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

09:00  **Registration**

09:30–12:00  Register for one of:

1. **Investor-focused IFRS update** (Room: Ipiranga)
2. **Implementing IFRS 10 and IFRS 12** (Room: Jardin B)
3. **Implementing IFRS 11 and IFRS 12** (Room: Liberdade)
4. **Implementing IFRS 13** (Room: Jardin A)
5. **IFRS Interpretations Committee: progress and plans** (Room: Itaim)

**Conference Program Day 1**

**MAIN CONFERENCE IN JARDIN AB – GROUND FLOOR**

12:00  **Registration Light buffet and refreshments** (Foyer Jardins)

13:00  **Open**

Amaro Gomes  
*Member, IASB*

13:05  **Welcome**

Hans Hoogervorst  
*Chairman, IASB*

13:30  **Keynote speaker**

Dr Alexandre Tombini  
*Governor, Central Bank of Brazil*

Introduced by:

Pedro Malan, *Trustee, IFRS Foundation*

14:30  **IASB update: progress and plans**

Chair:

Hans Hoogervorst, *Chairman, IASB*

Presenters:

Darrel Scott  
*Member, IASB*

Stephen Cooper  
*Member, IASB*

Alan Teixeira  
*Senior Director, IASB*

Sue Lloyd  
*Senior Director, IASB*

15:30  **Coffee break** (Foyer Jardins)

16:00  **IASB update: progress and plans (continued)**

17:00  **Regulatory perspective**

José Carlos Bezerra da Silva  
*Superintendent, Comisión Nacional de Valores (Brazil)*

18:00  **Close of Day 1**

19:00–20:00  **Drinks reception** (Foyer Jardins)
MAIN CONFERENCE IN JARDIN AB – GROUND FLOOR

08:30  Light buffet and refreshments (Foyer Jardins)

09:00  Applying IFRS in Latin America: lessons learned
Chair:
Amaro Gomes
Member
IASB

Presenters:
Alexsandro Broedel Lopes, Chief Accounting Officer, Itaú Unibanco
Thomas de Mello e Souza, Partner, Gávea Investimentos
José Carlos Bezerra da Silva Superintendent, Comisión Nacional de Valores (Brazil)

10:30 Coffee break (Foyer Jardins)

11:00  Break-out sessions:
Choose one of the following:

1. Revenue Recognition
(repeated after lunch)
Amaro Gomes, Senior Technical Manager, IASB
Allison McManus, Member, IASB

2. Leases
(repeated after lunch)
Jan Engström, Member, IASB
Patrina Buchanan, Technical Principal, IASB

3. Insurance Contracts
Darrel Scott, Member, IASB
Wayne Upton, Chairman, IFRS Interpretations Committee

4. Conceptual Framework (Part 1) - Presentation and disclosure
Alan Teixeira, Senior Director, IASB
Michael Wells, Director of Education Initiative, IASB

5. Financial Instruments (Part 1) - impairment
Stephen Cooper, Member, IASB
Sue Lloyd, Senior Director, IASB
João Santos, General Manager - International Finance, Itaú Unibanco

12:30  Lunch (Foyer Jardins)
IFRS Conference: São Paulo

13:30  **Break-out sessions:**
Choose one of the following:

1. **Revenue Recognition**
   Amaro Gomes, Senior Technical Manager, IASB
   Allison McManus, Member, IASB

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

3. **The IFRS for SMEs**
   Darrel Scott, Member, IASB
   Michael Wells, Director of Education Initiative, IASB

4. **Conceptual Framework (Part 2) - Elements and measurement**
   Wayne Upton, Chairman, IFRS Interpretations Committee
   Alan Teixeira, Senior Director, IASB

5. **Financial Instruments (Part 2) - Hedge accounting**
   Stephen Cooper, Member, IASB
   Sue Lloyd, Senior Director, IASB
   Caio Ibrahim David, Executive Director and CEO, Itaú Unibanco

15:00 **End of conference**
Investor focused IFRS update
(Room: Ipiranga)

To assist investors and investor relations to prepare to analyse IFRS financial statements including those IFRSs that become effective for the first time in 2013.

09:00  Registration and refreshments
09:30  Introduction
Stephen Cooper
Member
IASB

09:35  Investor-focused IFRS update and Q&A
Michael Wells
Director of Education Initiative
IASB
Guillermo Braunbeck
Project Manager
IASB
Reginaldo Alexandre
Chairman
APIMEC

11:55  Concluding comments
Stephen Cooper
Member
IASB

12:00  Close of session

Implementing IFRS 10 Consolidated Financial Statements, and IFRS 12 Disclosure of Interests in Other Entities
(Room: Jardin B)

To assist you to prepare for the implementation of IFRS 10 Consolidated Financial Statements, and IFRS 12 Disclosure of Interests in Other Entities, the IFRS Foundation will hold an intensive half-day session immediately before the IFRS conference, on the morning of 15 April 2013.

09:00  Registration and refreshments
09:30  Introduction
Jan Engström
Member
IASB

09:35  IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities
Patrina Buchanan
Technical Principal
IASB

10:45  Preparer perspective
Luiz Murilo Strube Lima
Accounting Coordinator
Petróleo Brasileiro S.A.—PETROBRAS

11:15  Round-table Q&A
Panellists:
- Patrina Buchanan
- Luiz Murilo Strube Lima

11:55  Concluding comments
Jan Engström
Member
IASB

12:00  Close of session
To assist you to prepare for the implementation of IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, the IFRS Foundation will hold an intensive half-day session immediately before the IFRS conference, on the morning of 15 April 2013.

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
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<tbody>
<tr>
<td>09:00</td>
<td>Registration and refreshments</td>
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<tr>
<td>09:30</td>
<td>Introduction</td>
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<tr>
<td></td>
<td>Darrel Scott</td>
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<td></td>
<td>Member IASB</td>
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<tr>
<td>09:35</td>
<td>IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities</td>
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<td></td>
<td>Alan Teixeira</td>
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<td>Senior Director IASB</td>
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<td>10:45</td>
<td>Preparer perspective</td>
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<td>Marcus Severini</td>
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<td>Chief Accounting Officer Vale S.A.</td>
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<td>11:15</td>
<td>Round-table Q&amp;A</td>
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<td>Panellists:</td>
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<td>• Darrel Scott</td>
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<td>• Alan Teixeira</td>
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<td>• Marcus Severini</td>
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<td>11:55</td>
<td>Concluding comments</td>
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<td>Darrel Scott</td>
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<td>Member IASB</td>
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<td>12:00</td>
<td>Close of session</td>
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</table>

To assist you to prepare for the implementation of IFRS 13 Fair Value Measurement, the IFRS Foundation will hold an intensive half-day session immediately before the IFRS conference, on the morning of 15 April 2013.

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<tr>
<td>09:00</td>
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<tr>
<td>09:30</td>
<td>Introduction</td>
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<td>Amaro Gomes</td>
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<td></td>
<td>Member IASB</td>
</tr>
<tr>
<td>09:35</td>
<td>Technical update and IFRS Foundation implementation support</td>
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<td></td>
<td>Sue Lloyd</td>
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<td></td>
<td>Senior Director IASB</td>
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<td>10:15</td>
<td>Valuing financial instruments and non-financial assets/liabilities</td>
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<td></td>
<td>Ivan Nacsa</td>
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<td>Partner Grupo FBM</td>
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<td>11:15</td>
<td>Round-table Q&amp;A</td>
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<td></td>
<td>Panellists:</td>
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<td>• Amaro Gomes</td>
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<td>• Sue Lloyd</td>
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<td></td>
<td>• Ivan Nacsa</td>
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<td>11:55</td>
<td>Concluding comments</td>
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<td></td>
<td>Amaro Gomes</td>
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<td></td>
<td>Member IASB</td>
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<tr>
<td>12:00</td>
<td>Close of session</td>
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</tbody>
</table>
Interpretations Committee: progress and plans
(Room: Itaim)

To provide an understanding of progress and plans of the interpretative body of the IASB the IFRS Foundation will hold an intensive half-day session immediately before their IFRS conference, on the morning of 15 April 2013.

09:00 Registration and refreshments

09:30 Introduction
Wayne Upton
Chairman
IFRS Interpretations Committee

09:35 Current projects, tentative agenda decisions, work in progress and annual improvements
Wayne Upton
Chairman
IFRS Interpretations Committee

10:45 Regional issues
Eliseu Martins
Professor
University of Sao Paulo

11:15 Round-table Q&A

Panellists:
- Wayne Upton
- Eliseu Martins

11:55 Concluding comments
Wayne Upton
Chairman
IFRS Interpretations Committee

12:00 Close of session
IFRS technical update

- The new IASB work plan
- Recently issued IFRSs
- Major standards and projects
  - Financial Instruments
  - IASB-FASB MoU projects
  - Other projects
- Implementation
  - Interpretations
  - Narrow scope amendments
  - Post-implementation Reviews
- Research
The new IASB work plan has been shaped by the Agenda Consultation.

- Public review of the IASB’s technical programme every three years.
- Helps the IASB establish a broad strategic direction for its work plan:
  - Establish a balance between:
    - improvements (new IFRSs); and
    - maintenance (implementation)
  - Determine whether to return to projects that have been deferred
  - Identify areas where improvements are needed
Consultation

- 2010-2011
  - IASB discussions begin with the IFRS Advisory Council

- July 2011
  - Request for Views published

- July – November
  - Extensive and focused consultation with investors – interviews and surveys. Public forums.

- November 2011
  - Comment deadline – 246 comment letters received

- December 2011 – January 2012
  - Four public round table discussions

Consultation

- January 2012
  - Comment summary presented to IASB

- February 2012
  - Feedback discussed with the Advisory Council

- May 2012
  - The Board considers a summary of the feedback received and a draft strategy and initial identification of project priorities.

- December 2012
  - The IASB published Feedback Statement, including a statement of priorities for the coming three years.

- Next consultation scheduled in 2015
Feedback

• Common views
  – Complete the four current projects (ie Revenue, Leases, Financial Instruments and Insurance Contracts)
  – Focus on maintenance over development of IFRSs in the near future
  – Utilise research from national-standard setters and academics
  – Complete the Conceptual Framework

Technical Programme

• Major projects
  – Research programme
  – Standards-level programme
• Conceptual Framework
• Implementation and Maintenance
  – Interpretations
  – Narrow-scope improvements
  – Post-implementation Reviews
Recently issued IFRSs

<table>
<thead>
<tr>
<th>IFRS</th>
<th>Effective Date</th>
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<tbody>
<tr>
<td>IFRS 10</td>
<td>1 January 2013</td>
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<tr>
<td>IFRS 11</td>
<td>1 January 2013</td>
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<tr>
<td>IFRS 12</td>
<td>1 January 2013</td>
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<tr>
<td>Amendments IFRS 10, 11, 12</td>
<td>1 January 2013</td>
</tr>
<tr>
<td>Amendments IFRS 10, IFRS 12, IAS 27</td>
<td>1 January 2014</td>
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<tr>
<td>IAS 27</td>
<td>1 January 2013</td>
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<tr>
<td>IAS 28</td>
<td>1 January 2013</td>
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</table>
Recent IFRSs - Other

<table>
<thead>
<tr>
<th>IFRS</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amendments to IFRS 1</td>
<td>Government Loans</td>
</tr>
<tr>
<td>IFRS 7</td>
<td>New offsetting disclosures</td>
</tr>
<tr>
<td>IFRS 13</td>
<td>Fair Value Measurement</td>
</tr>
<tr>
<td>IAS 19</td>
<td>Post-employment benefits</td>
</tr>
<tr>
<td>IFRIC 20</td>
<td>Stripping Costs in the Production Phase of a Surface Mine</td>
</tr>
<tr>
<td>IAS 32</td>
<td>Clarified offsetting amendments</td>
</tr>
<tr>
<td>IFRS 9</td>
<td>Financial Instruments</td>
</tr>
</tbody>
</table>

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 22 March 2013

### Major IFRSs

<table>
<thead>
<tr>
<th>Standards Category</th>
<th>Next major project milestone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Classification and Measurement (Limited amendments)</td>
<td>2013 Q1, 2013 Q2, 2013 Q3, 2013 Q4</td>
</tr>
<tr>
<td>Impairment</td>
<td>Redeliberations</td>
</tr>
<tr>
<td>Hedge Accounting</td>
<td>Redeliberations</td>
</tr>
<tr>
<td>Accounting for Macro Hedging</td>
<td>Target IFRS</td>
</tr>
<tr>
<td>Insurance Contracts</td>
<td>2013 Q1, 2013 Q2, 2013 Q3, 2013 Q4</td>
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<tr>
<td>Leases</td>
<td>Target ED</td>
</tr>
<tr>
<td>Rate-regulated Activities</td>
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<tr>
<td>Interim IFRS</td>
<td>Target ED</td>
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<td>Comprehensive project</td>
<td>RFI</td>
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<tr>
<td>Revenue Recognition</td>
<td>Target ED</td>
</tr>
<tr>
<td>IFRS for SMEs: Comprehensive Review 2012-2014</td>
<td>see project page</td>
</tr>
</tbody>
</table>

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Classification and measurement

- Objective – limited amendments to IFRS 9
- Proposed
  - clarification of hold to collect business model
  - introduction of FVOCI category for simple debt instruments
  - clarification of principal and interest criteria
  - ‘own credit’ changes can be early applied in isolation
- Joint project with FASB
- Timing
  - exposure draft published November 2012
  - comment period ended
  - joint redeliberations commence mid 2013

Impairment of financial instruments

- Objective to improve:
  - timeliness of recognition of expected credit losses
  - information about credit quality
- Exposure draft published in March 2013 proposes:
  - single impairment model
  - expected credit losses always recognised
  - full lifetime expected credit losses recognised when credit quality deteriorates significantly
- Timing
  - comment period ends 5 July 2013
  - overlap with FASB ED
  - FASB and IASB will consider opportunities to further align based on feedback
Accounting for hedges

• General model
  – more closely aligned to risk management
  – final discussion of comments from Review Draft April 2013
  – final IFRS mid 2013

• Accounting for macro hedges
  – risk management practices for open portfolios not covered by 2010 ED
  – Discussion Paper before ED
  – planned for 2013
Revenue recognition

- Objective – to develop a single, principle-based revenue standard for IFRSs and US GAAP
- Completed substantive redeliberations of revised Exposure Draft (published November 2011) during February 2013
- Expected publication of IFRS in June/July 2013
- Effective date 1 January 2017 with early application permitted

Leases

- The FASB and IASB have developed a common model
- Lessee accounting:
  - All leases of more than 12 months are on-balance sheet
  - Most equipment leases: recognise amortisation and interest expense separately
  - Most property leases: recognise a single lease expense on a straight-line basis
- Lessor accounting:
  - Most equipment leases: recognise lease receivable and residual asset
  - Most property leases: continue to recognise the property being leased
- Issue revised Exposure Draft May 2013
Insurance contracts

- IFRSs today has no comprehensive standard for insurance contracts – creates diversity of accounting practices
- Objective – to increase comparability and transparency
- Joint project with FASB
  - Proposals aligned on the core approach, but differed conclusion on some important details
  - IASB and FASB due process steps not aligned (IASB has issued an Exposure Draft, FASB has not)
- IASB completed substantive deliberations in February 2013
- IASB will issue revised Exposure Draft with targeted issues June/July 2013
  - Builds on the 2007 Draft Paper and 2010 Exposure Draft
Rate regulated activities

• IFRSs today has no comprehensive standard for rate regulated activities

• Interim
  – Permit grandfathering of current accounting practices for recognition, measurement and impairment
  – Enhanced presentation and disclosure matters
  – Issue Exposure Draft June 2013

• Major project
  – Will consider whether rate regulation creates asset and liabilities and measurement of such assets and liabilities
  – Request for Information (issued end of March 2013)
  – Discussion Paper (Q4 2013)

IFRS for SMEs: Comprehensive Review 2012-2014

• IFRS for SMEs published July 2009
• Mid-2012 IASB issued Request for Information
• Responses
  – Discussed by SME Implementation Group (SMEIG) February 2013
  – SMEIG recommendations discussed by IASB in March 2013

• Issue Exposure Draft Q3 2013
• Micro-sized entities
  – Publish guidance in Q2 2013
The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

April 2013 Project update and the future work plan.

## Conceptual Framework

### IASB Work plan – as at 22 March 2013

<table>
<thead>
<tr>
<th>Conceptual Framework (chapters addressing elements of financial statements, measurement, reporting entity and presentation and disclosure)</th>
<th>2013 Q1</th>
<th>2013 Q2</th>
<th>2013 Q3</th>
<th>2013 Q4</th>
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<tbody>
<tr>
<td>Target DP</td>
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<tr>
<th>Disclosures: Discussion Forum</th>
<th>2013 Q1</th>
<th>2013 Q2</th>
<th>2013 Q3</th>
<th>2013 Q4</th>
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<tbody>
<tr>
<td>Target Feedback Statement</td>
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</table>
Conceptual Framework

• IASB project
  – Continues on work previously done before 2010
• Project restarted in September 2012 after feedback from the IASB agenda consultation in 2011
• Will address:
  – Elements of financial statements (ie assets, liabilities, equity, income, expenses)
  – The reporting entity
  – Measurement of the elements
  – Presentation (includes OCI)
  – Disclosure (includes interim reporting)
• Issue Discussion Paper in July 2013

Disclosure

• Disclosure forum held in January 2013
• Survey
• Feedback statement
• Next steps
  – Consider limited amendments to IAS 1
  – Materiality
  – Broader standards-level review of disclosures
    – Financial Statement Presentation
    – Other Standards
The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

April 2013 Project update and the future work plan.

### IASB Work plan – as at 22 March 2013

#### Implementation

<table>
<thead>
<tr>
<th>Next major project milestone</th>
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<th>2013 Q2</th>
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<tr>
<td><strong>Narrow-scope amendments</strong></td>
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<tr>
<td>Acquisition of an Interest in a Joint Operation (proposed amendments to IFRS 11)</td>
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<td>Actuarial Assumptions: Discount Rate (proposed amendments to IAS 19)</td>
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<td>Annual Improvements 2010-2012</td>
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<td>Target IFRS</td>
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<td>Bearer Plants (proposed amendments to IAS 41)</td>
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<td>Clarification of Acceptable Methods of Depreciation and Amortisation (proposed amendments to IAS 16 and IAS 38) (comment period ends 2 April 2013)</td>
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<td>Defined Benefit Plans: Employee Contributions (proposed amendments to IAS 19) (comment period ends 25 July 2013)</td>
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### IASB Work plan – as at 22 March 2013

#### Implementation (cont.)

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<tr>
<th>Narrow-scope amendments</th>
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<th>2013 Q2</th>
<th>2013 Q3</th>
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<tr>
<td>Disclosure Requirements about Assessment of Going Concern (proposed amendments to IAS 1)</td>
<td>Target ED</td>
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<td>Equity Method: Share of Other Net Asset Changes (proposed amendments to IAS 28)</td>
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<td>Fair Value Measurement: Unit of Account (proposed amendments to IFRS 13)</td>
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<td>Narrowing of Derivatives and Continuation of Hedge Accounting (proposed amendments to IAS 39 and IFRS 9)</td>
<td>Target ED</td>
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<td>Put Options Written on Non-controlling Interests (proposed amendments to IAS 32)</td>
<td>Target ED</td>
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<tr>
<td>Recognition of Deferred Tax Assets for Unrealised Losses (proposed amendments to IAS 12)</td>
<td>Target ED</td>
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<td>Recognizable Amount Disclosures for Non-Financial Assets (proposed amendments to IAS 32)</td>
<td>Target ED</td>
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<tr>
<td>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (proposed amendments to IFRS 10 and IAS 28) (comment period ends 23 April 2013)</td>
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<td>Separate Financial Statements Equity Method (proposed amendments to IAS 27)</td>
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April 2013 Project update and the future work plan

### IASB Work plan – as at 22 March 2013

#### Implementation (cont.)

<table>
<thead>
<tr>
<th>Interpretations</th>
<th>2013 Q1</th>
<th>2013 Q2</th>
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<td>Levies Charged by Public Authorities on Entities that Operate in a Specific Market</td>
<td>Target Interpretation</td>
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<td>Target Interpretation</td>
<td>Target Interpretation</td>
</tr>
</tbody>
</table>

April 2013 Project update and the future work plan
IFRS Interpretations Committee

- 2011 Review completed
- Four Messages
  - Partnership between the Board and the Committee
  - An expanded toolkit of responses
  - Agenda criteria to match the new direction
  - Rejection notices – Where to the stand in the hierarchy of IFRSs?

Bearer Plants

- Limited-scope amendment of IAS 41 Agriculture (and IAS 16 Property, Plant and Equipment)
- Proposes to include BBA in scope of IAS 16 Scope restricted to BBA that are plants (eg grape vines, oil palms)
- Issue Exposure Draft mid 2013
Other

- Actuarial Assumptions: Discount rate
- Fair Value Measurement: Unit of Account
- Put options Written on Non-controlling Interests
- Separate Financial Statements (Equity Method)
- Levies Charged by Public Authorities on Entities that Operate in a Specific Market

International Financial Reporting Standards

Post-implementation Reviews

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

- The IASB now 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
  - Too early or too late?
Steps

• Phase A: develop the work plan
  – Reviewed the concerns that were expressed when the IFRS was developed
  – Consulted with standard-setters, auditors, users and others

• Phase B: investigate the issues
  – Request for information
  – Workshops with investors and non-investors
  – Additional sources
    – academic research
    – other outreach

• Phase C: reporting
  – our analysis of the issues and our responses to them

IFRS 8 Operating Segments

• Scope
• Initial findings discussed at January 2013 IASB meeting
• Next steps
  – Publish feedback statement Q3 2013
IFRS 3 Business Combinations

- **Scope**
  - All aspect of IFRS 3, in particular:
    - Definition of a business
    - Contingent consideration
    - Goodwill, including impairment

- **Timing**
  - After finalisation of IFRS 8 review
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
- Discussion Papers
  - IASB staff papers
- Research Papers
  - Commissioned from others in the IFRS network
- Leads to project proposals, or recommendations not to develop an IFRS

Standards-level Programme

- Major projects feed from the research programme
- Narrower scope improvements feed from the interpretations committee and the other implementation outreach
- More focused and disciplined development of standards
Priority research projects

- Rate-regulated activities
- Emissions trading schemes
- Business combinations under common control

Priority research projects

- Discount rates
- The equity method of accounting
- Extractive activities | Intangible assets | Research and Development activities
- Financial Instruments with the Characteristics of Equity
- Foreign Currency Translation
- Liabilities – amendments to IAS 37
- Hyperinflation, and high inflation
The IFRS network

• ASAF
• Project level work
  – The IASB will work with other bodies in the IFRS community
    – Seconded to the IASB
    – Working independently, or in collaboration with other NSS
  – Successful past collaborations include:
    – Management Commentary
    – Extractive Activities
    – Intangibles

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

International Financial Reporting Standards

Revenue from Contracts with Customers
IFRS Conference - Brazil
April 2013

Speakers

• Amaro Luiz de Oliveira Gomes
  IASB member

• Allison McManus
  Senior Technical Manager, IASB
Agenda

- Project status and objective
- Overview of the final revenue standard
- Q&A

Project status

- **2010**
  - June 2010
    - Exposure draft
    - Revenue from Contracts with Customers
    - 974 comment letters

- **2011**
  - November 2011
    - Revised exposure draft
    - Re-exposure of Revenue from Contracts with Customers
    - 358 comment letters

- **2013**
  - March 2012
    - Comment letter deadline
  - April 2012
    - Roundtables
  - May 2012 onwards
    - Redeliberations
  - H1 2013
    - Final standard (IFRS)
    - Retrospective or alternative transition method
    - Effective date: 1 Jan 2017
    - Early application permitted (IFRS)
Project objective

Objective: To develop a single, principle-based revenue standard for US GAAP and IFRSs

- The revenue standard aims to improve accounting for contracts with customers by:
  - Providing a more robust framework for addressing revenue issues as they arise
  - Increasing comparability across industries and capital markets
  - Requiring better disclosure

Overview of revised proposals

Core principle:

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

Steps to apply the core principle:

1. Identify the contract(s) with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognise revenue when a performance obligation is satisfied
Step 1: Identify the contract(s)

**Objective:** To identify the bundle of contractual rights and obligations to which an entity would apply the revenue model

- Specified criteria must be met to apply the model to a contract
- Some contracts would be combined and accounted for as one contract
- Contract modifications
  - Some accounted for as a separate contract
  - Otherwise, reevaluate remaining performance obligations

---

Step 2: Identify the performance obligation(s)

**Objective:** To identify the promises to transfer distinct goods or services (ie performance obligations*)

A good or service is **distinct** if:

a) the customer can benefit from the good or service on its own or together with other readily available resources (for example, because the entity regularly sells the good or service separately); *and*

b) the good or service is not highly dependent on, or highly interrelated with, other promised goods or services in the contract (*see next slide for indicators*)

* A performance obligation may also represent a promise to transfer a series of distinct goods or services that transfer consecutively (eg a daily cleaning service provided for one year)
Step 2: Identify the performance obligation(s)

- Indicators that a good or service is *not* highly dependent on, or highly interrelated with other promised goods or services:
  - Entity does not provide a significant service of integrating the good or service into a bundle (inputs to produce an output)
  - Purchasing (or not purchasing) the good or service would not significantly affect the remainder of the contract
  - The good or service does not significantly modify or customise other promised goods or services

Step 3: Determine transaction price

**Objective:** To determine amount of consideration that an entity expects to be entitled in exchange for promised goods or services

- Estimate variable consideration at expected value or most likely amount
  - Use the method that is a better prediction of the amount of consideration to which the entity will be entitled
- Exclude **financing component** that is significant to the contract
- **Customer credit risk** accounted for under other standards and presented prominently as an expense in the statement of comprehensive income
Step 3(?): Constraining variable consideration

**Objective:** Include amounts that would not result in a significant revenue reversal (i.e., a significant downward adjustment)

- An entity has confidence that revenue would not be subject to a significant revenue reversal if:
  - The entity has experience with (or has other evidence about) similar types of performance obligations, and
  - The entity’s experience (or other evidence) is predictive of the amount of consideration to which the entity will be entitled
- Various factors might indicate that the entity’s experience is not predictive
- The Boards also tentatively decided to move constraint to Step 3 in the model - which should not affect the amount of revenue recognised

---

Step 4: Allocate the transaction price

**Objective:** To allocate to each separate performance obligation the amount to which the entity expects to be entitled

- Allocating on a relative standalone selling price basis will generally meet the objective
  - Estimate selling prices if they are not observable
  - Residual estimation techniques may be appropriate
    - may be used in contracts in which there are two or more goods or services that have highly variable or uncertain standalone selling prices
- Discounts and contingent amounts are allocated entirely to one performance obligation if specified criteria are met
Overview of Step 5: Recognise revenue

Revenue is recognised when (or as) the entity satisfies a performance obligation by transferring a promised good or service to the customer.

Performance obligations satisfied over time
A performance obligation is satisfied over time if the criteria in paragraph 35 are met (see following slide).

Performance obligations satisfied at a point in time
All other performance obligations are satisfied at a point in time.

Revenue is recognised by measuring progress towards complete satisfaction of the performance obligation. Tentative decisions clarified:
• Units produced or delivered may be a reasonable proxy in some cases
• Application of input methods (e.g., uninstalled materials)

Revenue is recognised at the point in time when the customer obtains control of the promised asset. Indicators of control include:
• Present right to payment
• Legal title
• Physical possession
• Risks and rewards of ownership
• Customer acceptance

Step 5: Recognise revenue

• An entity satisfies a performance obligation and recognises revenue over time if one of the following criteria are met:
  a. the customer receives and consumes the benefits of the entity’s performance as the entity performs
     - an objective basis for assessing benefit—hypothetically, would another entity need to substantially re-perform the work the entity has completed to date if that other entity were to fulfill the remaining obligation to the customer?
  b. the entity’s performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced
  c. the entity’s performance does not create an asset with an alternative use to the entity and the entity has a right to payment for performance completed to date and it expects to fulfill the contract as promised
Accounting for IFRIC 15 Agreements for the Construction of Real Estate

An entity satisfies a performance obligation over time when….
c. the entity’s performance does not create an asset with an alternative use to the entity and the entity has a right to payment for performance completed to date and it expects to fulfil the contract as promised

What are the enforceable rights and obligations in the contract?
• Can the “Alternative Use” criterion be met?
  – Consider whether the developer would be contractually precluded from selling a specific unit (say apartment 1102) to another buyer after entering into an agreement
• Can the “right to payment for performance to date” criterion be met?
  – Is the entity legally entitled to be paid for the performance to date if the buyer terminates the contract?
  – Are those legal rights upheld by the courts?
  – Consider whether progress payments correspond to performance to date and whether they are refundable

Contract costs

<table>
<thead>
<tr>
<th>Costs of obtaining a contract</th>
<th>Costs of fulfilling a contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognised as an asset if they are incremental and are expected to be recovered</td>
<td>Recognised as an asset if they:</td>
</tr>
<tr>
<td><em>For example: selling commissions</em></td>
<td></td>
</tr>
<tr>
<td></td>
<td><em>Relate directly to a contract</em></td>
</tr>
<tr>
<td></td>
<td><em>Are expected to be recovered</em></td>
</tr>
</tbody>
</table>
Onerous test… Tentative decision

- The revenue standard will not include an onerous test
- Instead, an entity will apply the onerous tests in existing IFRSs or US GAAP

**Requirements in IAS 37 for onerous contracts would apply to all contracts with customers**

**Existing guidance for recognition of losses will be retained, including guidance in Subtopic 605-35 for losses on construction and production contracts**

Disclosure requirements

**Objective:** To enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers

- Disaggregation of revenue
- Information about contract balances
- Information about contracts with customers
- Information about judgements used
- Assets recognised from the costs to obtain or fulfil a contract
- Information about long-term contracts (i.e., remaining performance obligations)
Transition, effective date and early application

<table>
<thead>
<tr>
<th></th>
<th>PY2</th>
<th>PY1</th>
<th>CY</th>
<th>CY footnotes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retrospective transition method (optional practical expedients - as proposed in the 2011 ED)</td>
<td>Completed* and existing contracts restated under new standard</td>
<td>Cumulative catch-up</td>
<td>Completed* and existing contracts restated under new standard</td>
<td>Cumulative catch-up</td>
</tr>
<tr>
<td>Alternative transition method</td>
<td>Completed* and existing contracts not restated under new standard</td>
<td>Cumulative catch-up</td>
<td>Cumulative catch-up</td>
<td>Completed* and existing contracts not restated under new standard</td>
</tr>
</tbody>
</table>

*contracts completed in prior years as determined under legacy revenue guidance

Implementation guidance: licenses

Step 2: Identify the performance obligation(s)

Is the license distinct?

No

Account for bundle of goods and services

Yes

Apply apply criteria to determine whether license:
- transfers a right (i.e., a performance obligation satisfied at a point in time)
- provides access to the entity’s intellectual property (i.e., performance obligation satisfied over time)
### Key changes from the 2011 ED

#### Redeliberation topic

| Identifying performance obligations (paragraphs 28 & 29, 2011 ED) | Clarify the application of ‘distinct’ |
| Collectability (customer credit risk) (paragraph 68-69, 2011 ED) | Expense presented prominently in the income statement |
| Allocation of the transaction price (paragraphs 70-80, 2011 ED) | Clarify can use residual technique if more than one good or service has standalone selling price that is highly variable or uncertain |
| Performance obligations satisfied over time (paragraph 35, 2011 ED) | Clarify application of criteria in paragraph 35 |

#### Redeliberation topic

| Constraint (paragraphs 81-85, 2011 ED) | - Remove term ‘reasonably assured’  
| - Recognise revenue only to the extent that it will not result in significant revenue reversal  
| - Remove paragraph 85 |
| Onerous performance obligations (paragraph 86-89, 2011 ED) | Removed; entities apply onerous test in IAS 37 |
| Disclosures (paragraphs 109-129, 2011 ED) | - Replace tabular reconciliation of contract balances with qualitative and quantitative disclosures  
| - Interims: disaggregation required (IASB), all quantitative disclosures (FASB) |
| Transition and effective date (paragraphs C1- C5, 2011 ED) | - Added: alternative transition method  
| - Effective date set (1 Jan 2017) |
More information

Additional information about the revised proposals and the revenue recognition project is available at www.ifrs.org and www.fasb.org.

Allison McManus amcmanus@ifrs.org
Senior Technical Manager, IASB
Leases
Joint project with the FASB

Agenda

• Background
• Definition of a lease
• Lessee accounting
• Lessor accounting
• Measurement
• Timeline
Timeline—accounting for leases

1976
FASB issued SFAS 13 Accounting for Leases

1982
IASC issued IAS 17 Accounting for Leases

1994-1999
G4+1 papers proposed changes to lease accounting

2005
US SEC report on off-balance sheet activities—lease accounting criticised

2006
IASB and FASB published discussion paper

2010
IASB and FASB published Exposure Draft

May 2013
IASB and FASB expected to publish revised Exposure Draft

Why a leases project?

• Existing lease accounting does not meet users’ needs
  – operating leases are off-balance sheet
  – big values
  – users adjust financial statements

• Structuring opportunities
  – significant difference in accounting for operating leases and finance leases

• Strong support for a new standard
Benefits

- Greater transparency about true leverage of lessees
- Greater comparability between leases and purchases
- Greater transparency about lessors’ exposure to asset risk and credit risk

Main issues

- Recognition of assets and liabilities by lessee
- One or two models
- Definition of a lease
- Cost and complexity
- Resistance from some interested parties
**Recognition of assets and liabilities**

**Definition of an asset:**
A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

**Definition of a liability:**
A present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

**Why don’t lessees report assets and liabilities for all leases?**

---

**Recognition of assets and liabilities**

**Definition of an asset:**
A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

**Definition of a liability:**
A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

**Control over right-of-use asset**
- Physical possession of (access to) leased asset
- Lessor cannot retrieve leased asset

**Unconditional obligation to pay**
- Lessee cannot return leased asset (terminate lease) and avoid paying without breaching contract
Definition of a lease

- Identified asset
  - explicitly or implicitly specified
  - no substantive right to substitute asset

- Right to control the use during the lease term
  - decision-making authority over the use of the asset
  - receive substantially all benefits from use

The new model

Total asset benefits

ROU Residual
**Initial measurement (lessee)**

- **Right of use asset** (at cost) = **Lease liability** (present value of lease payments)

**Lessee models**

<table>
<thead>
<tr>
<th>Balance sheet</th>
<th>Income statement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Most equipment/vehicle leases</strong></td>
<td><strong>Most property leases</strong></td>
</tr>
<tr>
<td>ROU asset</td>
<td>Lease liability</td>
</tr>
<tr>
<td>Amortisation</td>
<td>Interest</td>
</tr>
</tbody>
</table>

**IFRS**
The rationale for two models

**Consumption principle**

- Importance of asset being leased

- What does right-of-use represent?
  - consumption of part of leased asset + financing, OR
  - use of leased asset

- Practical application
  - equipment (unless…) versus property (unless…)

### Lessee example—two models

<table>
<thead>
<tr>
<th></th>
<th>Equipment</th>
<th>Property</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yr 0</td>
<td>Yr 1</td>
<td>Yr 2</td>
</tr>
<tr>
<td>ROU asset</td>
<td>600</td>
<td>400</td>
</tr>
<tr>
<td>Lease liability</td>
<td>(600)</td>
<td>(414)</td>
</tr>
<tr>
<td><strong>Income Statement</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenses</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Financing expenses</td>
<td>46</td>
<td>32</td>
</tr>
<tr>
<td><strong>Total Lease Expense</strong></td>
<td><strong>246</strong></td>
<td><strong>232</strong></td>
</tr>
</tbody>
</table>
### Lessor models

**Balance sheet**
- **Most equipment/vehicle leases**
  - Lease receivable & residual asset
- **Most property leases**
  - Continue to report asset being leased

**Income statement**
- **Interest income**
  - (& any profit on lease at start of lease)
- **Rental income**

### Reducing complexity and cost

<table>
<thead>
<tr>
<th>Options to extend the lease term (term options)</th>
<th>2010 ED</th>
<th>2013 ED simplifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Included if more likely than not to occur</td>
<td></td>
<td>• Included if significant economic incentive to exercise</td>
</tr>
<tr>
<td>• Reassessed</td>
<td></td>
<td>• Reassessed other than for market conditions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable lease payments</th>
<th>2010 ED</th>
<th>2013 ED simplifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Included in lease liability on probability-weighted basis</td>
<td></td>
<td>• Excluded, unless based on index or rate</td>
</tr>
<tr>
<td>• Reassessed</td>
<td></td>
<td>• Accounted for as incurred</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Reassessed for spot/index</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Short–term leases</th>
<th>2010 ED</th>
<th>2013 ED simplifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Liability/asset recognised with no discounting</td>
<td></td>
<td>• No liability/asset recognised</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Rent expense</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• IAS 17 operating lease model</td>
</tr>
</tbody>
</table>
Leases project timeline

2006
IASB and FASB published discussion paper

May 2013
IASB and FASB expect to publish revised Exposure Draft (120 days)

August 2010
IASB and FASB published Exposure Draft

TBD
Publish final standard

Thank you
Lessee example–Equipment

• Assumptions and workings:

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of equipment</td>
<td>CU1,000</td>
</tr>
<tr>
<td>Lease term</td>
<td>3 years</td>
</tr>
<tr>
<td>Rents (annual in arrears)</td>
<td>CU231</td>
</tr>
<tr>
<td>Rate implicit in lease</td>
<td>7.7%</td>
</tr>
<tr>
<td>No initial direct costs</td>
<td></td>
</tr>
<tr>
<td>PV of lease payments</td>
<td>CU600</td>
</tr>
</tbody>
</table>
Lessee example—Equipment continued

<table>
<thead>
<tr>
<th>Periods</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROU asset</td>
<td>600</td>
<td>400</td>
<td>200</td>
<td>-</td>
</tr>
<tr>
<td>Lease liability</td>
<td>(600)</td>
<td>(414)</td>
<td>(215)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Income Statement</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortisation</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>46</td>
<td>32</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td><strong>Total Lease Expense</strong></td>
<td>246</td>
<td>232</td>
<td>216</td>
<td></td>
</tr>
</tbody>
</table>

Lessee example—Property

- Assumptions and workings:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of property</td>
<td>CU1,000</td>
</tr>
<tr>
<td>Lease term</td>
<td>3 years</td>
</tr>
<tr>
<td>Rents (annual in arrears)</td>
<td>CU60</td>
</tr>
<tr>
<td>Rate implicit in lease</td>
<td>6%</td>
</tr>
<tr>
<td>No initial direct costs</td>
<td></td>
</tr>
<tr>
<td>PV of lease payments</td>
<td>CU160</td>
</tr>
</tbody>
</table>
### Lessee example—Property continued

<table>
<thead>
<tr>
<th>Periods</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROU asset</td>
<td>160</td>
<td>110</td>
<td>57</td>
<td>-</td>
</tr>
<tr>
<td>Lease liability</td>
<td>(160)</td>
<td>(110)</td>
<td>(57)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Income Statement</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Lease Expense</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Amortisation</td>
<td>50</td>
<td>53</td>
<td>57</td>
<td></td>
</tr>
<tr>
<td>Unwinding of discount</td>
<td>10</td>
<td>7</td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

### Lessor example—Equipment

- **Assumptions and workings:**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of leased asset</td>
<td>CU1,000</td>
<td>Total profit on transaction = FV – CA of Asset</td>
<td>1,000 - 950 = 50</td>
</tr>
<tr>
<td>Carrying amount of leased asset</td>
<td>CU950</td>
<td>Profit on ROU = lease rec/FV of Asset * Total profit</td>
<td>600/1,000 * 50 = 30</td>
</tr>
<tr>
<td>Lease term</td>
<td>3 years</td>
<td>Unearned profit relating to residual = total profit – profit on ROU</td>
<td>50 – 30 = 20</td>
</tr>
<tr>
<td>Residual (future value)</td>
<td>CU500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residual (present value)</td>
<td>CU400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rents (annual in arrears)</td>
<td>CU231</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate implicit in lease</td>
<td>7.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial direct costs</td>
<td>none</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PV of lease payments = Lease receivable</td>
<td>CU600</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Lessor example—Equipment continued

#### Balance Sheet

<table>
<thead>
<tr>
<th>Periods</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease receivable</td>
<td>600</td>
<td>414</td>
<td>215</td>
<td>-</td>
</tr>
<tr>
<td>Gross residual asset</td>
<td>400</td>
<td>431</td>
<td>464</td>
<td>500</td>
</tr>
<tr>
<td>Unearned profit</td>
<td>(20)</td>
<td>(20)</td>
<td>(20)</td>
<td>(20)</td>
</tr>
<tr>
<td>Net residual asset</td>
<td>380</td>
<td>411</td>
<td>444</td>
<td>480</td>
</tr>
</tbody>
</table>

#### Income Statement

<table>
<thead>
<tr>
<th></th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit on lease</td>
<td>30</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on receivable</td>
<td>46</td>
<td>32</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Interest on residual asset</td>
<td>31</td>
<td>33</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>Total Lease Income</td>
<td>30</td>
<td>77</td>
<td>65</td>
<td>52</td>
</tr>
</tbody>
</table>

### Other aspects

Information on other aspects of the leases proposals
Redeliberations – other issues

- Multi-element contracts
  - separately account for non-lease components
  - lessee: allocate between lease and non-lease components if observable prices
  - lessor: allocate using revenue recognition guidance

- Residual value guarantees
  - lessee: include in lease payments amounts expected to be payable
  - lessor: considered when assessing residual asset for impairment but not recognised separately

Redeliberations – other issues continued

- Lessor impairment
  - financial asset impairment guidance for lease receivable
  - non-financial impairment guidance for residual asset

- Sale and leaseback transactions
  - if sale, account for as sale then leaseback
Redeliberations – lessee presentation

- Balance sheet
  - ROU asset presented as if owned
  - Lease liability
- Statement of cash flows
  - lease payments relating to principal: financing
  - lease payments relating to interest: as other interest payments are presented
  - lease payments when single lease expense recognised: operating
  - variable lease payments: operating
  - Short-term lease payments: operating

Redeliberations – lessor presentation

- Balance sheet
  - Receivable on the face or notes
  - Residual on the face
  - Lease assets on the face
- Statement of cash flows
  - cash inflows from leases → operating activities
Redeliberations – lessee disclosure

- Qualitative information about leasing activities
- Reconciliation of ROU asset and lease liability
  - ROU asset reconciliation: disaggregated by asset class
- Maturity analysis for lease liability
- Disclose significant leases not yet commenced
- Disclose expense relating to variable lease payments

Redeliberations – lessor disclosure

- Qualitative information about leasing activities
- Reconciliation of lease receivable and residual asset*
- Maturity analysis of lease receivable
- A table of all lease income, including short-term
- Details of residual asset risk management*

* Only when lease receivable and residual asset recognised
Redeliberations – transition*

- Either full or modified retrospective approach
- Modified approach based on information available at beginning of earliest comparative period
  - Reliefs available
    - use of hindsight
    - no evaluation of initial direct costs for contracts before effective date
  - lessee: use ‘portfolio level’ discount rate calculated at effective date
  - No requirement to make adjustments for leases currently classified as finance leases
IFRSs today do not have a comprehensive standard on insurance contracts

- **IFRS 4 Insurance Contracts** is as an interim standard:
  - Permits a wide variety of accounting models (grandfathered)
  - Requires disclosures for insurance contracts to enhance comparability and understanding of reported

- A new accounting standard for insurance contracts is needed to:
  - Increases comparability in the accounting for insurance contracts between and within entities
  - Increases transparency about the effects that insurance contracts have on financial statements
The IASB will shortly publish a revised exposure draft on insurance contracts

• This revised Exposure Draft is the next step in the process to a final standard:
  – Builds on the responses received to the 2007 Discussion Paper and 2010 Exposure Draft
  – Reflects the IASB’s final conclusions on some aspects of proposals
  – Seeks feedback on limited range of issues
    – Areas with significant changes since the 2010 ED
    – Operationality and cost benefit assessment

We propose to improve existing accounting issues as follows

<table>
<thead>
<tr>
<th>Existing accounting issues</th>
<th>How our standard improves the accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variety of accounting treatments depending on the type of contract and entity that issues the contracts</td>
<td>Consistent accounting for all types of insurance contracts</td>
</tr>
<tr>
<td>Estimates for long duration contracts not updated through the life of the contract</td>
<td>Estimates updated to reflect current market-based information</td>
</tr>
<tr>
<td>Discount rate based on estimates of investment returns not reflecting economic risks of the insurance liability</td>
<td>Measurement of insurance contract provides information about risk and uncertainty of obligation</td>
</tr>
<tr>
<td>Lack of discounting for some contracts</td>
<td>Contracts should reflect discounting where significant</td>
</tr>
<tr>
<td>Little information about economic value of embedded options and guarantees</td>
<td>Measurement reflects the value of embedded options and guarantees</td>
</tr>
</tbody>
</table>
History of the project

1997
IASC starts project on insurance contracts

2004
IFRS 4 *Insurance Contracts*

2007
IASB Discussion Paper *Preliminary Views on insurance contracts*

2008
FASB joins project. Not part of MoU

2010
FASB Discussion Paper *Preliminary Views on Insurance Contracts*

IASB Exposure draft *Insurance Contracts*

Our timeline to a new IFRS for insurance contracts

H1 2013
Revised Exposure Draft

H2 2014
Issue IFRS

Earliest effective date
1 January 2018?
International Financial Reporting Standards

Overview of the model and proposals

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

Measurement of insurance liability

Unearned profit from the contract that the insurer expects to earn as it fulfils the contract

Quantifies the value difference between the certain and uncertain liability

An adjustment that reflects the time value of money

The amounts the insurer expects to collect from premiums and pay out as it acquires, services and settles the contract, estimated using up-to-date information
### Reporting underwriting results

#### Statement of Comprehensive Income

<table>
<thead>
<tr>
<th>20x1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance contracts revenue</td>
</tr>
<tr>
<td>Incurred claims and expenses</td>
</tr>
<tr>
<td>Underwriting result</td>
</tr>
<tr>
<td>Investment income</td>
</tr>
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<td>Interest on insurance liability</td>
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### Reporting underwriting results

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<tr>
<td>Total comprehensive income</td>
</tr>
</tbody>
</table>
Reporting underwriting results

**Statement of Comprehensive Income**

20x1

- Insurance contracts revenue: X
- Incurred claims and expenses: (X)
- **Underwriting result**: X
- Investment income: X
- Interest on insurance liability: (X)
- **Net interest and investment**: X
- Profit or loss: X
- **Effect of discount rate changes on insurance liability**: (X)
- Total comprehensive income: XX

*If there is a residual margin*

*If there is a no residual margin*
Reporting underwriting results

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<td>Total comprehensive income</td>
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</tbody>
</table>

Residual margin
- Cost view of the time value of the money
- Reflects the investment returns provided to the policyholder (if any)

Risk adjustment

Time value of money
- Amounts that reverse
- Allows reconciliation of cost and current view of time value

Cash flows

Transition to proposed Standard

1. Apply retrospectively:
   - Estimate margin for in force contracts at date of transition

2. If impracticable* to apply retrospectively:
   - Estimate residual margin maximising use of objective data
   - Simplifications to determine:
     - Discount rate at inception
     - The risk adjustment
     - Changes in estimates of certain cash flows

3. Option to redesignate certain financial assets on application of new standard

*Retrospective application is impracticable (under IAS 8) when the entity has to use hindsight, for example to determine estimates, etc.
Applications for short-duration contracts

| Balance sheet | • Simplifications  
|               |   • Measurement during the coverage period  
|               |   • Discounting expedients  
| Statement of  | • Consistent with Revenue Recognition  
| Comprehensive |   principles/notions and also with  
| Income        |   building block approach  
| Disclosures   | • Relief from some disclosures  

What will the balance sheet show?

<table>
<thead>
<tr>
<th>Statement of Financial Position</th>
<th>20x1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Reinsurance assets</td>
<td>$X$</td>
</tr>
<tr>
<td>Other assets</td>
<td>$X$</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$XX$</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Insurance contract liabilities</td>
<td>$X$</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>$X$</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$XX$</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>$X$</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>$XX$</td>
</tr>
</tbody>
</table>
What will revenue and expenses show?

**Statement of Comprehensive Income**

20x1

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance contracts revenue X</td>
<td>Incurred claims and expenses (X)</td>
</tr>
<tr>
<td>Underwriting result X</td>
<td>Investment income X</td>
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<td>Net interest and investment X</td>
</tr>
<tr>
<td>Effect of discount rate changes on insurance liability (X)</td>
<td>Profit or loss X</td>
</tr>
<tr>
<td>Total comprehensive income XX</td>
<td>Effect of discount rate changes on insurance liability</td>
</tr>
</tbody>
</table>

Revenue:
- Consistent with commonly understood notions of Revenue
- Reflects revenue earned from fulfilling obligations under contract
- Excludes deposit-like amounts

Expenses:
- Consistent with commonly understood notions of expenses
- Reflects the costs incurred to provide services
- Reflects any changes in expectations for past services and when the contract is onerous
- Excludes deposit-like amounts

What will underwriting result show?

**Statement of Comprehensive Income**

20x1

<table>
<thead>
<tr>
<th>Underwriting result</th>
<th>Investment income</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Interest on insurance liability (X)</td>
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<tr>
<td>Total comprehensive income XX</td>
<td></td>
</tr>
</tbody>
</table>

Underwriting result reflects:
- Changes in measurement of uncertainty.
- Profit/(loss) for services provided in the period
- Changes in cash flows for past services
What will net profit or loss show?

<table>
<thead>
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<th>Statement of Comprehensive Income</th>
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</thead>
<tbody>
<tr>
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<td>Net interest and investment</td>
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<tr>
<td>Effect of discount rate changes on insurance liability</td>
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</tr>
<tr>
<td><strong>Total comprehensive income</strong></td>
<td>XX</td>
</tr>
</tbody>
</table>

**Net spread**
- Investment income reported applying other IFRS (not within the scope)
- For services provided, the cost view of the time value of the money
- Reflects the investment returns provided to policyholders, if any

Underwriting result + Net spread = Net profit or loss

Two views of performance

<table>
<thead>
<tr>
<th>Statement of Comprehensive Income</th>
<th>20x1</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
<tr>
<td>Net interest and investment</td>
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<td>Profit or loss</td>
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</tr>
<tr>
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<td>(X)</td>
</tr>
<tr>
<td><strong>Total comprehensive income</strong></td>
<td>XX</td>
</tr>
</tbody>
</table>

**Net profit or loss**
Reflects the performance of providing services using a cost view of the time value of money (ie reflecting time value at inception)

**OCI**
- Reconciles both
- Reflects amounts that self reverse

**Total comprehensive income**
Reflects the performance of providing services using a current view of the time value of money
What will disclosures show?

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

IASB seeks feedback on the following targeted issues

- **Presentation proposals**
  - Presenting information on insurance contract revenue
  - Presenting the effects of changes in the liability due to discount rates changes in OCI

- **Measurement proposals**
  - Adjusting the unearned profit to reflect changes in cash flows for future services
  - Measuring and presenting cash flows from contracts with contractual link to underlying items

- **Approach to transition**
  - Apply standard as if always effective
  - Some simplifications and relief provided
Thank you
Session overview

- Past work
- Overview of Objective and Qualitative characteristics
- Presentation
- Disclosure
Past work

<table>
<thead>
<tr>
<th>Phase</th>
<th>Status</th>
</tr>
</thead>
</table>
| A Objective and qualitative characteristics | DP – July 2006
ED – May 2008
Final – Sept 2010 |
| B Elements (definition, recognition and derecognition) | Tentative agreement to definition of an asset
Some discussions on other areas but no DP issued |
| C Measurement | Some discussions with Board but no DP issued
Roundtables on measurement |
| D Reporting entity | DP – May 2008
ED – March 2010 |
| E Boundaries of financial reporting including presentation and disclosure | No work done
But some conceptual discussion in FSP project |
| F Purpose of conceptual framework | No work done |
| G Applicability to other entities | No work done |
| H Review of entire framework | No work done |

Objective

To provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

- Primary users
- Common information needs of users
  - Types of decisions
- Scope changed to financial reporting,
  - But new project focuses only on financial statements
Objective

• Users need information about:
  – the entity’s resources;
  – claims against the entity; and
  – how efficiently and effectively the entity’s management
    and governing board have discharged their
    responsibilities to use the entity’s resources

Qualitative characteristics: fundamental

• Relevance
  – capable of making a difference in users’ decisions
    – predictive value
    – confirmatory value
    – materiality (entity-specific)

• Faithful representation (formerly reliability)
  – faithfully represents the phenomena it purports to
    represent
    – completeness (depiction including numbers and words)
    – neutrality (unbiased)
    – free from error
Qualitative characteristics: enhancing

Enhancing qualitative characteristics

- Comparability
- Verifiability
- Timeliness
- Understandability

- Cost: a constraint on useful financial reporting

Current work

- IASB-only project
  - Other standard-setters will be involved, through Accounting Standards Advisory Forum
  - Seconded staff
- Five chapters developed together
  - The chapters are related
- Informed by the more difficult standards-level issues
### Current work (2)

<table>
<thead>
<tr>
<th>Phase</th>
<th>Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Objective and qualitative characteristics</td>
<td>Do not reopen</td>
</tr>
<tr>
<td>B Elements (definition, recognition and derecognition)</td>
<td>Build on previous work</td>
</tr>
<tr>
<td>C Measurement</td>
<td>Build on previous work</td>
</tr>
<tr>
<td>D Reporting entity</td>
<td>Build on ED</td>
</tr>
<tr>
<td>E Boundaries of financial reporting including presentation and disclosure</td>
<td>Cover presentation and disclosure Other work on disclosure?</td>
</tr>
<tr>
<td>F Purpose of conceptual framework</td>
<td>Look to amend and update existing statements on purpose</td>
</tr>
<tr>
<td>G Applicability to other entities</td>
<td>Do not cover</td>
</tr>
<tr>
<td>H Review of entire framework</td>
<td>Not required</td>
</tr>
</tbody>
</table>

### Timetable

- **Feb - Apr 2013**: Board discussions
- **Jul 2013**: Issue DP 4-month comment period
- **Aug 2014**: Issue ED 4-month comment period
- **Final by September 2015**
Presentation & Disclosure

- Existing Conceptual Framework:
  - Not addressed
  - Risk that lack of conceptual guidance might lead to poorly targeted disclosures
  - Agenda consultation – suggests that a framework for disclosures is needed.
Terminology

- Presentation = on the face of the entity’s primary financial statements
- Disclosure = process of presenting relevant financial information
- General purpose financial statements =
  - Primary financial statements
  - Notes

Presentation

- What is the purpose of the primary financial statements?
- Is one statement more important than the others?
  - All are important
  - Summaries and not complete in themselves
- Should an entity’s business model influence financial statement classification?
Other Comprehensive Income (OCI)

• Concerns about the absence of a principle for OCI
• Should we have a principle for OCI or profit or loss?
• Terminology
  – Profit or loss
  – OCI
  – Comprehensive Income

Basic principles (proposed)

• Principle 1: Items presented in profit or loss communicate the primary picture of an entity’s financial performance for a reporting period.
• Principle 2: All items of income and expense should be recognised in profit or loss unless presenting an item in OCI provides a better depiction of the financial performance.
• Principle 3: An item that has previously been presented in OCI should be reclassified (recycled) to profit or loss if the reclassification results in relevant information about financial performance in that period.
OCI Implications

- Profit or loss communicates primary picture
  - Starting point by users in analysis or main indicator of an entity’s financial performance
  - OCI should be recycled
- Only use OCI when the IASB permits or requires
  - Bridging items:
    - same item, two measurement bases
    - eg Limited amendments on 2012 ED on classification and measurement, insurance contracts
  - Mismatched measurements:
    - Cash flow hedges, investment in a foreign operation
    - How about pensions?

Application of the principles

- They are for the IASB, not preparers
- No presumption that new principles will affect existing requirements
- The CF will provide the IASB with principles to help it consider possible changes
OCI Alternative approach

• The DP will also discuss briefly another approach:
  – Distinction between profit or loss and OCI is artificial
  – Reclassification (recycling) is unnecessary if all recognised income and expense are included in the same ultimate total
  – Most IASB members do not favour this approach

Disclosure
Purpose

Agenda Consultation 2011

- Many respondents think that a disclosure framework is needed to ensure that information disclosed is more relevant to investors and to reduce the burden on preparers

The IASB decided to host a Discussion Forum

- Explore opportunities to see how disclosures can be improved and simplified within the existing disclosure requirements
- Foster dialogue between preparers, auditors, regulators, users of financial statements and standard-setters
- Get a clearer picture of the ‘disclosure problem’ and its causes

Survey on disclosures launched

- In conjunction with the Discussion Forum
- To gain a clearer picture of the ‘disclosure problem’ in advance of the Discussion Forum

International Financial Reporting Standards

Disclosure Survey

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

• 225 responses to the survey
• Approximately
  – 50% preparers
  – 20% users
  – 30% other (includes regulators, auditors, industry organisations)
• Initial analysis focused on users and preparers
• There is a disclosure problem (over 80% agree)
• Preparers and users view the problem differently
Discussion Forum

- Held on 28 January 2013
- Over 120 external attendees at the Discussion Forum on disclosures, plus:
  - About 40 external people listened to the morning webcast
  - About 25 external people listened to the afternoon webcast
- A further 29 IASB members/staff attended
Discussion Forum—what we heard

• No clear agreement on what the disclosure problem is
• Preparers and investors do agree that financial reports are an important communication tool.
  – Preparers want to tell a story and investors want to hear their story (business model)
  – There are impediments. The objectives of the IASB, the auditors and regulators are appropriate and beneficial, but there is a perception that:
    – Standards—compel, rather than guide
    – Auditors—compliance rather than communication
    – Regulators—compliance rather than communication

Discussion Forum—what we heard

• Materiality
  – Application in practice is a challenge
  – The IASB has a responsibility to provide more application guidance
  – Onus rests on the preparer to rebut a presumption that information should be disclosed
  – Linking back to the disclosure objective or the business model might help

• Better linkage is required
  – Linked information throughout report (context)
    – Policies, risks and the related financial information
Discussion Forum—what we heard

• Form matters
  – The order matters … importance
  – The IASB should not constrain preparers

• Technology could help
  – Tension between conformance and comparability

• Scope of financial reporting
  – Integrated reporting
    – Country-by-country reporting

But ...

• There are some legal and institutional barriers
• The line of least resistance is to simply disclose
• The cost of a failure to disclose is high
• The incentives are not right …
Feedback statement

• Plan to publish a Feedback Statement on the survey and Discussion Forum in April 2013.
  – Summary of other work performed (by other bodies)
  – Survey results
  – Plenary presentation summaries
  – Panel discussion summary
  – Next steps
Possible next steps

• Amendments to IAS 1
  – Materiality
  – Presentation order
  – Accounting policies
  – Minimum disclosure requirements
  – Addressing investor and preparer ‘concerns’

• Materiality
  – Conceptual Framework
  – Application Guidance

Possible next steps

• Drafting of disclosure requirements ‘… an entity shall …’
• Broader review of disclosure requirements
  – Timing
  – Conceptual Framework
• Additional consultation and outreach
  – Additional ‘mini’ discussion forums
  – Special interest groups
    – Mid-cap entities
  – Other parties in the financial reporting supply chain
    – Regulators
    – Auditors
Questions
Session overview

- Past work
- Overview of Objective and Qualitative characteristics
- Elements
  - Definition
  - Recognition
  - Derecognition
  - Boundaries between liabilities and equity
- Measurement
Past work

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<th>Phase</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>B Elements (definition, recognition and derecognition)</td>
<td>Tentative agreement to definition of an asset Some discussions on other areas but no DP issued</td>
</tr>
<tr>
<td>C Measurement</td>
<td>Some discussions with Board but no DP issued Roundtables on measurement</td>
</tr>
<tr>
<td>D Reporting entity</td>
<td>DP – May 2008 ED – March 2010</td>
</tr>
<tr>
<td>E Boundaries of financial reporting including presentation and disclosure</td>
<td>No work done But some conceptual discussion in FSP project</td>
</tr>
<tr>
<td>F Purpose of conceptual framework</td>
<td>No work done</td>
</tr>
<tr>
<td>G Applicability to other entities</td>
<td>No work done</td>
</tr>
<tr>
<td>H Review of entire framework</td>
<td>No work done</td>
</tr>
</tbody>
</table>

Objective

To provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

- Primary users
- Common information needs of users
  - Types of decisions
- Scope changed to financial reporting
  - But project now focuses on financial statements
Objective (2)

- Users need information about:
  - the entity’s resources;
  - claims against the entity; and
  - how efficiently and effectively the entity’s management and governing board have discharged their responsibilities to use the entity’s resources (stewardship).

Qualitative characteristics

- What type of information is useful in meeting the objective of financial statements?

<table>
<thead>
<tr>
<th>Fundamental qualitative characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevance</td>
</tr>
<tr>
<td>• Capable of making a difference to the decisions of users</td>
</tr>
<tr>
<td>Faithful representation</td>
</tr>
<tr>
<td>• Complete</td>
</tr>
<tr>
<td>• Neutral</td>
</tr>
<tr>
<td>• Free from error</td>
</tr>
</tbody>
</table>

Cost constraint
Qualitative characteristics: enhancing

Enhancing qualitative characteristics

Comparability  Verifiability  Timeliness  Understandability

Current work (1)

- IASB-only project
  - Other standard-setters will be involved, through the Accounting Standards Advisory Forum
- The project will revise and update the existing framework
  - No longer a phased approach
- Will cover
  - Purpose and status of the Conceptual Framework
  - Elements of financial statements
  - Recognition and derecognition
  - Measurement
  - Presentation and disclosure (including use of OCI)
  - Reporting entity
Timetable

- Feb - Apr 2013: Board discussions
- Jul 2013: Issue DP 4-month comment period
- Aug 2014: Issue ED 4-month comment period
- Final by September 2015

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.
Existing definitions of assets and liabilities

<table>
<thead>
<tr>
<th><strong>Asset [of an entity]</strong></th>
<th><strong>Liability [of an entity]</strong></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>

Problems with existing definitions

- Risk of confusing:
  - the resource or obligation, with
  - the inflows or outflows of economic benefits that the resource or obligation may generate

- What does ‘expected’ mean?

- More guidance needed?
  - What is a resource?
  - What is an obligation?
Possible revised definitions

<table>
<thead>
<tr>
<th>Asset [of an entity]</th>
<th>Liability [of an entity]</th>
</tr>
</thead>
<tbody>
<tr>
<td>• An 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 = an item that is capable of producing economic benefits for the party that controls the item</td>
<td></td>
</tr>
</tbody>
</table>

Recognition

• When should an entity recognise an asset or liability?
• Existing recognition criteria:
  – Meets definition
  – Probable that future economic benefits will flow to/from the entity
  – Cost or value can be measured reliably (complete, neutral and free from error)
Problems with existing criteria

• Does reference to probability refer to:
  – Existence uncertainty (element uncertainty):
    – does the resource or obligation exist?
    – Example: litigation. The entity may not know whether it already has an obligation. The court decision may ultimately confirm whether the entity had an obligation.
  – Outcome uncertainty:
    – How likely is it that the resource (or obligation) will produce inflows of resources (or outflows of economic resources)?
    – Example: option. The holder has a resource, but does not know whether it will ultimately exercise the option.

Possible approaches to uncertainty

• Existence uncertainty:
  – Which threshold? (probable? virtually certain?)
  – Same threshold for assets and for liabilities
  – Same threshold for gains and for losses?

• Outcome uncertainty:
  – No specific probability threshold
  – But, in some cases, the IASB may conclude that recognition does not:
    – provide relevant information
    – pass a cost/benefit test
    [see next slide]
Liabilities

- Constructive Obligations (that result in a liability)
  - the entity must have a duty or responsibility to another party. It is not sufficient that an entity will be economically compelled to act in its own best interests or in the best interests of its shareholders;
  - the other party must be one who would benefit from the entity fulfilling its duty or responsibility, or suffer loss or harm if the entity fails to fulfil its duty or responsibility; and
  - as a result of the entity’s past actions, the other party can reasonably rely on the entity to discharge its duty or responsibility.

Liabilities

- Economic compulsion (that does not result in a liability)
  - an entity should report the substance of a contract;
  - a group or series of contracts that achieves, or is designed to achieve, an overall commercial effect should be viewed as a whole;
  - all terms – whether explicit or implicit – should be taken into consideration; and
  - terms that have no commercial substance should be disregarded.

One situation in which a right (including an option) has no commercial substance is the situation in which it is clear from the inception of the contract that the holder will not have the practical ability to exercise the right. If, after disregarding options with no commercial substance, an option holder has only one remaining option, that option is in substance a requirement.
Recognition: proposed approach

- A statement of financial position [balance sheet] is a summary listing of assets and liabilities.
- A more complete listing is likely to provide more useful information for assessing:
  - the amount, timing and uncertainty of future cash flows
  - how effectively and efficiently management is using the entity’s resources
- But there may be cases when an entity should not recognise some asset or liability:
  - If recognition does not provide relevant information
  - Cost/benefit

Derecognition

- Nothing in the existing Conceptual Framework
- Is derecognition the mirror image of recognition or does history matter?
- Mirror image
  - Derecognise an asset or liability if it is no longer an asset or liability of the entity
- History matters = stickiness
  - Keep recognising an asset or liability in some cases even if it is no longer an asset or liability of the entity
Entity A transfers an asset with a carrying amount of CU70 to Entity B for its fair value (CU100). At the same time, Entity A agrees to repurchase that asset for CU100 in 1 year. (For simplicity, ignore time value of money)

<table>
<thead>
<tr>
<th>Mirror image</th>
<th>History matters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash 100</td>
<td>Asset 70</td>
</tr>
<tr>
<td>Repo 0</td>
<td>Cash 100</td>
</tr>
<tr>
<td></td>
<td>Liability 100</td>
</tr>
<tr>
<td>Gain 30</td>
<td></td>
</tr>
</tbody>
</table>

However, if entity A had never owned the asset but entered into a forward purchase contract with entity B, it would simply recognise the forward contract.

**Proposals for derecognition**

Derecognition is the mirror image of recognition but if entity still exposed to rights or obligations associated with components of the asset or liability consider how best to portray the change in those rights and obligations.

- Reasons why mirror image is default
  - Consistent with recognition criteria
  - Same accounting treatment, irrespective of sequence

- Continued recognition
  - Standards-level issue
  - Consider both the financial position and the transaction
**Definition of equity**

- Existing definition: the residual interest in the assets of the entity after deducting all its liabilities
- Problem: to distinguish liabilities from equity instruments, standards (IAS 32) use complex criteria that:
  - conflict with the conceptual definitions
  - are difficult to understand and apply
- Possible approach:
  - Use conceptual definition of a liability:
    - to show obligation to transfer economic resources
  - Use expanded statement of changes in equity to:
    - to show wealth transfers between equity holders
Proposed principles of measurement

**Principle 1**
- Objective of measurement is to represent faithfully the most relevant information about:
  - Economic resources
  - Claims on the entity
  - How efficiently management have used resources

**Principle 2**
- Consider the effect of a measure on both statement of financial position and the statement of comprehensive income

**Principle 3**
- Consider cost / benefit

One measurement basis or many?

- A mixed measurement model allows us:
  - to pick the most relevant measure for what we are trying to represent
  - consider cost/benefit

A single measurement basis is unlikely to provide the most relevant information in all circumstances
Selecting a measurement method

- Relevant measurement method depends on how:
  - Value of an asset will be realised
  - Obligation will be fulfilled

### Realising an asset
- Using
- Selling
- Holding for collection
- Charging others for right to use

### Fulfilling an obligation
- Settling according to terms
- Performing services
- Settling by negotiation
- Transferring

Measurement bases

- Cost
- Fair value
- Other
  - Most likely cash flow
  - Present value
  - Expected cash flow or probability weighted cash flow
  - Expected present value
The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.
The basis for the proposals

- The yield on financial instruments reflects initial credit loss expectations
- When expected credit losses exceed those initially expected, an economic loss is suffered
- This was best reflected in the 2009 ED
- Proposals reflect this in a more cost-effective way by:
  - Recognising a portion of expected credit losses initially
  - Recognising lifetime expected credit losses when significant deterioration in credit risk occurs
What does it apply to?

- Debt instruments measured at amortised cost
- Debt instruments mandatorily measured at fair value through other comprehensive income (FVOCI)
- Trade receivables and lease receivables
- Other financial instruments subject to credit risk, such as:
  - some loan commitments
  - some financial guarantee contracts

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

Overview of general model

<table>
<thead>
<tr>
<th>Change in credit quality since initial recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected credit losses recognised</td>
</tr>
<tr>
<td>12-month expected credit losses</td>
</tr>
<tr>
<td>Lifetime expected credit losses</td>
</tr>
<tr>
<td>Lifetime expected credit losses</td>
</tr>
<tr>
<td>Interest revenue</td>
</tr>
<tr>
<td>Gross basis</td>
</tr>
<tr>
<td>Gross basis</td>
</tr>
<tr>
<td>Net basis</td>
</tr>
<tr>
<td>Stage 1</td>
</tr>
<tr>
<td>Stage 2</td>
</tr>
<tr>
<td>Stage 3</td>
</tr>
</tbody>
</table>
What are the three stages?

- **Stage 1**
  - No significant deterioration in credit quality; or
  - ‘Investment grade’

- **Stage 2**
  - Significant deterioration in credit quality; and
  - Not ‘investment grade’
  - Rebuttable presumption met if more than 30 days past due

- **Stage 3**
  - Credit-impaired or incurred loss has occurred

Expected credit losses are updated at each reporting date for new information irrespective of whether a financial instrument stays at the same ‘stage’

What are 12-month expected credit losses?

- Proxy for adjusting interest rate for initial expected credit losses
- Expected shortfall in **all** contractual cash flows given probability of default occurring in next 12 months
- **NOT**:
  - Expected cash shortfalls in next 12 months
  - Credit losses on assets expected to default in next 12 months

- Example:
  - Portfolio of 10m loans with similar credit quality
  - 2% probability of a default occurring in next 12 months
  - Entire loss that would arise on default is 10%

  12-month expected loss = 20,000 (2%×10%×10m)
Information used

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

Particular measurement methods are not prescribed; nor must PD be explicitly included as an input

- Information that can be considered includes:
  - Borrower specific
  - Macro-economic
  - Internal default rates and probabilities of default
  - External pricing
  - Credit ratings

Expected credit losses

Need to estimate credit losses reflecting:

- Probability weighted outcome
  - Must consider (at least) possibility that a default will occur and that a default will not occur

- Time value of money
  - Reasonable rate between (and including) risk-free rate and effective interest rate

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

Need to assess when significant deterioration has occurred:

• Change in probability of default occurring (not change in expected losses)
• Compared with initial recognition
• Maturity matters
• Operational simplifications:
  – Recognise 12-month expected credit losses if investment grade
  – Rebuttable presumption: significant deterioration when payments are more than 30 days past due
  – Don’t need to assess for trade and lease receivables

When to calculate net interest

• Interest is usually calculated on the gross carrying amount ie before the loss allowance
• Change to calculation on a net basis (ie on the amortised cost amount that is net of the loss allowance) when IAS 39 criteria for impairment are satisfied
• Consistent with population considered impaired under IAS 39 today (excluding IBNR)
Credit-impaired on initial recognition

- Applies to originated and purchased credit-impaired financial assets
- Always outside the general model
- Use credit-adjusted effective interest rate
  - No day 1 allowance balance
  - No day 1 impairment loss recognised
- Allowance balance always represents changes in lifetime credit loss expectations

Simplified approach for trade and lease receivables

*Do not constitute a financing transaction (eg short term):*

- Allowance is always lifetime expected losses
- Provision matrix can be used

*Do constitute a financing transaction (eg long term) and lease receivables:*

- Policy election:
  - general model or
  - always recognise lifetime expected losses
Loan commitments and financial guarantee contracts

Apply general deterioration model

- Instruments that create a present legal obligation to extend credit
- Longest period considered is contractual period exposed to credit risk
- Estimate usage behaviour
- Expected credit losses presented as liability on the balance sheet

Disclosures

- **Amounts arising from expected credit losses:**
  - reconciliation for gross carrying amount and loss allowance
  - inputs and assumptions used to measure 12-month and lifetime expected credit losses
  - write-offs; modifications; collateral

- **Effect of the deterioration and improvement in the credit risk of financial instruments:**
  - carrying amount by credit risk rating grades
  - inputs and assumptions used in determining whether a significant increase in credit risk has occurred
  - carrying amount of assets evaluated on individual basis
Transition

- On transition determine if instruments are at stages 1, 2 or 3 unless not possible to determine initial credit quality without undue cost or effort
  - If initial credit quality not used, always evaluate based whether or not ‘investment grade’
- Permit but not require restatement of comparatives
- Reconciliation of impairment allowances under IAS 39 and IFRS 9

Questions or comments?

- Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presenter. Official positions matters are determined only and deliberation.
Expected losses are a consequence of credit deterioration.

Focus on measurement of the current expected credit losses.

Convergence?

Status of Convergence

Quantification of Expected Losses

FASB

Expected losses are a consequence of credit deterioration

Focus on measurement of the current expected credit losses

IASB

Lifetime E.L.

12 Months or Lifetime E.L.

Lifetime E.L.

Practical Expedients

Apparently More Complex

Limited Practical Expedients

Apparent Simpler

Practical Expedients

FASB Model

IASB Model
Our Market

- Different stages of development
- Different levels of sophistication
- Heavy reliance on internal credit risk management is required

Consistent application may be difficult to achieve

Regulators
- Influence on accounting
  &
  Credit Risk Management Practice

General Issues

Entities Side Requirements
- Significant component of IFRS 9;
- Significant investment and operational effort to be planned;
- Impairment model still needs to be further field tested;
- Lead time needed to implement the new model.

Further Work to be Performed by the Board
- Objectives and principles of the model;
- Extend the Application Guidance;
- Basis for estimating expected losses;
- Consistency with credit risk management;
- Individual asset vs. portfolios of assets;
- Transfer criteria using lifetime PD vs. 12 months PD;
- Role of delinquency / Adjustment of historical data;
- Examples.

IFRS 9 is fully enforceable for periods beginning on after January 1st 2015
Proposed Impairment Model

Deterioration in the credit quality

**Issue**  **Principle**  **Analysis**  **Conclusion**

- Significant Credit Deterioration
- PD Deterioration
- Mapping of internal rating grades
- Consistency with BASEL II
- Role of delinquency
- Practical Expedients

**Transfer Criteria**
- Measurement of EL
- Lifetime E.L.

**Timeline**
- 12 Months E.L.

---

Proposed Impairment Model

Requirement to calculate lifetime probabilities of default (PD) and lifetime Expected Losses

**Issues**

- Lifetime PD/EL X Retail Portfolios
- Transactions Long Average Life

- Rating migration table;
- Use of roll rate models.

- Adjustment of historical data?
- Tail risk assumptions;
- Back testing.

**Practical Expedients**

- Delinquency as a proxy to determine the need for lifetime E.L.
  - Single Missed Payment Issue
  - 31 days past due
  - Other factors?
  - Rebuttable Presumption
  - Investment Grade as an indicator of low credit risk

---
The symmetry of the model

1. Significant tracking mechanisms;
2. Increase the pressure on:
   - Risk categorization;
   - Model review;
   - Model Calibration and update;
   - Outliers' analysis;
   - Classification of the significance of the event.

Additional Guidance

1. Complexity and costly implementation
2. Difficult to implement for large retail portfolios
3. Other Basle II concepts
4. Inconsistency with credit risk management practice
5. Interest income recognition

Other issues

Criteria | Issues | Suggested Solution
---|---|---
Discounting | Various discount rates will lead to diversity in practice; Discounting to charge off or to recovery; Discounting element included in the LGD. | Additional clarity?
Definition of Default | Difficult to have a reference point for assessing the need for lifetime expected losses if no definition is provided; Unclear whether Basle definitions would be accepted. | |
Exposure at Default | How to deal with revocable loan commitments vs. contractual maturity? Will behaviour be accepted in estimating expected losses? | |
### Other issues

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Issues</th>
<th>Suggested Solution</th>
</tr>
</thead>
</table>
| The impact of changes in this valuation of collateral on the calculation of loss given default (LGD) | - Large retail portfolios;  
- Value of collateral that needs to be tracked for LGD purposes. | - Additional clarity?  
- Practical expedient? |
| Probability-weighted outcome | - Scenarios are difficult to model for large retail portfolios;  
- Will a scenario of (PD vs. 1-PD) be accepted? | - Additional clarity?  
- Consider behavioral scoring and other risk measures when estimating EL. |
| Disclosures | - Onerous:  
- Significant operational effort;  
- Significant investment in processes and systems. | - Streamline the disclosure requirements;  
- Increase outreach to better understand which set of disclosures provides the best information at a reasonable cost. |
| Transition | - Credit quality at origination;  
- Link to investment grade. | - Consider practical expedients for retail portfolios. |

### Issues Specific to Emerging Markets

<table>
<thead>
<tr>
<th>Orignation</th>
<th>Sub Investment Grade</th>
<th>PD</th>
</tr>
</thead>
</table>
| Reflects almost the entirety of the retail portfolios;  
Reflects a significant part of the corporate and investment related lending;  
Link to investment grade is difficult to achieve. | Significant Deterioration Criteria |

<table>
<thead>
<tr>
<th>Restructuring</th>
<th>Symmetry</th>
</tr>
</thead>
</table>
| Traditionally higher than in mature markets;  
Significant regulatory overlay. | Symmetry |

| Regulatory Environment | Symmetry  
+ Transfer Criteria  
+ Regulatory Overlay | Inconsistency with Regulatory Guidance |

Confidential (30 April 2013)
### Impairment – IASB vs. FASB

<table>
<thead>
<tr>
<th>Issue</th>
<th>IASB</th>
<th>FASB</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective</strong></td>
<td>Measure expected credit losses based on credit deterioration.</td>
<td>Measure the lifetime expected credit losses of the portfolio at each reporting date.</td>
</tr>
<tr>
<td><strong>Recognition</strong></td>
<td>Day 1 allowance required based on the mixed quantification model.</td>
<td>Day 1 expected lifetime loss required.</td>
</tr>
<tr>
<td><strong>Unit of Analysis</strong></td>
<td>Portfolio or individual loans.</td>
<td>Generally consistent with the IASB model.</td>
</tr>
</tbody>
</table>

**Impairment – IASB vs. FASB**

<table>
<thead>
<tr>
<th>Issue</th>
<th>IASB</th>
<th>FASB</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tracking of credit deterioration as a mechanism to assess the need for lifetime EL</strong></td>
<td>Required for all loans where significant credit deterioration exists after inception.</td>
<td>Non-existent as all are required to be assessed for lifetime EL.</td>
</tr>
<tr>
<td><strong>Calculation of effective interest rate</strong></td>
<td>Based on the expected cash flows. Adjusted to the net carrying amount for purchased credit impaired assets.</td>
<td>Based on contractual cash flows. Reference is amortised cost plus allowance for purchased credit impaired assets.</td>
</tr>
<tr>
<td><strong>Role of delinquency (days past due) in assessing the need for lifetime EL</strong></td>
<td>Permitted.</td>
<td>Unclear.</td>
</tr>
<tr>
<td><strong>Non-accrual principle</strong></td>
<td>Not defined.</td>
<td>Required when principal or interest are no longer probable to be recovered.</td>
</tr>
</tbody>
</table>
Final Considerations

- Increase the role of delinquency in the context of the model and consider a rebuttable presumption consistent with credit risk management;
- Provide additional guidance on how to adjust historical data;
- Clarify the transfer criteria and symmetry mechanism for large retail portfolios;
- Review the articulation between individual vs. collective assessment;
- Consider further outreach and field testing;
- Review the role of the impairment model in the context of the mandatory effective date of IFRS 9.

Q & A
International Financial Reporting Standards

Financial Instruments: Hedge accounting

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

Components of the general hedge accounting model

- Objective
- Hedged items
- Hedging instruments
- Presentation and Disclosure
- Groups and net positions
- Discontinuation and rebalancing
- Effectiveness assessment
- Alternatives to hedge accounting
Hedged items

Qualifying hedged item

Entire item

Component

Risk component (separately identifiable and reliably measurable)

Nominal component or selected contractual CFs

Hedge Accounting | 2013

Hedged items: risk components

IAS 39

Fixed element

Variable element

Benchmark (eg interest rate or commodity price)

Benchmark (eg interest rate or commodity price)

New model

Fixed element

Variable element

Benchmark (eg interest rate or commodity price)

Benchmark (eg interest rate or commodity price)

Hedge Accounting | 2013
Hedged items: aggregated exposures

Aggregated exposure—combination of: (a) another exposure and (b) a derivative

First level relationship

Hedging instrument

Second level relationship

Hedged item

Example 1: hedging commodity price & FX risk

Commodity supplier

Commodity futures contract

FX forward contract

US$

US$

US$

Aggregated exposure

Not an eligible hedged item under IAS 39
Hedged items: aggregated exposures

Example 2: hedging FX & interest rate risk

- Debt holder
  - US$
- Cross-currency Interest rate swap
  - US$
  - €
- Interest rate swap
  - €

Issuer

Aggregated exposure
Not an eligible hedged item under IAS 39

Hedged items: groups of items

Groups

- Gross positions
- Net positions

Requirements for income statement presentation

- Fair value hedge: all risks
- Cash flow hedge: only FX risk
Hedging instruments

- Qualifying hedging instruments
  - Entire item
  - Partial designation
    - FX risk component
      - Intrinsic value
      - Spot element
    - Proportion of nominal amount

Costs of hedging

- Costs of hedging
  - Time value of options
    - Transaction related hedged item
  - Forward element of forward contract
    - Time period related hedged item
Option: time value

Accounting if the hedged item is **transaction related**

- Cumulative gain in OCI
- Cumulative loss in OCI

Release from accumulated OCI to P/L or as a basis adjustment

**Treatment as a cost of hedging reflects economics**

Option: time value

Accounting if the hedged item is **time period related**

- Cumulative amortisation of initial time value
- Cumulative gain in OCI
- Cumulative loss in OCI

Time value is amortised to P/L over life

**Treatment as a cost of hedging reflects economics**
Hedge effectiveness

Hedge effectiveness test:
1. Economic relationship
2. Effect of credit risk
3. Hedge ratio

Measuring and recognising hedge ineffectiveness

Rebalancing

Discontinuation

Disclosures

Hedge accounting disclosures

Risk management strategy
Amount, timing and uncertainty of future cash flows
Effects of hedge accounting on the primary financial statements
Specific disclosures for dynamic strategies and credit risk hedging
Alternatives to hedge accounting

**Alternatives**

- **‘Own use’ scope exception in IAS 39**
  - Eligible for FVO in IFRS 9

- **Credit derivatives**
  - Elective FVTPL
    - At initial recognition or subsequently
    - At discontinuation: amortisation

**Points from Review Draft**

- Part of extended ‘fatal flaw’ process

- Considered substantive issues raised
  - Interaction with accounting for macro hedges
    - treatment of proxy hedges
    - status of IGs
    - scope interaction with accounting for macro hedges in 39
  - Hypothetical derivatives
    - Extension of transaction cost concept
    - Modification to transition for ‘own use’ contracts
Open topics and timeline

- Review draft
- Posted Sept 2012

- Complete discussion of points raised April 2013
- Request permission to ballot April 2013

- Issue as final (= part of IFRS 9)
- Timing: mid 2013

Accounting for macro hedges

- Project separate to IFRS 9

- Developing a model based on a revaluation concept
  - Scope is not restricted to financial instruments/banking

- Next step for this project
  - Publication of a discussion paper
  - Planned for 2013
Questions or comments?

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.
Agenda

- Bank Profile .......................................................... Slide 03
- Evolution of IFRS 9 (Financial Instruments) ...................... Slide 06
- Recent Decisions .................................................... Slide 18
- Final Considerations .................................................. Slide 24
Itaú Unibanco at a Glance

**Leading position in Brazil through key competitive strengths**

- US$ 80,425 billion market cap (1)
- 96,977 employees in Brazil and abroad
- 5,027 branches and CSBs in Brazil and abroad
- 27,960 ATMs in Brazil and abroad
- Brazilian multinational bank
- Major provider of finance for the expansion of Brazilian companies
- Among the best talent pool in the Brazilian financial system

**Global Footprint of Brazil’s Top Private Sector Bank** | as of December 31, 2012

<table>
<thead>
<tr>
<th>Brazil</th>
<th>Abroad</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,731</td>
<td>256</td>
</tr>
</tbody>
</table>

**Financial Highlights and Ratios**

**as of December 31, 2012**

**Highlights**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>R$ 1,014.4</td>
</tr>
<tr>
<td>Total Loans</td>
<td>428.6</td>
</tr>
<tr>
<td>Stockholders’ Equity</td>
<td>74.220</td>
</tr>
<tr>
<td>Recurring Net Income 2012</td>
<td>14,043</td>
</tr>
<tr>
<td>Recurring Net Income 4Q12</td>
<td>3,502</td>
</tr>
</tbody>
</table>

**Financial Ratios**

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring ROE 2012</td>
<td>19.4%</td>
</tr>
<tr>
<td>Recurring ROE 4Q12</td>
<td>19.3%</td>
</tr>
<tr>
<td>Efficiency Ratio 2012</td>
<td>45.4%</td>
</tr>
<tr>
<td>Efficiency Ratio 4Q12</td>
<td>46.6%</td>
</tr>
<tr>
<td>BIS Ratio</td>
<td>16.7%</td>
</tr>
</tbody>
</table>

---

Note: (1) As of March 28th 2013. Source: Bloomberg.
Our GAAPs across the world

Local GAAP
IFRS
Local GAAP & IFRS

Note: Itaú Unibanco Holding consolidated financial statements are filed with the US SEC under IFRS.

Evolution of IFRS 9 (Financial Instruments)
Objectives of IFRS 9

1. To establish principles for reporting financial instruments…

2. …in order to present relevant and useful information to users of financial statements…

3. …for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows.

IFRS 9 - History

- IFRS 9 2009
- 2009 – ED Derecognition
- Discontinued
- 1st Impairment Exposure Draft 2009
- IFRS 9 2010
- Classification and Measurement of Financial Assets
- Classification and Measurement of Financial Assets, Financial Liabilities and Derecognition
- December 2010 – ED General Hedge Accounting
- 2011 SD Impairment Supplementary Document
- IFRS 9 2012 – ED
- Staff Draft 2012 General Hedge Accounting
- March 2013 Impairment ED
- Classification and Measurement of Financial Assets
- Limited Amendments
**Evolution of Current Standards**

- Partial adoption of IAS 39 by Brazilian Central Bank;
- Important points yet to be converged;
  - Fair value option for loans and liabilities;
  - Impairment losses;
  - Offsetting when certain conditions are met;
- Full convergence with IFRS still to be defined;
- IFRS 9 will be a major convergence project for the Brazilian Central Bank.

**Moment of Transition for Brazilian Financial Institutions**

**IFRS 9 - Next Steps**

- IFRS Financial Instruments (replacement of IAS 39)
- Classification and Measurement (limited amendments)
- Impairment
- Hedge Accounting
- Redeliberations
- Target IFRS
- Effective Date

**Effective Date**
- January 1st 2015

**Evolution of Current Standards**
Where do we stand?

- **Classification and Measurement**
  - Financial Assets: Reopened (ED Classification and Measurement, Comment Period Ended 28 March 2013)
  - Financial Liabilities: IFRS

- **Derecognition of financial assets and liabilities**: IFRS

- **Impairment**: ED Published in March 2013

**Hedge Accounting**

- General Hedge Accounting: Target IFRS June 2013
- Macro Hedge Accounting: Target DP June 2013

Hedge Accounting

- General hedge accounting and macro hedge accounting “were decoupled” due to the complexity of the macro hedging project;
- Convergence of the General Hedge Accounting model with the FASB model;
- Convergence for Macro Hedge Accounting?
Benefits

- Alignment with Risk Management;
- Flexibility in the use of non-derivate hedging instruments;
- Flexibility in the designation of non-financial items as hedged items;
- Designation of net positions as hedged items (a normal practice in the banking industry);
- Objective-based effectiveness test;
- Accounting for costs of hedging;
- Rebalancing provisions;
- Hedges of credit risk using credit derivatives.

Challenges

- Reinforcement in the integration between Finance and Risk Management teams;
- Improvement in internal controls to align risk management procedures to financial statements necessities;
- Implementing net positions in a macro hedging context (close portfolios vs. open portfolios) – Proxy hedge accounting;
- Enhanced disclosures will pose some operational challenges due to the integration between accounting and risk management.
### General Hedge Accounting (1/3)

#### Risk Management Approach
- Objective linked to risk management, allows internal information to be used to demonstrate compliance with hedge accounting.

#### Hedged Items
- Combination of derivatives and non-derivatives (aggregated exposures) will reduce proxy hedge accounting and increases the number of relationships reported under the new model;
- Net Positions – key issue to financial institutions to report the nature of their hedges under hedge accounting has been partially resolved (macro hedge accounting model still to be defined).

#### Hedging Instruments
- Wider set of hedging instruments available for designation. Focus on the design of the hedging relationship instead of a bias towards derivative financial instruments;
- Costs of hedging treated on the basis of the nature of the hedged item which will increase transparency in financial reporting.
- Eligibility criteria restricted to some types of non-derivative financial instruments;
- Costs of hedging is a complex process to implement particularly due to the need for calculating “aligned costs of hedging”.

### General Hedge Accounting (2/3)

#### Effectiveness Test
- Elimination of the 80-125% threshold;
- Objective-based effectiveness test linked to the way the hedging relationship is designed and controlled from a risk management perspective. Qualitative assessment is permitted.

#### Discontinuation
- Mandatory discontinuation linked to changes in the risk management objective i.e. clear link to the way the hedging relationship is designed and controlled from a risk management perspective;
- Rebalancing as a concept to adjust hedging relationships without discontinuation.

#### Hedges of equity instruments designated as at fair value through OCI
- Increased transparency for legitimate hedging activities.

### Challenges
- Communication between risk and accounting functions.
- Tracking of items within a “closed” net position;
- Processes, systems and controls to be developed;
- Limitations to net positions made of forecasted transactions (only allowed for FX risk).
- Eligibility criteria restricted to some types of non-derivative financial instruments;
- Costs of hedging is a complex process to implement particularly due to the need for calculating “aligned costs of hedging”.

**Itaú Unibanco S.A.**
General Hedge Accounting (3/3)

**Benefits**
- Improvement in financial reporting for hedges of credit risk using credit derivatives;
- Better alignment with credit risk management;
- Elimination of the accounting credit risk mismatch.

**Challenges**
- Increased modeling effort to determine the fair value of the hedged item subject to elective fair value accounting;
- Dynamic nature of this type of hedge.

**Hedges of credit risk using credit derivatives**

**Disclosure**
- Enhanced disclosures by risk will provide a better understanding of the risk management strategy/objectives, the extent of hedging activities and their impact on the financial statements.

**Recent Decisions**
- Significant operational effort to prepare the required disclosures;
- Significant investment in process, controls and systems.
Macro Cash Flow Hedge

IAS 39

Proxy hedge accounting to reflect macro hedging activities.

Part of the Implementation Guidance – Application of the General Hedge accounting Model in IAS 39

IFRS 9

Proxy hedge accounting vs qualifying criteria for groups of items and net positions.

Net position cash flow hedges limited to FX risk. No grandfathering.

Possible Carve-Out?

Macro Cash Flow Hedge – Major issues from IFRS 9

Open Portfolios Treatment

Measurement of hedge ineffectiveness

Existing Items vs. Forecasted Transactions

Discontinuation of hedging relationships

Bottom Layer Approach

Stratification of portfolios

Macro Cash Flow Hedge

CONFIDENTIAL

April 15, 2013

Itaú Unibanco S.A.
Accounting for costs of hedging

- Time value of options
- Costs of Hedging
  - Included as part of forward points
  - FX basis spreads
  - Forward points

FX Basis Spreads

<table>
<thead>
<tr>
<th>Issue</th>
<th>Principle</th>
<th>Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Should the FX basis spread be accounted for as a cost of hedging?</td>
<td>Information usefulness?</td>
<td>Expand the notion of costs of hedging to include FX basis spread</td>
</tr>
<tr>
<td>Source of ineffectiveness?</td>
<td>FX Basis Spread</td>
<td></td>
</tr>
<tr>
<td>Accounting Arbitrage?</td>
<td>Cost of hedging?</td>
<td></td>
</tr>
</tbody>
</table>
Matching of changes in value attributable to the hedged risk

Final Considerations

- IFRS 9 framework will improve quality and transparency of the standards;
- It will better reflect performance of business units;
- Alignment to risk management internal models:
  - Trading and Banking book;
  - Economic Hedge x Hedge Accounting;
  - Basel II x Loan Loss Allowance;
- Implementation costs to adapt systems and processes;
- While Brazilian regulatory bodies do not totally converge to IFRS, companies will continue to incur in high costs of compliance;
- It will bring impacts not only in financial statements but also in capital management.
Q & A
The IFRS for SMEs

Good Financial Reporting Made Simple

- 230 pages
- Simplified IFRSs, but built on an IFRS foundation
- Completely stand-alone
- Designed specifically for SMEs
- Internationally recognised
- Final standard issued 9 July 2009
Tailored for the needs of SMEs

Users of SME financial statements:
- Lenders, vendors, credit rating agencies, customers, family investors
- Short-term cash flows, liquidity, solvency

Users of listed company financial statements:
- Invest in equity shares or long-term debt
- Much longer time horizon
- Forecast earnings, share prices, value of the entity as a whole

Who is eligible to use it?

Any entity that does not have public accountability...
- securities not publicly traded
- not a financial institution

... and is required or chooses to produce General Purpose Financial Statements (GPFS)
- GPFS present fairly financial position, results of operations, and cash flows
Who is the Standard aimed at?

Millions of companies (over 99%)!

- The 52 largest stock exchanges in the world together have about 45,000 listed companies
- Europe has roughly 28 million private sector enterprises (SMEs)
- USA has about 25 million
- UK: 4.7 million (99.6% under 100 employees)
- Brazil: 6 million

The public interest

Which entities must produce GPFS is a public interest issue

- Decided by parliaments and regulators, not by IASB
- Why? There is a public benefit in good financial information about companies
The public interest continued

In most countries all or many SMEs are required by law to prepare GPFS

- Europe: 8 million companies have a ‘statutory audit’ obligation
- Hong Kong – Every company including micros (900,000): GPFS + Audit
- Brazil – 6,000,000 SMEs required
- Etc etc for nearly all countries, but…

The public interest continued

But… in US, Australia, and a few others, only publicly traded companies and a limited number of others must prepare GPFS

- Each jurisdiction must decide for itself what is in the public interest
Support for IFRS for SMEs

World Bank press release July 2009:
“The IFRS for SMEs provides a valuable financial reporting reference framework for smaller entities that is more responsive to the size and ownership of their operations, and should help improve their access to finance. In countries that have already adopted IFRS as the national accounting standard, the simplifications introduced by the SME standard will provide much needed relief.”

Support for IFRS for SMEs continued

IFAC press release July 2009:
“This global accounting standard represents a very significant step on the path to global convergence of financial reporting practices by SMEs. It will contribute to enhancing the quality and comparability of SME financial statements around the world and assist SMEs in gaining access to finance. The beneficiaries will be not only SMEs, but also their customers, clients, and all other users of SME financial statements.”
How did we simplify?

- Some topics in IFRSs omitted if irrelevant to private entities
- Where IFRSs have options, include only simpler option
- Recognition and measurement simplifications
- Reduced disclosures
- Simplified drafting

Examples of Omitted Topics

- Segment reporting
- Interim reporting
- Earnings per share
- Insurance
- Assets held for sale
Examples of Omitted Options

- Financial instruments options including:
  - Available for sale option
  - Held to maturity option
  - Fair value option
  - Embedded derivatives
- Revaluation of PP&E and intangibles
- Free choice on investment property
- Various options for government grants

Recognition & Measurement

- Financial instruments:
  - Two classifications, not four
  - Drop “continuing involvement approach” for derecognition
  - Much simplified hedge accounting
- Goodwill amortisation
- Goodwill impairment – indicator approach
- Expense all R&D
- Cost method for associates and JVs
Recognition & Measurement continued

- Much less fair value for agriculture
- Expense all borrowing costs
- Defined benefit plans:
  - No corridor or deferrals
  - Simplified calculation of obligation
- First-time adoption: Less prior data
- Share-based payment – can use directors’ judgement in estimating value

Disclosure simplifications

Big reduction in disclosures:

- Full IFRSs – more than 3,000 items in the disclosure checklist
- IFRS for SMEs – roughly 300 disclosures
Financial statement presentation

- **Fair presentation:** Presumed to result if IFRS for SMEs is followed (maybe need for supplemental disclosures)
- **Full compliance:** State compliance with IFRS for SMEs only if the financial statements comply in full
- **Comparatives:** At least one year comparative financial statements and note data

Financial statement presentation continued

**Complete set of financial statements:**

- Statement of financial position
- Either single statement of comprehensive income, or two statements: Income statement and statement of comprehensive income
- Statement of changes in equity
- Statement of cash flows
- Notes
Can omit statement of comprehensive income and just do a basic income statement if SME has no items of OCI

- There are only 3 items of OCI in IFRS for SMEs and few SMEs will have any

Can omit statement of changes in equity and just do a combined statement of income statement and retained earnings if there are no owner investments or withdrawals other than dividends
Is it stand-alone?

**Completely stand-alone**
- The only ‘fallback’ option to full IFRSs is the option to use IAS 39 instead of the financial instruments sections of IFRS for SMEs

Why would an SME adopt It?

**Improved access to capital**
- This is the #1 issue for SMEs

**Improved comparability**

**Improved quality of reporting** as compared to existing national GAAP
- World Bank ROSC reports on 100 countries

**Reduced burden** where full IFRSs or full national GAAP are now required for SMEs
Why would an SME adopt It? continued

Other benefits:
• Lots of implementation help from the IASB
• Examples later
• Stability: Update only once every three years (if needed)
• Textbooks available
• Software available
• Commercial training programmes

What would the audit report say?

Something like:
“Fairly presents financial position, results of operations, and cash flows in conformity with the International Financial Reporting Standards for Small and Medium-sized Entities”
Jurisdiction plans for adoption

Today (April 2013), to the best of our knowledge:

- Over 80 jurisdictions have either adopted the IFRS for SMEs or stated a plan to adopt it within the next three years

Adoption: some examples

- **South America:** Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Venezuela
- **Caribbean:** Antigua & Barbuda, Aruba, Bahamas, Barbados, Bermuda, Cayman, Dominica, Dominican Republic, Guadeloupe, Jamaica, Montserrat, St Kitts-Nevis, St Lucia, Trinidad
- **Central America:** Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama
Adoption: some examples continued

- **Africa:** Botswana, Egypt, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Nigeria, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
- **Asia/Oceania:** Bangladesh, Cambodia, Fiji, Hong Kong, Malaysia, Myanmar, Nepal, Philippines, Samoa, Singapore, Sri Lanka, Tonga
- **Middle East:** Jordan, Lebanon, Palestine, Qatar

- **Eurasia:** Azerbaijan, Kyrgyzstan, Moldova, Turkey
- **Europe:** Bosnia, Estonia, Macedonia. Available for use in Switzerland. Planned: United Kingdom, Ireland, Denmark, Latvia. Others studying. Note that European Commission is currently consulting on the IFRS for SMEs
- **North America:** Available for use in United States, Canada
Implementation support

Translations

• **Completed:** Albanian, Arabic, Armenian, Bosnian, Simplified Chinese, Croatian, Czech, Estonian, French, German, Hebrew, Italian, Japanese, Kazakh, Khmer, Lithuanian, Macedonian, Mongolian, Polish, Portuguese, Romanian, Russian, Serbian, Spanish, Turkish, Ukrainian

• **Proposed or in discussion:** Georgian, Turkmen

Implementation support continued

Free training workshops (regional, 3 days)

• **To date:** In Malaysia, India, Tanzania, Egypt, Gambia, Belarus, Brazil, Panama, Nordic countries, Caribbean, Singapore, Kazakhstan, Turkey, Argentina, Myanmar, United Arab Emirates, Barbados, Bosnia, Kenya, Chile, Cameroon, Bangladesh, Ukraine, Mongolia

• **Upcoming in 2013:** Zambia, Japan
Implementation support continued

Free training workshops (continued)
• 1,100 slides in 20 PowerPoint presentations
• Free to download
• Arabic, French, Portuguese, Russian, Spanish, Turkish
• We encourage others to use our PowerPoints in training programmes they organise

SME Implementation Group (SMEIG)

Two responsibilities
• Develop non-mandatory guidance on IFRS for SMEs in the form of Q&As
• Make recommendations to the IASB on the need to amend the IFRS for SMEs
7 Q&As so far - topics

- Use of IFRS for SMEs in parent’s separate AFS
- Meaning of ‘traded in a public market’
- Entities that typically have public accountability
- Fallback to IFRS 9
- Application of ‘undue cost or effort’
- Fallback to full IFRSs
- Recycling of foreign exchange differences

Q&As are available in English and Spanish

Comprehensive review

Initial comprehensive review: After 2 years implementation experience
- Fix errors and omissions, lack of clarity, and other implementation problems
- Also consider need for improvements based on recent IFRSs and amendments

Thereafter: Once every three years (approximately) omnibus exposure draft of updates
Comprehensive review continued

- Request for Information issued June 2012
- Comments were due 30 November 2012
- Includes questions about individual technical issues plus general questions
- Responses will help IASB decide whether there is a need for any amendments and which ones
- Exposure Draft planned 2H 2013
- Revisions (if any) early 2014, effective 2015

The IASB received 89 comment letters on the Request for Information. Posted on IASB website

- Africa (10)
- Asia (13)
- Europe (38)
- Global (11)
- Latin America (8)
- North America (5)
- Oceania (4)
Comprehensive review continued

The Request for Information included

• 19 questions on specific accounting issues
• 5 general questions
• Plus respondents can add their own issues

Examples of general questions

• Is there further need for Q&As
• Whether to incorporate existing Q&As into the IFRS for SMEs

Examples of specific questions

• Use by small publicly traded entities
• Use by small financial institutions
• Use by not-for-profit entities
• Fair value measurement guidance
• Revaluation of PP&E
• Capitalisation of borrowing costs
• Recognition of deferred income taxes
Other issues raised by respondents

- Difficulties applying specific requirements
  - eg undue cost or effort exemption, definition of public accountability etc
- Possible unintended consequences of requirements
  - eg criteria for basic financial instruments, allocation of business combination, common control exemptions for equity transactions etc

Other suggestions made by respondents

- Suggested changes to accounting
  - eg removal of other comprehensive income, cost model for investment property etc
- General issues
  - eg reduced disclosure framework for subsidiaries, size dependent reliefs etc
Comprehensive review  

**February 2013 SMEIG meeting**

- Discussed comments received on the Request for Information
- Developed recommendations for the IASB on possible amendments to the IFRS for SMEs
- Agenda papers (containing comment letter analysis) and report of the meeting are available on the IASB website

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**IASB discussions**

- IASB began discussions at its March 2013 meeting
- Expected to continue for several meetings April 2013 onwards
Free self-study training materials

Training material free for you to use
• Developed by IFRS Foundation staff
• Multi-level peer review but not IASB approved
• 35 standalone modules (1 for each section of the IFRS for SMEs)
• English, Spanish, several other languages
• Training material = +2,000 A4 pages
• Free to download (PDF)
• Self study

Each module includes
• Explanation of the requirements
  • Full text of the requirements
  • ‘How to’ numerical examples
  • Other explanations
• Discussion of important judgements
• Comparison with full IFRSs
• Test your knowledge – multiple choice quiz
• Apply your knowledge – case studies
Executive briefing booklet

Written for lenders, creditors, owner-managers and others who use SME financial statements
- 8 pages
- What is the IFRS for SMEs? Who is it aimed at? Who uses it? Differences with full IFRSs
- Revised 2012
- Free download

Guidance booklet on micro SMEs

IASB staff are developing guidance to help micro-sized SMEs apply IFRS for SMEs
- Tiny companies
- Not a new standard
- Extract relevant principles from IFRS for SMEs
- Guidance booklet will contain cross-references to IFRS for SMEs for matters omitted in micro booklet
In Conclusion

The IFRS for SMEs will result in:
• Better quality reporting
• Tailored for the capabilities of small companies
• Tailored for the needs of lenders and creditors
• Understandability across borders

If capital providers understand and have confidence in the financial figures, an SME’s ability to obtain the capital it needs improves. Ultimately, the economy in which it operates improves.

Thank you
Free monthly SME Update newsletter

Monthly IFRS for SMEs Update newsletter

- Free subscription delivered by email (15,000 subscribers)
- Topics typically covered:
  - New adoptions and translations
  - SMEIG activity
  - All draft and final Q&As
  - Training materials
  - Train the trainers workshops
  - Staff commentaries
  - Links to resources

IFRS for SMEs section of IASB website

go.ifrs.org/SMEsHome – Sections:
- Download standard and translations
- Comprehensive review
- SME Implementation Group
- Q&As
- Training material
- Training workshops and PPTs
- Update newsletter
- Presentations, webcasts, resources
- Project history
Free downloads from IASB

IFRS for SMEs (full standard, translations)
http://go.ifrs.org/IFRSforSMEs

Training materials (35 modules)
http://go.ifrs.org/smetraining

PowerPoint training modules (20 PPTs)
http://go.ifrs.org/trainingppts

Board and staff presentations
http://go.ifrs.org/presentations

Update newsletter
http://go.ifrs.org/smeupdate

Executive briefing booklet
http://go.ifrs.org/SMEguide

Other useful links on IASB website

SME Implementation Group
http://go.ifrs.org/smeig

Q&As
http://go.ifrs.org/QA-SMEs

Comprehensive review
http://go.ifrs.org/smereview

Request for Information and comment letters
http://go.ifrs.org/IFRS-for-SMEs

SMEIG meeting agenda papers and report
http://go.ifrs.org/smeig-papers