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Asia Pacific Dbriefs Presents:

Global Financial Reporting.

IFRS: Important Developments

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Agenda

- Updated IASB work plan
- Status of financial instrument projects
- Fair value measurements standard
- Status of revenue recognition, leases, and insurance projects
- Amendments to IAS 1 and IAS 19
- Questions & Answers

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Keep in mind

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Learning objective

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

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Polling question 1

Are you a financial statement preparer, user, auditor, or other interested party?

- Preparer
- User
- Auditor
- Other

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Updated IASB work plan

- Pace of standard-setting unprecedented
- Stakeholders expressed concern over due process
- The IASB and FASB pressured to re-expose
  - Revenue recognition and leasing will be re-exposed
- Target completion dates are updated
- Effective dates of major projects could be 2015 or 2016

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Updated IASB work plan (cont'd)

Project	Estimated date
Financial Instruments	
• Offsetting	Q3 2011
• Hedging	Q4 2011
• Impairment (ED)	Q4 2011
• Macro hedging (ED)	Q4 2011
Insurance contracts	Q2 2012
Leases	Q2 2012
Revenue recognition	Q2 2012
Consolidation – investment companies (ED)	Q3 2011
Agenda consultation	Q3 2011

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Financial instruments

IFRS 9 classification and measurement

- Original IFRS 9 mandatory effective date – 1 January 2013
- Revised IFRS 9 mandatory effective date – 1 January 2015
- Reasons for revision
  - Allow time for completion of all phases
  - Avoid dual reporting requirements for SEC filers
  - Align with effective date for other significant standards

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Financial instruments

Hedge accounting

- IASB-only Exposure Draft (ED) on general hedge accounting published 9 December 2010
- Comment deadline on ED 9 March 2011
- Re-deliberations expected to end Q3 2011
- Final IFRS expected Q4 2011
- Separate ED on portfolio (macro) hedging expected in Q4 2011
- Five significant topics re-deliberated...

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Financial instruments

Hedge accounting (cont'd)

Topic	Proposal in Exposure Draft (ED)	ED responses and Board redeliberations
Hedge effectiveness assessment	• Removal the 80% to 125% effectiveness threshold • Removal of retrospective test • Only require prospective test • Revised test requirement: "other than accidental offset"	• Widespread support for the removal of the 80% to 125% threshold and the retrospective effectiveness test • Concerns that "other than accidental offset" requirement understandable • Revised tentative proposal is to require an "economic relationship" where credit risk is not expected to dominate value changes
Hedging with financial options	• If an entity designates the intrinsic value of an option as a hedging instrument, some or all of the change in time value is deferred in OCI to be subsequently reclassified to P/L	• During redeliberations the IASB tentatively decided to retain the proposals in the exposure draft but with additional guidance added • A similar treatment has been proposed by the staff for forward points

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Financial instruments

Hedge accounting (cont'd)

Topic	Proposal in Exposure Draft (ED)	ED responses and Board redeliberations
Derivatives as hedged items	• Removal of restriction preventing a derivative from being a hedged item	• Widespread support for this change from respondents • Further guidance on mechanics requested by respondents • Additional guidance proposed by staff
Presentation of fair value hedges	• Separate presentation of fair value hedge adjustment on balance sheet • Fair value changes taken to OCI with ineffectiveness in P/L	• Majority of respondents opposed this change for various reasons • Board tentatively decided not to change the presentation of fair value hedges and retain the current IAS 39 requirements
Equity investments at FVTOCI	• FVTOCI equity investments not eligible hedged items	• Tentative decision to allow such items to be eligible hedged items • Ineffectiveness recognized in OCI

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Financial instruments

Impairment

- IASB ED was issued on 5 November 2009
- Comment deadline ended on ED 30 June 2010
- Expert Advisory Panel formed in November 2009
- Joint IASB / FASB supplement to ED issued 31 January 2011
- Comment deadline on supplement ended 1 April 2011
- Re-exposure or a review draft of an IFRS expected in Q4 2011

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Financial instruments

Impairment (cont'd)

- Joint IASB and FASB discussions on a new model continue
- A joint working group of board and staff members has been formed to develop a new model
- The latest model considers a "three-bucket approach" in place of the "good-book / bad-book" proposal in the Supplementary Document
- The categorization of loan assets in one of the three buckets determines when to recognize expected losses
- The buckets are based on the level of credit deterioration
- In summary...

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Financial instruments

Impairment (cont'd)

Bucket 1	Bucket 2	Bucket 3
• Loan assets that do not meet the criteria for Bucket 2 or 3 • The provision for loan losses for this bucket will represent the expected losses for the next 12 or 24 months (yet to be decided as subject to further Board discussion)	• Loan assets that have suffered a credit deterioration but the affected assets have not been specifically identified • For this bucket, full lifetime expected credit losses recognized. Calculation is on a portfolio basis (similar to the notion of "incurred but not reported")	• Loan assets that have been specifically identified as impacted by observable credit event • For this bucket, full lifetime expected credit losses recognized. Calculation is on an individual asset basis

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Polling question 2

What single project do you believe should be a priority of the IASB on its future agenda?

- Conceptual framework
- Liabilities under IAS 37
- Financial statement presentation
- Disclosure framework
- Debt vs. equity
- Agriculture under IAS 41

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Financial instruments
Offsetting

- Joint IASB / FASB ED published 28 January 2011
- Comment deadline ended on ED 28 April 2011
- Final IFRS expected Q3 2011
- The FASB and IASB are no longer working towards a converged accounting solution for offsetting
- Differences in views exist over the legal right of offset (e.g., conditional vs. unconditional)
- In response to comment letter feedback the IASB and FASB will be working towards converged offset disclosures

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IFRS 13 fair value measurement

- Final IFRS issued on 12 May 2011
- Effective for annual periods beginning 1 January 2013
- Provides guidance on how to measure fair value (i.e., does not stipulate when to use fair value)
- Applies to both financial and non-financial items
- Includes disclosure requirements for items measured or disclosed at fair value
- Fair value definition based on exit value
- Definition of fair value for a financial liability subtly different as based on transfer value not settlement value
- Quoted mid-market prices permitted for use as a practical expedient

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Revenue recognition

- Exposure draft issued in June 2010
- Comment deadline ended 22 October 2010
- Boards nearing the end of re-deliberations
  - A number of changes have been made to proposals
- Boards decided to re-expose the tentative decisions
  - Re-exposure expected to occur in Q3 2011
  - Focus on a few key issues
- Final standard expected to be issued in Q2 2012
- Effective date not before 1 January 2015

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Revenue recognition (cont'd)

- No separate performance obligations if integrated
  - If not, look to whether distinct and pattern of transfer
- Transfer of control for services is continuous if
  - Entity's performance creates or enhances an asset the customer controls; or
  - Entity's performance does not create an asset with an alternative use and at least one of the following
    - Customer receives benefit as entity performs
    - Task would not need to be re-performed
    - Entity has right to payment for performance

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Revenue recognition (cont'd)

- Uncertain consideration
  - Measured using best technique
  - Recognize revenue if reasonably assured
- Credit risk as separate item adjacent to revenue
- Acquisition costs capitalized if incremental
- Warranty recognized as cost accrual if
  - Not sold separately and no additional service
- Licenses transfer at a point in time
- Onerous test performed at the contract level

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Leases

- Exposure draft issued in August 2010
- Comment letter deadline ended 15 December 2010
- Boards performed significant outreach activities
- Re-deliberations began in February 2011
  - A number of changes have been made to proposals
  - Impact will be across all industries
- Re-exposure expected in Q3 2011
- Final standard expected to be issued in Q2 2012
- Effective date not before 1 January 2015

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Leases (cont'd)

- Lease definition would change
  - Specified asset and control are key concepts
  - Portion of an asset can be subject to a lease
- Separate lease and non-lease components
- Right-of-use model
  - Recognize asset and liability
  - Accelerated expense recognition
- Short-term lease exception (12 months or less)
- Lessor accounting
  - De-recognition with profit recognized if reasonably assured
  - Scope out short-term leases and investment properties

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Leases (cont'd)

- Options considered if significant economic incentive
- Reassess options if change in facts and circumstances
- Variable payments considered only if:
  - In-substance fixed payments or based on index or rate
- Residual value guarantees
  - Recognize amount expected to be paid
  - Reassess and adjust based on period the change impacts
- Sale and leasebacks
  - Use revenue recognition guidance for sale of whole asset

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Insurance

- Exposure draft issued in July 2010
- Comment letter deadline ended 30 November 2010
- Applies to entities that issue insurance contracts
- New measurement model
- Financial statement presentation would change
- Boards may decide to re-expose tentative decisions
- Effective date not before 1 January 2015

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Polling question 3

What project do you feel will have the greatest financial statement effect on your organization?

- Revenue recognition
- Leases
- Financial instruments
- Insurance
- Don’t know / not applicable

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Revised standards

Amendment to IAS 1

- Retain option to present as single continuous statement or two separate but consecutive statements
- Group OCI items into those that will and will not subsequently be reclassified to profit or loss
- Items of OCI presented either
  - Net of related tax effects; or
  - Before related tax effects but allocate tax between items that will and will not be reclassified to profit or loss
- Effective 1 July 2012 with earlier application permitted

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Revised standards

Amendment to IAS 19

- Corridor approach eliminated
- Changes in obligation and assets disaggregated into three components
  - Service costs
  - Net interest
  - Re-measurements
- Net interest calculated using corporate bond yield
- Amended definition of short-term employee benefits
- Effective 1 January 2013 with early application
- Retrospective application with certain exceptions

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Questions & Answers

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