IFRS Foundation

IFRS Conference: London

2014

A one-and-a-half-day conference for senior financial executives and other interested parties
1. The future of financial reporting  
   Ian Mackintosh

2. IASB update  
   Ian Mackintosh  
   Philippe Danjou  
   Mary Tokar  
   Martin Edelmann  
   Hugh Shields

3. IFRS disclosures—innovations  
   Jan Engström  
   Gary Kabureck  
   Mikael Hagström  
   Patrick Parent  
   Sue Harding  
   Martijn Bos  
   Sandra Thompson

4. Global standards: how close are we?  
   Paul Pacter

5. IFRS 9—implementing and analysing  
   Sue Lloyd  
   Tony Clifford  
   Gavin Francis  
   Manus Costello  
   Paul Ebling

6. Technical break-out session  
   Financial instruments: accounting for macro hedging  
   Martin Edelmann  
   Kumar Dasputa

7. Technical break-out session  
   Leases  
   Jan Engström  
   Patrina Buchanan

8. Technical break-out session  
   Rate regulated activities  
   Mary Tokar  
   Jane Pike

9. Technical break-out session  
   Conceptual Framework: elements and recognition  
   Gary Kabureck  
   Joan Brown

10. Technical break-out session  
    Insurance contracts  
    Martin Edelmann  
    Andrea Pryde  
    Izabela Ruta  
    Milena Lacheta

11. Technical break-out session  
    Leases  
    Philippe Danjou  
    Patrina Buchanan

12. Technical break-out session  
    Business combinations under common control  
    Mary Tokar  
    Raghava Tirumala

13. Technical break-out session  
    Conceptual Framework: measurement  
    Gary Kabureck  
    Rachel Knubley

14. Special Interest Session  
    Investor-focused IFRS update  
    Stephen Cooper  
    Fred Nieto  
    Patricia McConnell  
    Peter Joos  
    Dennis Jullens  
    Peter Reilly  
    Richard Mathieson
15. Special Interest Session
Implementing forthcoming Financial Instruments requirements
Sue Lloyd
Yulia Feyagina
Andrew Spooner
Mark Robbins
Riana Wiesner
Colin Martin
Martin Friedhoff
Kush Patel

16. Special Interest Session
Implementing forthcoming Revenue Recognition requirements
Philippe Danjou
Henry Rees
Tony de Bell
Miklos Szabo

17. Special Interest Session
Cross-cutting measurement issues
Gary Kabureck
Hugh Shields
Chris Spall
Patrick Finnegan
Jochem Quaak
Day 1—Monday 23 June 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 Revenue Recognition requirements
- Cross-cutting measurement issues

**Conference Programme**

12:00  **Registration**

Light buffet and refreshments

13:00  **The future of financial reporting**

*Ian Mackintosh, Vice-Chairman, IASB*

13:30  **IASB update**

- Major IFRSs
- Implementation
- Conceptual Framework
- Research projects

*Chair: Ian Mackintosh, Vice-Chairman, IASB*

*Presenters:*

- Philippe Danjou, *Member, IASB*
- Martin Edelmann, *Member, IASB*
- Mary Tokar, *Member, IASB*
- Hugh Shields, *Executive Technical Director, IASB*

15:00  Coffee break

15:30  **Panel discussion: IFRS disclosures—innovations**

*Chair: Jan Engström, Member, IASB*

*Panelists include:*

- **IASB member:** Gary Kabureck
- **Preparer:** Mikael Hagstrom, *Senior Vice President and Head of Group Financial Reporting, AB Volvo*
- **Capital market regulator:** Patrick Parent, *Chair EECS, ESMA*
- **UK FRC's Financial Reporting Lab:** Sue Harding, *Director of the Financial Reporting Lab*
- **Analyst:** Martijn Bos, *Policy Advisor Reporting and Audit, Eumedion*
- **Advisor:** Sandra Thompson, *Partner, PwC*

17:30  **Global standards: how close are we?**

*Paul Pacter, Former Member, IASB*

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

Panellists include:
- **IASB member:** Sue Lloyd
- **Bank preparer:** Gavin Francis, *Deputy Group Chief Accounting Officer*, HSBC
- **Capital market regulator:** Paul Ebling, *Chief Accountant*, Prudential Regulation Authority (UK)
- **Analyst:** Manus Costello, *Managing Partner*, UK Banks
- **Implementation advisor:** Tony Clifford, Partner, EY

11:00  
Coffee break

11:30  
**Break-out sessions:**  
Choose **one** of the following:

1. **Financial instruments: accounting for macro hedging**  
   - Martin Edelmann, *Member*, IASB  
   - Kumar Dasgupta, *Technical Director*, IASB

2. **Leases: lessee**  
   - Jan Engström, *Member*, IASB  
   - Patrina Buchanan, *Technical Principal*, IASB

3. **Rate regulated activities**  
   - Mary Tokar, *Member*, IASB  
   - Jane Pike, *Senior Technical Manager*, IASB

4. **Conceptual Framework (Part 1): elements and recognition**  
   - Gary Kabureck, *Member*, IASB  
   - Joan Brown, *Senior Research Manager*, IASB

13:00  
Lunch

14:00  
**Break-out sessions:**  
Choose **one** of the following:

1. **Insurance contracts**  
   - Martin Edelmann, *Member*, IASB  
   - Andrea Pryde, *Technical Principal*, IASB  
   - Izabela Ruta, *Assistant Technical Manager*, IASB  
   - Milena Lacheta, *Technical Associate*, IASB

2. **Leases (repeated)**  
   - Philippe Danjou, *Member*, IASB  
   - Patrina Buchanan, *Technical Principal*, IASB

3. **Business combinations under common control**  
   - Mary Tokar, *Member*, IASB  
   - Raghava Tirumala, *Technical Manager*, IASB

4. **Conceptual Framework (Part 2): measurement**  
   - Gary Kabureck, *Member*, IASB  
   - Rachel Knubley, *Technical Principal*, IASB

15:30  
**End of conference**
**Implementing forthcoming Financial Instruments requirements**

To assist you to prepare for the implementation of IFRS 9 Financial Instruments, the IFRS Foundation will hold an intensive half-day session immediately before the IFRS conference, on the morning of 23 June 2014.

09:00 Registration and refreshments

09:30 Introduction

Sue Lloyd
Member
IASB

09:35 Classification and measurement

- Brief overview of the requirements: Yulia Feygina, Senior Technical Manager, IASB
- Implementation experience—banks: Mark Robbins, Portfolio Analytics & Reporting Director Retail & Wealth Credit Risk, Lloyds Banking Group
- Implementation advice—corporates: Andrew Spooner, Partner, Deloitte

10:10 Impairment model

- Brief overview of the requirements: Riana Wiesner, Senior Technical Manager, IASB
- Implementation experience—banks: Mark Robbins, Portfolio Analytics & Reporting Director Retail & Wealth Credit Risk, Lloyds Banking Group
- Implementation advice—including corporates: Colin Martin, Partner, KPMG

10:45 Hedge accounting model for corporates

Implementation advice: Martin Friedhoff, Executive Director, EY
Kush Patel, Director, Deloitte

11:25 Round-table Q&A

Chair: Sue Lloyd, Member, IASB

Panellists:
- Yulia Feygina
- Martin Friedhoff
- Colin Martin
- Kush Patel
- Mark Robbins
- Andrew Spooner
- Riana Wiesner

11:55 Concluding comments

Sue Lloyd, Member, IASB

12:00 Close session
# IFRS Foundation: Special Interest Sessions

Morning of Monday 23 June 2014 — Lancaster hotel in London, UK

## Cross-cutting measurement issues

To enhance understanding of cross-cutting IFRS measurement issues, the IFRS Foundation will hold an intensive half-day session immediately before the IFRS conference, on the morning of 23 June 2014.

<table>
<thead>
<tr>
<th>Time</th>
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<td><strong>IFRS Revenue Recognition</strong>&lt;br&gt;Henry Rees&lt;br&gt;Technical Director&lt;br&gt;IASB</td>
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<td><strong>Advisor’s perspective</strong>&lt;br&gt;Tony de Bell&lt;br&gt;Partner&lt;br&gt;PwC Global ACS</td>
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<td><strong>How we are preparing to implement forthcoming IFRS on Revenue</strong>&lt;br&gt;<strong>Recognition</strong>&lt;br&gt;Miklos Szabo&lt;br&gt;Financial Expert&lt;br&gt;SAP AG</td>
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## Implementing forthcoming Revenue Recognition requirements

To assist you to prepare for the implementation of forthcoming IFRS—Revenue Recognition, the IFRS Foundation will hold an intensive half-day session immediately before the IFRS conference, on the morning of 23 June 2014.

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</table>
The future of financial reporting

IAN MACKINTOSH
Vice-Chairman
IASB
The future of financial reporting

London
23 June 2014

Ian Mackintosh, Vice-Chairman, IASB

Where are you from?
1) United Kingdom
2) Eurozone
3) Rest of Europe
4) Africa and the Middle East
5) Asia-Oceania
6) The Americas
7) Other
Getting to know the audience
Question 2

Which stakeholder group best describes your role in the financial reporting chain?
1) Preparer
2) Auditor
3) Advisor
4) Regulator
5) Investor/Analyst
6) Other

Getting to know the audience
Question 3

Which sector best describes your primary business (or sector to which you provide services)?
1) Financial—banking, insurance, investing etc
2) Manufacturing
3) Extractive activities
4) Retail
5) Other
Overview

• Current work programme
• New work programme
• Evolution of priorities

Current work programme

• Financial instruments
• Leasing
• Insurance
New work programme

- Conceptual Framework
- Financial disclosures

Evolution in priorities

- Deepening co-operation
- Encouraging consistent application
IASB update

IAN MACKINTOSH
Vice-Chairman
IASB

PHILIPPE DANJOU
Member
IASB

MARTIN EDELMANN
Member
IASB

MARY TOKAR
Member
IASB

HUGH SHIELDS
Executive Technical Director
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

Recently issued IFRSs

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

<table>
<thead>
<tr>
<th>IFRS</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 9 <em>Financial Instruments</em></td>
<td>TBD (available for application)</td>
</tr>
<tr>
<td>IFRS 14 <em>Regulatory Deferral Accounts</em></td>
<td>1 January 2016</td>
</tr>
<tr>
<td>IFRS 15 <em>Revenue from Contracts with Customers</em></td>
<td>1 January 2017</td>
</tr>
<tr>
<td><em>Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)</em></td>
<td>1 January 2014</td>
</tr>
<tr>
<td><em>Investment Entities (Amendments to IFRS 10, 12 and IAS 27)</em></td>
<td>1 January 2014</td>
</tr>
<tr>
<td><em>Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)</em></td>
<td>1 January 2014</td>
</tr>
<tr>
<td><em>Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)</em></td>
<td>1 January 2014</td>
</tr>
<tr>
<td><em>Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)</em></td>
<td>1 July 2014</td>
</tr>
<tr>
<td><em>Annual Improvements 2010-2012 (IFRS 2, 3, 8, 13 and IAS 16, 24, 38)</em></td>
<td>1 July 2014</td>
</tr>
<tr>
<td><em>Annual Improvements 2011-2013 (IFRS 1, 3, 13 and IAS 40)</em></td>
<td>1 July 2014</td>
</tr>
<tr>
<td><em>Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)</em></td>
<td>1 January 2016</td>
</tr>
<tr>
<td><em>Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)</em></td>
<td>1 January 2016</td>
</tr>
<tr>
<td>IFRIC 21 <em>Levies</em></td>
<td>1 January 2014</td>
</tr>
</tbody>
</table>

## Revenue recognition

- Objective – to develop a single, principle-based revenue standard for IFRS and US GAAP
- IFRS 15 *Revenue from Contracts with Customers* issued concurrently with the FASB on 28 May 2014
  - Replaces IAS 18, IAS 11 and related Interpretations
  - Genuinely global standard
- Effective date 1 January 2017 with early application permitted
- Revenue Transition Resource Group to monitor implementation
How we develop Standards
evolution of our process

The standard-setting process
2001 to 2006
The standard-setting process

Today

- 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

- Perceptions that:
  - Projects not being completed
  - Projects not being completed on time
  - Most proposals are being exposed more than once, with major changes from the previous proposals
- 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 the IASB’s priorities.
## Next milestones (summary)

<table>
<thead>
<tr>
<th>Area</th>
<th>2014</th>
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<tbody>
<tr>
<td></td>
<td>Q2</td>
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<tr>
<td>Business combinations under common control</td>
<td>B</td>
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<tr>
<td>Disclosure Initiative</td>
<td></td>
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<tr>
<td>IAS 1 Amendments</td>
<td></td>
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<tr>
<td>Reconciliation of liabilities from financing</td>
<td>Target ED</td>
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<tr>
<td>Materiality</td>
<td>B</td>
</tr>
<tr>
<td>Principles of disclosure</td>
<td>B</td>
</tr>
<tr>
<td>General disclosure review</td>
<td>To be determined</td>
</tr>
<tr>
<td>Discount rates</td>
<td>B</td>
</tr>
<tr>
<td>Emissions trading scheme</td>
<td>To be determined</td>
</tr>
<tr>
<td>Equity method of accounting</td>
<td>B</td>
</tr>
<tr>
<td>FV with the Characteristics of Equity</td>
<td>Pending the Conceptual Framework project</td>
</tr>
<tr>
<td>Foreign currency translation / inflation</td>
<td>B</td>
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<tr>
<td>Liabilities – amendments to IAS 37</td>
<td>Pending the Conceptual Framework project</td>
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<tr>
<td>Rate-regulated Activities</td>
<td>Target DP</td>
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*B = Board discussion  DP = Discussion Paper  ED = Exposure Draft*
### Other projects

<table>
<thead>
<tr>
<th>Project</th>
<th>Status</th>
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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>
</tr>
<tr>
<td>Extractive activities / Intangible assets / R&amp;D</td>
<td>These projects are longer term projects which the IASB does not expect to discuss publicly until 2015 or later.</td>
</tr>
<tr>
<td>Post-employment benefits</td>
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<tr>
<td>Income taxes</td>
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<td>Share-based payments</td>
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**International Financial Reporting Standards**

**Major Standards-level projects**

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IASB Work plan – as at 28 May 2014

Major IFRSs

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

<table>
<thead>
<tr>
<th>Disclosure Initiative</th>
<th>Next major project milestone</th>
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<td>Amendments to IAS 1 (Disclosure Initiative)</td>
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<td>Redeliberations</td>
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<td>Revenue Recognition</td>
<td>Target IFRS</td>
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IFRS for SMEs: Comprehensive Review 2012-2014 – see project page
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 July

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 July
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

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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)
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 relief for first-time adopters of IFRS
  – Issued IFRS 14 *Regulatory Deferral Accounts* in Jan 2014
  – Permits grandfathering of previous GAAP accounting practices for recognition, measurement, impairment and derecognition
  – Enhanced presentation and disclosure matters
  – Effective date is 1 Jan 2016, early application is permitted
• Research project
  – Will consider how rate regulation affects the amounts, timing and certainty of revenues and cash flows and what information is needed to help users understand the effects
  – Request for Information (issued end of March 2013)
  – Discussion Paper (expected Q3 2014)
IFRS for SMEs: Comprehensive Review 2012-2014

- IFRS for SMEs published July 2009
- Comprehensive review began mid-2012 when IASB issued Request for Information (RfI)
  - Sought public views on whether any need to amend IFRS for SMEs
    - eg for changes to full IFRSs or implementation issues
- Exposure Draft (ED) issued October 2013
  - Comment period ended March 2014
  - Comment letter analysis published May 2014
- Next step: SME Implementation Group will consider feedback on ED and provide recommendations to the IASB
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

<table>
<thead>
<tr>
<th>Update</th>
<th>Fill in the gaps</th>
</tr>
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<tbody>
<tr>
<td>• Definitions</td>
<td>• Profit or loss/ other</td>
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<tr>
<td>• Assets</td>
<td>comprehensive income (OCI)</td>
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<td>• Liabilities</td>
<td>• Disclosure</td>
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<td>• Income</td>
<td>• Derecognition</td>
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<td>• Equity</td>
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<tr>
<td>• Recognition</td>
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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%
- Asia - Oceania 20%
- North America 9%
- Latin America 10%
- Middle East 1%
- Africa 2%
- International 3%

**Distribution by respondent type**

- Academia 11%
- Accountancy bodies 10%
- Accounting firms 6%
- Regulators / other 2%
- Regulators / securities 2%
- Users 5%
- Other 2%
- Preparers 39%

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 (e.g., measurement, OCI, liabilities/equity)
Timetable

- 18 Jul 2013: Discussion Paper published (6-month comment period ended 14 Jan 2014)
- March 2014: Feedback summary to the IASB
- Q4 2014: Issue ED
- 2016: Revised Conceptual Framework

International Financial Reporting Standards

Implementation

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

IASB Work plan – as at 28 May 2014

<table>
<thead>
<tr>
<th>Narrow-scope amendments</th>
<th>2014 Q2</th>
<th>2014 Q3</th>
<th>2014 Q4</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Improvements 2012-2014 (comment period ended 23 March 2014)</td>
<td>Redeliberations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Improvements 2013-2015</td>
<td></td>
<td>Target ED</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer Plants (proposed amendments to IAS 41)</td>
<td>Target IFRS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions of Classification and Measurement of Share-based Payment Transactions (proposed amendments to IFRS 2)</td>
<td></td>
<td>Target ED</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Classification of liabilities (proposed amendments to IAS 1)</td>
<td>Target ED</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elimination of gains or losses arising from transactions between an entity and its associate or joint venture (proposed amendments to IAS 28)</td>
<td>Target ED</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Method in Separate Financial Statements (proposed amendments to IAS 27)</td>
<td>Target IFRS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair Value Measurement: Unit of Account</td>
<td>Target ED</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# IASB Work plan – as at 28 May 2014

## Implementation (cont.)

<table>
<thead>
<tr>
<th>Narrow-scope amendments</th>
<th>2014 Q2</th>
<th>2014 Q3</th>
<th>2014 Q4</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Entities: Applying the Consolidation Exception (proposed amendments to IFRS 10 and IAS 28)</td>
<td>Target ED</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Put Options Written on Non-controlling Interests (proposed amendments to IAS 32)</td>
<td>Next steps</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recognition of Deferred Tax Assets for Unrealised Losses (proposed amendments to IAS 12)</td>
<td></td>
<td></td>
<td>Target ED</td>
<td></td>
</tr>
<tr>
<td>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (proposed amendments to IFRS 10 and IAS 28)</td>
<td></td>
<td></td>
<td>Target IFRS</td>
<td></td>
</tr>
</tbody>
</table>

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

## 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)
**Post-implementation Reviews**

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

**IASB Work plan – as at May 2014**

<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>
</tr>
</thead>
<tbody>
<tr>
<td>Post-implementation reviews</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRS 3 Business Combinations</td>
<td>Public consultation</td>
<td></td>
<td></td>
<td></td>
</tr>
</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

- Planning and agree scope
- Identification of the issues
- Submissions analysis
- Investigation of the issues through outreach activities
- 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 ended 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?

Thank you
IFRS disclosures—innovations

JAN ENGSTRÖM  
Member  
IASB

GARY KABURECK  
Member  
IASB

MIKAEL HAGSTRÖM  
Senior VP, Head of Group Financial Reporting  
AB VOLVO

PATRICK PARENT  
Chair EECS  
ESMA

SUE HARDING  
Director  
UK FRC’S FINANCIAL REPORTING LAB

MARTIJN BOS  
Policy Advisor Reporting and Audit  
EUMEDIION

SANDRA THOMPSON  
Partner  
PwC
Disclosure panel

Question 1

In today's financial reports there is?

1) too much information;
2) too little information;
3) a good balance; or
4) a lot of useless information.
The principle cause for the expanding disclosures in annual reporting is?

1) investor demands;
2) accounting requirements/standard setters;
3) regulatory requirements/scrutiny;
4) auditors; or
5) preparer desire for transparency.

Ideally disclosures should be:

1) standardised + uniform presentation—easy to find information;
2) standardised + uniform presentation—management cannot ‘hide’ information;
3) company specific—enhance understanding of the company (industry, business cycle etc); or
4) company specific—enhance communication and presentation of information.
Disclosure panel

Question 4

The initiative on disclosure overload matters because?

1) financial statements are key to compare between entities and make investment decisions;
2) the preparation of footnotes is burdensome;
3) relevant information is often masked by less important disclosures; or
4) the overlap between requirements coming from various regulations.

Disclosure panel

Question 5

What additional types of content should be added to make financial statements notes more relevant?

1) verifiable analytical content, eg rate/volume/mix info, commentary on year-on-year balance change;
2) verifiable non-financial operational metrics, eg tickets sold, tonnage shipped, same store sales;
3) reasonably verifiable forward looking information for the next year, eg estimated rent expense, depreciation, minimum pension funding requirements; or
4) none—current types are appropriate and sufficient.
Global standards: how close are we?

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

The mission of the IASB

From IFRS Foundation Constitution adopted in early 2000:

“To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other users make economic decisions.”

Same mission today.
Support for global accounting standards

Public support for global accounting standards:
- G20
- World Bank
- IMF
- Basel Committee
- International Organization of Securities Commissions (IOSCO)
- International Federation of Accountants (IFAC)
- European Parliament and Council
- Many others

As far back as 1973, when old IASC was created

February 2012 strategy review report of the Trustees of the IFRS Foundation

“We remain committed to the belief that a single set of International Financial Reporting Standards (IFRS) is in the best interests of the global economy, and that any divergence from a single set of standards, once transition to IFRS is complete, can undermine confidence in financial reporting.”
Different pathways towards adoption

• Adoption of IFRS is a voluntary public-interest decision by the legislative and regulatory authorities in individual jurisdictions.

• Countries must establish their own mechanisms for bringing IFRS formally into national law and for ensuring consistent and rigorous application.

• Regardless of the mechanics of IFRS adoption, the end result should be the same—full adoption of IFRS as issued by the IASB.

Support for global accounting standards

February 2012 strategy review report, continued

“Convergence may be an appropriate short-term strategy for a particular jurisdiction and may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption. …Whatever the [adoption] mechanism, it should enable and require relevant entities to state that their financial statements are in full compliance with IFRS as issued by the IASB.”
Where are countries on the road to IFRS?

Goals of the project:

1. Develop a central source of information to chart jurisdictional progress toward global adoption of a single set of financial reporting standards
2. Respond to assertions that there many national variations of IFRS around the world
3. Identify where IFRS Foundation can help countries on their path to adoption of IFRS

Goal #1: Chart progress to global standards

Develop IFRS profiles for each jurisdiction
- Starting point was a survey of standard setters
- Profiles prepared by IFRS Foundation
- Reviewed by survey respondent, regulators, and international audit firms
- Profiles reflect current status of use of IFRS rather than hopes and intentions
Profiles already completed

130 jurisdiction profiles are now posted: http://go.ifrs.org/global-standards  or Profiles already completed

The 130 profiles cover 96% of global GDP.

The 130 profiled jurisdictions come from all over the world:

<table>
<thead>
<tr>
<th>Region</th>
<th>Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>19</td>
</tr>
<tr>
<td>Americas including Caribbean</td>
<td>34</td>
</tr>
<tr>
<td>Asia-Oceania</td>
<td>28</td>
</tr>
<tr>
<td>Europe</td>
<td>42</td>
</tr>
<tr>
<td>Middle East</td>
<td>7</td>
</tr>
</tbody>
</table>

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Content of each profile

- Survey participant details
- Commitment to global accounting standards
- Extent of IFRS application:
  - Which companies? Required or permitted? Consolidated only? Unlisted also?
- IFRS endorsement:
  - Process, legal authority, auditor's report
- Eliminate options? Make modifications?
- Process for translation of IFRS
- Adoption of the IFRS for SMEs

Example p.1

Most profiles are 4 to 6 pages long, A4 size
Commitment to IFRS as global standards

Made a public statement committing to IFRS as the global accounting standards?

- Yes = 122 of the 130 jurisdictions
- No = 8 (Albania, Bermuda*, Cayman Islands*, Egypt, Macao, Paraguay, Suriname*, Switzerland*)

*IFRS permitted and widely used. In Switzerland, 84% of companies on main board of Swiss Exchange now use IFRS.

IFRS already adopted

IFRS required for all or most listed companies?

- Yes = 105 of 130 jurisdictions (81%)
- Not yet = 25 jurisdictions (see next slide)

Most of those 105 go beyond just listed companies and financial institutions:

- 60% also require IFRS for all financial institutions and/or large unlisted companies.
- 90% also require or permit IFRS for many unlisted companies.
On the road to adoption of IFRS

IFRS are already used in most of the 25 jurisdictions that do not yet require IFRS for all or most listed companies:

- 14 permit IFRS for all or most listed companies
- 2 require IFRS for all financial institutions (plus 1 of the above 14)
- 2 are in process of adopting IFRS
- 7 use national GAAP

Graphical overview of the Jurisdiction Profiles

Use of IFRS in 130 Surveyed Jurisdictions

- 105 jurisdictions
- 14 jurisdictions
- 9 jurisdictions
- 2 jurisdictions

- IFRS required for all or most companies
- IFRS permitted for all or most companies
- IFRS required for financial institutions only
- National standards (including in process of moving to IFRS)
Capital Markets as share of GDP

- IFRS provide the financial information for capital markets covering 56% of the world’s GDP
- Non-EU/EEA jurisdictions are a large component of the IFRS users:

<table>
<thead>
<tr>
<th>Jurisdictions that require or permit IFRS for all or most public companies</th>
<th>Gross Domestic Product (GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union and EEA</td>
<td>US$ 17.2 billion</td>
</tr>
<tr>
<td>Jurisdictions other than EU and EEA</td>
<td>US$ 23.3 billion</td>
</tr>
</tbody>
</table>

Goal #2: Assertions of many local ‘flavours’

Modifications to IFRS are rare

- The few that have been made are temporary and of limited scope and applicability
- In most cases IASB is addressing the issue in a current project
Goal #2: Assertions of many local ‘flavours’

What kinds of modifications are there:

- EU IAS 39 “carve-out” – used by only 20 of 8,000 listed companies in Europe, “temporary”
- Delayed effective dates of IFRS 10, 11, 12 until 2014
- Modifications or deferrals pending completion of IASB projects
  - Rate regulation, equity method, loan loss provisions
- Older versions of IFRS adopted, not latest
- A few other small changes

Auditor’s report

In the 130 jurisdictions, the independent auditor’s report refers to:

<table>
<thead>
<tr>
<th>Description</th>
<th>Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS as issued by the IASB</td>
<td>76</td>
</tr>
<tr>
<td>IFRS as adopted by the EU</td>
<td>33 (with many also asserting compliance with IFRS as issued by the IASB)</td>
</tr>
<tr>
<td>National standards</td>
<td>21</td>
</tr>
</tbody>
</table>
### Endorsement process, if any

<table>
<thead>
<tr>
<th>Process Type</th>
<th>Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>No endorsement required</td>
<td>58</td>
</tr>
<tr>
<td>European Union process</td>
<td>33</td>
</tr>
<tr>
<td>Endorsement solely by professional accounting body</td>
<td>11</td>
</tr>
<tr>
<td>Endorsement solely by government agency</td>
<td>12</td>
</tr>
<tr>
<td>Involves both professional body and government</td>
<td>6</td>
</tr>
<tr>
<td>IFRS not yet adopted for any domestic or foreign companies</td>
<td>10</td>
</tr>
</tbody>
</table>

### Adoption of the IFRS for SMEs

In the 130 jurisdictions for which we have posted profiles:

- **Already adopted the IFRS for SMEs**: 63 jurisdictions
- **Actively considering it**: 16 jurisdictions
### Adoption of the IFRS for SMEs

In the 63 jurisdictions that have already adopted the IFRS for SMEs:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>All SMEs must use IFRS for SMEs (unless required to use full IFRS)</td>
<td>8 jurisdictions</td>
</tr>
<tr>
<td>SMEs must choose either IFRS for SMEs or local GAAP</td>
<td>1 jurisdiction</td>
</tr>
<tr>
<td>SMEs must choose either IFRS for SMEs or full IFRS</td>
<td>38 jurisdictions</td>
</tr>
<tr>
<td>SMEs must choose either IFRS for SMEs, full IFRS, or local GAAP</td>
<td>16 jurisdictions</td>
</tr>
</tbody>
</table>

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### From vision to reality

40 years after creation of IASC, and 12 years after the reform of the IASC and the establishment of the IFRS Foundation and the IASB, the profiles provide firm evidence that the vision of global accounting standards is now becoming a reality.
Remaining jurisdictions not yet profiled

United Nations has 193 members. We have 130 profiles. Our profiles cover 96% of global GDP. Still, we have some countries that are priorities for adding profiles in the next year, including:

<table>
<thead>
<tr>
<th>Armenia</th>
<th>Belize</th>
<th>British Virgin Is.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curacao</td>
<td>Iran</td>
<td>Kazakhstan</td>
</tr>
<tr>
<td>Kuwait</td>
<td>Laos</td>
<td>Lebanon</td>
</tr>
<tr>
<td>Monaco</td>
<td>Peru</td>
<td>Philippines</td>
</tr>
<tr>
<td>Qatar</td>
<td>Thailand</td>
<td>Vietnam</td>
</tr>
</tbody>
</table>

Can you help? ppacter@ifrs.org

Article

An article explaining the Foundation’s profiles project and the information in the Trustees’ agenda paper has been published in the January 2014 issue of *The CPA Journal* (United States), print and online: [http://www.cpajournal.com/](http://www.cpajournal.com/)

Title: ‘Global Accounting Standards—From Vision to Reality’

Available on IASB’s website: www.ifrs.org
This 185-page guide summarises:

• what IFRS is.
• benefits of adoption.
• history of development of IFRS.
• how IFRS is developed.
• for 130 jurisdictions, information about which accounting standards are required (public companies and SMEs) and how IFRS is endorsed.
• links to resources.
• summaries of current Standards

Two questions – use your voting buttons

Q1: Before coming to this afternoon’s session, had you looked at some of the jurisdiction profiles on the IFRS Foundation’s website, or had you read an analysis of the profiles?

1 = YES
2 = NO
Q2: Have the profiles changed your thinking about the extent of IFRS adoption around the world and the extent of local modifications of IFRS?

1 = YES

2 = NO
IFRS 9—implementing and analysing

MARY TOKAR
Member
IASB

SUE LLOYD
Member
IASB

TONY CLIFFORD
Partner
EY

GAVIN FRANCIS
Deputy Group Chief Accounting Officer
HSBC

MANUS COSTELLO
Managing Partner, UK Banks
Autonomous Research

PAUL EBLING
Chief Accountant
Prudential Regulation Authority (PRA) Policy Division
Project to replace IAS 39

- Classification & Measurement
  - IFRS 9 (2010) + Limited amendments
  - Expect to publish IFRS 9 mid-2014

- Impairment
  - Expect to publish IFRS 9 mid-2014

- General Hedge accounting
  - Published new requirements 2013

✓ Accounting for macro hedging is being deliberated separately. Discussion Paper published April 2014.
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 (whole) 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 have been available for early application, in isolation, since the publication of IFRS 9 (2013)

Impairment

Change in credit quality since initial recognition

Expected credit losses (‘ECL’) recognised

12-month ECL

Lifetime ECL

Lifetime ECL

Interest revenue

Gross basis

Gross basis

Net basis

Stage 1

Performing

Stage 2

Under-performing

Stage 3

Non-performing
Getting to know the audience

Question 1

Have you started considering the impact of the new impairment requirements?

1. Not at all
2. In the planning stage
3. Have made substantial progress

Question 2

How big an impact do you expect the new impairment requirements to have?

1. Low
2. Medium
3. High
Classification of financial assets

- **Business model**: Amortised cost, FVOCI
- **Contractual cash flow characteristics**: Amortised cost, FVOCI
- **All other instruments**: Equities, Derivatives, Some hybrid contracts

- **Fair value (No impairment)**
- **FVO for accounting mismatch**
- **Equities: OCI presentation available (alternative)**

\* Reclassification required if business model changes
\* Same impairment model for amortised cost and FVOCI

Getting to know the audience

Question 3

Have you started considering the impact of the new C&M requirements?

1. Not at all
2. In the planning stage
3. Have made substantial progress
Getting to know the audience

Question 4

How big an impact do you expect the new C&M requirements to have?

1. Low
2. Medium
3. High

Getting to know the audience

Question 5

Do you expect that your company / the companies you follow / your audit clients will adopt the ‘own credit’ requirements early?

1. Yes
2. No
3. Not sure
Key changes from current accounting

This has been a comprehensive review of hedge accounting

- Links economics of risk management with accounting treatment
- Significantly reduces accounting considerations that affect risk management decisions
- Ability to account for more hedges of non-financial items
- Dynamic risk management not part of IFRS 9

Example: Measuring the success of hedging jet fuel contracts with crude oil futures

Getting to know the audience

Question 6

Have you started considering the impact of the new hedge accounting requirements?

1. Not at all
2. In the planning stage
3. Have made substantial progress
Getting to know the audience
Question 7

How big an impact do you expect the new hedge accounting requirements to have?
1. Low
2. Medium
3. High

Change management

• Suggested milestones / deliverables in each year?

2015  2016  2017  2018

Apply IFRS 9
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:

Financial instruments: accounting for macro hedging

MARTIN EDELMANN
Member
IASB

KUMAR DASGUPTA
Technical Director
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

24 June 2014


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.
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), using a normal Present Value technique.
- Not a full fair value model.

---

Dynamic interest rate risk management in banks

Dynamic interest rate risk management can be managed on a net basis.

**The Portfolio Revaluation Approach (PRA)**

- Exposures within open portfolios are revalued with respect to the managed risk (for example, interest rate risk), using a normal Present Value technique.
- 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.

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)

- Contractually demand deposits have a variable interest rate and can be withdrawn at any time.
- At a portfolio level, however, 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).
- Conceptually challenging, because deposits that are payable on demand are assumed to have zero fair value risk with regard to interest rate risk.

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
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 of the application of the PRA (continued)

<table>
<thead>
<tr>
<th>Risk positions</th>
<th>Within DRM</th>
<th>Outside of DRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio</td>
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<tr>
<td>Portfolio</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Focus on DRM
Focus on risk mitigation (sub-portfolio approach)
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

![Diagram showing internal derivatives and their effects on Revaluation from DRM and Trading.]

Net effect of gross presentation is zero in P/L
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)

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

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

Production

Net open risk position mitigated with 
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.
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.

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.
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 (eg 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.

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
Technical break-out sessions:

Leases

JAN ENGSTRÖM
Member
IASB

PATRINA BUCHANAN
Technical Principal
IASB
The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.
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
IASC issue IAS 17 Accounting for Leases

2005
IASB and FASB publish Discussion Paper

2009
IASC and FASB publish Revised Exposure Draft

2010
US SEC report on off-balance sheet activities – lease accounting criticised

2013
IASB and FASB publish Discussion Paper

2014
IASC and FASB publish Revised Exposure Draft

* 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

<table>
<thead>
<tr>
<th>Listed companies only</th>
<th>Percentage of IFRS/US GAAP preparers who report material operating leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa / Middle East</td>
<td>27%</td>
</tr>
<tr>
<td>Asia / Pacific</td>
<td>52%</td>
</tr>
<tr>
<td>Europe</td>
<td>47%</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>14%</td>
</tr>
<tr>
<td>United States and Canada</td>
<td>54%</td>
</tr>
</tbody>
</table>

| Total future minimum operating lease payments (undiscounted) (1) | USD 4.3 trillion |
| Present value of future minimum operating lease payments (estimate) (2) | USD 3.4 trillion |

| Global annual equipment leasing volume (new leases only), 2012 | USD 0.9 trillion |

Global real estate volume unknown, but substantially more than equipment

(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)

Q2 2013
Q3 2013
Q4 2013
Q1 2014
Q2 – Q3 2014
2015

International Financial Reporting Standards

Lessee accounting

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

![Diagram showing the relationship between Lessor and Lessee](image)

**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></td>
<td>Lease liability</td>
<td>Interest expense</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>
<tr>
<td></td>
<td></td>
<td>Lease liability</td>
<td></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>IAS 17</th>
<th>IASB</th>
<th>FASB</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single model</td>
<td>Dual model</td>
</tr>
<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>
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</tr>
<tr>
<td>Operating expenses</td>
<td>Operating expenses</td>
<td>Operating expenses</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>Operating expenses</td>
<td>Operating 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

---

Re-deliberation decisions – Other topics

- **Definition of a lease**
  - Retain 2013 ED proposals with some clarifications

- **Separating lease and nonlease components**
  - Lessees use estimates (if no observable information available)
  - Lessee permitted *not* to separate lease and nonlease components by class of underlying assets
Next steps

IASB and FASB will continue to re-deliberate jointly
Main topics yet to be discussed
- Disclosure
- Transition
Publication of the new leases standard in 2015
- Effective date TBD
Thank you
Technical break-out sessions:

Rate regulated activities

MARY TOKAR
Member
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Senior Technical Manager
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

Rate-regulated Activities
24 June 2014

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Agenda

• Background
• The IASB’s Rate-regulated Activities project
  – Overview
  – Research project
    – Request for Information: Rate Regulation
    – Forthcoming Discussion Paper
  – Short-term relief—IFRS 14 Regulatory Deferral Accounts
• Next steps
• Q&A
Rate-regulated Activities—Background (1)

- Rate regulation is a restriction in the setting of prices that can be charged to customers for (usually essential) goods or services.
- Rate regulation usually requires suppliers to adjust the selling price (rate) to:
  - recover ‘allowable’ costs or unbilled revenue amounts, or
  - eliminate ‘excess’ revenue or profits.
- Rate changes usually apply prospectively and are often designed to ‘smooth’ the impact of rate changes over time.

Rate regulation can create temporary differences between amounts reported to the rate regulator and those reported in financial statements using normal GAAP requirements.

Rate-regulated Activities—Background (2)

Some national GAAPs permit or require balances that are created by regulatory timing differences to be recognised in financial statements — either as separate ‘regulatory assets’ and ‘regulatory liabilities’, or as part of another asset or liability balance (e.g. part of the cost of property, plant and equipment).

Regulatory debit balances generally represent deferred ‘allowable’ costs or unbilled revenue (the rate regulation gives the entity the right to increase future rates).

Regulatory credit balances generally represent deferred ‘excess’ revenue or profit (the rate regulation requires the entity to reduce future rates).

No specific guidance or scope exceptions in IFRS.
Requests for guidance

Requests to IFRS Interpretations Committee
Desire to use US GAAP
2009 ED focused on 'cost-of-service' rate regulation
US GAAP not fully consistent with IFRS
Service Concession Arrangements (IFRIC 12)
2011 Agenda Consultation

Predominant practice in IFRS is that regulatory deferral account balances are not recognised in IFRS financial statements

The comprehensive Rate-regulated Activities project

The IASB started a new Rate-regulated Activities project in September 2012

Two distinct paths

Short-term relief for first-time adopters of IFRS:
IFRS 14 Regulatory Deferral Accounts
(issued in January 2014, effective 1 January 2016, early application permitted)

Longer-term comprehensive project for all rate-regulated entities:
research phase is ongoing—
Discussion Paper is expected to be issued in Q3 2014
Longer-term project: ongoing research phase

Request for Information—Rate Regulation

- Request for Information published in March 2013
- Fact-finding document
  - What are the main objectives of different types of rate regulation?
  - How do the rate-setting mechanisms reflect these objectives?
  - What rights and obligations are created?
  - How are rights enforced and obligations settled?
- c80 responses, providing information from >35 countries and 8 broad industry types
Industries affected by rate regulation

- energy (including electricity, gas, oil/petroleum, heating)
- water
- public transport (including trains, buses, taxis)
- other transportation (including toll roads, air traffic control, port and airport services)
- telecommunications
- postal services
- insurance
- other (including fertilisers, health services, cemeteries)

Objectives of rate regulation

Rate regulator

Consumers
- Protection from monopoly
- Affordable and stable prices
- Availability and quality of supply

Supplier
- Financial viability
- Fair return
- Investment incentives
- Efficiency incentives

Government policies
- Social
- Environmental
- Fiscal
- Technology
Price-setting mechanisms

- **Cost-plus**
  - Also referred to as ‘Cost-of-service’ or ‘Return-on-rate base’ regulation
  - Rate is fixed within a narrow range (cap and floor)
  - Rate is based on the entity’s specific costs
  - Rate changes are usually applied prospectively
  - Rate includes an adjustment to recover/reverse past variances between estimated and actual costs incurred and revenue billed to customers
  - Rate ensures recovery of specified costs plus the agreed ‘fair’ return

- **Hybrid**
  - Rate is based on the entity’s specific costs
  - Rate changes are usually applied prospectively

- **Incentive-based**
  - Rate includes an adjustment to recover/reverse past variances between estimated and actual costs incurred and revenue billed to customers

- **Competition**

Cost-based regulation

- Regulated rate (price per unit) is based on allowable operating costs of production of goods/services + fair return on capital
Incentive-based regulation

- A common form is *Price-cap* regulation

<table>
<thead>
<tr>
<th>Regulated rate (price per unit) is based on</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial ‘base-year’ estimation</td>
</tr>
<tr>
<td>+ / - adjustment formula (usually inflation plus other factors)</td>
</tr>
</tbody>
</table>

- Rate has a fixed cap but no floor, so entity has pricing is flexible
- Rate is based on ‘benchmark’ costs and adjustments
- Rate changes are usually applied *prospectively*
- Rate does **not** include an adjustment to recover/reverse past variances between estimated and actual costs incurred and revenue billed to customers
- Rate does **not** ensure recovery of specified costs or a ‘fair’ return

Price-setting mechanisms

- DP will focus on one type of hybrid that we have termed *defined rate regulation*
- Purpose is to consider initially a consistent example with identifiable features
- Not intended to be a conclusion on the scope of the project
Forthcoming Discussion Paper

- What do we mean by “rate regulation”?
- How does rate regulation affect the economic environment of the rate-regulated entity, in particular the amounts, timing and certainty of revenue and cash flows?
- What information is needed to help investors understand the economic effects of rate regulation on the financial position, financial performance and cash flows of the rate-regulated entity?
- How should IFRS be amended, if at all, to provide relevant information to investors through IFRS financial statements?

Longer-term comprehensive project for all rate-regulated entities: research phase is ongoing—Discussion Paper is expected to be issued in Q3 2014

‘Defined’ rate regulation

- Customers have little or no choice but to purchase from an exclusive supplier
  - lack of competition
  - essential / public goods or services
- Rate regulator sets parameters to maintain quality and availability of supply
- Rate regulator sets parameters for rates that:
  - support greater stability and affordability of prices for customers
  - support the financial viability of the supplier
- Creates legally enforceable rights and obligations
Rate-setting mechanism

- Rate regulation establishes prices (rates) per unit
  - Price per unit reflects the “revenue requirement”

The ‘revenue requirement’

- Amount of ‘allowable revenue’ based on estimates
- Reflects estimated volume of sales to customers plus other rate-regulated activities to be performed in the period
- Established rate (ie regulated price per unit) equals revenue requirement divided by estimated volume of sales units
- Revenue requirement is a variable amount, subject to ‘correction’ for mismatches between estimated and actual amounts
- Revenue requirement is recovered through future billings to customers (using the regulated price per unit)
Regulatory deferral accounts

• **Temporary** differences between amounts reported using general requirements of IFRS and those reported in regulatory returns

• Main sources of regulatory deferral account balances:
  – timing differences arising due to mismatches between the revenue requirement and actual amounts invoiced/billed to customers
  – temporary differences arising from specified accounting policy requirements of rate regulation

Potential financial reporting solutions

• Looking for viable financial reporting approaches
  – No differential treatment
  – Recognising the ‘regulatory agreement’ as an intangible asset
  – Reporting using regulatory accounting requirements
  – Developing specific IFRS requirements
    – Cost deferral
    – Revenue adjustment
    – Hybrid
    – Asset/liability
      – adjust individual asset balances
      – segregate regulatory balances (IFRS 14 approach)

• Focus on pros/cons in the Discussion Paper, rather than developing in detail
Short-term relief for first-time adopters: IFRS 14 *Regulatory Deferral Accounts*

- Permits first-time adopters of IFRS to continue to recognise regulatory deferral account balances in accordance with their existing local GAAP (recognition and measurement)
- Requires the impact of recognising regulatory deferral account balances to be isolated in order to allow comparison with rate-regulated entities that do not recognise such balances (presentation and disclosure)
Isolate impact of recognising regulatory deferral account balances in IFRS financial statements

- Two line items in the balance sheet:
  - regulatory deferral account debit balances—after total assets; and
  - regulatory deferral account credit balances—after total liabilities.

- Two line items in the statement of profit or loss and OCI:
  - movement in regulatory deferral account balances related to profit or loss; and
  - movement in regulatory deferral account balances related to OCI.

Additional disclosure required when regulatory deferral account balances are recognised

Myth | Reality
--- | ---
IFRS 14 requires an entity to recognise regulatory deferral account balances (RDABs) in accordance with its previous GAAP | IFRS 14 permits but does not require entities to continue to recognise RDABs in accordance with its previous GAAP. However, IFRS 14 does not permit an entity to pick and choose only certain RDABs that it recognised in accordance with its previous GAAP.

IFRS 14 permits an entity to follow all the requirements of its previous GAAP related to RDABs | IFRS 14 permits entities to continue to follow the recognition and measurement requirements of its previous GAAP, but IFRS 14 sets out specific presentation and disclosure requirements.

IFRS 14 overrides the requirements of other Standards | IFRS 14 requires entities to apply the requirements of other Standards before those of IFRS 14.

IFRS 14 is likely to become applicable to all rate-regulated entities once the comprehensive project is complete | IFRS 14 does not pre-empt the outcome of the comprehensive project. The IASB may decide not to allow RDABs to be recognised. If it does, it may require different recognition, measurement, presentation and disclosure requirements than those contained in IFRS 14.
Rate-regulated activities project timeline

- July 2009: IASB published Exposure Draft Rate-regulated Activities
- March 2013: IASB published Request for Information - Rate Regulation (research project)
- September 2010: IASB suspended project
- April 2013: IASB published Exposure Draft Regulatory Deferral Accounts (interim ED)
- January 2014: IASB issued IFRS 14 Regulatory Deferral Accounts
- Q3 2014: IASB expects to publish Discussion Paper for Rate-regulated Activities (research project)

Where to go for more information

- Rate-regulated Activities project page on the IFRS website
  - [http://www.ifrs.org/Current-Projects/IASB-Projects/Rate-regulated-activities/Pages/Rate-regulated-activities-landing.aspx](http://www.ifrs.org/Current-Projects/IASB-Projects/Rate-regulated-activities/Pages/Rate-regulated-activities-landing.aspx)

Jane Pike jpike@ifrs.org
Senior Technical Manager, IASB
Thank you
Technical break-out sessions:

Conceptual Framework: elements and recognition

GARY KABURECK
Member
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JOAN BROWN
Senior Research Manager
IASB
Session overview

Background

Assets and liabilities
- definitions
- distinction between liabilities and equity
- recognition
- derecognition

Elements of other financial statements
Purpose and status of project

- 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
Topics covered in Discussion Paper

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

Geographical distribution

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>30%</td>
</tr>
<tr>
<td>Asia - Oceania</td>
<td>20%</td>
</tr>
<tr>
<td>Latin America</td>
<td>10%</td>
</tr>
<tr>
<td>Middle East</td>
<td>1%</td>
</tr>
<tr>
<td>Africa</td>
<td>2%</td>
</tr>
<tr>
<td>International</td>
<td>22%</td>
</tr>
</tbody>
</table>

Distribution by respondent type

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting bodies</td>
<td>10%</td>
</tr>
<tr>
<td>Standard-setting</td>
<td>15%</td>
</tr>
<tr>
<td>Regulators/other</td>
<td>2%</td>
</tr>
<tr>
<td>Regulators/securities</td>
<td>2%</td>
</tr>
<tr>
<td>Preparers</td>
<td>38%</td>
</tr>
<tr>
<td>Individuals</td>
<td>7%</td>
</tr>
<tr>
<td>Users</td>
<td>6%</td>
</tr>
<tr>
<td>Accounting firms</td>
<td>6%</td>
</tr>
<tr>
<td>Academia</td>
<td>11%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
<tr>
<td>Indirect</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
</tr>
</tbody>
</table>
Feedback on Discussion Paper

- Support for updating the *Conceptual Framework*
- Support for many of the IASB’s preliminary views
- Some areas need more work (measurement, presentation)
- 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

- July 2013 Discussion Paper published
- 6-month comment period
- March 2014 Feedback summary to the IASB
- Q4 2014 Issue ED
- 2016 Revised Conceptual Framework
### Assets and liabilities—definitions

### Existing definitions

<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 expected to flow to the entity</td>
<td>the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits</td>
</tr>
</tbody>
</table>

Proved useful tool for many years but some problems
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>
<tr>
<td>• An economic resource = a right that is capable of generating economic benefits</td>
<td></td>
</tr>
</tbody>
</table>

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

To support both definitions
- reporting substance of contractual rights and obligations
- executory contracts
Conditional obligations—example—levy on revenues

**Fact pattern**

Government charges levy on entities that supply electricity to a specific market.

Levy is charged on suppliers operating in market on 1 April each year.

Levy is 1% of supplier’s revenue for the previous year ending 31 December.

A supplier earned revenue of 100 million currency units in 20X0.

Suppliers are permitted to enter or exit market at any time.

**Question**

Does the supplier have a liability at 31 December 20X0?

---

Conditional obligations – variations in IFRS requirements

<table>
<thead>
<tr>
<th>IFRS</th>
<th>Transactions addressed</th>
<th>Liability before conditions met?</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 37 Provisions + IFRIC 21 Levies</td>
<td>Many – eg levies</td>
<td>No</td>
<td>Recognise only obligations ‘existing independently of entity’s future actions’.</td>
</tr>
<tr>
<td>IAS 34 Interim Financial Statements</td>
<td>Lease payments contingent on exceeding annual sales threshold.</td>
<td>Yes if sales are made, if expect to exceed threshold.</td>
<td>Entity has ‘no realistic alternative but to make the future lease payments’.</td>
</tr>
<tr>
<td>IAS 19 Employee benefits</td>
<td>Profit-sharing / bonus payments conditional on future employment.</td>
<td>Yes if employees render service that increases the amount to be paid.</td>
<td>Future payments arise from past service. (Conditions are reflected in measurement.)</td>
</tr>
</tbody>
</table>
‘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.

Which view do you prefer?
1) View 1
2) View 2
3) View 3
4) None of the above!
Feedback on Discussion Paper

• 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

Latest tentative decisions and next steps

Tentative decisions—definitions
• Confirmed removal of requirement for ‘expected’ economic benefits
• Confirmed ‘rights’ approach

Next steps—additional guidance
• Role of economic compulsion in identifying obligations
• Obligations conditional on entity’s future actions
• Executory contracts
• Unit of account
Distinction between liabilities and equity

Problem
- Existing 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 obligations to transfer economic resources
- Use expanded statement of changes in equity:
  - to show wealth transfers between equity holders
Feedback on Discussion Paper

• 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
• definition of equity
• interaction with definition of a liability
• further develop objectives of the distinction

Research project
• Standards-level problems
Assets and liabilities—recognition

Existing recognition criteria

- Meets definition of asset (liability).
  - Probable that any future economic benefit associated with asset or liability will flow to the entity.
  - Asset or liability has a cost or value that can be measured with reliability.
Discussion Paper suggestion

An entity should recognise all of its assets or liabilities, unless IASB decides that:

- information is not relevant, or not sufficiently relevant to justify the cost;

or

- no measure would result in a sufficiently faithful representation of both the asset or liability and the resulting income or expense.

Possible indicators:
- low probability of inflow/outflow
- highly uncertain outcomes.

Feedback on Discussion Paper

- 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 (eg intangible assets)
Recognition—latest tentative decisions

- No criteria that must be met in all circumstances
- Exposure draft will propose factors to consider in deciding whether to recognise an asset or a liability
- Consider relevance, faithful representation and cost/benefit

Might not be relevant if, e.g.:  
- uncertain whether asset or liability exists,
- low probability of inflow or outflow
- very significant measurement uncertainty.

Not intended to broaden or narrow the range of recognised assets or liabilities

Would you support this change?  
(1) Yes   (2) No   (3) Not sure
Assets and liabilities—derecognition

Derecognition

Problem

• Not addressed in Conceptual Framework.

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

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

Next steps

• Consider in light of feedback received

International Financial Reporting Standards

Other elements

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

**Latest tentative decisions and next steps**
- Confirmed definitions in terms of changes in assets and liabilities
- Will consider whether to have additional elements

---

**Cash flows**

---

**Preliminary views**
- There should be separate elements for cash flow statement

**Feedback**
- Few comments

**Next steps**
- Consider whether definitions are necessary
More information

• Discussion Paper

• Snapshot

• Conceptual Framework website
  http://go.ifrs.org/Conceptual-Framework
  – Comment letters
  – Comment letter summaries
  – High-level comment letter summary
  – Summary of investors comments

Questions
Technical break-out sessions:

Insurance contracts

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Agenda

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

- Published 25 June, comment letter deadline 25 October 2013
- Received 194 comment letters and held 187 outreach meetings
- Comment letter summaries discussed in January 2014 and redeliberations began in March 2014

A reminder
*Current, market-consistent measurement*

**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

Up-to-date information about performance

Contractual service margin
(>Expected 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>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance contracts revenue</td>
</tr>
<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>

A reminder

Disclosures

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

Judgements

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
A reminder
Feedback on five targeted areas

Measurement proposals
1. Unlocking
   Changes in estimates relating to expected contract profit for providing coverage recognised over remaining period

Presentation proposals
2. Mirroring
   Measurement and presentation exception when no economic mismatch is possible

Approach to transition
3. Revenue
   Align to presentation of revenue required for other types of contracts with customers

4. OCI proposals
   Interest expense is amortised cost-based in profit or loss, current value on the balance sheet

5. Transition
   Apply Standard retrospectively if practicable, or with specified simplifications if not practicable

Summary of 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 require options and guarantees to be reported in P&L
Reporting changes in estimates

Issue

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?
1 Reporting changes in estimates
2013 ED proposals

Our proposal
Adjust contractual service margin for changes in estimates of expected cash flows related to future services

Alternative
Effects of change in estimates are recognised immediately in profit or loss

Book value of liability

Profit or loss associated with contractual service margin

Y1 Y2 Y3 Y4 Y5 Y6 Y7 Y8 Y9 Y10

Our proposal
Adjust contractual service margin for changes in estimates of expected cash flows related to future services

Alternative
Effects of change in estimates are recognised immediately in profit or loss

1 Reporting changes in estimates
What we 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
• Some preparers are concerned about the need to track information and unit of account
• Industry proposes an alternative model that would adjust the margin for other changes in value (see ‘mirroring’)
1 Reporting changes in estimates

**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 are also recognised in the 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

2 Contracts with participating features

**Measurement proposals**
- **Unlocking** Changes in estimates relating to expected contract profit for providing coverage recognised over remaining period
- **Mirroring** Measurement and presentation exemption when no economic mismatch is possible

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

**Approach to transition**
- **Transition** Apply Standard retrospectively if practicable, or with specified simplifications if not practicable
2 Contracts with participating features

Background for the IASB’s discussions

- **Participating features** result in payments to policyholders that vary with the returns on underlying items
  - The entity shares with policyholder some of the investment risks and benefits resulting from assets purchased with the premiums

- **Common features** of considered contracts
  - Embedded options and guarantees
  - Variety of types of payments to policyholders (including discretion over timing and amount of payment)
  - Variety of sources of profit to the entity

---

2 Contracts with participating features

2013 ED proposals

- 2013 ED proposed a limited scope exception for contracts where there is no possibility of economic mismatch.
- This occurs 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.

Eliminate mismatch by measuring and presenting cash flows in the same way as underlying items.

Measured using general requirements of the Standard. However, all changes in the value of cash flows that vary indirectly with underlying items are presented in profit or loss.
Contracts with participating features
What we 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
  - disagreement that options and guarantees should be reported in P&L
  - concern about complexity of splitting different types of cash flows
  - concern about interaction between unlocking and mirroring
    - e.g. 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 an alternative proposal for contracts with participating features with wider scope and a different objective.

Contracts with participating features
Applying general proposals

IASB approach is to consider what adaptations are needed to general proposals

Fulfilment cash flows
- Measure on basis of all cash flows arising from contract
- Include all cash flows that arise from rights to share in return on underlying items
- Discount using rates that reflect the characteristics of the cash flows
- No special adaptations for risk adjustment

Contractual service margin (CSM)
- No special adaptations
- Determined to eliminate any Day 1 gain at initial recognition
- Subsequent to initial recognition, adjust the CSM to reflect changes in estimates of future services
- Payment of investment returns is not a service

Interest expense in profit and loss
- Determined at the date when the contract was initially recognised, updated to reflect changes in returns on underlying items to affect the amount of cash flows.

IASB will then consider whether mirroring exception is needed.
2 Contracts with participating features
Overview of key issues

Questions the IASB needs to address

1. Can measurement of insurance contract be achieved without bifurcation of cash flows?
2. Should changes in estimates of the insurer’s share of underlying items adjust the contractual service margin?
3. Where should changes in estimates of cash flows arising from changes in estimates of investment returns be recognised?
4. How should the contractual service margin be recognised in profit or loss when asset management services are provided?
5. Where should changes in estimates of options and guarantees embedded in insurance contracts be recognised?
6. Are there any contracts with participating features for which an OCI approach provides useful information? If so, how should interest expense in P&L be determined?

3 Contract revenue and expense

Measurement proposals

- 1. Unlocking
  Changes in estimates relating to expected contract profit for providing coverage recognised over remaining period
- 2. Mirroring
  Measurement and presentation exception when no economic mismatch is possible

Presentation proposals

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

Approach to transition

- 5. 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?
**Assumptions:**
- Portfolio of term life contracts issued to 40-year-olds
- Expected claims/benefits are 10,000; premiums due are 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

**What we heard**

- Increasing acceptance of conceptual merits and some support for same presentation approach for all insurance contracts
- Agree 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 summarised margin information more 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 investment components
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 contract revenue relates 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

Interest expense in profit or loss

1. Unlocking
   Changes in estimates relating to expected contract profit for providing coverage recognised over remaining period

2. Mirroring
   Measurement and presentation exception when no economic mismatch is possible

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

4. OCI proposals
   Interest expense is amortised cost based in profit or loss, current value on the balance sheet

5. Transition
   Apply Standard retrospectively if practicable, or with specified simplifications if not practicable
### Issue

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

### 2013 ED proposals

#### Statement of Comprehensive Income

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

*What we heard*

- Acceptance that both amortised cost and current value view provide useful information but there is concern 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 a 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 changes of discount rates should be clear (e.g., sensitivities, changes in the period).

---

**4 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 similar insurance contracts.
  - Recommendation for June 2014 meeting: when applying its accounting policy for similar insurance contracts, an entity should take into account the portfolio in which contract is included and the related assets that the entity holds.

- Require disclosures that would disaggregate the change in interest expense into its component parts, which would allow them to be compared.

**Next steps**

- More guidance on when an entity can change its accounting policy choice.
- Interaction between unlocking CSM and use of OCI.
- Application to contracts with participating features.
Applying for the first time

Measurement proposals

1. Unlocking
   Changes in estimates relating to expected contract profit for providing coverage recognised over remaining period

2. Mirroring
   Measurement and presentation exception when no economic mismatch is possible

Presentation proposals

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

4. OCI proposals
   Interest expense is amortised cost-based in profit or loss, current value on the balance sheet

Approach to transition

5. Transition
   Apply Standard retrospectively if practicable, or with specified simplifications if not practicable

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

How do we balance the verifiability of the amount recognised at transition date with comparability between contracts issued prior to and after transition date?
Fulfilment cash flows
Contractual service margin
(Contract profit)

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

Needs to be estimated
Can be directly measured
Measure on date of first-time application

5 Applying for the first time
2013 ED proposals

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

Widespread agreement that proposals are an improvement from 2010 proposals
Need for information about the 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
5 Applying for the first time

Next steps

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

6 Other issues

Measurement proposals

1. Unlocking
   Changes in estimates relating to expected contract profit for providing coverage recognised over remaining period

2. Mirroring
   Measurement and presentation exception when no economic mismatch is possible

Presentation proposals

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

4. OCI proposals
   Interest expense is amortised cost-based in profit or loss, current value on the balance sheet

Approach to transition

5. Transition
   Apply Standard retrospectively if practicable, or with specified simplifications if not practicable

Other issues
### Topic Tentative decisions to date

1. **Allocation of the contractual service margin**
   - Clarify that, for contracts with no participating features, the service represented by the contractual service margin is insurance coverage that:
     - is provided on the basis of the passage of time; and
     - reflects the expected number of contracts in force.

2. **Definition of the significant insurance risk definition**
   - Clarify the guidance in paragraph B19 of the 2013 ED that significant insurance risk only occurs when there is a possibility that an issuer will incur a loss on a present value basis.

3. **Portfolio transfers and business combinations**
   - Clarify that contracts acquired through portfolio transfers and business combinations should be accounted for as if they had been issued by the entity at the date of the portfolio transfer or business combination.

4. **Fixed-fee service contracts**
   - Permit, but not require, entities to apply IFRS 15 to some fixed-fee service contracts (those that meet the criteria in paragraph 7e) of the 2013 ED.

### Other issues 2/2

<table>
<thead>
<tr>
<th>Topic</th>
<th>Recommendation for June 2014 meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Level of aggregation and definition of ‘portfolio’</td>
<td>Clarify: the IASB’s objective is to measure an insurance contract. Provide guidance on the extent to which an entity could aggregate contracts and still meet the objective.</td>
</tr>
<tr>
<td>6. Discount rates for long-term contracts when there is lack of or no observable market data</td>
<td>Provide more guidance about the need for judgement in assessing relevant inputs for determining the discount rate when markets are not active.</td>
</tr>
<tr>
<td>7. Reinsurance contracts</td>
<td>Entity should recognise consistently any changes in estimates for reinsurance contracts that arises as a result of changes in estimates from an underlying direct insurance contract.</td>
</tr>
</tbody>
</table>
Timetable

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

Stay up to date

- Visit our website: [www.ifrs.org](http://www.ifrs.org)
- [go.ifrs.org/insurance_contracts](http://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](http://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
Thank you
Technical break-out sessions:

Leases

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PATRINA BUCHANAN
Technical Principal
IASB
International Financial Reporting Standards

Leases
Project status and next steps

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June 2014

International Financial Reporting Standards

Project overview

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It’s time for decisions

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

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

<table>
<thead>
<tr>
<th>Listed companies only</th>
<th>Percentage of IFRS/US GAAP preparers who report material operating leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa / Middle East</td>
<td>27%</td>
</tr>
<tr>
<td>Asia / Pacific</td>
<td>52%</td>
</tr>
<tr>
<td>Europe</td>
<td>47%</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>14%</td>
</tr>
<tr>
<td>United States and Canada</td>
<td>54%</td>
</tr>
</tbody>
</table>

| (1) As per the companies 2012 annual reports |
| (2) Estimate using the average cost of debt for these companies, that was 5% |
In January 2014 the boards start the joint re-deliberations. In November 2013 the boards discuss a summary of feedback received on the 2013 ED. In May 2013 the boards publish a revised Exposure Draft (2013 ED). Comment period ends 13 September 2013; the boards received over 640 comments letters. Re-deliberations continue. Publication of the new Leases Standard (Effective date TBD).
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>Most leases of equipment / vehicles</th>
<th>Balance sheet</th>
<th>Income statement</th>
<th>Cash flow statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type A</td>
<td>Most leases of equipment / vehicles</td>
<td>Right-of-use asset</td>
<td>Amortisation expense</td>
<td>Principal interest</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lease liability</td>
<td>Interest expense</td>
<td></td>
</tr>
<tr>
<td>Type B</td>
<td>Most leases of real estate</td>
<td>Right-of-use asset</td>
<td>Single lease expense on a straight-line basis</td>
<td>Single lease payments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lease liability</td>
<td></td>
<td></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>IAS 17</strong></td>
<td>Single model</td>
<td>Dual model</td>
</tr>
<tr>
<td><strong>Finance leases</strong></td>
<td>Operating expenses, Financing expenses</td>
<td>Operating expenses, Financing expenses</td>
</tr>
<tr>
<td><strong>Operating leases</strong></td>
<td>Operating expenses, Financing expenses</td>
<td>Operating expenses, 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
## 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

## Definition of a lease
- Retain 2013 ED proposals with some clarifications

## Separating lease and nonlease components
- Lessees use estimates (if no observable information available)
- Lessee permitted *not* to separate lease and nonlease components by class of underlying assets
Next steps

IASB and FASB will continue to re-deliberate jointly
Main topics yet to be discussed
  - Disclosure
  - Transition
Publication of the new leases standard in 2015
  - Effective date TBD
Thank you
Technical break-out sessions:

Business combinations under common control

MARY TOKAR  
*Member*  
IASB

RAGHAVA TIRUMALA  
*Technical Manager*  
IASB
Business combinations under common control ('BCUCC')

IFRS Foundation IFRS Conference, London

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

International Financial Reporting Standards

Example 1—Group restructuring that is NOT a business combination

Question 1

Should these transactions be included within the scope of the project?

1. Disagree
2. Neutral
3. Agree

Scope of the research project
Example 1—Group restructuring that is **NOT** a business combination

Question 2
Should Entity S1 recognise the assets and liabilities at their current values?
1. Disagree
2. Neutral
3. Agree

Example 2—Group restructuring that is **a** business combination

Question 3
Should these transactions be included within the scope of the project?
1. Disagree
2. Neutral
3. Agree
Example 2—Group restructuring that is a business combination

Question 4
In its financial statements, should Entity A recognise the assets and liabilities of Entity S1 at their current values?
1. Disagree
2. Neutral
3. Agree

Question 5
Should Entity S1 recognise the assets and liabilities at their current values?
1. Disagree
2. Neutral
3. Agree
Examples for discussion

Example 3—Disposal to public through an IPO

Question 6

Should the accounting in the financial statements of Entity S1 be included within the scope of the project?

1. Disagree
2. Neutral
3. Agree

Example 3—Disposal to public through an IPO

Question 7

Should ‘loss of control without a new parent’ be an event that triggers fresh-start accounting in Entity S1?

1. Disagree
2. Neutral
3. Agree
Scope of the research project (continued)

**Question 8**

Should the accounting for a BCUCC in the acquiree’s financial statements be considered as part of the project?

1. Disagree
2. Neutral
3. Agree

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: measurement

GARY KABURECK
Member
IASB

RACHEL KNUBLEY
Technical Principal
IASB
Session overview

• Background
• Measurement
• Profit or loss and other comprehensive income (OCI)
• Questions
The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation

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

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia - Oceania</td>
<td>20%</td>
</tr>
<tr>
<td>Europe</td>
<td>35%</td>
</tr>
<tr>
<td>Latin America</td>
<td>15%</td>
</tr>
<tr>
<td>Middle East</td>
<td>1%</td>
</tr>
<tr>
<td>Africa</td>
<td>2%</td>
</tr>
<tr>
<td>International</td>
<td>22%</td>
</tr>
</tbody>
</table>

Distribution by respondent type

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountancy bodies</td>
<td>10%</td>
</tr>
<tr>
<td>Accounting firms</td>
<td>11%</td>
</tr>
<tr>
<td>Regulators / other</td>
<td>6%</td>
</tr>
<tr>
<td>Regulators / securities</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
<tr>
<td>Individuals</td>
<td>7%</td>
</tr>
<tr>
<td>Standard-setting bodies</td>
<td>15%</td>
</tr>
<tr>
<td>Preparers / users</td>
<td>38%</td>
</tr>
</tbody>
</table>
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 Discussion Paper published 6-month comment period (ended 14 Jan 2014)
March 2014 Feedback summary to the IASB
Q4 2014 Issue ED
2016 Revised Conceptual Framework
International Financial Reporting Standards

Measurement

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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 (eg 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
As the IASB considers the various measurement bases currently in use in the CF project, should it:

A. Try to narrow the number of measurement choices that currently exist?

B. Leave the number of choices as is but establish concepts and/or a hierarchy for making accounting policy elections?

C. Direct efforts towards concisely defining the various choices in place today and leave application to Standards level projects?

D. None of the above. Current measurement choices are well understood and all are relevant.
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
Profit or loss and OCI

Feedback

Agenda consultation

Conceptual basis for recycling

Users tend to ignore changes in OCI

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

<table>
<thead>
<tr>
<th>Profit or loss</th>
<th>OCI</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Realised</td>
<td>• Unrealised</td>
</tr>
<tr>
<td>• Recurring (persistent)</td>
<td>• Non-recurring</td>
</tr>
<tr>
<td>• Operating</td>
<td>• Non-operating</td>
</tr>
<tr>
<td>• Measurement certainty</td>
<td>• Measurement uncertainty</td>
</tr>
<tr>
<td>• Short-term</td>
<td>• Long-term</td>
</tr>
<tr>
<td>• Under management control</td>
<td>• Outside management control</td>
</tr>
</tbody>
</table>

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
    (see next slides for an example)
  • 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

Two different measures

Example (IFRS 9 2012 ED):
In 20X1, financial assets are measured at amortised cost in the statement of profit or loss and fair value in the balance sheet.
In 20X4, the financial assets are sold.

<table>
<thead>
<tr>
<th>Statement of profit or loss</th>
<th>Statement of comprehensive income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X1</td>
</tr>
<tr>
<td>Interest income</td>
<td>A</td>
</tr>
<tr>
<td>Impairment</td>
<td>(B)</td>
</tr>
<tr>
<td>Profit or loss</td>
<td>A-B</td>
</tr>
</tbody>
</table>

|                            | 20X1                               |
| Profit or loss             | A-B                                |
| Fair value changes         | C                                  |
| Total comprehensive income | A-B+C                              |

C = Differences between amortised cost (in profit or loss) and fair value (in balance sheet)
Question 2: OCI and Recycling

To recycle, or not to recycle, and the relationship of P&L to OCI is a significant item for the CF project. With respect to recycling, what would you advise the IASB?:

A. Items in OCI should always be required to be recycled even if many years into the future.

B. Recycling isn’t necessary as the items in OCI have already been reflected in a performance statement and in equity.

C. To recycle or not varies by subject. Sometimes it’s appropriate and sometimes it’s not. Address in Standards.

D. There should be no OCI; all changes in assets and liabilities should be recognized currently in P&L.
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
- 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 reactivate the Financial Statement Presentation project

The IASB has tentatively concluded that P&L should be considered the primary measure of financial performance. In the two statement format, where does this leave OCI?

A. Its current placement immediately after P&L is appropriate. It provides prominence to important information.
B. P&L and OCI are of equal importance. There should be only one statement of performance and both should be presented on it.
C. Primary financial statement treatment of OCI hasn’t broadly caught on. OCI is not viewed as a primary statement; perhaps better reported in footnotes.
Staff proposals June 2014

Emphasise the role of profit or loss as the primary source of information about an entity’s performance for the period
- Require profit or loss as a total or subtotal
- Rebuttable presumption that income and expense are included in profit or loss
- Objective is to provide information about performance for the period and assist in predicting future cash flows

High level guidance on when items of income and expense can be included in OCI
- Income and expense are included in OCI only if that enhances relevance of profit or loss
- Eg when one measurement basis is used in profit or loss and another in the statement of financial position

Reclassification from OCI to profit or loss (recycling)
- Rebuttable presumption that income and expense included in OCI are recycled, unless recycling undermines the relevance of profit or loss for the period
More information

- Discussion Paper

- Snapshot

- Conceptual Framework website
  http://go.ifrs.org/Conceptual-Framework
  – Comment letters
  – Comment letter summaries
  – High-level comment letter summary
  – Summary of investors comments

Questions