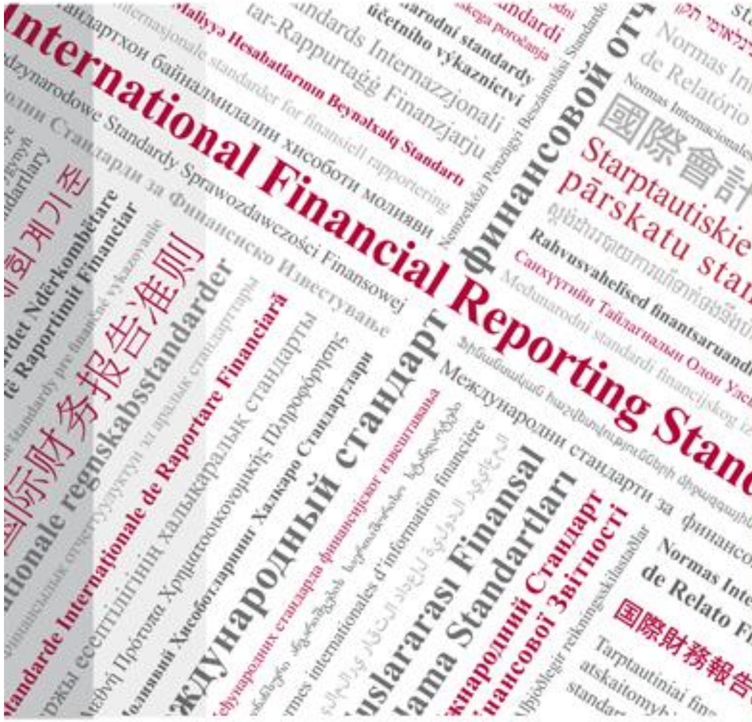
November 2013

International Financial Reporting Standards



Agenda paper 2
IFRS Interpretations Committee

Global Preparers Forum

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

Today's objective

- Update you on the work of the IFRS Interpretations Committee
- Tell you about how we plan to support change and hear your views
  - *Discussion point 1*
- Update you on the activities of the IFRS Interpretations Committee
- Discuss with you our proposals for disclosures about going concern
  - *Discussion point 2*

Trustees' strategy review 2011

- IFRS Constitution: the success of IFRS requires consistency and faithfulness in its application
- Reviewed the efficiency and effectiveness of the Interpretations Committee

  The mandate of the Interpretations Committee is to discuss, on a timely basis, widespread accounting issues that have arisen within the context of current IFRSs and to provide authoritative guidance on those issues

- Main findings included:
  - a broader range of 'tools' should be deployed by the Interpretations Committee
  - a single set of agenda criteria should be applied regardless of the form of our solution (eg Interpretation, Annual Improvement)
- Agenda Consultation 2011 reinforced the need for more 'maintenance' of IFRS by the Interpretations Committee

The IFRS Interpretations Committee

- Interpretative body of the IASB
- 14 members plus non-voting chair
- Experienced practitioners in the day-to-day application of IFRSs
  - varied geography and professional backgrounds
- Assists the IASB in improving financial reporting through timely identification, discussion and resolution of financial reporting issues within the IFRS framework

Drivers for change to existing IFRSs

Economic circumstance

Financial crisis required updating of some IFRSs

More sophisticated transactions means IFRS must evolve

Examples
FI project
Going concern

Issuing new Standards

Implementation identifies issues

New initiatives being taken to support new IFRSs

Examples
Investment entities
Recoverable amounts IAS 36

Adoption

Extends the range of jurisdictions that test the Standard

Differences with national GAAP can be a blocker to adoption

Examples
IFRS 1 in 2010
IFRIC 15
Rate-regulated activities

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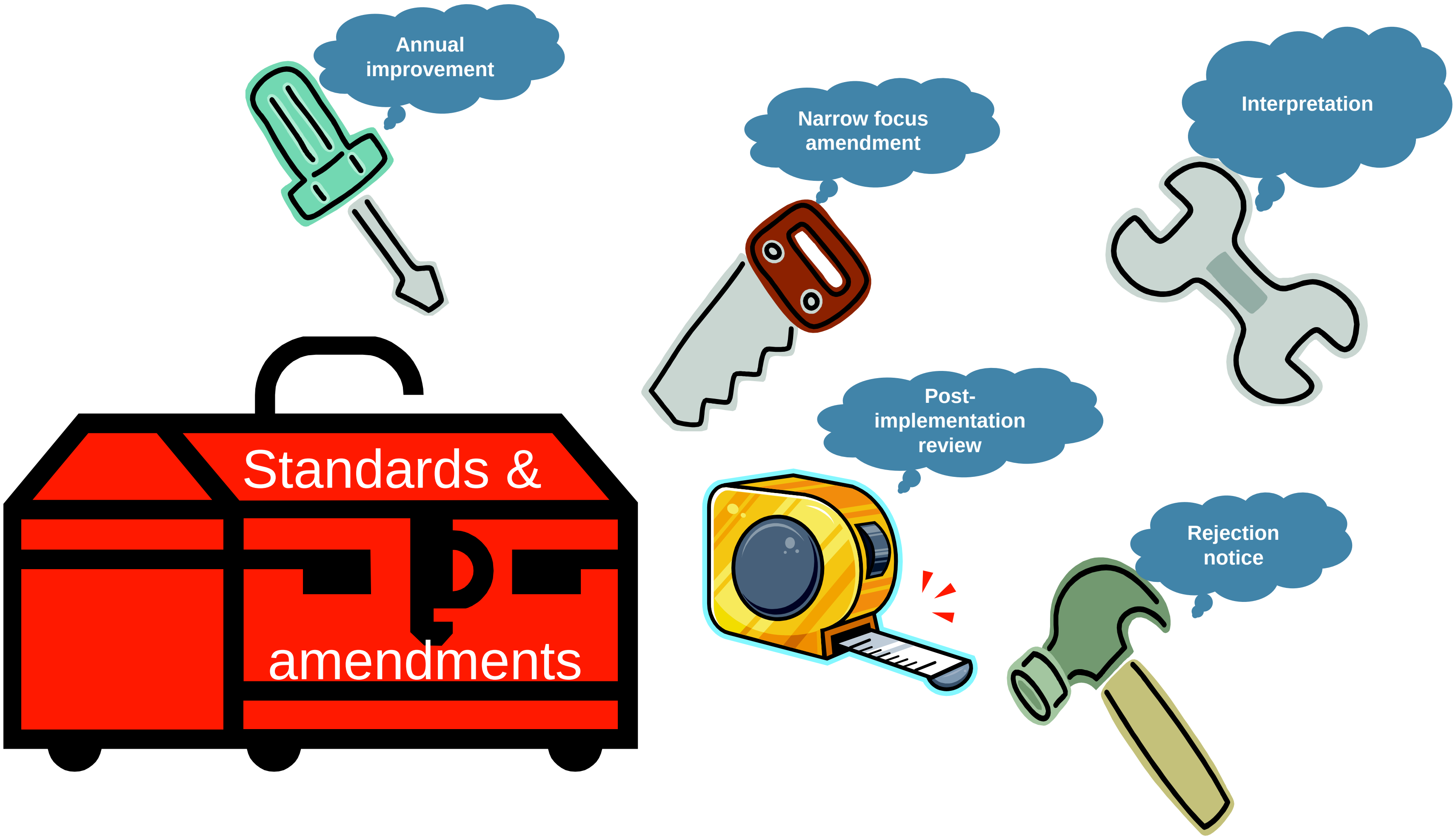
We now have an expanded toolkit…



Tools to maintain IFRS

Interpretations
'Amplify/explain'

- Explains an IFRS or interaction between IFRSs
- Must not change or conflict with the principle in the IFRS or the *Conceptual Framework*
- Narrow range of possible interpretations

Narrow-scope amendments
'Amend'

- Amends an IFRS
- A 'new' designation

Annual improvements
'Tidy-up'

- Clarifies unclear wording in an existing IFRS
- Corrects minor unintended consequences, oversights or conflicts

Post-implementation review

- Trustees revised the approach in 2011 as a result of consultation when planning PiR of IFRS 8:
  - considers experience in practice
  - review of the effectiveness of the Standard
- New methodology is evidence-based
  - includes public consultation: *Request for Information*
  - review of academic research
- *Report and Feedback Statement* of PiR of IFRS 8 published July 2013
- PiR of IFRS 3 in progress

Rejection notices

- Formalised as part of the Trustees' 2011 review
- Issued by the Interpretations Committee when it decides not to address an issue
  - remain outside the body of IFRSs
  - do not form part of the IFRS requirements
  - provide helpful guidance when the Interpretations Committee has reached a view
  - should be capable of being read without reference to staff papers or the original submission
- Exposed for 60 days before finalisation

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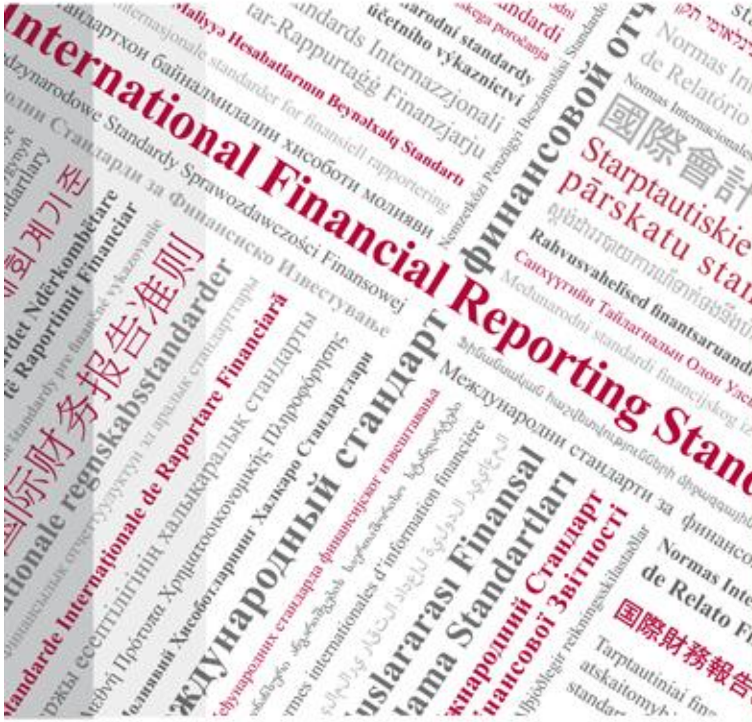

What we are doing to support change

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How should we support change?

- Part of our mission is ensuring the consistent application and implementation of IFRS
- Proposals for the post-publication support of new IFRSs include:
  - resource support groups
  - Application guidance and illustrative examples
- There are special considerations for the post-publication support of converged Standards

Resource support groups

- Use on an ad hoc basis according to need
- Will support initial application using staff and project board advisors
  - from publication to effective date
- Made up of a range of preparers, accounting firms, investors, regulators and standard-setters
  - first one will support the revenue Standard
- Will collate and escalate issues
  - will not act as a filter
  - other access routes and processes, eg submissions, will still apply
- Will not issue guidance

Application guidance and illustrative examples

- Application guidance differs from illustrative examples
- Application guidance is authoritative
  - forms part of the Standard
  - subject to due process
- Illustrative examples
  - supplement the Standard
  - not balloted by IASB
  - most useful on implementation
- Supplemental guidance is most useful if:
  - published at the same time as the Standard
  - illustrates, rather than interprets, principles

Supporting converged Standards

- Convergence may be lost through the separate development of post-publication Interpretations and other guidance
- Our post-publication processes are very different
  - IFRS Interpretations Committee has strict agenda criteria
  - EITF tend to address narrower queries
  - US has other sources of authoritative guidance eg SEC
- IFRS is based on one set of principles
- Amendments resulting from the PiR of IFRS 8 *Operating Segments* will test the process

Discussion point 1

What comments and suggestions do you have on our proposals to support change?

What other activities should we undertake to help constituents manage change?

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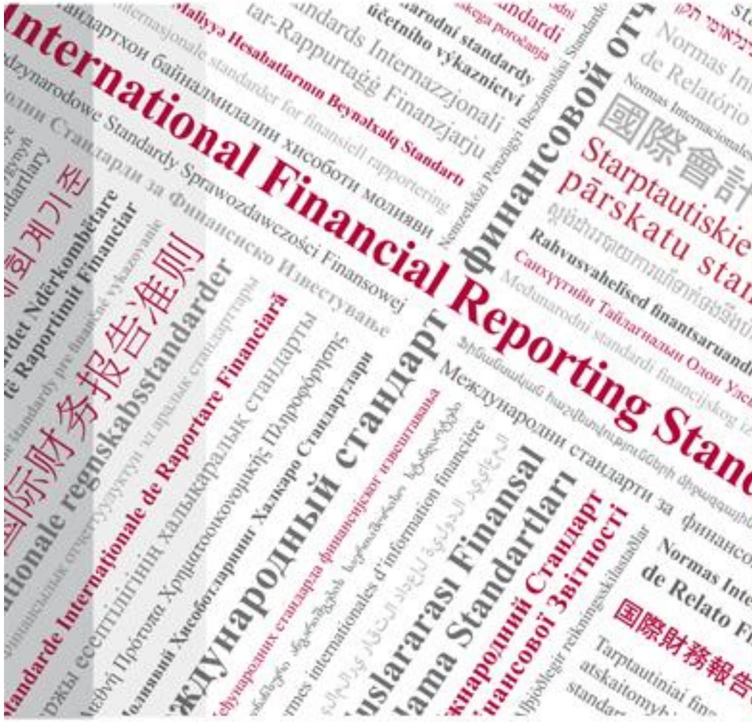

Update on the activities of the Interpretations Committee

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What have we finalised in the last year? Narrow-scope amendments

Investment entities	• Defines an investment entity (IE) • IE doesn't consolidate investments that it controls • IE measures investments at fair value • Amended IFRS 10, IFRS 12, IAS 27
Novation of derivatives and continuation of hedge accounting	• Applies when a hedging instrument is novated to a central counterparty by law • Allows hedge accounting to continue
Recoverable amount disclosures for non-financial assets	• Amendment to IAS 36 required disclosure of recoverable amount of all cash generating units • 'Tidying up' of IFRS 13 consequential amendments

What have we finalised in the last year? Interpretations

- IFRIC 21: *Levies*
- Recognition of liabilities is based on a present obligation as a result of a past event (known as an obligating event)
- The Interpretation clarifies that the obligating event that gives rise to the liability is the activity (described in the relevant legislation) that triggers payment of the levy
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in the future
- Interpretation is consistent with IAS 37 and IFRIC 6

What are we doing now? Annual Improvements

· *2010 –2012 cycle*	*2011 –2013 cycle*	*2012 –2014 cycle*
IAS 16 and IAS 38 Revaluation method- proportionate restatement of accumulated depreciation	IAS 40 Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property	IFRS 7 applicability of the amendments to IFRS 7 to condensed interim financial statements
IAS 24 Key Management personnel	IFRS 1 Meaning of effective IFRS	IAS 7 Classification of expenditures in the statement of cash flows
IFRS 2 definition of vesting conditions	*IFRS 3* Scope exceptions for joint ventures	*IAS 19* Discount rate: regional market issue
IFRS 3 Accounting for contingent consideration	IFRS 13 *Scope of paragraph 52* (portfolio exception)	IFRS 5 Change of Disposal method
· IFRS 8 judgements made in aggregation		IFRS 7 Transfers of Financial Assets – Servicing agreements

What are we doing now?
Narrow-scope amendments

IAS 1 *Financial Statement Presentation*	• Disclosure Initiative • Going concern • Classification of liabilities • Presentation of equity accounted items in OCI
Associates, Joint ventures and Joint arrangements	• Sales or contribution of assets • Acquisition of interest in a joint venture • Equity method –share of other net asset changes • Elimination of gains between a joint venture and its joint venturer
Pensions	• Employee contribution
PPE and Intangibles	• Acceptable methods of depreciation and amortisation

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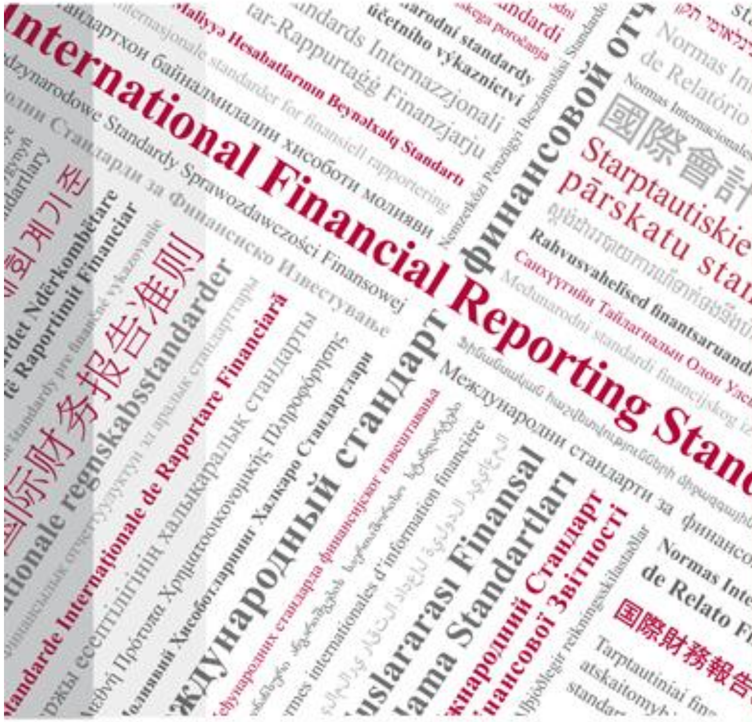

Disclosures about going concern

Narrow-scope amendment to IAS 1

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Current requirements in IAS 1

- *Management* are required to assess the entity's ability to continue as a going concern
- The Standard defines going concern, with a high threshold:

  An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

- IAS 1 also requires that disclosures are made about:

  material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern

- Submitted to the IFRS Interpretations Committee by the IAASB in 2012
  - project to improve the auditor's report

Developing a narrow-scope amendment

- Outreach conducted suggests that current going concern definition and threshold works well
- Not changing the definition of going concern
- Not changing the basis of the going concern assessment
  - If the entity is a going concern now, it will still be a going concern in accordance with the proposals
- As a result of outreach, the we think that more guidance is needed on disclosure about going concern:
  - *when* should disclosures be made; and
  - *what* disclosures should be made

The going concern assessment

- Financial crisis has meant that concerns about going concern are more common
- Based on judgement with respect to:
  - assessing events or conditions that give rise to significant doubts about an entity's ability to continue as a going concern
  - feasibility and effectiveness of any mitigating actions, eg rights issues, asset sales
- The event or condition that gives rise to doubt is the gross position
- The net assessment of going concern takes into account any planned mitigating actions

When to disclose – current practice varies

- When should disclosures about uncertainties about an entity's ability to continue as a going concern be made?
  - When there are conditions and events that give rise to significant doubts about an entity's ability to continue as a going concern– ie on identification of the gross position?
  - If, after taking into account the feasibility and effectiveness of mitigating actions, the auditors still think that there is significant doubt about using going concern as the basis for preparation of the financial statements–ie at net assessment?
  - No disclosure if the financial statements are prepared on a going concern basis?
- Outreach suggests that disclosure varies and is often too late to benefit investors

When to disclose - proposal

- Trigger will be the existence of events or conditions that, because of their *magnitude, likelihood and timing*, give rise to significant doubts about the entity’s ability to continue as a going concern
  - We want to avoid business risk being a trigger, hence ‘magnitude’ is a filter
  - We want to avoid the improbable, such as meteorite damage, hence ‘likelihood’ is a filter
  - We also need to take into account the effect of timing on the going concern assessment
- Once the event or condition is identified, disclosures will be made even if management think that they can mitigate the problem

What to disclose

- Disclosures will be gross ie show the events or conditions that give rise to significant doubt and proposed mitigating actions separately
- Proposed objectives of disclosures are to provide information to investors to allow them to:
  - assess the entity's ability to continue as a going concern
  - understand the judgements made in assessing whether going concern is an appropriate basis for the preparation of the financial statements
  - assess the effectiveness and feasibility of any mitigating actions planned
  - understand the effect of any future mitigating action that may be taken by management to ensure the entity continues as a going concern

Discussion point 2

Do you think the gross trigger for disclosure is the right one?

Do you think that going concern disclosures are always a self-fulfilling prophesy?

Other comments on the proposals?