Thursday 29 and Friday 30 May 2014
Marina Bay Sands Hotel, Singapore

Conference Documentation

IFRS Foundation
IFRS Conference: Singapore
2014

A one-and-a-half-day conference for senior financial executives and other interested parties

Strategic Partner:
Accounting Standards Council
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<td>Special Interest Session</td>
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Day 1—Thursday 29 May 2014

**Special Interest Sessions (pre-conference)**

09:00  **Registration**

09:30–12:00  Register for one of:

- Investor-focused IFRS update
- Implementing IFRS 9 *Financial Instruments*
- Implementing forthcoming IFRS *Revenue from Contracts with Customers*
- Implementing IFRSs 10 and 12

**Conference Programme**

12:00  **Registration**

Light buffet and refreshments

13:00  **Keynote address**

**Michael Lim, Chairman, Accounting Standards Council (Singapore)**

13:30  **The future of financial reporting**

**Hans Hoogervorst, Chairman, IASB**

14:00  **IASB update**

- Major IFRSs
- Implementation
- Conceptual Framework
- Research projects

*Chair:*

**Hans Hoogervorst, Chairman, IASB**

*Presenters:*

- **Sue Lloyd, Member, IASB**
- **Patricia McConnell, Member, IASB**
- **Chungwoo Suh, Member, IASB**

15:30  Coffee break

16:00  **Panel discussion: IFRS disclosures—innovations**

*Chair:*

**Patricia McConnell, Member, IASB**

*Panellists:*

- **Standard setter:**
  - **Stephen Cooper, Member, IASB**
- **Preparer:**
  - **Mikkel Larsen, Managing Director, Group Head of Tax and Accounting Policy, DBS Group Holdings Ltd**
- **Regulator:**
  - **Kenneth Yap, Chief Executive, Accounting and Corporate Regulatory Authority (ACRA)**
- **Auditor:**
  - **Jan McCahey, Partner, PwC**

18:00–19:00  **Cocktail reception**
09:00  **Panel discussion: IFRS 9—completing, implementing and analysing**  
  Chair:  
  Sue Lloyd,  Member, IASB

  Panellists:
  - **Standard setter:**  
    Stephen Cooper,  Member, IASB
  - **Bank preparer:**  
    Chng Sok Hui,  CFO, DBS Group Holdings Ltd and  Member, ASC
  - **Bank preparer:**  
    Michael Thomas,  Vice President, Accounting Policy & Advisory Group, Deutsche Bank
  - **Regulator:**  
    Robert Sharma,  Head of Accounting Services, Australian Prudential Regulation Authority (APRA)
  - **Advisor:**  
    Chen Voon Hoe,  Partner, PwC

11:00  Coffee break

11:30  **Break-out sessions:**  
  Choose one of the following:
  1. **Financial instruments: accounting for macro hedging**  
     Sue Lloyd,  Member, IASB
  2. **Insurance contracts**  
     Stephen Cooper,  Member, IASB
  3. **Leases**  
     Chungwoo Suh,  Member, IASB
  4. **Conceptual Framework (Part 1): elements and recognition**  
     Patricia McConnell,  Member, IASB

13:00  Lunch

14:00  **Break-out sessions:**  
  Choose one of the following:
  1. **Financial instruments: impairment**  
     Sue Lloyd,  Member, IASB
  2. **Leases**  
     Stephen Cooper,  Member, IASB
  3. **Business combinations under common control**  
     Chungwoo Suh,  Member, IASB
  4. **Conceptual Framework (Part 2): measurement**  
     Patricia McConnell,  Member, IASB

15:30  **End of conference**
Keynote address

MICHAEL LIM
Chairman
Accounting Standards Council (Singapore)
The future of financial reporting

HANS HOOGERVORST
Chairman
IASB
Jurisdiction Profile Project

- **Goals of the project:**
  - Develop a central source of information to chart jurisdictional progress toward global adoption of a single set of financial reporting standards
  - Respond to assertions that there many national variations of IFRS around the world
  - Identify where IFRS Foundation can help countries on their path to adoption of IFRS
- **130 jurisdiction profiles are now posted.**
Overview of the Jurisdiction Profiles

Use of IFRS by domestic listed companies
130 jurisdictions in the world

- 105 jurisdictions: IFRS required for all or most companies
- 14 jurisdictions: IFRS permitted for all or most companies
- 9 jurisdictions: IFRS required for financial institutions only
- 2 jurisdictions: National standards (including in process of moving to IFRS)

Asia-Pacific

- 19 out of 28 jurisdictions require IFRS in Asia-Pacific.

<table>
<thead>
<tr>
<th>Required</th>
<th>Australia</th>
<th>Azerbaijan</th>
<th>Bangladesh</th>
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<td>Bhutan</td>
<td>Brunei</td>
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<td>Fiji</td>
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<td>Republic of Korea</td>
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<td>Singapore</td>
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<td>Yemen</td>
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<td>Financial Institutions</td>
<td>Uzbekistan</td>
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<td>In Process</td>
<td>Indonesia</td>
<td>Thailand</td>
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<td>National Standards</td>
<td>China</td>
<td>Macao</td>
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</table>
Capital Markets as share of GDP

- **IFRS provide the financial information for capital markets covering over half of the world’s GDP:**
  - The non-EU/EEA jurisdictions is a large component of the IFRS users.
  - GDP of all EU/EEA jurisdictions, requiring IFRS, totals $17.2 trillion US dollars.
  - GDP of non-EU/EEA jurisdictions that either require or permit IFRS for all or most domestic listed companies is $23.3 trillion US dollars.

Our Focus in Asia - Transition Requirements

- **Very few modifications are made and the IASB actively engages on those topics.**

<table>
<thead>
<tr>
<th>Topics</th>
<th>Jurisdictions</th>
<th>IASB’s active engagements</th>
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<tbody>
<tr>
<td>Bearer Plants</td>
<td>Malaysia, Sri Lanka, etc.</td>
<td>Final amendments to IAS 16 and 41 (Q2 2014)</td>
</tr>
<tr>
<td>IFRIC 15</td>
<td>Malaysia, Singapore, Sri Lanka, Hong Kong, etc.</td>
<td>Finalisation of Revenue standard (Q2 2014)</td>
</tr>
<tr>
<td>Equity method in separate F/S</td>
<td>Taiwan, etc.</td>
<td>Final amendments to IAS 27 (Q2 2014)</td>
</tr>
</tbody>
</table>
Recent Developments in Asia - Japan

- In Japan, the IFRS adopters and their market capitalization are rapidly growing.

Potential Benefits of using IFRS

**Investors**
- Provide transparency and comparability in financial reporting.
- Provide opportunity to diversify portfolio and invest in growth on an equal basis.

**Issuers**
- Increase investments from foreign investors and reduce cost of capital by providing more trust to investors.
- Enable raising capital anywhere in the world.
- Use single financial reporting language for both internal and external reporting on a worldwide basis.

**Capital Market**
- Increase in foreign direct investment.
- Create international financial centre.
IASB update

HANS HOOGERVORST
Chairman
IASB

SUE LLOYD
Member
IASB

PATRICIA McCONNELL
Member
IASB

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

Recently issued IFRSs

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

May 2014 Project update and future work plan
Recent IFRSs

<table>
<thead>
<tr>
<th>IFRS</th>
<th>Effective Date</th>
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<tbody>
<tr>
<td>IFRS 9 Financial Instruments</td>
<td>TBD (available for application)</td>
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<tr>
<td>IFRS 14 Regulatory Deferral Accounts</td>
<td>1 January 2016</td>
</tr>
<tr>
<td>Annual Improvements 2010-2012 (IFRS 2, 3, 8, 13 and IAS 16, 24, 38)</td>
<td>1 July 2014</td>
</tr>
<tr>
<td>Annual Improvements 2011-2013 (IFRS 1, 3, 13 and IAS 40)</td>
<td>1 July 2014</td>
</tr>
<tr>
<td>Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)</td>
<td>1 January 2014</td>
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<tr>
<td>Investment Entities (Amendments to IFRS 10, 12 and IAS 27)</td>
<td>1 January 2014</td>
</tr>
<tr>
<td>Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)</td>
<td>1 January 2014</td>
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<tr>
<td>Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)</td>
<td>1 January 2014</td>
</tr>
<tr>
<td>Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)</td>
<td>1 July 2014</td>
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<td>IFRIC 21 Levies</td>
<td>1 January 2014</td>
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International Financial Reporting Standards

Major Standards-level projects

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IASB Work plan – as at 08 May 2014

Major IFRSs

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<tr>
<th>IFRS 9: Financial Instruments (replacement of IAS 39)</th>
<th>Next major project milestone</th>
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<td>Classification and Measurement (Limited amendments)</td>
<td>Target IFRS 2014 Q1</td>
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<td>Impairment</td>
<td>Target IFRS 2014 Q1</td>
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<td>Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging (Comment period ends 17 October 2014)</td>
<td>Public consultation</td>
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Disclosure Initiative

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<th>Amendments to IAS 1 (Disclosure Initiative) (Comment period ends 23 July 2014)</th>
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<td>Reconciliation of liabilities from financing activities</td>
<td>Target ED</td>
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<td>Insurance Contracts</td>
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<td>Leases</td>
<td>Redeliberations</td>
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<tr>
<td>Revenue Recognition</td>
<td>Target IFRS 2014 Q1</td>
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IFRS for SMEs: Comprehensive Review 2012-2014 – see project page

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Classification and measurement

• Objective – limited amendments to IFRS 9
  • Proposed
    – clarification of hold to collect business model
    – introduction of FVOCI category for simple debt instruments
    – clarification of principal and interest criteria
    – ‘own credit’ changes can be early applied in isolation
  • Timing
    – exposure draft published November 2012, comments ended March 2013
    – summary of feedback provided May and June 2013 meetings
    – we are currently drafting the final requirements of IFRS 9
    – plan to publish final version of IFRS 9 (2014) around June

Impairment of financial instruments

• Objective to improve
  – timeliness of recognition of expected credit losses
  – information about credit quality
  • Proposed
    – single impairment model
    – expected credit losses always recognised
    – full lifetime expected credit losses recognised when credit risk increases significantly
  • Timing
    – comment period ended 5 July 2013
    – overlapped with FASB ED
    – we are currently drafting the final requirements of IFRS 9
    – plan to publish final version of IFRS 9 (2014) around June
Accounting for hedges

- Hedge accounting (general model)
  - more closely aligned to risk management
  - Review Draft published September 2012
  - final discussion of comments from Review Draft April 2013
  - election to use IAS 39 or IFRS 9 hedge accounting model

- Accounting for macro hedges
  - risk management practices for open portfolios not covered by 2010 ED
  - Discussion Paper before ED
  - published April 2014

International Financial Reporting Standards

Other MoU projects
Revenue recognition

- Objective – to develop a single, principle-based revenue standard for IFRSs and US GAAP
- Expect to issue final standard concurrently with the FASB in Q2 2014
- Effective date 1 January 2017 with early application permitted
- Revenue Transition Resource Group to monitor implementation

Leases

- Status: Board redeliberating 2013 ED
- Main decisions:
  1. Lessee: All leases on-balance sheet (except for short-term leases and leases of small assets), with interest and amortisation presented separately in income statement
  2. Lessor: In essence, no change to existing lessor accounting
- Next steps: Publication of final standard expected 2015
  (Effective Date TBD)
Other projects

Insurance contracts

- Objective – to provide a single principle-based Standard that would increase comparability and transparency of entities that issue insurance contracts.
- IASB issued revised Exposure Draft in June 2013. Targeted issues:
  - Unlocking on contractual service margin
  - Mirroring
  - Presentation of revenue
  - Interest expense in profit or loss
  - Effective date and transition
- Redeliberations started in March 2014
- IASB plans to finalise the work on the Standard by the end of 2014 and to issue it in 2015
Rate regulated activities

• IFRS today has no comprehensive standard for rate-regulated activities
• Interim
  – Permit grandfathering of current accounting practices for recognition, measurement and impairment
  – Enhanced presentation and disclosure matters
  – Issued IFRS 14 *Regulatory Deferral Accounts* in Jan 2014
  – Effective date is 1 Jan 2016, early application is permitted
• Research project
  – Will consider whether rate regulation creates asset and liabilities and measurement of such assets and liabilities
  – Request for Information (issued end of March 2013)
  – Discussion Paper (expected Q3 2013)

IFRS for SMEs: Comprehensive Review 2012-2014

• IFRS for SMEs published July 2009
• Comprehensive review of IFRS for SMEs began in mid-2012 when IASB issued Request for Information
  – Responses discussed by SME Implementation Group in February 2013
  – Responses and SMEIG recommendations discussed by IASB during March-June 2013
• Exposure Draft issued October 2013
  – Comment period ended March 2014
  – Comment letter analysis underway
Why?

• Agenda consultation
  – Priority project

• Purpose of Conceptual Framework project
  – Not a fundamental rethink
  – Update, improve and fill in gaps (see next slide)
  – Focus on problems in the real world

• Purpose of the Discussion Paper
  – Starting point for discussion and outreach
  – Seek views on key issues from interested parties
Discussion Paper

Update

• Definitions
• Assets
• Liabilities
• Income
• Expenses
• Equity
• Recognition

Fill in the gaps

• Profit or loss/ other comprehensive income (OCI)
• Disclosure
• Derecognition
• Measurement

Suggested not to reopen Chapters 1 & 3 that were finalised in 2010

Where are we?

• 145 outreach meetings including roundtables
• Six-month comment period ended 14 January 2014
• Received 226 letters

Geographical distribution

Europe 36%
North America 9%
Asia - Oceania 30%
International 22%
Latin America 10%
Middle East 1%
Africa 2%

Distribution by respondent type

Accountancy bodies 10%
Academia 11%
Regulation / others 2%
Accounting firms 6%
Regulation / investors 2%
Individuals 7%
Preparers 39%
Users 6%
What we heard: general comments

- Support to update the Conceptual Framework
- Support for many of the IASB’s preliminary views
- Some areas need more work (measurement, OCI)
- Some think that the IASB needs to reconsider some of the conclusions in Chapters 1 & 3: – Prudence, reliability, stewardship

Timetable

- Some support completion by end 2015
- Others believe we should take more time, at least for some sections (eg measurement, OCI, liabilities/equity)

Timetable

- 18 Jul 2013 Issue DP
- 6-month comment period (14 Jan 2014)
- March 2014 Feedback summary to the IASB
- Q2-Q3 2014 Analysis of comments
- Q4 2014 Issue ED
Implementation

Implementation activities reflect the ‘repairs and maintenance’ that the IASB and the IFRS Interpretations Committee carry out on the Standards.

Implementation activities include:
- IFRIC Interpretations
- Narrow-scope amendments
- Annual Improvements

Implementation activities also include Post-implementation Reviews
## Narrow-scope amendments

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<th>Narrow-scope amendments</th>
<th>2014 Q2</th>
<th>2014 Q3</th>
<th>2014 Q4</th>
<th>2015</th>
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<tbody>
<tr>
<td>Acquisition of an Interest in a Joint Operation (proposed amendments to IFRS 11)</td>
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<td>Annual Improvements 2012-2014 (summary draft end of 30 March 2014)</td>
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<td>Narrow-scope amendments for IAS 1</td>
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<td>Target IFRS</td>
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<tr>
<td>Clarification of Acceptable Methods of Depreciation and Amortisation (proposed amendments to IAS 16 and IAS 38)</td>
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<tr>
<td>Clarifications of Classification and Measurement of Share-based Payment Transactions (proposed amendments to IFRS 2)</td>
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<td>Clarification of liabilities (proposed amendments to IAS 1)</td>
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<td>Elimination of gains or losses arising from transactions between an entity and its associate or joint venture (proposed amendments to IAS 28)</td>
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## Narrow-scope amendments (cont.)

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<tr>
<td>Equity Method in Separate Financial Statements (proposed amendments to IAS 27)</td>
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<tr>
<td>Equity Method: Share of Other Net Asset Changes (proposed amendments to IAS 28)</td>
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<td>Fair Value Measurement: Unit of Account</td>
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<tr>
<td>Investment Entities: Clarifications to the accounting for interests in investment entities and applying the consolidation exemption (proposed amendments to IFRS 16 and IAS 28)</td>
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<td>Put Options Written on Non-controlling Interests (proposed amendments to IAS 32)</td>
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<td>Recognition of Deferred Tax Assets for Unrealised Losses (proposed amendments to IAS 12)</td>
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<td>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (proposed amendments to IFRS 16 and IAS 28)</td>
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<tbody>
<tr>
<td>放开的股票在单独财务报表中和其他资产负债表的权益方法 (提议对IAS 27的修正案)</td>
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<td>投资实体：对投资实体的权益方法和应用合并豁免修正案 (提议对IFRS 16和IAS 28的修正案)</td>
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<td>认可非控制利益的增量税资产对未实现损失的修正案 (提议对IAS 32的修正案)</td>
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<td>将期权写入非控制利益 (提议对IAS 12的修正案)</td>
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<td>将资产出售或贡献于投资者及其联营企业或合营企业的修正案 (提议对IFRS 16和IAS 28的修正案)</td>
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### Implementation (cont.)

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<tbody>
<tr>
<td>Post-Implementation Reviews</td>
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<td>IFRS 3 Business Combinations</td>
<td>Public</td>
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### Select maintenance projects

- Acceptable methods of depreciation and amortisation
- Investment entities: Three proposed clarifications
- Selection of other issues under discussion with the Interpretations Committee
Acceptable methods of depreciation and amortisation

- Issue: can revenue be used as the basis for calculating depreciation or amortisation?
- For PPE: No. Depreciation should reflect the expected pattern of consumption of economic benefits.
  - Revenue reflects instead the generation of economic benefits, and usually generated by the asset working in connection with other resources
- For intangible assets: rebuttable presumption that revenue based amortisation should not be used.
- Presumption can be rebutted for intangible assets:
  - If predominant limiting factor on use of intangible asset is achievement of a revenue threshold
  - If revenue and consumption of economic benefits of the intangible assets are highly correlated

Investment Entities: Three Proposed Clarifications

- Proposed clarification to applying the consolidation exemption
  - Confirm exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even when that investment entity measures all subsidiaries at fair value
- Proposed clarification of when an investment entity consolidates a subsidiary rather than measures it at fair value
  - Investment entity measures all subsidiaries at fair value, except if, and only if, subsidiary’s predominant purpose is to provide support services that relate to the investment entity’s investment activities
  - However, an investment entity measures a subsidiary at fair value if that subsidiary provides support services and is itself an investment entity
Investment Entities: Three Proposed Clarifications (cont)

- Proposed amendment to the application of equity method by non-investment entity investor to an investment entity investee
  - Amendment applies when investor is not an investment entity, but associate is an investment entity
  - Amendment provides relief to non-investment entity investor, by requiring it to retain, when applying equity method, the fair value accounting applied by an investment entity associate
  - However, amendment confirms that fair value accounting is not retained when equity accounting for investment entity joint venture

Selection of other issues

- Joint arrangements: role of other facts and circumstances when classifying a joint arrangement (IFRS 11)
- Accounting for ‘core inventories’ (IAS 2 / IAS 16)
- Remeasurement of the defined benefit obligation at a plan amendment or curtailment (IAS 19)
- Availability of refunds from a defined benefit plan managed by an independent trustee (IFRIC 14)
The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

May 2014 Project update and the future work plan

### Post-implementation Reviews

<table>
<thead>
<tr>
<th>Next major project milestone</th>
<th>2014 Q2</th>
<th>2014 Q3</th>
<th>2014 Q4</th>
<th>2015 Q1</th>
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<tbody>
<tr>
<td>Post-implementation reviews</td>
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<tr>
<td>IFRS 3 Business Combinations</td>
<td>Public consultation</td>
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</tbody>
</table>

Post-implementation reviews

- The IASB reviews each new IFRS or major amendment
- Scope
  - contentious issues identified during development of the standard or that have arisen since publication
  - unexpected costs or implementation problems encountered
- Timing of the review
  - After two years of implementation

Post-implementation reviews: Phases

- Q3 2013
  - Phase I
    - Planning and agree scope
    - Identification of the issues
- Q1 2014
  - RfI
  - Phase II
    - Submissions analysis
    - Investigation of the issues through outreach activities
- Q4 2014
  - Report and Feedback Statement
  - Publication of the findings and the IASB’s responses to them
Post-implementation review: IFRS 3 Business Combinations

• Request for Information (RfI) published on 30 January 2014
  – (comment period ends on 30 May 2014)

• The RfI includes the following issues:
  • Definition of a business:
    • Are there benefits of having separate accounting treatments for business combinations and asset acquisitions?
    • What are the main implementation challenges to determine whether a transaction is a business combination?
  • Fair value measurements:
    • Is information derived from the fair value measurements relevant?
    • What are the valuation challenges?

Post-implementation review: IFRS 3 Business Combinations

• Separate recognition of intangible assets from goodwill and negative goodwill:
  • Is the separate recognition of intangible assets from goodwill useful?
  • What are the implementation challenges?
  • Do you find useful the recognition of negative goodwill in profit or loss?

• Non-amortisation of goodwill and indefinite-life Intangible assets:
  • Is the impairment test useful?
  • What are the implementation challenges?

• Non-controlling interests
  • Is the information resulting from the presentation and measurement of NCIs useful?
  • What are the challenges in the accounting for of NCIs?
Post-implementation review: IFRS 3 Business Combinations

• Step acquisitions and loss of control:
  • Is the information resulting from the step acquisition guidance useful?
  • Is the information resulting from the accounting for the retained investment in a former subsidiary useful?

• Disclosures:
  • Do you need additional information?
  • What information is missing?

• Any other matters?

• Effects:
  • What are the benefits of IFRS 3?
  • What are the costs of IFRS 3?
  • What are the effects on how acquisitions are carried out?

International Financial Reporting Standards

How we develop Standards

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

2001 to 2006

- In 2007, Trustees introduced Post Implementation reviews
- In 2011, Trustees introduced the three-yearly public Agenda Consultation
- In 2012, Trustees supported a move to more evidence-supported decision making, with more emphasis put on the research phase of the process

Evidence supported decision making
Problems the changes were designed to address

- Projects not being completed
- Projects not being completed on time
- Re-exposure of documents, with major changes
- Endorsement problems, and increased demands from the IFRS community to justify change
- Fear that once a project is on the IASB’s work programme a new Standard is inevitable
- Limited resources (of the IASB and of the wider IFRS community)

The research programme was created to help address these problems

Research programme

- A broad research and development programme
- Emphasis on defining the problem
  - Identify whether there is a financial reporting matter that justifies an effort by the IASB
  - Evidence based
- Leads to project proposals:
  - do more research; or
  - add to the Standards-level programme, or
  - recommendation not to develop an IFRS
- The programme is designed to shorten the time needed to develop improvements to financial reporting, by:
  - Clarifying the problem up front, before a solution is developed
  - Feeding manageable projects into the exposure draft phase on a timely basis (eg the Disclosure Initiative)
Outputs

• The programme is new, and some of the outputs will be new.
• There is scope for traditional Discussion Papers as well as smaller and more focused consultative documents:
  – Position papers
  – Research papers
  – Requests for Information
• The key is to get timely and helpful input.
• Example
  – Disclosure Forum – the forum was a special event and the resulting feedback statement set out priorities.
Next milestones (summary)

<table>
<thead>
<tr>
<th>Issue</th>
<th>2014</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
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<tr>
<td>Disclosure Initiative</td>
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<td>IAS 1 Amendments</td>
<td>ED</td>
<td>B</td>
<td>IFRS</td>
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<td>Reconciliation of liabilities from financing</td>
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<td>B / ED</td>
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<td>Materiality</td>
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<td>Principles of disclosure</td>
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<tr>
<td>Rate regulated activities</td>
<td>DP</td>
<td></td>
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<tr>
<td>Business combinations under common control</td>
<td>B</td>
<td>B</td>
<td>B</td>
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<tr>
<td>Discount rates</td>
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<td>Equity method</td>
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<td>F1 with the Characteristics of Equity</td>
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<td>Foreign currency translation / inflation</td>
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<td>Liabilities – amendments to IAS 37</td>
<td>Pending the Conceptual Framework project</td>
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<tr>
<td>Emissions trading schemes</td>
<td>Pending staff allocation</td>
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</tr>
</tbody>
</table>

B = Board discussion  
DP = Discussion Paper  
ED = Exposure Draft

Other projects

- Liabilities – amendments to IAS 37
  - Pending the Conceptual Framework project
- Emissions trading schemes
  - Pending staff allocation
- Extractive activities / Intangible assets / R&D
  - These projects are longer term projects which the IASB does not expect to discuss publicly until 2015 or later.
- Post-employment benefits
- Income taxes
- Share-based payments
Thank you
IFRS disclosures—innovations
Panel discussion

PATRICIA McCONNELL
Member
IASB

STEPHEN COOPER
Member
IASB

MIKKEL LARSEN
Managing Director, Group Head of Tax and Accounting Policy
DBS Group Holdings Ltd

KENNETH YAP
Chief Executive
Accounting and Corporate Regulatory Authority (ACRA)

JAN McCACHEY
Partner
PwC
IFRS 9—completing, implementing and analysing
Panel discussion

SUE LLOYD
Member
IASB

STEPHEN COOPER
Member
IASB

CHNG SOK HUI
CFO, DBS Group Holdings Ltd
Member, ASC

MICHAEL THOMAS
Vice President, Accounting Policy & Advisory Group
Deutsche Bank

ROBERT SHARMA
Head of Accounting Services
Australian Prudential Regulation Authority (APRA)

CHEN VOON HOE
Partner
PwC
Technical break-out sessions:

Financial instruments: accounting for macro hedging

SUE LLOYD

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

International Financial Reporting Standards

Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging


At a glance

- The IASB is exploring an accounting approach to better reflect dynamic risk management (DRM) activities in entities’ financial statements.
- The Discussion Paper (DP) uses dynamic interest rate risk management by banks for illustrative purposes. However, the approach considered in the DP is intended to be applicable to other risks (for example, commodity price risk and FX risk).
Dynamic Risk Management (DRM)

• DRM is a continuous process.
• Major characteristics of DRM include:
  ✓ DRM is undertaken for open portfolio(s), to which new exposures are frequently added and in which existing exposures mature.
  ✓ As the risk profile of the open portfolio(s) changes, DRM is updated frequently in reaction to the changed net risk position.

Challenges under IAS39/IFRS9 hedge accounting

• Current hedge accounting requirements are often difficult to apply to DRM because:
  ✓ One-to-one linkage between what is being hedged and the hedging derivative;
  ✓ Can only indirectly accommodate DRM on a net basis through gross designation;
  ✓ Can only accommodate open portfolios by treating them as a series of closed portfolios with short lives;
  ✓ Allows for a degree of behaviouralisation of exposures but this is limited.
Dynamic interest rate risk management in banks

The purpose of dynamic RM is usually to manage **Net Interest Income**.

**The Portfolio Revaluation Approach (PRA)**

- Exposures within open portfolios are revalued with respect to the managed risk (for example, interest rate risk).
- Not a full fair value model.
The PRA (continued)

- The net effect between the revaluation adjustment of the managed exposures and the fair value changes of the risk management instruments (for example, interest rate swaps) is reflected in profit or loss.

![Diagram showing the net effect between revaluation adjustment and fair value changes](image)

Expected improvements with the PRA

- enhances information about DRM;
- reduces operational complexities such as tracking and amortisations;
- captures the dynamic nature of risk management on a net basis;
- considers behavioural factors;
- considers different types of risks managed in open portfolios.
Behaviouralisation (‘core’ demand deposits)

- At a portfolio level, the ‘sticky’ nature of demand deposits leads to the identification of a stable portion in the amount outstanding.
- These core demand deposits are deemed to be fixed rate deposits with longer maturities for risk management purposes (behaviouralisation).

Hedge accounting and the managed portfolios in DRM

- Eligible hedged items under FV Hedge Accounting:
  - Recognised assets (eg loans) and liabilities (eg deposits)
  - Firm commitments (eg loan commitments)

- Core demand deposits
- Equity model book
- Pipeline transactions
Scope of the application of the PRA

- The scope has significant implications for the information provided to users of financial statements and on how operationally feasible the application of the PRA will be for an entity.
- The DP considers two scope alternatives:
  - Focus on dynamic risk management
  - Focus on risk mitigation (sub-portfolio approach, proportional approach)
Scope—focus on risk mitigation (sub-portfolio approach)

Scope—focus on risk mitigation (proportional approach)
Presentation

Statement of financial position
• Line-by-line gross up
• Separate lines for aggregate adjustments to assets and liabilities
• Single net line item

Statement of comprehensive income
• Actual net interest income presentation
• Stable net interest income presentation

Presentation of internal derivatives
- Revaluation adjustment due to the decline in the benchmark yield curve for fixed interest rate exposures
- ALM shows a stable NII due to its DRM activities
- Trading reflects their position
- Net effect in P/L due to the use of internal derivatives is NIL

<table>
<thead>
<tr>
<th>Revaluations from DRM</th>
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</thead>
<tbody>
<tr>
<td>Revaluation of managed exposures</td>
<td>20</td>
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<tr>
<td>Internal derivatives</td>
<td>(20)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Trading</th>
<th>(2)</th>
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</thead>
<tbody>
<tr>
<td>Internal derivatives</td>
<td>20</td>
</tr>
<tr>
<td>External derivatives</td>
<td>(22)</td>
</tr>
</tbody>
</table>

Total (2)
Disclosure themes

1. Qualitative information on the objectives and policies for DRM.
2. Qualitative and quantitative information on the net open risk position(s) and its impact on the application of the PRA.
3. The extent to which the PRA represents DRM.
4. Quantitative and qualitative information on the impact of DRM on the current and future performance of an entity.

Other risks (1)

- The IASB would like to obtain specific input on:
  - whether, and if so how and when, the PRA could be applied to dynamic RM other than interest rate risk management in banks; and
  - whether there is a need for an accounting approach for other risks.
Other risks (2)

Inventory

Purchases
- purchases (fixed or variable prices)
- purchase commitments (fixed or variable prices)
- forecast purchases

Production

Sales
- sales (fixed or variable prices)
- sale commitments (fixed or variable prices)
- forecast sales

Net open risk position

Risk management instruments

Other risks (3)

- Similarities between banks and entities in other industries regarding DRM:
  - new exposures are added and existing exposures mature over time, with DRM undertaken on the net position;
  - price risk is often considered in time bands;
  - hedging strategies may not fully eliminate identified risks. This may be due to strategic management decisions to leave the positions unhedged.
Other risks (4)

Potential issue 1: Unhedged positions

• It is common for entities to build up hedge positions over time.

• For instance, a RM policy may be to hedge 40% of exposures in the 2-3 year band, 70% in the 1-2 year band and 100% in the 12 month band.

• Hence, if all the dynamically managed exposures are required to be included in the PRA, it could result in significant volatility in profit or loss from the revaluation of such open positions.

Other risks (5)

Potential issue 2: Forecast transactions

• It is common for entities to include forecast transactions within managed risk portfolios.

• However, there are conceptual difficulties in recognising revaluation effects of forecast transactions for accounting purposes, even if such exposures are considered to be highly probable.
Alternative approach – PRA through OCI

- Under the alternative approach, the net effect of the revaluation of the future cash flows of the managed portfolios and the changes in the FV of risk management instruments (e.g., interest rate swaps) is recognised in OCI rather than in P/L.
- However, there are important conceptual and practical issues:
  - It breaks an assumption in the DP that all risk management instruments are measured at FVTPL;
  - Gross presentation of internal derivatives may no longer net to zero in P/L;
  - Recycling from OCI to P/L.

More information

- The deadline for comments on the DP is 17 October 2014.
- To have access to the DP, the Snapshot and to stay up to date with the latest developments, please visit the project homepage on:
  http://go.ifrs.org/Dynamic_Risk_Management
Questions or comments?—Thank you
Technical break-out sessions:

Insurance contracts

STEPHEN COOPER

Member

IASB
Agenda

• A reminder: 2013 Exposure Draft *Insurance Contracts*
• Summary of the feedback we’ve received
• Five targeted issues
• Non-targeted issues
• Project timeline
2013 ED Insurance Contracts

- The IASB received 194 comment letters and received input during 187 outreach meetings.

- Comment letter summaries discussed in January 2014 and redeliberations began in March 2014

A reminder of our proposals: current, market-consistent measurement of insurance contracts

**Contractual service margin**
A component of the measurement of the insurance contract representing the risk-adjusted expected profit from the contract.

**Fulfilment cash flows**
A current, updated estimate of the amounts the entity expects to collect from premiums and pay out for claims, benefits and expenses, adjusted for risk and the time value of money.
A reminder of our proposals: up-to-date information about performance

Contractual service margin
(looked-dated contract profit)

Future cash flows: expected cash flows from premiums and claims and benefits

Risk adjustment: an assessment of the uncertainty about the amount of future cash flows

Discounting: an adjustment that converts future cash flows into current amounts

Statement of Comprehensive Income

<table>
<thead>
<tr>
<th>20XX</th>
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<tbody>
<tr>
<td>Insurance contracts revenue</td>
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<tr>
<td>Incurred claims and expenses</td>
</tr>
<tr>
<td>Operating result</td>
</tr>
<tr>
<td>Investment income</td>
</tr>
<tr>
<td>Interest on insurance liability</td>
</tr>
<tr>
<td>Investment result</td>
</tr>
<tr>
<td>Profit or loss</td>
</tr>
<tr>
<td>Effect of discount rate changes on insurance liability</td>
</tr>
<tr>
<td>Total comprehensive income</td>
</tr>
</tbody>
</table>

1. Changes in estimates relating to future services
2. All other expected cash flow changes
3. Based on a current view
4. Based on a cost view

A reminder of our proposals: What will disclosures show?

Amounts

- Expected present value of future payments & receipts
- Changes in risk during the period
- Changes in unearned profit during the period
- Effects of new contracts written in the period

Judgments

- Processes for estimating inputs and methods used
- Effect of changes on methods and inputs used
- Explanation of reason for change, identifying type of contracts affected

Risks

- Nature and extent of risks arising from insurance contracts
- Extent of mitigation of risks arising from reinsurance and participation features
- Quantitative information about exposure to credit, market and liquidity risk
Exposure Draft *Insurance Contracts:*
IASB sought feedback on five targeted issues

### Measurement proposals
- Changes in estimates relating to expected contract profit for providing coverage recognised over remaining period (unlocking)
- Measurement and presentation exception when no economic mismatch is possible (mirroring)

### Presentation proposals
- Align to presentation of *revenue* required for other types of contracts with customers
- Interest expense is amortised cost-based in profit or loss, current value-based on balance sheet (OCI proposals)

### Approach to transition
- Apply Standard retrospectively if practicable, or with specified simplifications if not practicable

---

**Summary of overall feedback**

- Welcome progress made since 2010 exposure draft
- Acknowledgement that IASB has responded to concerns raised on the 2010 exposure draft
- Widespread agreement with direction of proposals relating to:
  - unlocking of contractual service margin
  - Transition
- Support at a conceptual level for insurance contract revenue

- Overarching concern about extent of accounting mismatches. As a result:
  - Concern about scope of mirroring
  - Concern about mandatory OCI
- Significant concerns that mirroring:
  - Cannot be made operational
  - Does not sufficiently address accounting mismatches overall to justify the complexity
  - Would still require options and guarantees to be reported in P&L
When should changes in estimates be reported?

Measurement proposals:
Changes in estimates relating to expected contract profit for providing coverage recognised over remaining period (unlocking)
Measurement and presentation exception when no economic mismatch is possible (mirroring)

Presentation proposals:
Align to presentation of revenue required for other types of contracts with customers
Interest expense is amortised cost-based in profit or loss, current value-based on balance sheet (OCI proposals)

Approach to transition:
Apply Standard retrospectively if practicable, or with specified simplifications if not practicable

Changes in estimates affect the amount of profit the company expects to earn for providing future services. Should the effect of changes in estimates be reported in the period of change or as future services are provided?
When should changes in estimates be reported? – ED proposals

- The CSM at initial recognition is set at a level to eliminate Day 1 gains because the entity has not yet satisfied any of its performance obligations.
- An entity shall recognise the remaining CSM in profit or loss over the coverage period in the systematic way that best reflects the remaining transfer of services that are provided under the contract.
- The CSM is adjusted by changes in estimates of cash flows relating to future service. This means that the effect of these changes in cash flows is recognised when the CSM is allocated.
- Entities measure the amount of contractual service margin recognised in profit or loss at a level of aggregation such that once the coverage period of the insurance contract has ended, the related contractual service margin has been fully recognised in profit or loss.

Our proposal
Any changes in estimates relating to the profits to be earned from an insurance contract are recognised over the period in which that profit is earned.

Alternative proposal
All changes in estimates are recognised immediately in profit or loss.
When should changes in estimates be reported? – What we’ve heard

- General agreement with proposals, though some think proposals inappropriately smooth underwriting results and decrease transparency
- Some suggest minor modifications to proposals:
  - Changes in risk adjustment relating to future coverage should also adjust the margin
  - Losses recognised in P&L after the margin is eliminated should be reversed before rebuilding the margin
- Questions about mechanics
  - Uncertainty about which cash flows should adjust the CSM
  - Which PV of cash flows adjust the CSM – discounted using current or locked in rate? Do discount rate changes go to OCI?
- Some preparers are concerned about need to track information and unit of account
- Industry propose alternative model that would adjust the margin for other changes in value (see mirroring)

When should changes in estimates be reported? – Progress to date

Tentative decisions:
- Confirm the ED proposal that changes in estimates of cash flows should be recognised when the service is provided (ie adjust the contractual service margin)
- Modify the ED proposal so that:
  - Changes in estimates of risk adjustment relating to future service also recognised in period when service is provided
  - Losses previously recognised because of changes in estimates are reversed before margin is rebuilt

Next steps:
- Interaction between unlocking contractual service margin and use of OCI
- Application to contracts with participating features
Interest expense in profit or loss

Measurement proposals
- Changes in estimates relating to expected contract profit for providing coverage recognised over remaining period (unlocking)
- Measurement and presentation exception when no economic mismatch is possible (mirroring)

Presentation proposals
- Align to presentation of revenue required for other types of contracts with customers
- Interest expense is amortised cost-based in profit or loss, current value-based on balance sheet (OCI proposals)

Approach to transition
- Apply Standard retrospectively if practicable, or with specified simplifications if not practicable

Interest expense in profit or loss – Issue

Should companies be required to separate the results from underwriting and investment activities from the effects of the changes in discount rates?
### Statement of Comprehensive Income

<table>
<thead>
<tr>
<th>20XX</th>
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<tbody>
<tr>
<td>X</td>
<td>Operating (underwriting) result</td>
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<tr>
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<td>Investment income*</td>
</tr>
<tr>
<td>(X)</td>
<td>Interest expense (on insurance liability)</td>
</tr>
<tr>
<td>X</td>
<td>Investment result</td>
</tr>
<tr>
<td>X</td>
<td>Profit or loss</td>
</tr>
<tr>
<td>(X)</td>
<td>Effect of discount rate changes on insurance liability***</td>
</tr>
<tr>
<td>XX</td>
<td>Total comprehensive income</td>
</tr>
</tbody>
</table>

*Includes interest revenue and gains and losses on financial assets measured at fair value through other comprehensive income

**Cost view uses the discount rate determined at contract inception, and current view uses the current discount rate at reporting date

***The 'effect of discount rate changes' reconciles the current view and the amortised cost view of performance, assuming financial assets are measured at fair value through other comprehensive income

---

### Interest expense in profit or loss – ED proposals

**Profit or loss** Reflects the profit or loss from services using a cost view of the time value of money**

**Total comprehensive income** Reflects the profit or loss of providing services using a current view of the time value of money**

---

### Interest expense in profit or loss – What we’ve heard

- Acceptance that both amortised cost and current value view provide useful information but concerns about complexity
- Concern about accounting mismatches, strongly expressed in some jurisdictions, leading to:
  - Call for an option to present all changes in profit and loss
  - Some suggest requirement to present all changes in profit or loss
  - Suggestion that mismatches should be eliminated by adjusting accounting for all assets backing insurance contracts
- Some suggest changes in value of options and guarantees should be presented in OCI
- Users emphasised that information on effects of the changes of discount rates should be clear (e.g., sensitivities, changes in the period)
2 Interest expense in profit or loss – Progress to date

Tentative decisions:

- Accounting policy choice to present the effect of changes in discount rates in profit and loss or in OCI. Accounting policy would apply to all contracts within a portfolio.
- Require disclosures that would disaggregate the change in interest expense into its component parts and that would allow their comparison (see example on the next slide)

Next steps:

- More guidance on when an entity can change its accounting policy choice
- Interaction with definition of a portfolio
- Interaction between unlocking CSM and use of OCI
- Application to contracts with participating features

3 Insurance contracts revenue and expense

Measurement proposals

- Changes in estimates relating to expected contract profit for providing coverage recognised over remaining period (unlocking)
- Measurement and presentation exception when no economic mismatch is possible (mirroring)

Presentation proposals

- Align to presentation of revenue required for other types of contracts with customers
- Interest expense is amortised cost-based in profit or loss, current value-based on balance sheet (OCI proposals)

Approach to transition

- Apply Standard retrospectively if practicable, or with specified simplifications if not practicable
Should a company show information about gross performance rather than net margin?

If gross performance is more useful, should information be consistent with revenue and expense for other transactions?
Insurance contract revenue and expense – ED proposals for level premium life contract

**Assumptions:**
- Portfolio of term life contracts issued to 40 year olds
- Expected claims/benefits are 10,000; premiums are due 2,000 each 5 year period
- Ignores premiums ‘allocated’ to the margins, payment of acquisition costs and payment of maintenance and benefits expense
- Assumes no lapses, no discounting and no investment component

3 Insurance contract revenue and expense – What we’ve heard

- Increasing acceptance of conceptual merits and some support for same presentation approach for all insurance contracts
- Agreement that proposals increase comparability with other transactions, but:
  - Some believe that unique nature of insurance justifies a different presentation
  - Some users note that both revenue and summarised margin information is useful
  - Specialist users think the summarised margin information is most relevant
- Vehement disagreement with proposals from some preparers, including disagreement about disaggregating deposits
- Doubt about whether insurance contract revenue would provide useful information
- All users agree that revenue should exclude deposit components
3 Insurance contract revenue and expense – Progress to date

Tentative decisions:

• Insurance contract revenue and expense required in the statement of comprehensive income:
  – Excludes investment components
  – Recognised as earned

• Required disclosure:
  – Reconciliations that explain how insurance contracts revenue relate to premiums received, and the inputs used to determine insurance contracts revenue
  – the effect of the insurance contracts that are initially recognised in the period on the amounts that are recognised in the statement of financial position

• Prohibit premium information in the statement of comprehensive income that is not consistent with commonly understood notions of revenue

4 Contracts with participating features

Measurement proposals

Changes in estimates relating to expected contract profit for providing coverage recognised over remaining period (unlocking)

Presentation proposals

Align to presentation of revenue required for other types of contracts with customers

Approach to transition

Apply Standard retrospectively if practicable, or with specified simplifications if not practicable

Interest expense is amortised cost-based in profit or loss, current value-based on balance sheet (OCI proposals)
If an insurance contract specifies a link to returns on underlying items the company is required to hold, there can be no economic mismatch between the cash flows that vary directly with returns on underlying items and those returns.

How do we portray that fact?

• No possibility of economic mismatch if the contract specifies that the company is required to hold underlying items and payments to the policyholder must vary directly with returns on underlying items

• Measured using general requirements of the Standard. However, all changes in value of cash flows that vary indirectly with underlying items are presented in profit or loss

• Eliminate mismatch by measuring and presenting cash flows in the same way as underlying items
Contracts with participating features – What we’ve heard

• “Mirroring, on the face of it, looks like a really good idea.” But:
  – Concern that part of the liability would not be at current market-consistent value
  – Disagree that options and guarantees should be reported in P&L
  – Concern about complexity of splitting different types of cash flows
    – See next page
  – Concern about interaction between unlocking and mirroring
    – eg does mirroring apply to cash flows related to asset management fees? Or do changes in estimates of asset management fees unlock the margin?
  – Questions about how widely or narrowly the proposals apply

• Industry (mainly Europe) proposes alternative proposal for participating contracts with wider scope and a different objective

Contracts with participating features – Next steps

• In May 2014 the IASB plans to hold an Education Session on how its decisions to date would apply to contracts with participating features.

• The IASB will discuss:
  – the participating features that can be included in insurance contracts
  – the proposals in the 2013 Exposure Draft Insurance Contracts for contracts with participating features
  – the response to the proposals in the comment letters, and
  – adaptations that the IASB could consider for contracts with participating features (proposed both in the 2013 ED and comment letters).
Applying the proposals for the first time – Issue

The challenge for first-time application is measuring the contractual service margin at the date of transition.

How do we balance verifiability of the amount recognised at transition date with comparability between contracts issued prior to and after transition date?
Applying the proposals for the first time – ED proposals

Fulfilment cash flows

- Expected cash flows from premiums and claims and benefits
- An assessment of the uncertainty about the amount of future cash flows
- An adjustment that converts future cash flows into current amounts

Contractual service margin (Contract profit)

Needs to be estimated

Estimate as if the standard had always been applied, with simplifications that maximise the use of objective data if necessary

Can be directly measured

Measure on date of first time application

5 Applying the proposals for the first time – What we’ve heard

- Widespread agreement that proposals are an improvement from 2010 proposals
- Need for information about assumptions used and the remaining margin that was determined in this way
- Some concerns raised about operational implications in emerging and newly-emergent economies
- Concerns about implications on transition of locked-in discount rate:
  - usefulness/practicality of determining accumulated OCI for liability for incurred claims for non-life contracts
  - application to portfolios acquired under previous business combinations
Applying the proposals for the first time – Next steps

- The IASB plans to consider its proposals for transition in the light of a near-final model

Non-targeted issues

**Measurement proposals**
- Changes in estimates relating to expected contract profit for providing coverage recognised over remaining period (unlocking)
- Measurement and presentation exception when no economic mismatch is possible (mirroring)

**Presentation proposals**
- Align to presentation of revenue required for other types of contracts with customers
- Interest expense is amortised cost-based in profit or loss, current value-based on balance sheet (OCI proposals)

**Approach to transition**
- Apply Standard retrospectively if practicable, or with specified simplifications if not practicable

**Other issues**
## Other issues

In addition to the targeted issues, the IASB tentatively decided to consider only the following issues in future meetings:

- Whether it will be possible to clarify and provide more consistency in the references to ‘unit of account’ and ‘portfolio’
- Whether to provide further guidance regarding the discount rates for long-term contracts when there are few or no observable market data
- Whether in some circumstances there is an accounting, rather than an economic mismatch, between insurance contracts and reinsurance contracts because of the asymmetrical treatment of their contractual service margins and if so, whether such a mismatch could be mitigated
- Whether to provide more guidance on the allocation pattern for the contractual service margin
- Whether to provide guidance for the significant insurance risk definition for a contract for which the death benefit is the lower of the premiums paid and an invested fund.
- Whether the requirements for portfolio transfers and business combinations could be simplified and clarified
- Whether to provide an option so that fixed-fee service contracts could be accounted for using the insurance contracts standard

---

### Timetable

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revised Exposure Draft</td>
<td>20 June 2013</td>
<td>2014 Board debates issues</td>
</tr>
<tr>
<td>Comment letter deadline</td>
<td>25 Oct 2013</td>
<td>2015 Issue IFRS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Approx. 3 years after Standard finalised</td>
</tr>
</tbody>
</table>

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For more information...

Stay up to date
• Visit our website:
  – www.ifrs.org
  – go.ifrs.org/insurance_contracts
• Sign up for our email alert
• Ask questions or share your views
  • Email us: insurancecontracts@ifrs.org
  • Comment on our proposals:
    go.ifrs.org/Exposure-Drafts

Resources on IASB website
• IASB Update
• Project podcasts and webcasts
• Effect of redeliberations on the ED
• Investor resources
• High level summary of project
Technical break-out sessions:

Leases

CHUNGWOON SUH

Member

IASB
Leases
Project status and next steps

Project overview
It’s time for decisions

- 18 years since first proposal to report operating leases on the balance sheet

1976

- IASC issue IAS 17 Accounting for Leases

1982

- US SEC report on off-balance sheet activities—lease accounting criticised

1996

- IASB and FASB publish Exposure Draft

1999

- IASB and FASB re-deliberate

2005

- IASB and FASB publish Discussion Paper

2009

- IASB and FASB publish Revised Exposure Draft

2010

- US SEC report on off-balance sheet activities—lease accounting criticised

2013

- IASB and FASB publish Revised Exposure Draft

2014

- IASB and FASB re-deliberate

* The G4+1 was a working group consisting of board members and senior staff members of accounting standard-setters from Australia, Canada, New Zealand, the UK, the US, and the (IASC) that was established to undertake a study on leasing.

The need for change

- Under existing accounting standards, operating leases are not reported on a lessee’s balance sheet

- Off-balance-sheet lease financing numbers are substantial

| Listed companies only | Percentage of IFRS/US GAAP preparers who report material operating leases | Total future minimum operating lease payments (undiscounted) (1) ($) | USD 4.3 trillion |
|-----------------------|---------------------------------------------------------------------------------|------------------------------------------------------------------|
| Africa / Middle East  | 27%                                                                             | Present value of future minimum operating lease payments (estimate) (2) ($) | USD 3.4 trillion |
| Asia / Pacific        | 52%                                                                             | Global annual equipment leasing volume (new leases only), 2012 ($) | USD 0.9 trillion |
| Europe                | 47%                                                                             | Global real estate volume unknown, but substantially more than equipment |
| Latin America and Caribbean | 14%                                                        |                                                                      |
| United States and Canada | 54%                                                        |                                                                      |

(1) As per the companies 2012 annual reports
(2) Estimate using the average cost of debt for these companies, that was 5%
**Project status**

- In May 2013 the boards publish a revised Exposure Draft (2013 ED)
- In November 2013 the boards discuss a summary of feedback received on the 2013 ED
- Re-deliberations continue
  - Comment period ends 13 September 2013; the boards received over 640 comments letters
  - In January 2014 the boards start the joint re-deliberations
  - Publication of the new Leases Standard (Effective date TBD)

**International Financial Reporting Standards**

Lessee accounting
Proposed right-of-use model

A lease contract conveys the right to use an asset *(the underlying asset)* for a period of time in exchange for consideration.

Lessor

- Right-of-use asset
- Lease payments

Lessee

2013 ED - Proposed lessee model

<table>
<thead>
<tr>
<th>Type</th>
<th>Balance Sheet</th>
<th>Income Statement</th>
<th>Cash Flow Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A</strong></td>
<td>Most leases of equipment / vehicles</td>
<td>Right-of-use asset</td>
<td>Amortisation expense</td>
</tr>
<tr>
<td></td>
<td>Lease liability</td>
<td>Interest expense</td>
<td>Interest</td>
</tr>
<tr>
<td><strong>B</strong></td>
<td>Most leases of real estate</td>
<td>Right-of-use asset</td>
<td>Single lease expense on a straight-line basis</td>
</tr>
</tbody>
</table>
Feedback on 2013 ED – Lessee model

- **Investors and analysts**
  - Majority support balance sheet proposals
  - Mixed views on income statement proposals
    - Some support proposals
    - Some prefer single model—treat all leases as financing

- **Preparers**
  - Mixed views
  - Concerns about cost and complexity, and other effects
  - Lessors concerned about lessee behaviour changes

- **Others (regulators, standard setters, audit firms)**
  - Support recognition of assets and liabilities on the balance sheet
  - Most prefer single model—treat all leases as financing
  - Cost/benefit concerns

---

Re-deliberation decisions – Lessee model

- **All leases on-balance sheet** (except for short-term leases and leases of small assets)
- IASB/FASB main difference: recognition and presentation of lease expenses in the income statement

<table>
<thead>
<tr>
<th></th>
<th>IASB</th>
<th>FASB</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Finance leases</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenses</td>
<td>Operating expenses</td>
<td>Operating expenses</td>
</tr>
<tr>
<td>Financing expenses</td>
<td>Financing expenses</td>
<td>Financing expenses</td>
</tr>
<tr>
<td><strong>Operating leases</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenses</td>
<td>Operating expenses</td>
<td>Operating expenses</td>
</tr>
<tr>
<td>Financing expenses</td>
<td>Financing expenses</td>
<td>Financing expenses</td>
</tr>
</tbody>
</table>
Other re-deliberation topics
Reducing cost and complexity

Feedback on 2013 ED – Other topics

- **Lessor accounting**
  - Existing lessor accounting model is not broken

- **Measurement**
  - Reassessments of right-of-use asset and lease liability will be costly with little corresponding benefit

- **General application of proposals**
  - Proposals are costly to apply for high volumes of relatively low-value leases
Re-deliberation decisions – Other topics

- **Lessor accounting**
  - Essentially no change to existing lessor accounting model

- **Measurement**
  - Simplify lease term and variable lease payments reassessment requirements

- **General application of proposals**
  - IASB: allow recognition and measurement exemption for leases of ‘small’ assets
  - Allow proposals to be applied at a portfolio level
  - Confirm short-term lease recognition and measurement exemption and make definition of short term consistent with definition of lease term

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International Financial Reporting Standards

Next steps

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Going forward

- IASB and FASB will continue to re-deliberate jointly
- Main topics yet to be discussed
  - Definition of a lease (*discussed in May 2014*)
  - Separating lease and nonlease components (*discussed in May 2014*)
  - Disclosure
  - Transition
- Publication of the new leases standard in 2015
  - Effective date TBD

Thank you
Technical break-out sessions:

Conceptual Framework (Part 1):
   elements and recognition

PATRICIA McCONNELL
   Member
   IASB
Session overview

• Background
• Assets and liabilities: definitions and recognition criteria
• Distinction between liabilities and equity
• Other elements
• Derecognition
• Questions
Background

Why?

• Agenda consultation
  – Priority project

• Purpose of Conceptual Framework project
  – Not a fundamental rethink
  – Update, improve and fill in gaps
  – Focus on problems in the real world

• Purpose of the Discussion Paper
  – Starting point for discussion and outreach
  – Seek views on key issues from interested parties
Discussion Paper

Update

• Definitions
• Assets
• Liabilities
• Income
• Expenses
• Equity
• Recognition

Fill in the gaps

• Profit or loss/ other comprehensive income (OCI)
• Disclosure
• Derecognition
• Measurement

Suggested not to reopen Chapters 1 & 3 that were finalised in 2010

Outreach done

• 145 outreach meetings including roundtables
• Six-month comment period ended 14 January 2014
• 225+ letters received

Geographical distribution

- Europe: 36%
- North America: 9%
- Latin America: 10%
- Middle East: 7%
- Africa: 2%
- Asia - Oceania: 20%
- International: 22%

Distribution by respondent type

- Academics: 11%
- Accounting bodies: 10%
- Accounting firms: 5%
- Regulators/ other: 4%
- Practitioners: 38%
- Preparers: 38%
- Standard-setting bodies: 10%
- Other: 7%
What we heard: general comments

• Support to update the Conceptual Framework
• Support for many of the IASB’s preliminary views
• Some areas need more work (measurement, OCI)
• Some think that the IASB needs to reconsider some of the conclusions in Chapters 1 & 3:
  – Prudence, reliability, stewardship
• Timetable
  – Some support completion by end 2015
  – Others believe we should take more time, at least for some sections (eg measurement, OCI, liabilities/equity)

Timetable

18 Jul 2013 Issue DP 6-month comment period (14 Jan 2014)
March 2014 Feedback summary to the IASB
Q2-Q3 2014 Analysis of comments
Q4 2014 Issue ED
Assets & liabilities: definitions and recognition criteria

Existing definition

<table>
<thead>
<tr>
<th>Asset</th>
<th>Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>• a resource controlled by the entity</td>
<td>• a present obligation of the entity</td>
</tr>
<tr>
<td>• as a result of past events</td>
<td>• arising from past events</td>
</tr>
<tr>
<td>• from which future economic benefits are</td>
<td>• the settlement of which is expected to result in an outflow</td>
</tr>
<tr>
<td>expected to flow to the entity</td>
<td>from the entity of resources embodying economic benefits</td>
</tr>
</tbody>
</table>

Proved useful tool for many years but some problems
Existing recognition criteria

- Identify the assets, liabilities, income, expenses
- Depiction in words and numbers

Existing criteria:
- Meets definitions
- Probable
- Measured reliably

Problems

Confusion on which is the asset or liability?
- the resource vs inflows of economic benefits that the resource may generate
- the obligation vs outflows of economic benefits that the obligation may generate

Expected (definition) vs probable (recognition)?
- Same meaning?
- Minimum threshold?
- Statistical meaning?
- Will it occur vs whose inflow/outflow?

Reliable measurement
- Many equate it with precision
- How does that relate to faithful representation?
Suggested revised definitions

Focus definitions on the resource and obligation

<table>
<thead>
<tr>
<th>Asset [of an entity]</th>
<th>Liability [of an entity]</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A present economic resource controlled by the entity as a result of past events</td>
<td>• a present obligation of the entity to transfer an economic resource as a result of past events</td>
</tr>
</tbody>
</table>

• An economic resource = a right, or other source of value, that is capable of producing economic benefits

Additional guidance to support definitions

To support asset definition
- meaning of ‘economic resource’
- meaning of ‘controlled’

To support liability definition
- constructive obligations
- impact of future events (see next slides)

To support both definitions
- reporting substance of contractual rights and obligations
- executory contracts
Impact of future events

• Depend on the entity’s future actions
• Problem: different Standards take different approaches
  – Employee benefits in defined benefit plans
    – Recognise as a liability all financial variables eg future increases in salaries and medical costs
  – Lease transactions
    – Recognise turnover-based lease payments if lessee has no realistic alternative but to make the payment
  – Levies, provisions (including restructuring costs)
    – Only recognise when all conditions are met

‘Present’ obligation—views considered in Discussion Paper

View 1
An obligation that:
  • arises from past events,
  • is strictly unconditional.

The entity has no ability to avoid the transfer through its future actions.

View 2
An obligation that:
  • arises from past events, and
  • is practically unconditional.

The entity does not have practical ability to avoid the transfer through its future actions.

View 3
An obligation that:
  • arises from past events, and
  • may be either unconditional or conditional on the entity’s future actions.

On meeting any further specified conditions, the entity will have to transfer an economic resource that it would not have had to transfer in the absence of the past events.
What we heard

• Definitions
  – Most broadly agreed with the clarifications of the definitions
  – Concern that broader definition puts more pressure on recognition criteria and on unit of account
• Additional guidance
  – Hesitation on viewing assets as a bundle of rights
  – Most agreed that liability definition should encompass constructive obligations
  – Most agreed that liabilities should include obligations that the entity could, in theory, avoid (most support for view 2, but more work needed)
  – More guidance needed on various matters

Topics to be discussed again in light of feedback

Definitions
  • Confirm removal of requirement for ‘expected’ economic benefits?
  • ‘Rights’ approach

Additional guidance
  • Role of economic compulsion
  • Obligations conditional on entity’s future actions
  • Executory contracts
  • Unit of account
Preliminary views

- Recognise if information is useful, i.e., relevant and faithfully represents the item
- Treat low probability and highly uncertain outcomes as indicators that information may not be useful

Recognition (2)

- What we heard:
  - Many agreed with the proposed recognition criteria
  - Some favoured retaining the existing criteria on probability, reliable measurement
  - Some suggested taking into account: enhancing qualitative characteristics, prudence
  - Some think that recognition of all assets should not be a default (e.g., intangible assets)

Next steps

- Consider whether to replace existing recognition criteria with guidance based on qualitative characteristics
Distinction between liabilities and equity

Equity / liability distinction

Problem

- To distinguish liabilities from equity instruments, Standards use complex criteria that:
  - conflict with the conceptual definitions
  - are difficult to understand and apply

Preliminary views

- Retain existing definition of equity as a residual interest
- Use conceptual definition of a liability:
  - to show obligation to transfer economic resources
- Use expanded statement of changes in equity:
  - to show wealth transfers between equity holders
Suggested change to Statement of Changes in Equity

<table>
<thead>
<tr>
<th></th>
<th>Existing shareholders of parent</th>
<th>Non-controlling interests (NCI)</th>
<th>Obligation to issue shares</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Share capital</td>
<td>Retained earnings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening 1 January 20X2</td>
<td>10,000</td>
<td>20,000</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>Written option issued</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,000</td>
</tr>
<tr>
<td>Total profit/comprehensive income for X2</td>
<td>-</td>
<td>3,500</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Change in fair value of written option</td>
<td>-</td>
<td>1,000</td>
<td>-</td>
<td>-1,000</td>
</tr>
<tr>
<td>31 December 20X2</td>
<td>10,000</td>
<td>24,500</td>
<td>4,200</td>
<td>4,000</td>
</tr>
</tbody>
</table>

What we heard

- Many agreed that the definition of a liability should be used to distinguish equity from liabilities.
  - However mixed views regarding the details and consequences for particular instruments
- Many supported providing additional information on the effects of different classes of equity claims
  - However many suggested that there are better ways to do this than enhancing the statement of changes in equity
Next steps

- **Conceptual Framework** project: Focus on
  - Definition of equity
  - How it interacts with the definition of a liability, definitions of income and expense
  - How definition of equity interacts with nature of the reporting entity and the perspective adopted for financial reporting
- Work jointly with research project on liabilities/equity to consider Standards-level problems

International Financial Reporting Standards

Other elements

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Income & expenses

Preliminary views
• Should remain the elements of the income statement
• Continue to define in terms of changes in assets and liabilities

Feedback
• Many agreed but some suggested profit or loss and comprehensive income as elements

Next steps
• Confirm definitions
• Consider whether to have additional elements eg OCI and comprehensive income

Cash flows

Preliminary views
• There should be separate elements for cash flow statement

Feedback
• Few commented on this

Next steps
• Consider whether definitions are necessary
Derecognition

- No guidance

Preliminary views

- Mirror image of recognition in most cases, but in some cases may need to consider:
  - enhanced disclosure,
  - presentation on a separate line item or
  - continued recognition
**Derecognition (2)**

- What we heard:
  - General agreement that guidance on derecognition is needed
  - Mixed views on how to derecognise an asset or a liability (ie control, risks and rewards and a combination)

**Next steps**

- Consider in light of feedback received

---

**More information**

- Discussion Paper

- Snapshot

- Conceptual Framework website
  - Comment letters
  - Comment letter summaries
  - High-level comment letter summary
  - Summary of investors comments
Technical break-out sessions:

Financial instruments: impairment

SUE LLOYD
Member
IASB
Benefits of the expected loss model

- Broader range of information required to be considered
  - Ensures more timely recognition of ECL
  - Elimination of IAS 39 threshold to recognise ECL
- Builds on existing systems to balance costs and benefits
  - Approximates 2009 ED in more operational manner
- Single model reduces complexity of multiple approaches
- Shows assets that have significantly increased in credit risk
- Robust disclosures to illustrate estimates and credit risk
The basis for the model

- The yield on financial instruments reflects initial credit loss expectations
- When expected credit losses exceed those initially expected an economic loss is suffered
- This was best reflected in the 2009 ED

Model reflects this in a more cost effective way by:

- Recognising a **portion of expected credit losses initially**
- Recognising **lifetime expected credit losses when significant increase in credit risk occurs**

Overview of general model

<table>
<thead>
<tr>
<th>Change in credit quality since initial recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected credit losses recognised</td>
</tr>
<tr>
<td>12-month expected credit losses</td>
</tr>
<tr>
<td>Lifetime expected credit losses</td>
</tr>
<tr>
<td>Lifetime expected credit losses</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interest revenue</th>
<th>Gross basis</th>
<th>Gross basis</th>
<th>Net basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1</td>
<td>Stage 2</td>
<td>Stage 3</td>
<td></td>
</tr>
<tr>
<td>Performing</td>
<td>Underperforming</td>
<td>Non-performing</td>
<td></td>
</tr>
</tbody>
</table>
When to recognise 12-month expected credit losses?

- When financial instrument is recognised initially
- No significant increase in credit risk; or
- Low credit risk (for example, ‘investment grade’)

Expected credit losses will be recognised for all financial instruments at all times.

What are 12-month expected credit losses?

☑️ Full lifetime expected credit losses that would result from default multiplied by probability of default in next 12 months

☒ Expected cash shortfalls in next 12 months
- Credit losses on assets expected to default in next 12 months
Stage 1: 12-month ECL

Concern: 12-month ECL do not capture credit losses that are expected to occur beyond 12 months

Example:
- Portfolio of 10-year loans with an initial 6-year interest-only period
- Defaults are expected in years 7-10 when principal payments have to be made

Thus
- Stage 1 represents items where expectations of credit losses have not changed significantly
• Operational simplification for high quality financial instruments
• Choice to assume that a financial instrument considered low credit risk would remain in stage 1
• Therefore, no need to assess whether changes in credit risk have been significant
• Still need to update expected credit losses for changes in expectations even if in stage 1

Low credit risk

• Low risk of default and borrower has strong capacity to meet contractual obligations
• For example, equivalent to ‘investment grade’ quality
• ‘Safe harbour’ for financial instruments such as high quality bonds
• Change in credit quality would not always lead to material difference in lifetime expected losses

But
• Not a hair-trigger – if the credit quality falls below investment grade, need to assess whether deterioration is significant (ie normal model applies)
### Assessment of deterioration in credit quality

- Change in credit risk over the life of the instrument (i.e., probability of a default occurring)
  - Not changes in expected losses
  - Compared to credit risk at initial recognition
- Maturity matters
- Don’t require mechanical assessment
- Use information that is available without undue cost or effort

**Expected credit losses are updated at each reporting date for new information and changes in expectations even if deterioration is not significant.**

### Is it possible to assess a significant increase in credit risk on a portfolio/collective level?

- In general, assessment made on individual level
- Collective assessment if the same outcome as individual assessment, i.e., same risk characteristics, such as
  - Credit risk ratings
  - Industry
  - Geographical location of borrower
  - Remaining term to maturity
- Grouping will change as time reduces uncertainty of outcome
- Objective is to recognise lifetime ECL on all instruments for which credit risk has increased significantly
Assessment of deterioration in credit quality

As information emerges over time – entity is able to better distinguish credit quality of loans

- Portfolio of home loans originated in a country.
- Information emerges that a region in the country is experiencing tough economic conditions.
- More information emerges and the entity is able to identify the particular loans that are in default or will imminently default.

Stage 1
Stage 2
Stage 3

Delinquency—rebuttable presumption

- Objective is to act as a backstop or latest point to identify significant deterioration
- Rebuttable presumption when payments are more than 30 days past due
- This is a lagging indicator, but should identify before default
- Proxy for significant deterioration if no other borrower-specific information
- Can be rebutted if days past due are not associated with a significant change in credit risk
- However, cannot ignore information that suggest significant deterioration prior to 30 days delinquency
Measuring expected credit losses

Expected credit losses need to reflect:

- Probability weighted outcome
  - Must consider (at least) possibility that a default will occur and that a default will not occur
- Time value of money
  - Discount at effective interest rate or an approximation

Estimation will be less difficult for 12-month expected credit losses because of the shorter time horizon

Measuring expected credit losses

- Information used to measure expected credit losses and assess changes in credit:
  - Available without undue cost or effort
  - Historical, current and reasonable and supportable forecasts
  - Historical information must be updated
  - Delinquency information may be used

Particular measurement methods are not prescribed; nor must probability of default be explicitly included as an input
Measuring expected credit losses

Does ‘reasonable and supportable’ forecasts mean predicting the future over entire life of instrument?

- Not intended to mean use a crystal ball for the future
- For the near future use more granular information
  - Longer term revert to averages/ through the cycle data
- Use historic data and update for:
  - current information; and
  - future information that is readily available and supportable (eg GDP forecast)

Does ‘reasonable and supportable’ forecasts mean predicting the future over entire life of instrument?

Information needs to be reasonable and supportable

Measuring expected credit losses

What information could be considered in measuring forward-looking ECL?

- Borrower specific:
  - changes in operating results of borrower
  - technological advances that affect future operations
  - changes in collateral supporting obligation
- Macro-economic:
  - house price indexes, GDP, household debt ratios
- Internal default rates and probabilities of default
- External pricing:
  - Credit rating agency information

Information needs to be reasonable and supportable
Measuring expected credit losses

Consideration of time value of money

For purposes of the model, the expected credit losses should be discounted up to the reporting date.

Various techniques incorporate discounting up to the date of default – eg EAD/LGD based models.

When to calculate net interest

- When assets are ‘credit impaired’
  - Change to calculation on a net basis (ie on the amortised cost amount that is net of the loss allowance) when IAS 39 criteria for impairment are satisfied
  - Consistent with population considered impaired under IAS 39 today (excluding IBNR)
Exceptions to the general model

- **Simplified approach for trade and lease receivables**
  - Measure short-term trade receivables at lifetime expected losses
  - Policy election for long-term trade receivables and lease receivables

- **Assets credit-impaired on initial recognition**
  - Use credit-adjusted effective interest rate
  - Allowance balance represents changes since origination in lifetime losses

Exceptions designed to achieve a better balance between the benefits and costs

Loan commitments and financial guarantee contracts

- **Apply general deterioration model**

- Instruments that create a present legal obligation to extend credit
- Longest period considered is contractual period where entity has present obligation to extend credit
  - **Exception for revolving facilities:** period until entity has practical ability to withdraw loan commitment
- Estimate usage behaviour
- Expected credit losses presented as liability on the balance sheet
Disclosures

Quantitative
- Reconciliation of allowance accounts showing key drivers for change
- Explanation of gross carrying amounts showing key drivers for change
- Gross carrying amount per credit risk grade or delinquency
- Write-offs, recoveries, modifications

Qualitative
- Inputs, assumptions and techniques used to estimate expected credit losses (and changes in techniques)
- Inputs, assumptions and techniques used to determine 'significant increase in credit risk' and 'default'
- Inputs, assumptions and techniques used to determine 'credit impaired'
- Write off policies, modification policies, collateral

Transition

- Retrospective application – as if always been effective
- Classify into Stages 1, 2 and 3 based on usual criteria (ie deterioration except for 'investment grade'). May apply:
  - Low credit risk
  - 30 days past due presumption if uses delinquency information
- If not possible without undue cost and effort, based on credit risk at transition date and at each reporting date

Prior periods not required to be restated

Date of initial application
When will IFRS 9 be effective?

Annual periods beginning on or after 1 January 2018

• A mandatory effective date consistent with stakeholder requests (a 3-year lead time)
• Entities permitted to early apply the completed version of IFRS 9
• Previous versions of IFRS 9 phased out:
  – Not permitted to early apply a previous version if date of initial application is more than 6 months after completed IFRS 9 is issued
• ‘Own credit’ requirements can be applied in isolation

Where are we in terms of publication?

• IASB staff are currently balloting both:
  – Limited amendments to classification and measurement
  – Impairment of financial assets
• Balloting process includes multiple drafts and a detailed fatal flaw review to ensure quality and clarity of drafting
• On track for publication around June/July

IFRS 9 is a package, hence it is important these requirements be made available quickly and simultaneously
Thank you
Technical break-out sessions:

Business combinations under common control

CHUNGWOO SUH
Member
IASB
International Financial Reporting Standards

Business combinations under common control (‘BCUCC’)

IFRS Foundation IFRS Conference, Singapore

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Agenda

• Recap of the IASB’s work on BCUCC
• Why is accounting for BCUCC on the IASB’s research agenda?
• Why BCUCC are different?
• Examples for discussion
• Other questions on the scope of the project

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Recap of the IASB’s work on BCUCC

- IAS 22 excluded transactions under common control from its scope but did not define them.
- IFRS 3 retained the scope exclusion for BCUCC and described what they are.

1983 Decision to review the definition of ‘transactions under common control’ and deferral of review of accounting to a future phase.
2001
2004
2007 The IASB added a project on BCUCC to its agenda.
Recap of the IASB’s work on BCUCC

Revised IFRS 3 retained the scope exclusion and the relevant guidance.

BCUCC project put on hold due to changed priorities resulting from global financial crisis.

BCUCC identified as a priority project based on feedback on Agenda Consultation.

IASB staff commences research.

Why is accounting for BCUCC on the IASB’s research agenda?

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Why is accounting for BCUCC on the IASB’s research agenda?

• Respondents to the IASB’s 2011 Agenda Consultation identified BCUCC as a high priority project
• Views of the respondents on the scope of the project were mixed
  – Some suggested a narrow-scope project while others suggested that a comprehensive review was needed
• Investors highlighted the need for consistent accounting and transparent disclosures about BCUCC
• Consequently, the IASB decided to add BCUCC as a priority project on its research agenda
• The first problem to be addressed—what should be the scope of the project?

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Why is accounting for BCUCC on the IASB’s research agenda?

• IFRS 3 excludes combinations of entities or businesses under common control from its scope
• IFRS 3 describes BCUCC as “a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory”
• We understand that entities follow the hierarchy in IAS 8 and elect to apply IFRS 3 or local GAAP
Why BCUCC are different?

- Arguably, BCUCC are different from other business combinations because:
  - They are directed transactions rather than arm’s length exchanges
    - The transaction price might not be representative of the fair value of the transferred business
  - Purpose of BCUCC could be different from the purpose of business combinations between unrelated parties
    - Are the resulting information needs therefore different?
    - Should the accounting and/or disclosure be different?
    - Are there additional and/or different operational challenges?
Examples for discussion

The upcoming slides present basic examples of transactions that could be included within the scope of the project and include relevant discussion questions.

Each example involves demerging a business into a newly incorporated entity.

Each example represents a different category of transactions depending upon which group entity controls the new entity.

The base group structure is as follows:

- Entity P controls and wholly owns entities IP and A
- Entity IP controls and wholly owns Entity S
- Entity S comprises two businesses
Examples for discussion

Example 1—Group restructuring that is NOT a business combination

- Entity IP spins off one of the businesses out of Entity S into Entity S1
- Entity IP continues to control Entity S1
- There is no combination of entities or businesses
- The new group structure is as follows—

Questions

1. Should these transactions be included within the scope of the project?
2. At what values should Entity IP record the assets and liabilities of Entity S1?
3. At what values should Entity S1 record its assets and liabilities?
4. Would your responses change if there were an existing NCI in Entity IP or a new NCI in Entity S1?
Example 2—Group restructuring that is a business combination

- Entity IP spins off one of the businesses in Entity S into Entity S1
- Entity A controls Entity S1
- There is a business combination between entities A and S1
- The new structure is as follows—

Questions

1. Should these transactions be included within the scope of the project?
2. At what values should Entity A record the assets and liabilities of Entity S1?
3. At what values should Entity S1 record its assets and liabilities?
4. Would your responses change if there were an existing NCI in Entity A or a new NCI in Entity S1?
Example 3—Spin-off to public shareholders

- Entity IP spins off one of the businesses in Entity S into Entity S1
- Entity S1 is disposed of to public shareholders
- Entity P loses control over Entity S1
- The new structure is as follows—

Questions

1. Should these transactions be considered within the scope of the project albeit that these are not under common control?
2. Suppose Entity S1 is acquired by a new third party parent which is a publicly held entity, rather than by public shareholders directly.
   - The new parent would apply IFRS 3 and hence public shareholders would get fair value information for Entity S1.
   - If there is no acquirer, current IFRS would not allow Entity S1 to adjust the carrying values of its assets and liabilities.

Do the information needs of the public change with the presence or absence of a new parent?
Examples for discussion

Assuming that the three examples represent a continuum of events in a group restructuring that ends with disposal, at what point, if any, do you think there is support for reporting assets and liabilities of Entity S1 at their current values?

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Other questions on the scope of the project
Other questions on the scope of the project

• Should the project include a comprehensive review of accounting for all transactions between entities under common control or just those transactions that meet the description of BCUCC?
• Should the project include accounting for BCUCC in the financial statements of the acquirer, the acquiree and the transferor?
• Should the project consider accounting in consolidated, separate and individual financial statements?
• Should the project consider broader new basis issues in business combinations between unrelated parties (eg the relevance of push-down accounting in the acquiree’s financial statements)?

Thank you

We welcome your feedback

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.
Technical break-out sessions:

Conceptual Framework (Part 2): measurement

PATRICIA McCONNELL  
Member  
IASB
Session overview

- Background
- Measurement
- Profit or loss and other comprehensive income (OCI)
- Questions
Background

Why?

- Agenda consultation
  - Priority project

- Purpose of *Conceptual Framework* project
  - Not a fundamental rethink
  - Update, improve and fill in gaps
  - Focus on problems in the real world

- Purpose of the Discussion Paper
  - Starting point for discussion and outreach
  - Seek views on key issues from interested parties
Discussion Paper

Update

• Definitions
• Assets
• Liabilities
• Income
• Expenses
• Equity
• Recognition

Fill in the gaps

• Profit or loss/ other comprehensive income (OCI)
• Disclosure
• Derecognition
• Measurement

Suggested not to reopen Chapters 1 & 3 that were finalised in 2010

Outreach done

• 145 outreach meetings including roundtables
• Six-month comment period ended 14 January 2014
• 225+ letters received

Geographical distribution

North America 36%
South America 10%
Europe 9%
Asia - Oceania 20%
Middle East 1%
Africa 2%
International 22%

Distribution by respondent type

Academia 11%
Accounting Bodies 5%
Accountants 10%
Preparers 38%
Regulators / other 13%
Regulators / other 2%
Regulators / other 2%
Intern/ Employee 6%
Other 7%
What we heard: general comments

- Support to update the *Conceptual Framework*
- Support for many of the IASB’s preliminary views
- Some areas need more work (measurement, OCI)
- Some think that the IASB needs to reconsider some of the conclusions in Chapters 1 & 3:
  - Prudence, reliability, stewardship
- Timetable
  - Some support completion by end 2015
  - Others believe we should take more time, at least for some sections (eg measurement, OCI, liabilities/equity)

Timetable

- 18 Jul 2013: Issue DP
- March 2014: Feedback summary to the IASB
- Q2-Q3 2014: Analysis of comments
- Q4 2014: Issue ED
- 6-month comment period (14 Jan 2014)
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**Measurement**

**Problem now**

- Limited guidance
- No guidance on how to select a measurement

**Objective of the project**

- Develop guidance to help IASB when developing measurement requirements
### Preliminary views

The objective of measurement is to faithfully represent relevant information about:

- the resources of the entity and claims against the entity, and changes to those resources and claims
- how efficiently and effectively the entity’s management and governing board have discharged their responsibilities to use the entity’s resources.

A single measurement basis may not provide the most relevant information (see slide 13 for measurement categories)

Number of different measurements used should be smallest number necessary

### Preliminary views (2)

Consider information produced in both:

- the statement of financial position (SFP); and
- the statement(s) of profit or loss and other comprehensive income (OCI)

Most relevant measure depends on:

- How an asset contributes to future cash flows (e.g., use, sell)
- How the entity will fulfil or settle a liability

(see slides 14 & 15 for further information)

Consider cost-benefit
Measurement categories

Cost (adjusted for depreciation, impairment etc…)
Current market prices (including fair value)
Other cash-flow based measures

Selecting a measurement - Assets

Using
Likely outcome Cost

Selling
Likely outcome Current market price

Holding for collection
Likely outcome Cost (but not derivatives)

Charging for rights to use
Likely outcome Cost or current market price
Selecting a measurement - Liabilities

Settled according to terms
  - Likely outcome
    - Cost (but not derivatives)

Liabilities without stated terms
  - Likely outcome
    - Cash-flow-based

Performance
  - Likely outcome
    - Cost

To be transferred
  - Likely outcome
    - Current market price

What we heard

- Nearly all supported the mixed measurement approach
- Most agreed with suggested approach for selecting a measurement basis
- Some stated:
  - Measurement section needs more work
  - Section included too much standards-level detail
Initial strategy on measurement

Build on suggestions in the Discussion paper, modified in the light of feedback received

- Describe the different measurement bases
- Describe the information that the different measurement bases might provide in both the statement of financial position and the statement(s) of profit or loss and OCI
- Discuss the factors that might make a particular measurement basis more useful to the users of financial statements
- Explain the link between the measurement section and the discussion of OCI
- Remove discussion of the potential implications to measurement for particular types of assets and liabilities

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Profit or loss and OCI

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Feedback

Agenda consultation

Users tend to ignore changes in OCI

Lack of clarity on the role of profit or loss and OCI

Conceptual basis for recycling

Examples of the use of OCI

<table>
<thead>
<tr>
<th>Recognised asset or liability</th>
<th>OCI</th>
<th>Recycled?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pensions – net defined assets or liabilities</td>
<td>Remeasurements</td>
<td>No</td>
</tr>
<tr>
<td>Investments in debt instruments measured at fair value through OCI</td>
<td>Change in discount rate</td>
<td>Yes</td>
</tr>
<tr>
<td>Property, plant and equipment, intangible assets</td>
<td>Revaluation gain or reversals</td>
<td>No</td>
</tr>
<tr>
<td>Net investment in foreign operations (and hedges)</td>
<td>Exchange differences</td>
<td>Yes</td>
</tr>
<tr>
<td>Cash flow hedging instruments</td>
<td>Effective portion of change in fair value</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Distinguish using an attribute?

**Profit or loss**
- Realised
- Recurring (persistent)
- Operating
- Measurement certainty
- Short-term
- Under management control

**OCI**
- Unrealised
- Non-recurring
- Non-operating
- Measurement uncertainty
- Long-term
- Outside management control

IASB’s preliminary view: No single attribute can be used to distinguish profit or loss and OCI

Discussion Paper

**IASB’s preliminary view**
- Require profit or loss as a total or subtotal in the Conceptual Framework
- Some items of income or expense should be reported outside profit or loss (in OCI)
- Distinguish profit or loss and OCI by describing the types of items that could be included in OCI
- Two approaches to OCI:
  - Narrow approach: fewer items in OCI, always recycled
  - Broad approach: more items in OCI, sometimes recycled

**Alternative approach**
- Do not require a total or subtotal for profit or loss in the Conceptual Framework
- No need to distinguish profit or loss and OCI
- No recycling
What we heard

• Many asked for more research and analysis on profit or loss and OCI or performance reporting
• Some asked the IASB to consider interaction with measurement
• Nearly all agreed that profit or loss should be required as a total or subtotal
• Many asked that profit or loss or performance are defined
  – But very few proposed definitions
  – Some acknowledged the difficulty of defining profit or loss

What we heard (2)

• Mixed views on OCI and recycling and little engagement with the rationale in the Discussion Paper
• Many supported a broad approach to OCI
  – But not necessarily for the reasons discussed in the DP
  – Mixed views on which items should be recycled and when
• Some think that the use of profit or loss and OCI and recycling should be addressed in the Conceptual Framework, others think these are Standards-level questions
What we heard from investors

- Views consistent with the general feedback and
- Many stated performance is multi-dimensional
  - No single performance number is suitable for all investors
- Many focus on operating profit rather than profit or loss
- Many do not understand, or look at, OCI and recycling
- Many emphasise the need for appropriate disaggregation and transparency
- Many ask to re activate the Financial Statement Presentation project

Initial direction

Emphasise the role of profit or loss as the primary source of information about an entity’s performance

- Typically items of income and expense are included in profit or loss
- OCI to be used only if it improves the relevance of profit or loss

Provide guidance to the IASB on the use of OCI

- Describe when OCI could be used, eg when two measurement bases are used for an asset or a liability
- Describe when OCI could not be used, eg for impairment
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More information

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More information

- Discussion Paper
- Snapshot
- Conceptual Framework website
  - Comment letters
  - Comment letter summaries
  - High-level comment letter summary
  - Summary of investors comments