Asia Pacific Dbriefs Presents:

Global Financial Reporting.

IFRS: Important Developments

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Agenda

- IFRS update
- Project update
  - Financial instruments
  - Consolidation – investment entities
  - Leases
  - Revenue recognition
- Questions & Answers

Keep in mind

This webcast does not provide official Deloitte Touche Tohmatsu Limited interpretive accounting guidance

Check with a qualified advisor before taking any action

Learning objective

To enhance participants' understanding of important accounting issues and developments pertaining to recent actions of the IASB

Updated IASB work plan

Project	Exposure draft (ED)	Final standard
Financial instruments		
• General hedging	Q3 2012[1]	Q4 2012
• Macro hedging	DP 2013[3]	—
• Impairment	Q4 2012	—
• Classification and measurement (limited amendments)	Q4 2012	—
Insurance contracts	H1 2013	—
Leases	Q1 2013	—
Revenue recognition	Q4 2011	H1 2013
Consolidation – investment entities	Q3 2011	Q4 2012[2]

[1] Review draft posted until December 2012
[2] Issued October 31, 2012
[3] Discussion paper due in 2013

Financial instruments project update

IFRS 9: financial instruments

Where are we?

		2007 to Q3 2010	Q4 2010	2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2013	2014	2015
IFRS 9	Phase I: Classification and measurement of financial assets	Final standard Phase I assets	Final standard Phase I liabilities					Exposure draft expected			Effective date 1 January 2015
	Phase I: Classification and measurement of financial liabilities	Exposure draft									
	Phase II: Impairment	Exposure draft		Supple-mentary document				Exposure draft expected			
	Phase III: General hedge accounting		Exposure draft				Review draft issued	Final standard expected			
	Phase III: Macro hedge accounting								Discussion paper expected		

Today

General hedge accounting model

Closer alignment with risk management

- **Key areas of change**
  - Increased eligibility of **hedged items**
  - Less Profit / loss volatility from **hedging instruments**
  - New qualification **effectiveness** requirements
  - Increased **disclosures**

Hedged items

More exposures eligible for hedge accounting

Hedged items

Risk components

- Risk components of non-financial items eligible if **"separately identifiable and reliably measurable"**
- Rebuttable presumption that inflation component of a financial item does not meet criteria

Derivatives as hedged items

- Derivatives can be included as part of the hedged item when combined with an exposure (i.e., synthetic position)
- Some illustrative examples provided

Groups and net positions

- Net position cash flow hedges of foreign exchange (FX) risk only. Specific designation of gross items
- Fewer restrictions for fair value hedging net positions. Requires specific designation of gross items

Hedging instruments

Less P/L volatility from hedging instruments

Hedging instruments

Option contracts

- Change of time value of options recognised in other comprehensive income (OCI) when intrinsic value is designated
- Deferred amounts reclassified to profit or loss as a single amount or amortised over time
- P/L recognition depends on whether hedged item is "period" or "transaction" related

Forward contracts

- Forward points may be deferred in OCI when designate spot component of forward
- Forward points amortised from OCI to P/L over term of hedge
- Treatment of forward points an election for each hedge relationship

Non-derivative instruments

- If non-derivative held at fair value through profit or loss (FVTPL), then can be an eligible hedging instrument
- Limited examples in practice

Qualifying for hedge accounting

Hedge effectiveness requirements

Economic relationship	Credit risk not dominate	Hedge ratio
• Values of hedged item and hedging instrument generally move in opposite direction • Qualitative vs. quantitative assessment (ineffectiveness still measured) • Prospective test only	• Credit risk can negate economic relationship • Both own credit and counter-party credit • Consider both hedged item and hedging instrument	• Generally the actual ratio • Cannot create ineffectiveness inconsistent with the purpose of hedge accounting • Rebalancing of hedge ratio may be required

Transition requirements

For hedge accounting phase

Requirements generally prospective

To apply hedge accounting from date of initial application for existing hedging relationships, IFRS 9 hedge accounting requirements must be met at that date

Existing hedge relationships that qualify under IFRS 9 are regarded as continuing

Accounting for time value of options must be applied retrospectively

Accounting for forward element of forward contracts can be applied retrospectively (but no cherry picking)

Polling question 1

Which of the following changes to the hedge accounting requirements would have the most significant impact on your company?

- The change to the hedge effectiveness requirements (e.g., removal of the 80 – 125 percent threshold)
- Expansion of risks in non-financial items eligible for hedge accounting
- The change in accounting of option contracts designated as hedging instruments
- Other changes
- Not applicable as will not apply hedge accounting

Investment entities

Investment entities

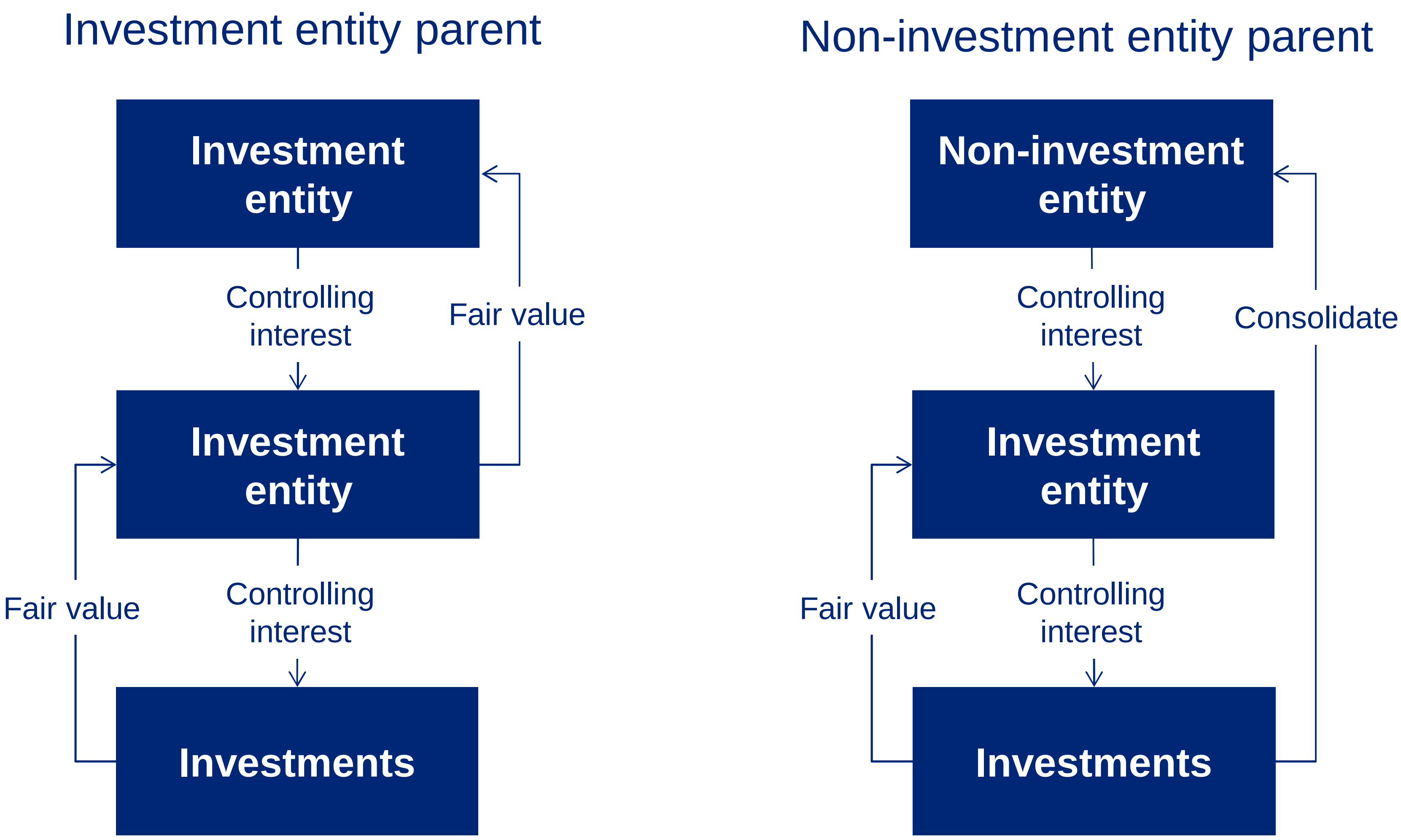
- Definition of an investment entity
  - Obtains funds from one or more investors for the purpose of providing those investors with investment management services
  - Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
  - Measures and evaluates the performance of substantially all of its investments on a fair value basis

Investment entities

- Characteristics of an investment entity
  - More than one investment
  - More than one investor
  - Unrelated investors
  - Ownership interests

Investment entities

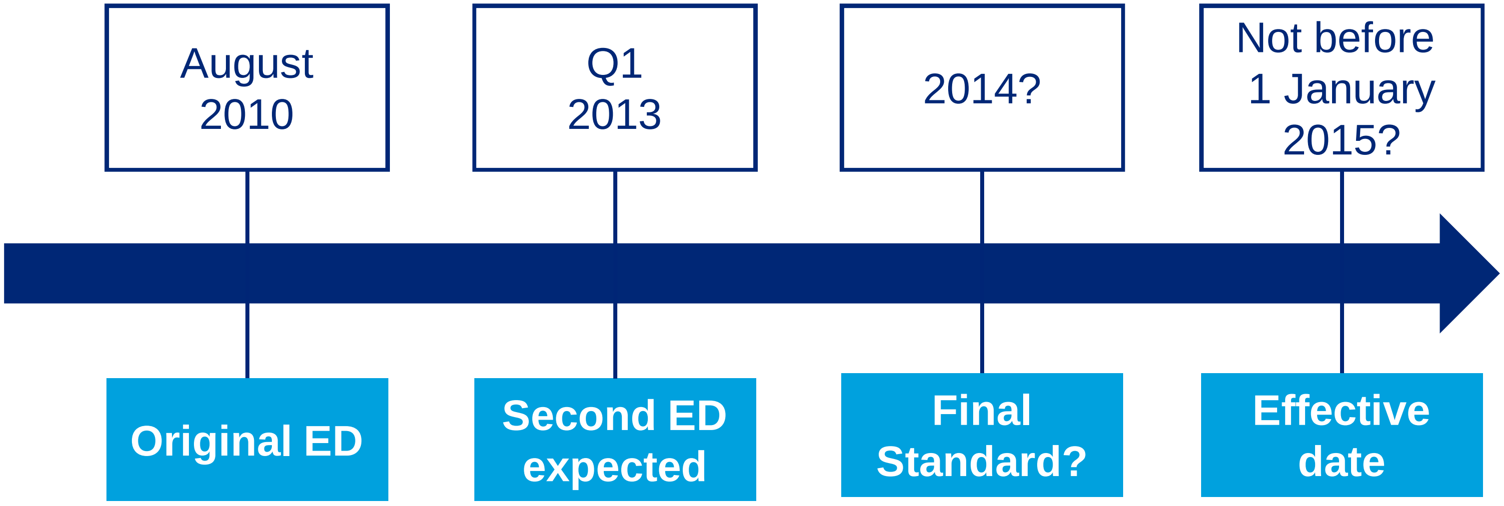
- Application of the model



Leases project update

Leases

- Timeline



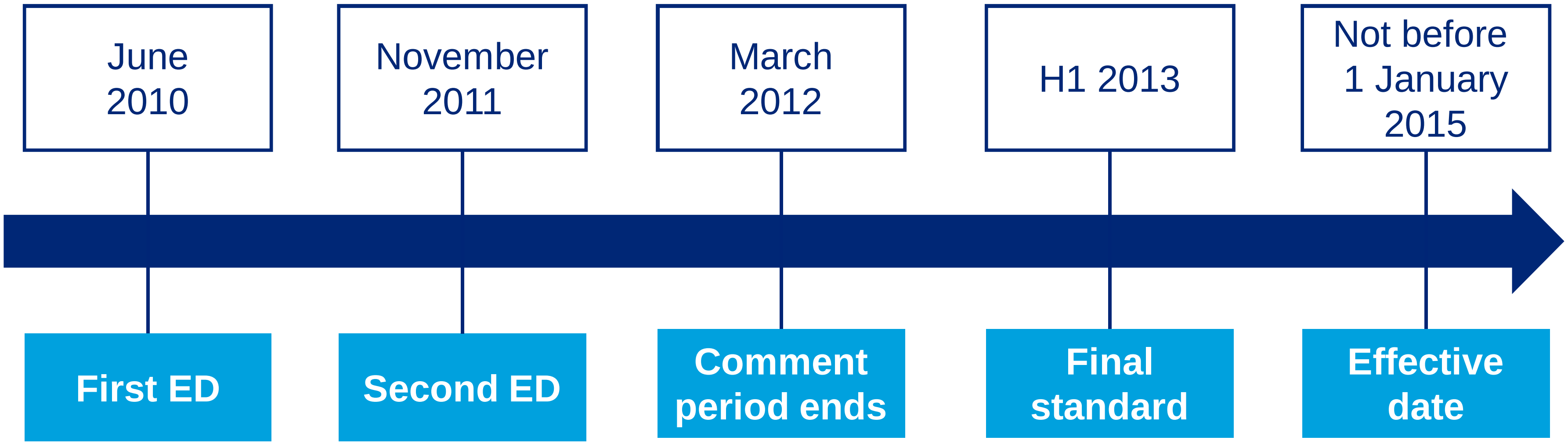
Leases

- Recent redeliberations
  - Right of use impairments
    - Recognition of impairments follows IAS 36
    - Limit on straight line lease expense post-impairment
  - Sale and leaseback transactions
    - Apply guidance to the entire transaction
    - Assess each lease component separately
    - If a sale has not occurred, treat as a financing

Revenue recognition project update

Revenue from contracts with customers

- Project timeline



Revenue from contracts with customers

- The model
  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. Recognize revenue when (or as) a performance obligation is satisfied

Revenue from contracts with customers

- Redeliberations

Discussed	• 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 – contract combinations and distribution networks • Contract modifications • Measures of progress (step 5) • Licenses • Constraining the cumulative amount of revenue recognized (step 5) • Collectability (step 3)
Upcoming topics	• Allocation of the transaction price (step 4) • Costs • Non-financial assets • Scope • Disclosures • Transition, effective date, and early adoption • Sweep issues and consequential amendments • Cost-benefit analysis

Polling question 2

If a final revenue standard is issued late in the first half of 2013, do you believe the effective date should be

- 1 January 2015
- 1 January 2016
- Later

Questions & Answers

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Thank you for joining today's webcast

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