May 2011

International Financial Reporting Standards

Introducing IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosures*

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

Housekeeping items

- Slides can be downloaded by clicking on the button below the slides window
- To ask a question, type into the designated text box on your screen and click “submit”
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- A recording of the webcast will be available online at www.ifrs.org and www.fasb.org
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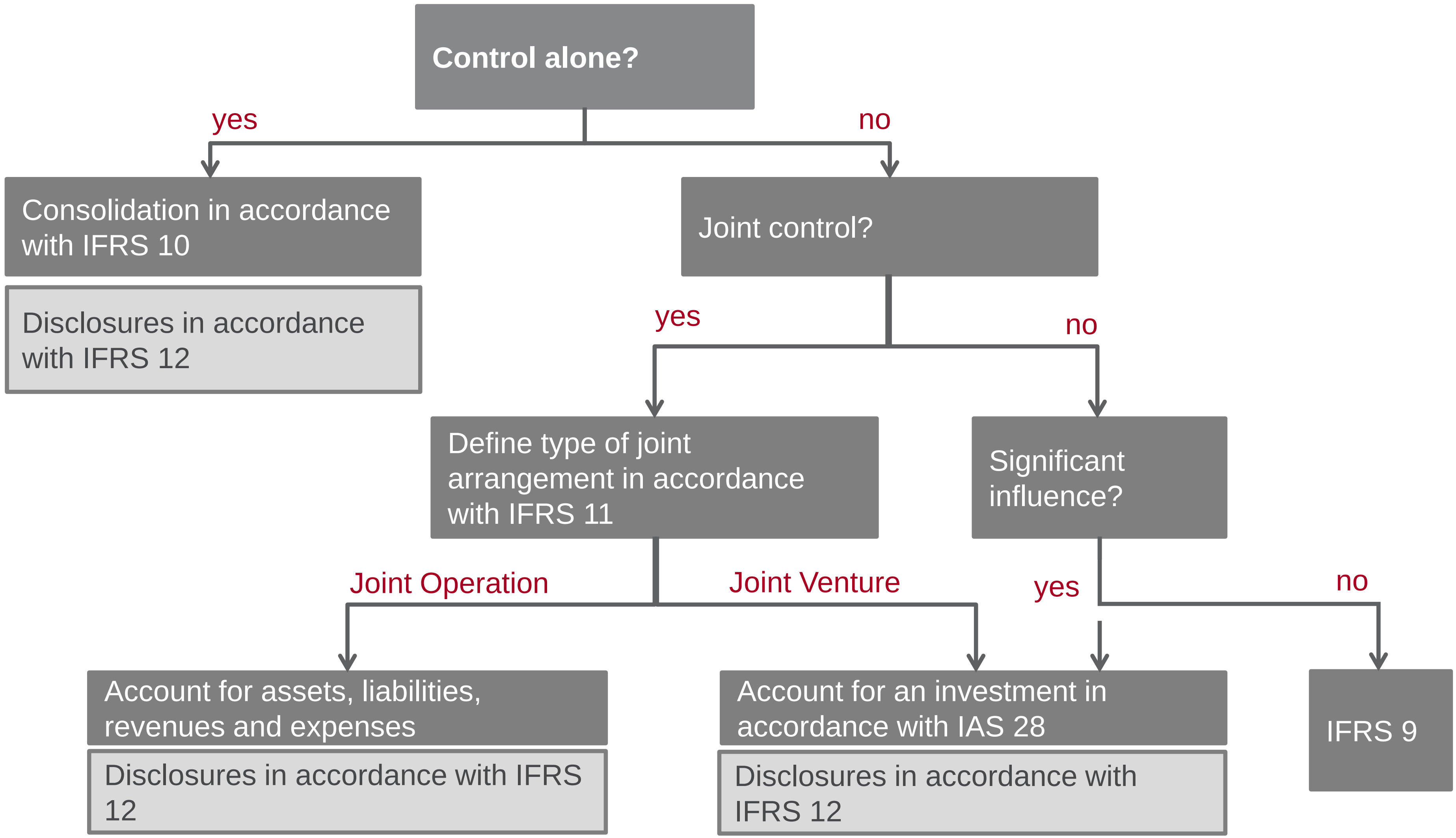
Important improvements

- IFRS 10,11 and 12 were published on 12 May 2011
- They create a consistent, principle based package for the involvement of companies with other entities
- Enhance convergence with US GAAP in key areas
- Conclude an important component of our response to the financial crisis

Interaction between IFRS 10,11,12, and IAS 28



Consolidated Financial Statements and related Disclosures

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 principles 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

The control model – overview

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.

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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

- No separate guidance. General principles apply for assessing control for all types of entities.

Main decisions

3. 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

4. Disclosures

- Enables investors to assess the nature of, and changes in, the risks associated with its interests in consolidated and unconsolidated structured entities

Improvements

✓ **Consistency and additional guidance**
- Applying the definition of control
- Control without a majority of voting rights
- Agency relationships

✓ **Removal of ‘bright lines’**
- Better reflection of the economic substance of the underlying relationship between entities

✓ **One disclosure package**
– Enhanced disclosures and unified disclosure objectives in IFRS 12 will provide useful information to capital markets and improves transparancy about the entity’s exposure to risk

Joint Arrangements and related Disclosures

IAS 31
What needed to be improved?

- The structure of the arrangement is the **only** driver for the accounting
- When arrangements are structured in entities, preparers have an **accounting option**

This results in:

- arrangements that entitle the parties to similar rights and obligations are accounted for differently and, conversely,
- arrangements that entitle the parties to different rights and obligations are accounted for similarly.

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IFRS 11
How does IFRS 11 improve on IAS 31?

- IFRS 11 establishes a clear principle that is applicable to the accounting for all joint arrangements.

The guiding principle:
A party to a joint arrangement recognises its rights and obligations arising from the arrangement.

- As a result: accounting options are eliminated.

IFRS 11
The assessments required

1st assessment

JOINT CONTROL

Do all the parties, or a group of the parties, have **joint control** over the arrangement?

No → Outside the scope of IFRS 11

Yes ↓

2nd assessment

Classification of the JOINT ARRANGEMENT

Analysis of the **parties' rights and obligations** arising from the arrangement

→ **Joint Operation**

→ **Joint Venture**

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IFRS 11
Assessing joint control

Does the contractual arrangement give all the parties, or a group of the parties, control of the arrangement collectively?

No → Outside the scope of IFRS 11

Yes ↓

Do the decisions about the relevant activities require the unanimous consent of all the parties, or of a group of the parties, that collectively control the arrangement?

No → Outside the scope of IFRS 11

Yes ↓

The arrangement is jointly controlled
the arrangement is a joint arrangement.

IFRS 11
Assessing the classification

Not structured through a separate vehicle

Structured through a separate vehicle

Assess the parties' **rights and obligations** arising from the arrangement by considering:

(a) the *legal form* of the separate vehicle
(b) the *terms of the contractual arrangement*, and, if relevant,
(c) *other facts and circumstances*

Parties have rights to the assets and obligations for the liabilities

Parties have rights to the net assets

Joint operation

Joint venture

Accounting for **assets, liabilities, revenues and expenses** in accordance with the contractual arrangements

Accounting for an **investment** using the **equity method**

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IFRS 11 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; and
- More *comparability* among financial statements
  - – it will enable users to identify and understand similarities in, and differences between,similar arrangements

IFRS 12
Disclosures for joint arrangements

Description of the nature, extent and the financial effects of an entity's interests in joint arrangements

Joint operations

Joint ventures

Summarised financial information for each individually material joint venture and in total for all other joint ventures.

Effective date
IFRS 10, IFRS 11, IFRS 12

- Aligned effective date for IFRS 10, IFRS 11 and IFRS Annual periods beginning on or after 1 January 2013.
- Earlier application permitted.
  - If an entity applies any of the IFRSs earlier, it is required to apply the other IFRSs at the same time.

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.