



IASB update

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IMA France 2 Octobre 2012



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



Recent IFRSs becoming effective

Active projects

- Projects that are part of the IASB-FASB Memorandum of Understanding (MoU)
- Other projects

Due process and outreach activities

IASB agenda consultation and future directions

Update on IFRS for SME

Recent IFRSs

IFRS		Effective Date
IAS 1	<i>Revised OCI presentation requirements</i>	1 July 2012
IFRS 10	<i><u>Consolidated Financial Statements</u></i>	1 January 2013*
IFRS 11	<i><u>Joint Arrangements</u></i>	1 January 2013*
IFRS 12	<i><u>Disclosures of Interests in Other Entities</u></i>	1 January 2013*
IFRS 13	<i><u>Fair Value Measurement</u></i>	1 January 2013
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>	1 January 2013
IAS 19	<i><u>Post-employment benefits</u></i>	1 January 2013
IAS 32	<i>Clarified offsetting amendments</i>	1 January 2014
IFRS 7	<i>New offsetting disclosures</i>	1 January 2013
IFRS 9	<i>Financial Instruments C & M (Phase 1)</i>	1 January 2015
Amendments to IFRS 1	<i>Government Loans (for First time adopters)</i>	1 January 2013

* EU endorsement decision → 01/01/2014; early adoption permitted

Active projects

4

Financial crisis

- Financial Instruments (FI): Impairment, Hedge Accounting, Classification and Measurement

MoU

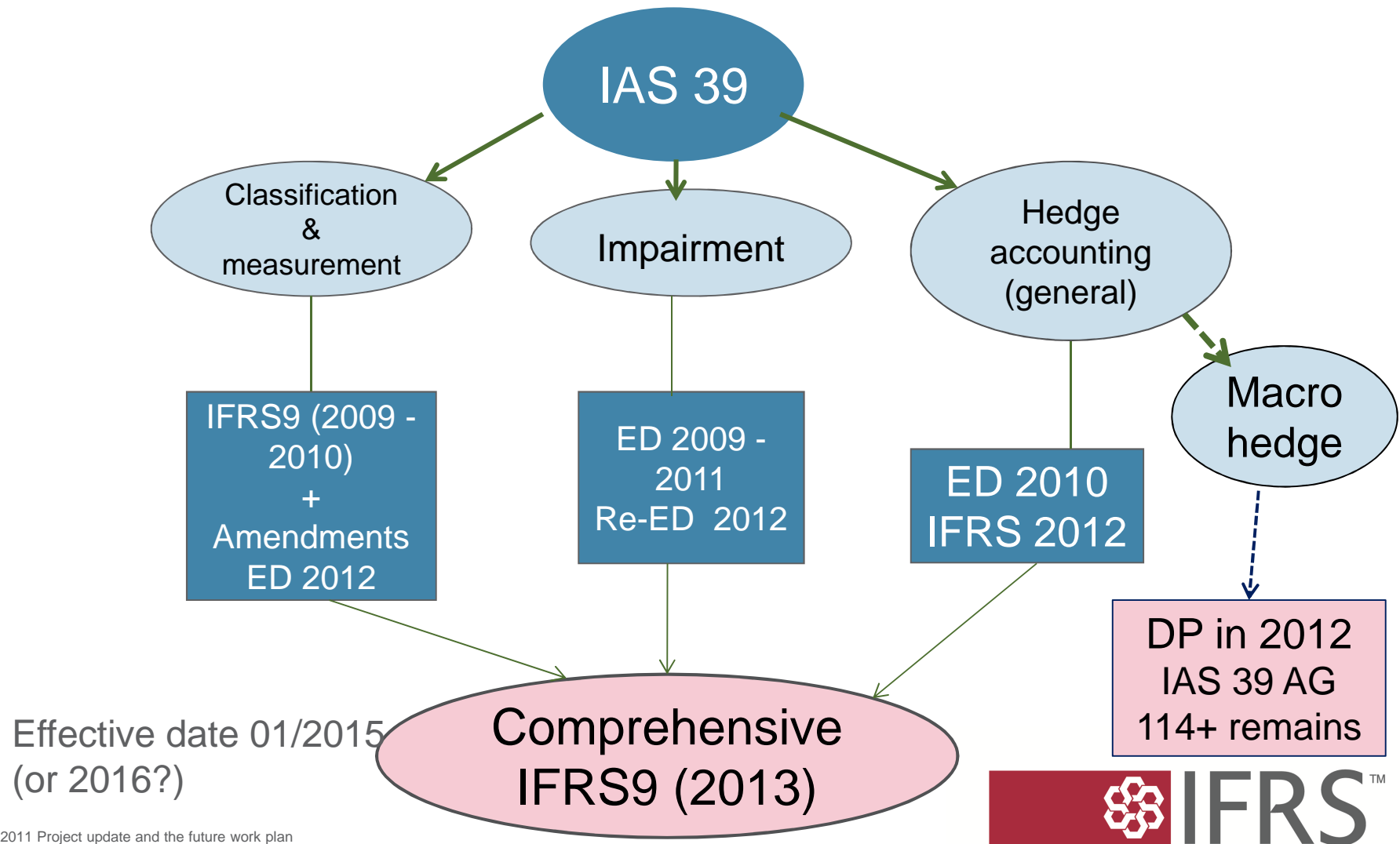
- Leases, Revenue Recognition

Other

- Insurance Contracts, Investment Entities
- Annual Improvements

Financial Instruments

FI: Overall strategy to replace IAS 39



FI: Classification and measurement

7

- Mandatory effective date for IFRS 9 now 1 January 2015
- IASB is considering limited modifications to IFRS 9 to:
 - address application issues
 - address matters related to interaction with insurance
 - explore opportunities to closer align with FASB
- Primary differences between IASB and FASB models:
 - FASB have FV-OCI for most debt instruments
 - FASB retains bifurcation for financial assets
 - FASB prohibits reclassification

G20 leaders insist on convergence for FI

- Improve definition of “principal and interest only” which drives the amortized cost classification
- Propose a 3rd category “ FV through OCI” for debt securities that are “held either to collect contractual CF or to sell”
 - Avoid mismatch with IFRS4 project (possible use of OCI for certain re-measurements of insurance liabilities)
 - Re-cycling gains and losses on derecognition
 - Impairment as for amortised cost
- Re-consider decision on bifurcation of embedded derivatives? : no

IASB- Classification and measurement

Two steps approach currently considered:

Step #1 Apply the **cash flow characteristics** test (“solely repayment of principal and interest”) to the debt instruments – without bifurcation of embedded

Derivatives – If failed, instruments valued at FV-P/L; otherwise go to

Step #2 Classify qualifying instruments according to the **business model**:

Amortized cost	Held to collect Cash Flows	Loans (if “vanilla”) Certain debt securities
Fair Value - OCI	Liquidity reserve / Investing activity (collect and sell)	Debt securities Equity securities (OCI Option in IFRS9 - 2009)
Fair Value – P/L (default category) (FV option at initial recognition - only to avoid mismatch)	Held for trading	Non vanilla debt securities and loans Instruments held for trading Equity securities Derivatives

- Reclassifications
 - Only when change in business model (rare)
 - Prospectively from reclassification date
 - FV determined at reclassification date
 - If FV to AC, FV becomes new carrying amount and determine new effective interest rate
- ED will propose that ‘own credit’ can be applied before the rest of IFRS 9 when IFRS 9 is finalised
- Next steps
 - On 26 September, IASB authorized staff to begin drafting the ED ; Balloting and publication of “Final C&M” ED expected in November 2012

FI: Impairment of financial assets

11

IASB and FASB both agreed to replace ‘incurred loss’ model with ‘expected loss’ model

– But they did not agree on details

November 2009 – IASB proposals published

May 2010 – FASB alternative published

January 2011 – Joint supplementary document issued

At present – Boards deliberate a three category (bucket) model

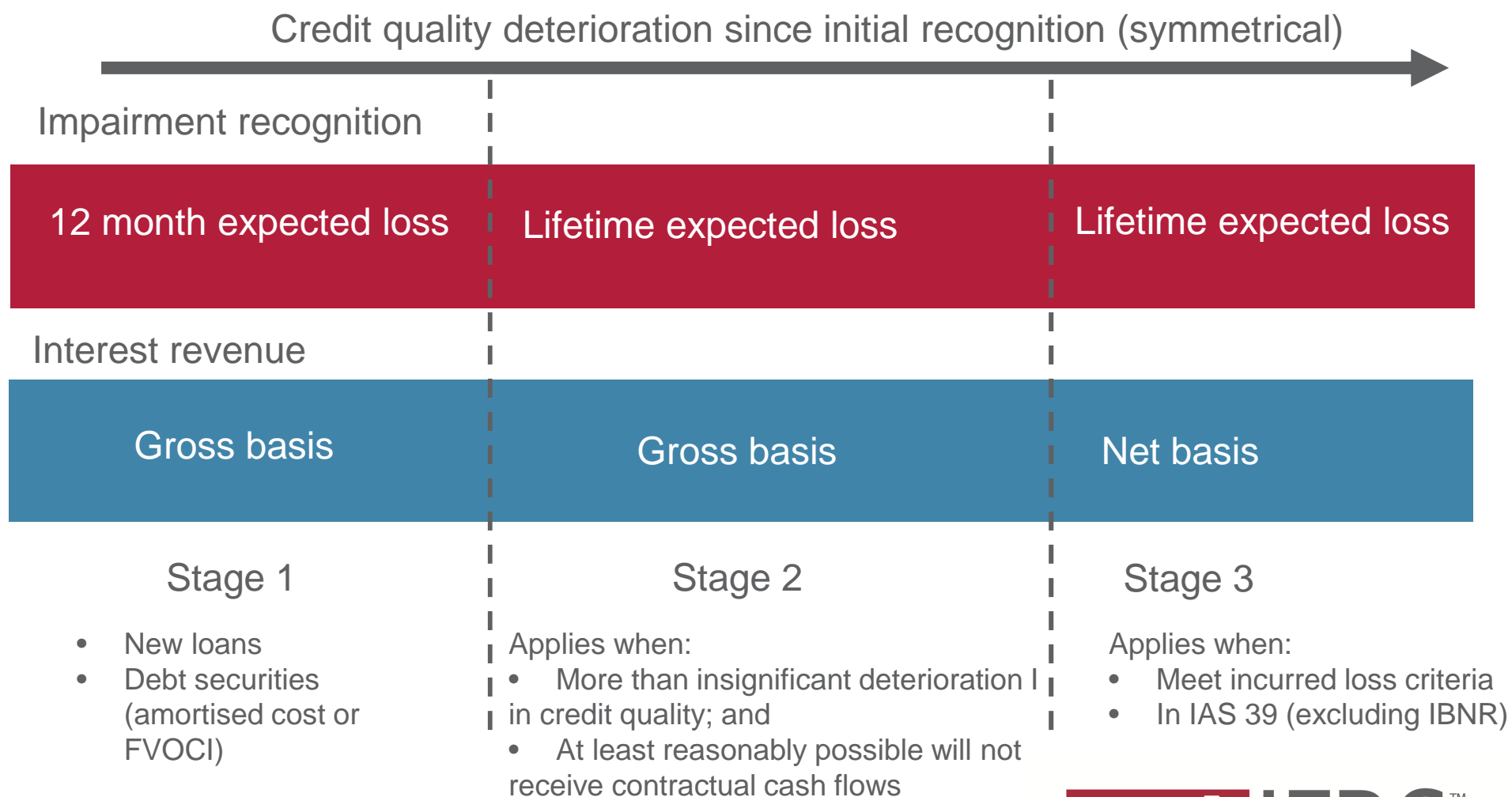
H2 2012 – New ED expected ; but FASB seemed in July to no longer agree with the jointly deliberated model...

Objectives of an expected losses model

12

- To improve the usefulness of financial statements by improving the transparency of provisions for losses on loans and the credit quality of financial assets
 - To improve the accounting for provisions for losses on loans by taking into consideration expected losses, resulting in more timely recognition of losses (to reflect the economic reality of lending)
- Expected losses would be recognised earlier in the life of an asset, and any changes in expected losses would be recognised immediately; but for new originated loans, there would not be (for the IASB) a full (life-time) day-1 loss recognition.

General deterioration model*



*Model for assets that are not credit impaired on initial recognition
They begin in stage 2 with a credit adjusted EIR

General model

- Exposure Draft (ED) in 2010
- Extensive outreach; Generally well received, but not well suited for risk management by financial institutions
- IASB published a “review draft” on 7th September
- Target IFRS end 2012

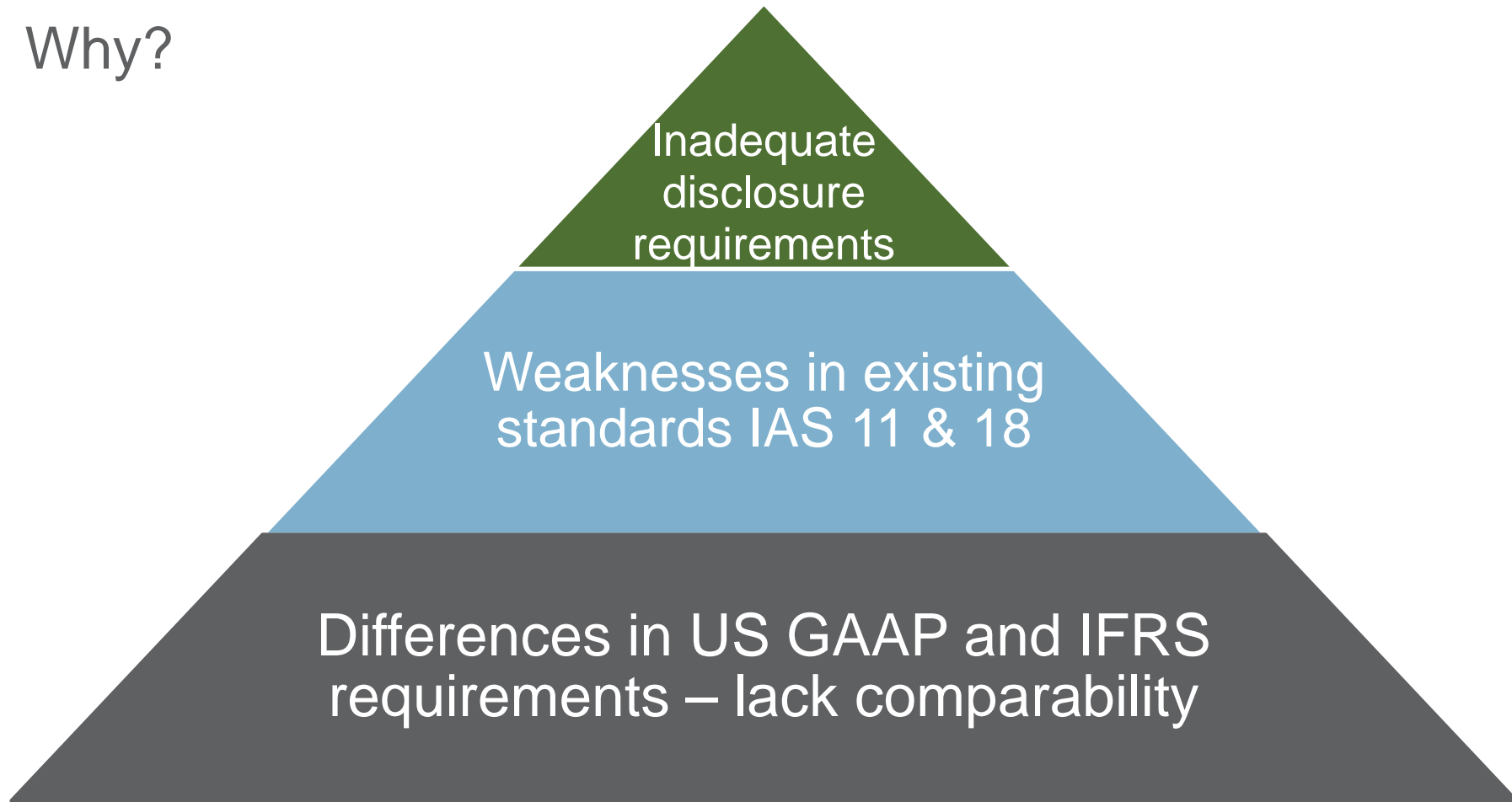
Macro hedge accounting

- Risk management strategies for open ALM portfolios not covered by 2010 ED
- Target Discussion Paper in a few months

Revenue Recognition

Revenue Recognition

Why?



- Project objective is to develop a common revenue recognition standard for IFRSs and US GAAP
- Revised exposure draft published November 2011
 - comment period ended 13 March 2012
 - re-exposure supplemented with extensive outreach
- Objectives of re-exposure
 - confirm whether the proposals are clear, complete and can be applied in practice
 - invite comment on substantive changes to 2010 proposals (6 questions)

Revenue—proposed model

- **Core principle:** Recognise revenue to depict transfer of goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services

- | | |
|---------------|--|
| Step 1 | Identify the contract(s) with the customer |
| Step 2 | Identify the separate performance obligations in the contract |
| Step 3 | Determine the transaction price |
| Step 4 | Allocate the transaction price to the separate performance obligations |
| Step 5 | Recognise revenue when (or as) the entity satisfies a performance obligation |

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

Revenue – Items for consideration for Sept. thru Nov. 2012 Board meetings

20

- Identifying the separate performance obligations -- notion of “distinct”
- Time value of money / significant financing component
- Constraints on revenue recognized when uncertainty
- Licenses
- Collectibility, application of impairment model to trade receivables
- Notes disclosure and interim reporting / costs-benefits analysis
- Transition and effective date & early adoption

Onerous performance obligations

- 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

Project status

22

2010

2011

2012

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

Final standard (ASU / IFRS)

Retrospective transition proposed

Effective date to be determined (but no earlier than January 1, 2016)



Lease Contracts

- ED issued in 2009 – significant modifications decided based on feedback; further progress on lessor accounting
 - Boards decided in July 2011 to re-expose the proposals
- The FASB and IASB have developed a common model
 - Right of use model for both lessees and lessors
- Boards performed outreach seeking views on lessee accounting in income statement

Lessee

‘Right of use’ accounting model: Lessee has acquired the right to use an underlying asset and is obligated to pay for that right with its lease payments

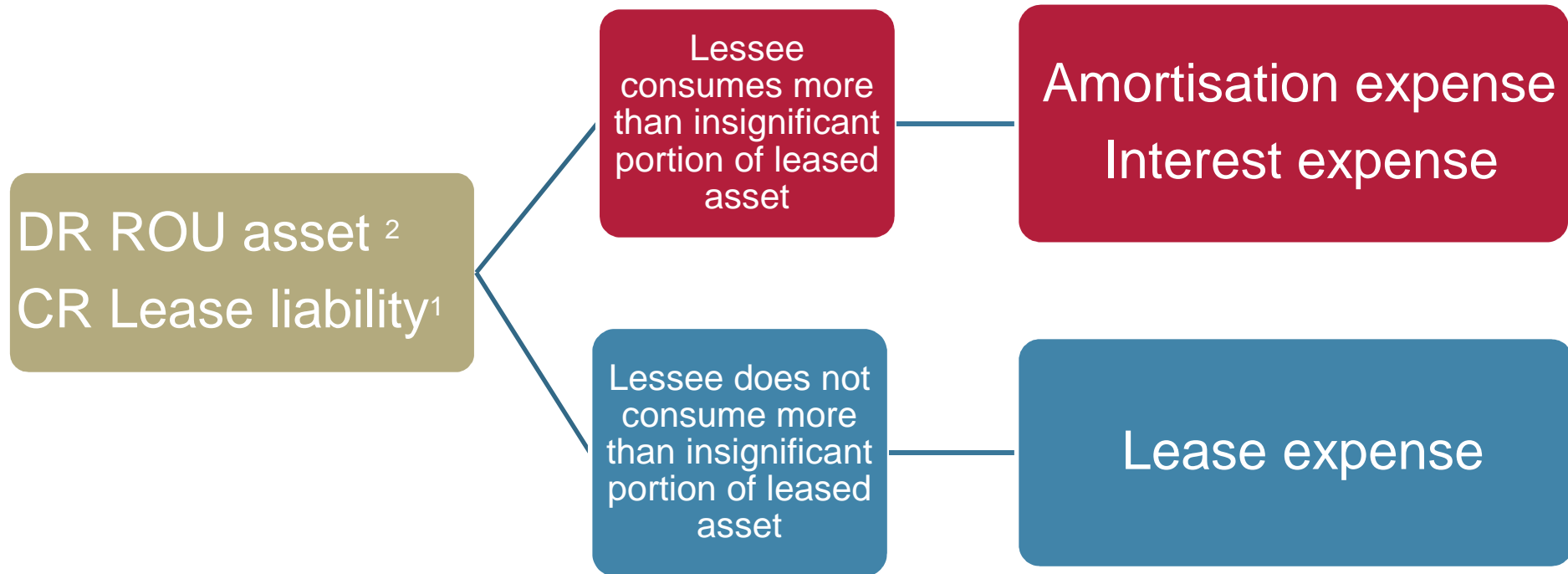
- Recognise a right of use asset and a liability to make lease payments (at present value)
- Amortise the right of use asset and recognise interest expense on liability
 - Question: how to amortise the ROU asset?

Redeliberations—lessee model

Balance sheet*

Economics of lease

Income statement

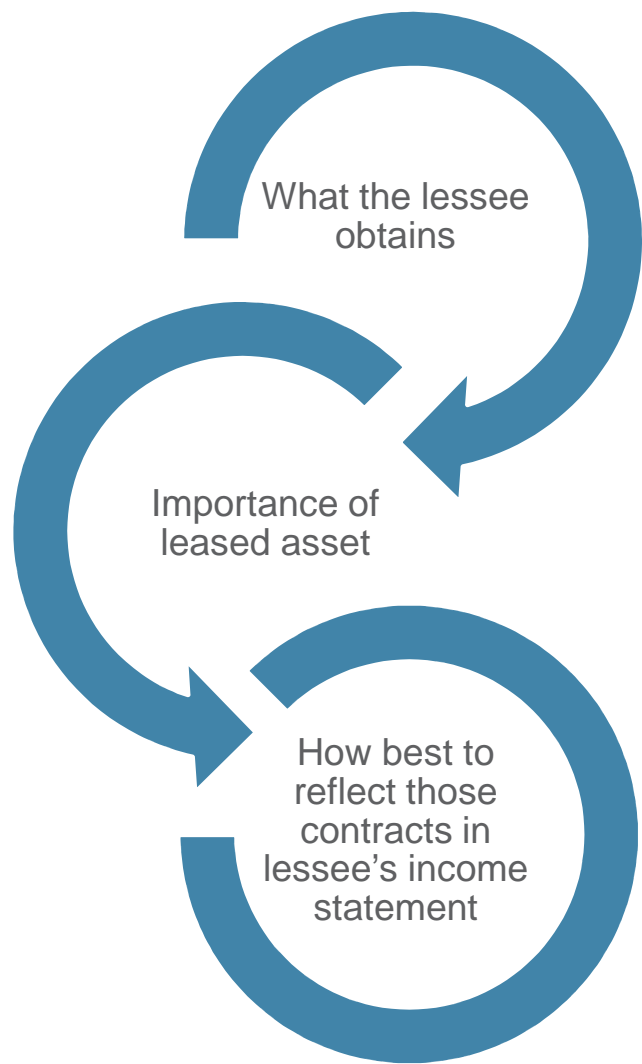


* For contracts >12 months (if <12m, continue current operating lease acc.)

¹ Measured at present value of lease payments

² Initially measured at same amount as liability, plus initial direct costs

The rationale (lessee)



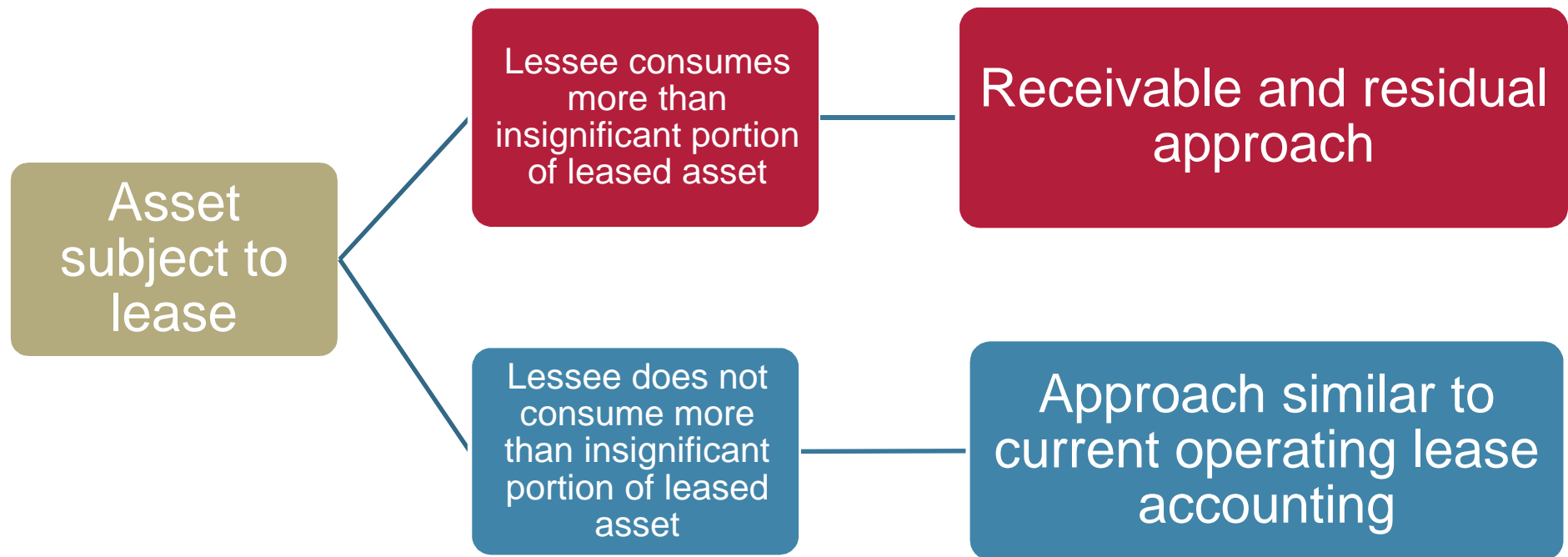
- Right to use an asset
- Obligation to pay for that right

- Not all leases are the same
 - 10-year airplane lease => paying to acquire the “piece of the airplane” consumed plus financing
 - 3-year real estate lease => paying only for use of the lessor’s asset

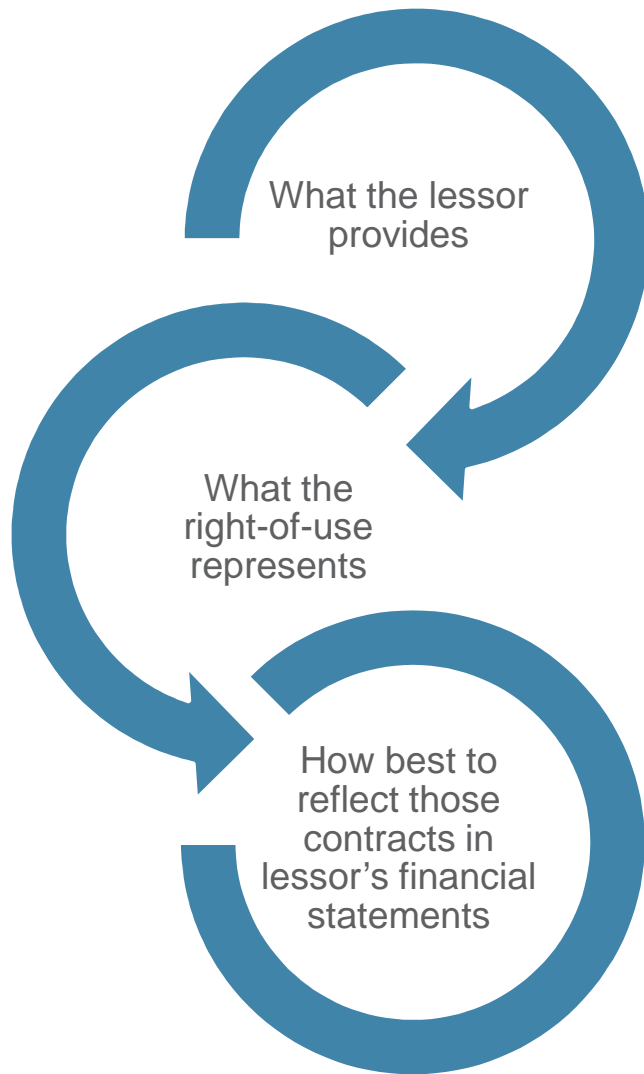
- Recognise amortisation on ROU asset (and interest on lease liability) when lessee consumes a more than insignificant portion of leased asset
- Recognise straight-line lease expense when lessee is paying only for use of the lessor’s asset

Redeliberations—lessor model

Economics of lease → Accounting model



The rationale (lessor)



- Lessor provides the lessee with the right to use an asset
- Not all leases are the same
 - 10-year airplane lease => lessor charges the lessee to recover expected consumption of the airplane plus financing
 - 3-year real estate lease => lessor charges the lessee only for use of the real estate
- Recognise lease receivable and retained interest in residual asset when lessee consumes a more than insignificant portion of leased asset
- No change to accounting for leased asset and recognise straight-line lease income when lessor charges the lessee only for use of the leased asset

Receivable and residual approach

30

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 (IFRS) 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

Classification of leases*

Lessee consumes more than insignificant portion of leased asset

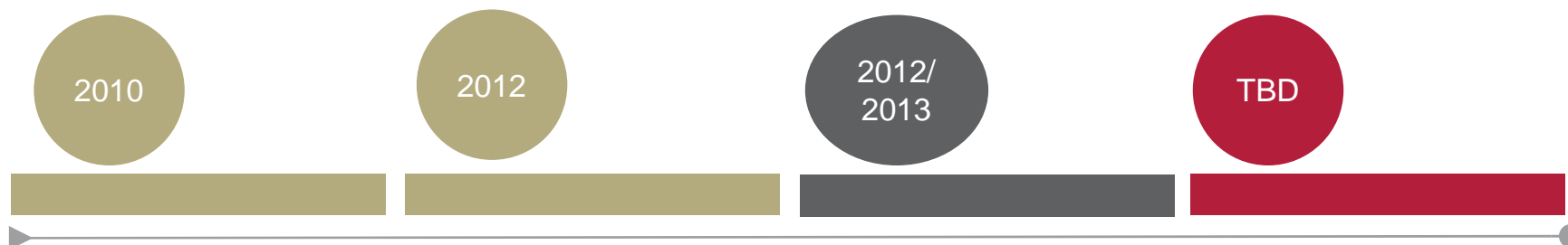
- Leases of assets **other than property** *unless*:
 - Lease term is insignificant relative to economic life of asset
 - PV of lease payments is insignificant relative to FV of asset

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

Where we are



August 2010
Exposure Draft
Leases

Q4 2012 (Q1 2013?)
Second Exposure Draft
Leases

Consultation

TBD
Final Standard
Leases

Comment period 4 months
786 comment letters received
Contained proposals for both lessees and lessors

Re-expose proposals
Comment period 120 days
Focus on revisions to 2010 proposals
Will contain proposals for both lessees and lessors

Outreach
Working group meetings
Redeliberations

Effective date: TBD
Will contain guidance for both lessees and lessors

Other Projects

Insurance contracts

35

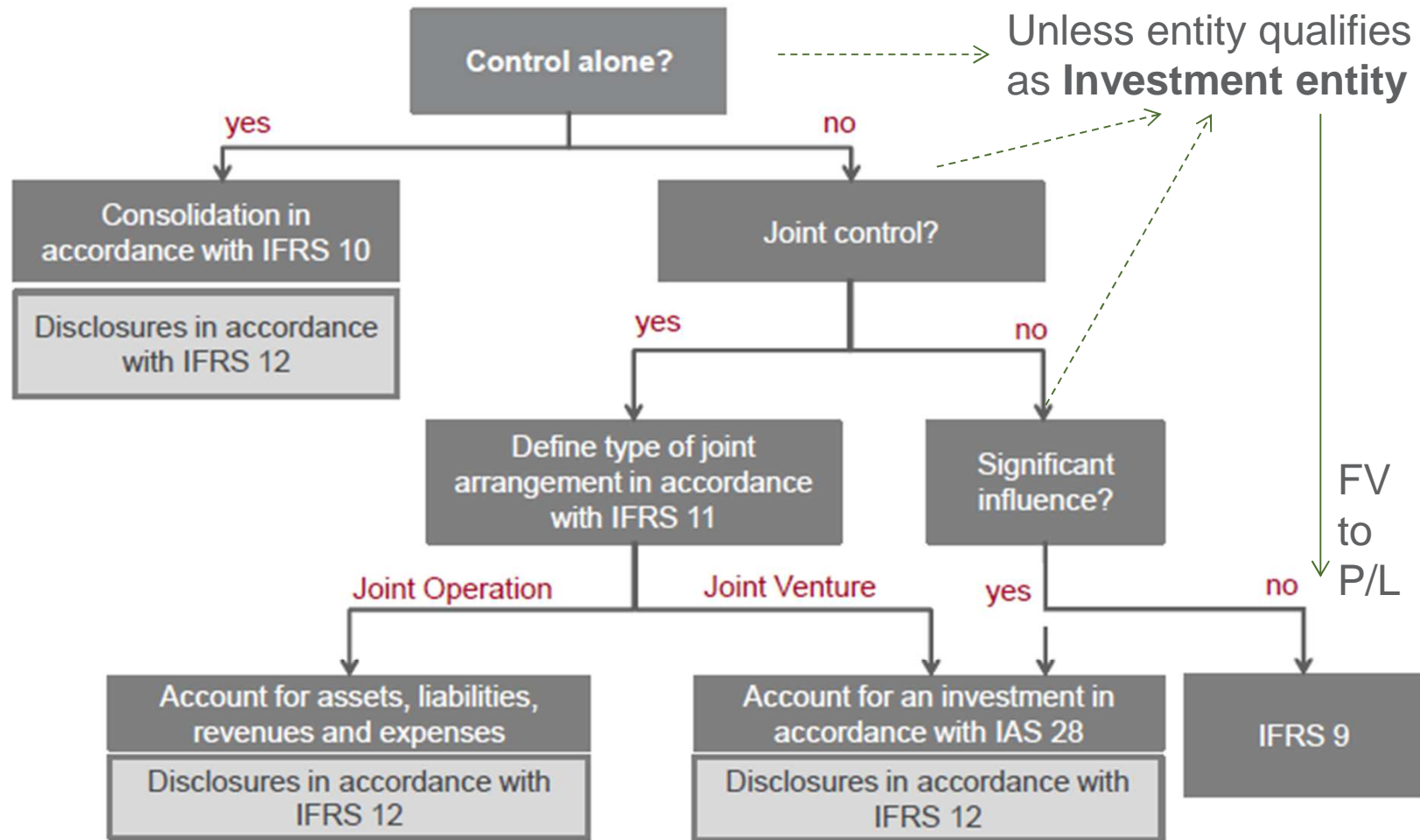
- Now a Joint project with FASB
- IASB and FASB due process steps not aligned
 - IASB has issued an ED, FASB has not yet
 - Have reached different conclusions on some important issues
- IASB proposes use of OCI for re-measurements of insurance liability due to interest rates changes
- Whether to re-expose ? Board decided on 26/09 to proceed with targeted re-exposure (5 topics); Document expected beginning 2013
- Summary of where we are on this project : see agenda paper 9 for the Insurance Working Group June 2012 meeting + IASB update for September

Investment entities

- Captures entities solely in the business of investing (mutual funds, venture capital funds, etc.)
- Proposal to create a scope exception to IFRS 10 *Consolidated Financial Statements* and IAS 28
 - ➔ Fair value through P&L instead of consolidation or equity method
- Joint project with FASB
- ED comment period ended January 2012
- Some issues to be brought back to Board in 09/2012
- Final amendments expected by end of 2012

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

37
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Annual improvements

- 2009-2011 cycle of proposals was published in June 2011; seven amendment proposals (affecting five standards) – Final publication May 2012
- 2010-2012 cycle of proposals exposed in April 2012; comment period just ended

Strategy Review Due Process and Outreach

Strategic directions

- Monitoring Board and Trustees completed their reviews
- No change in overall mission and scope of IASB's activities
- Increased focus on full adoption rather than convergence
 - Understand better variations on “adoption” of IFRS and develop plans for full adoption
- Increased focus on consistent implementation
 - Enhance working relationship with enforcement bodies
 - Receive more intelligence of implementation issues
- More research needed before adopting a new agenda topic
 - Work in partnership with national standards setters

- Proposals published may 2012, comment period ended 5th September; Trustees will consider comments
- Incorporate enhancements recommended by Monitoring Board and Trustees Strategy review, including review of IFRIC
- Will consolidate IASB and IFRIC DP into single document
- Will include discussion of process for effect analysis and methodology for post implementation reviews
- Will include DP requirements for outreach activities
- Will incorporate enhancements to dialogue with Trustees DPOC

Agenda consultation and future directions

- **Public agenda review every three years**
- Will help 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

44

- **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**

- **246 comment letters, 4 Roundtables**

Results will feed into the Board's agenda setting process

- **Common views expressed:**

- Complete the four current projects, then
- Period of calm
- Focus on maintenance over development of IFRSs and on consistent implementation
- Utilise research from national-standard setters and academics
- Complete the Conceptual Framework

Timetable

January 2012: Comment summary presented to Board

February 2012: Discussed with Advisory Council

Q3 2012: Feedback Statement will be published

From Q3 2012 : Board begins deliberations on possible additions to its agenda

Likely candidates for short term Board's consideration

- Conceptual Framework – new approach to the management of this project
- IAS 41 Biological assets (limited scope project) : are “bearer biological assets” productive assets to be included in Property, plant and equipment (IAS16)?
- Rate Regulated entities (??)

Update on IFRS for SME's

Good Financial Reporting Made Simple.

- 230 pages
- Simplified IFRSs, but built on an IFRS foundation
- Completely stand-alone
- Designed specifically for needs and capabilities of SMEs
- Internationally recognised
- Final standard issued July 2009
- Already over 80 jurisdictions have adopted

Comprehensive review

50

- **Two years experience** 2010 and 2011
- **Consider whether to amend IFRS for SMEs** for:
 - Implementation problems or questions
 - Recent changes to full IFRSs
- **Invitation to Comment** June 2012
- **SMEIG** reviews responses, develops recommendation
- **IASB Exposure Draft** mid-2013
- **Final revisions (if any)** early 2014
- **Effective date** 2015 earliest
- **So:** ‘Stable platform’ of at least 5 years

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.

