World Standard-setters Conference

A two-day conference for World Standard-setters

Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London
Monday 20 September 2010

**Optional pre-conference closed education sessions**

1. Emissions trading schemes (Allison McManus, IASB staff)  **CLEMENTS THAVIES LINCOLN**
2. Extractive activities (Michael Stewart, IASB staff)  **LITTLETON BRYCE & TEMPLE**
3. XBRL IFRS taxonomy (Olivier Servais, IFRS Foundation staff)  **STAPLE & GRAYS**

**Programme day-1:**

Conference chair—Tatsumi Yamada, IASB member

09:30  **Registration**
Tea/Coffee

10:30  **Welcome**
Sir David Tweedie, IASB Chairman

10:45  **IFRS implementation issues**

Presenters:
Alexsandro Broedel Lopes, Commissioner, SEC (Brazil)
Chungwoo Suh, Chairman, KASB
Ali Alp, Member, TASB
Wayne Upton, IASB staff

12:00  **Lunch in foyer**

**BALLROOM  Leases**

13:00  IASB project update
Barbara Davidson and Rachel Knubley, IASB staff

13:30  Break-out discussions (90 minutes)

Chairs:
Group 1: Felipe Perez-Cervantes (Mexico)  **BALLROOM**
Group 2: Alex Watson (South Africa),  **LITTLETON BRYCE & TEMPLE, GROUND FLOOR**
Group 3: Andrew Lee (Singapore),  **MANSFIELD SUITE, GROUND FLOOR**
Group 4: Liesel Knorr (Germany),  **STAPLE AND GRAYS, LOWER GROUND FLOOR**
Group 5: Isabelle Grauer-Gaynor (France),  **CLEMENTS THAVIES LINCOLN**

15:00  Tea/Coffee

15:30  Group feedback (five groups x max 10 minutes each)

16:30  **Keynote speaker**
Tomoyuki Furusawa,  
Director, Corporate Accounting and Disclosure, Planning and Coordination Bureau, FSA (Japan)

17:15  Close Day 1 and Group photo

18:30  **Reception and Dinner, Ballroom**
Tuesday 21 September 2010

Programme day-2

Conference chair—Tatsumi Yamada, IASB member

09:00 IASB planning and priorities (post 2011 agenda)
Sir David Tweedie, IASB Chairman
Alan Teixeira, Director of Technical Activities, IASB
Peter Clark, Director of Research, IASB

10:00 Engaging with the IASB
Stephen Cooper, IASB member

10:45 Advisory Council update
Paul Cherry, Chairman, Advisory Council

11:00 Tea/Coffee

11:30 Option 1—IFRS for SMEs
Adoption and implementation update
BALLROOM
Chair: Jan Engström (IASB member)

Presenters include:
- Paul Pacter, IASB member and Chairman of the SME Implementation Group
- Michael Wells, IFRS Foundation staff
- A selection of country representatives: Omodele Jones, Alex Watson and Ian Mackintosh

Topics
1. Adoption update - Paul Pacter
2. Training material and regional workshops - Michael Wells
3. SME Implementation Group - Paul Pacter
4. Country perspectives—main adoption and implementation issues - All participants

Option 2—selected projects

Insurance contracts - MANSFIELD
Warren McGregor (IASB member) and Peter Clark (IASB staff)

Financial statement presentation - STAPLE & GRAYS
Philippe Danjou (IASB member) and Denise Gomez (IASB staff)

Revenue recognition - LITTLETON BRYCE & TEMPLE
Prabha Kar Kalavacherla (PK), IASB member, Henry Rees and April Pitman (IASB staff)

Financial instruments: replacing IAS 39 - CLEMENTS THAVIES LINCOLN
Patrick Finnegan (IASB member) and Sue Lloyd (IASB staff)

12:45 Lunch in foyer

13:45 Option 1—IFRSs Technical update and Q&A
BALLROOM
IASB Update
IASB members and staff:
- present progress on the active projects
- answer questions from the floor.

Chair: Amaro Gomes, IASB member

Presenters:
Wei-Guo Zhang, IASB member
Elke König, IASB member
Wayne Upton, IASB staff

Option 2—selected projects

Fair value measurement - MANSFIELD
Pat McConnell (IASB member) and Hilary Eastman (IASB staff)

Financial statement presentation - STAPLE & GRAYS
Philippe Danjou (IASB member) and Denise Gomez (IASB staff)

Revenue recognition - LITTLETON BRYCE & TEMPLE
Prabha Kar Kalavacherla (PK), IASB member, Henry Rees and April Pitman (IASB staff)

Financial instruments: replacing IAS 39 - CLEMENTS THAVIES LINCOLN
Patrick Finnegan (IASB member) and Sue Lloyd (IASB staff)
15:00  Implementation activities update  
   Michael Stewart, Director of Implementation Activities

15:30  Effective dates and transitional provisions  
   Alan Teixeira, Director of Technical Activities, IASB

16:00  Concluding comments  
   Tatsumi Yamada, IASB member

16:15  End of conference
Welcome

SIR DAVID TWEDDIE
Chairman
IASB
World Standard-setters Conference
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Renaissance Chancery Court Hotel, London

NOTES
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IFRS implementation issues

WAYNE UPTON
Staff
IASB

ALEXSANDRO BROEDEL LOPES
Commissioner
SEC (BRAZIL)

CHUNGWOO SUH
Chairman
KASB

ALI ALP
Member
TASB
IFRS Implementation Issues
Alexandro Broedel
Commissioner
Securities and Exchange Commission of Brazil

Background
• Comments reflect discussions between Securities and Exchange Commission of Brazil (CVM) and the Brazilian Accounting Standards Board (CPC) – bodies which are responsible for accounting standard setting in Brazil

Environment
• Brazilian public and private firms have to adopt full IFRS in 2010
  – 22 companies already done
• Both consolidated and individual financial statements – except financial institutions
• Separation between tax and accounting reports
• Very pro-IFRS attitude in the country

Issues
1. First time adoption
   We reinforce our suggestion previously made that the Board allows that, when the local accounting standards and practice already has an equivalent requirement to an existing IFRS, in the first time adoption at the transition date the local practice may be accepted.

Issues
2.IFRIC 12 – Service Concession Arrangements
   We reinforce our suggestion previously made that the Board allows that deemed cost be allowed IN THE FIRST TIME ADOPTION ONLY for intangibles stemming from service concession arrangements, and preferably in a separate amendment project rather than in the annual amendments publication that, in the case of Brazil, may come to light after the mandatory convergence date of December 31, 2010 is complied with. We kindly ask the participants in the 2nd IASB x CPC Brazil meeting on September 22, 2010 to convey this request to the Board.

Issues
3. Deferred Income Tax Liabilities Arising From Taxable Temporary Differences
   We reinforce our suggestion previously made that the Board reconsiders the requirement to defer income tax liabilities that will most likely never become due or payable, either because they happen to be recognized in the incorrect accounting periods they actually belong to or because the economic event that will turn them due or payable shall likely never happen.
4. Regulatory Assets Arising from Alternative Revenue Programs

We understand that the Board should analyze whether the legal right supported by the law, in this case, may result in the recognition of regulatory assets. We suggest that the Board analyze the possibility of including at least one additional example to the standard to explain whether or not this situation would result in the recognition of regulatory assets.

5. Equity Method in Individual Financial Statements

We request the Board to allow our understanding that individual financial statements in Brazil are not separated financial statements and consequently it is possible to account for investments according to the equity method.

Thanks

www.cvm.gov.br
www.cpc.org.br
Chungwoo Suh
Chairman, Korea Accounting Standards Board (KASB)

IFRS Implementation Issues: 
*Korean experience*

2010. 9. 20.

Contents

I. Overview of IFRS Adoption in Korea
II. Implementation Issue 1: Technical Enquiry
III. Implementation Issue 2: Translation
IV. Suggestions

I. Overview of IFRS Adoption in Korea

- 2-tier financial reporting system from IFRS full adoption

<table>
<thead>
<tr>
<th>Scope</th>
<th>2011~</th>
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</thead>
<tbody>
<tr>
<td>Public company</td>
<td>IFRSs</td>
</tr>
<tr>
<td>Non-public company</td>
<td>Korean GAAP</td>
</tr>
</tbody>
</table>

* Any companies (excluding financial institutions) were permitted to apply the IFRS from 2009

Facing many challenges for successful IFRS adoption
- Overhaul of relevant laws and regulations
  - external audit Act, corporate tax Law, and listing and disclosure regulations
- Transition to IFRS-compliant regulatory policies
- Enterprise-wide IFRS conversion for companies
- Extensive IFRS education and training for almost all constituents, including preparers, users, auditors, and academia
- Translation of all IFRSs within limited time frame

Overcoming the challenges and making successful stories
- 59 companies early-adopted IFRS in 2009 and 2010
  - Consisting of 14 companies (including KT&G, STX) in 2009 and 45 companies (including Samsung and LG) in 2010
- 93% of the approx. 1,900 public companies have almost completed preparation for IFRS adoption as of July 2010
I. Overview of IFRS Adoption in Korea
(cont'd)
- IFRS Adoption in Korea has been changing economic systems
  - Regulatory bodies
    - IFRS-compliant listing and disclosure regulation
    - More principle-based regulatory policies
  - Companies
    - Principle-based application of accounting standards
    - Difficulty of fair value measurement
    - Complex and burdensome disclosure
  - Auditors
    - Working toward adoption of Clarified ISA
    - Strengthened international cooperation
  - Analysts
    - More constructive contributions to IFRSs
    - Modified analysis techniques and models
- Diverse implementation issues raised with IFRS adoption
  - Among those issues the following two, useful for national standard setters, are discussed now.
    - Technical Enquiry: How to interpret and apply IFRSs rigorously
    - Translation: How to translate IFRSs precisely
- IFRS-compliant listing and disclosure regulation
- More principle-based regulatory policies
- Modified analysis techniques and models

II. Implementation Issue 1: Technical Enquiry
(cont'd)
- Problem solving mechanism for technical issues: Roundtables with IASB personnel
  - Common examples of technical issues
    - De facto control, discount rate of employee benefit, retrospective fixed date of IFRS 1, etc.
  - Built a mechanism for identifying implementation issues and consulted with IASB personnel
    - Gathered local transition issues and held roundtable sessions by KASB
    - Invited IASB personnel (Director Wayne Upton) and discussed for solutions
    - Communicated with IASB staff directly for clearer interpretations
- Other process for technical issues: Open seminar
  - Invited international experts regarding IFRSs issues
    - Tatsumi Yamada (IASB member), Kevin Stevenson (AASB chairman), Kazuo Hiramatsu (ASBJ member), Steven Derrick (PWC East Cluster chief accountant), and many others joined the open seminars
- Outcome from the roundtables and open seminars
  - Thorough understanding of IFRSs helped companies and auditors to interpret and apply those IFRSs
  - Weaknesses of IFRS found in the Roundtables were suggested to the IASB; now some amendments are in progress
III. Implementation Issue 2: Translation

• Translations in accordance with IFRS Foundation Copyright Waiver Contract
  - Common translation issues:
    - Illegal translation, precise translation, consistency across IFRSs, etc.
    - Followed the required translation procedures in the contract
    - No modification to any IFRSs
    - Word-for-word translation
    - Translation of new IFRSs within a year

(cont’d)

• Added KASB’s more rigorous procedures to the contractual terms and conditions
• KASB staff performed initial translation
• More than 100 external professionals as well as KASB were involved with review of the translation

(cont’d)

• Ensuring consistent translation across IFRSs
  - The best solution was the ‘word-for-word’ translation policy
  - First defined key terminologies and common expressions for consistency and efficiency
  - The list of key terms provided by the IFRS Foundation was convenient
  - Defining additional terms as many as possible was also helpful
  - Communicated with IASB staff directly for precise translation

(cont’d)

• Outcome from contract-based translation
  - Successful completion of IFRSs translation
  - On-going concern about understandability of Korean version of IFRSs
  - Proposals for IASB to cure ‘translator’s block’
  - More plain English expressions, ideally ‘Esperanto’-like language
  - Consistent usage of key terminology (e.g. ‘significant’ vs ‘material’)

IV. Suggestions
IV. Suggestions

*For countries planning to adopt IFRS*

- Early yet thorough preparation is the key to successful IFRS implementation
- Comprehensive assessment of GAAP differences and their effects
- Customized IFRS education and training for all different constituents
- Capitalize on prior experiences of IFRS adopted countries

THANK YOU!
Summary of the Presentation

- Development of Accounting in Turkey
- Solution for Fragmented Standards “Turkish Accounting Standards Board”
- Problems Encountered in the Implementation of IFRSs around the world and Turkey

Background (I)

- Fragmented Standards in Multiple Regulations
  - Turkish Commercial Code (TCC)(1956),
  - Tax Procedures Law (1950),
  - The Banking Law (1933, 2006),

Background (II)

- Fragmented Standards from Multiple Authorities
  - Ministry of Industry and Trade
  - Ministry of Finance (MoF)
  - Banking Regulation and Supervision Agency (BRSA)
  - Capital Markets Board (CMB)
  - Undersecretariat of Treasury

Accounting Provisions in Turkey (I)

- Development of accounting standards in Turkey has taken place under the oversight of the government; and with the transfer of laws from western countries with which Turkey has intense economic and political relations.

- In accounting practices, initially French legislation and publications and then German legislation and publications have been adopted; after 1950, the development of relations with the US, both economically and culturally, have brought the effects of the US system to Turkey.
Accounting Provisions in Turkey (II)

- Turkish Commercial Code (TCC)
- Capital Market Law (CML)
- Tax Procedures Law (TPL)
- Varied practices with varied regulations

SOLUTION FOR FRAGMENTED STANDARDS:
TURKISH ACCOUNTING STANDARDS BOARD

- Established to solve the fragmented structure in the accounting regulations
- Sets uniform national accounting standards compatible with IFRS and EU regulations
- Has its own public legal entity, administrative and financial autonomy

Implementation of the IAS / IFRS in Turkey (cont’d)

- Those applying the TAS / TFRS (i.e. the IAS/IFRS):
  - All of the financial institutions and their associates, joint ventures & subsidiaries - Banking Regulation and Supervision Agency
  - Insurance firms and their associates, joint ventures & subsidiaries - Undersecretariat of Treasury
  - Listed companies remaining - Capital Markets Board

Implementation of the IAS / IFRS in Turkey (cont’d)

- The remaining chunk of the economy (SMEs)
  - No statutory obligation on the application of the IAS / IFRS
  - Tax based reporting (the Turkish MoF)
  - Single regulation and chart of accounts (compatible with the Directives to a great extent)

PROBLEMS ENCOUNTERED IN THE IMPLEMENTATION OF IFRS
**Problems Encountered in the Implementation of IFRS**

(I)
- The International Accounting Standards have become a globally accepted application. Yet, the transition from local applications to the current new standards has brought about some troubles and problems in almost all the countries. We also have been undergoing these kinds of troubles:
  - Translation
  - Complexity and Structure of the International Standards
  - Technical Issues
  - Lack of IFRS knowledge of the firms
  - Inexperience of the audit firms
  - Ignorance of the investment environment

(II)
- Translation: The translation of the international standards is a major challenge in the adoption and implementation of the standards.
- Complexity and Structure of the International Standards: The international standards are increasingly becoming more complex, and rule-based, and that structure and complexity of the standards are affecting, largely in adverse way, both their adoption and implementation. After the global financial crisis this situation is changing. G20 and Financial Stability Board working with IASB to solve the issues.

(III)
- Potential Knowledge Shortfall: The proliferation and complexity of the global issues, transactions, financial products, and standards present new challenges to the accountancy profession to ensure that it has the requisite knowledge and skills to carry out its responsibilities.
- Technical Issues:
  - Fair value measurements (Emerging markets)
  - Mathematical modeling. (Markets aren’t fully efficient. Therefore market inputs are not reflect reliable and comparative information)
  - Simulating a hypothetical market

Specific Problems Encountered in the Implementation of IFRS in Turkey
- At present, there is no statutory obligation on application of the TASs / TFRSs (Fragmented situation will be eliminated by full functioning of TASB in the near future).
- Problem of Tax Based Accounting
- Converging European Union vs. IFRS
- As an emerging market we have also additional problems:
  - Structure of firms (most of them SME or micro)
  - Exposure to risk (Currency, liquidity, operational etc.)
  - Structure of markets (not fully efficient)
  - Volatility of legal arrangements
  - Shortfall of human resource in this area

**Project – Advisory Council within the body of TASB**
- Issues related to Turkey affect the companies and audit firms in implementation of IFRSs (not general issues addressed by IFRICs).
- Solution of problems (Solved by TASB or other regulatory organizations)
- Developed by TASB a project to respond these problems one-stop solution (establish an advisory council whose members will be preparers, directors, auditors, academics, and regulatory bodies’ representative)
- Present Situation (Final stage – developing legal infrastructure)

**Examples related to the problems encountered in the implementation of IFRSs**
In October 2008 IASB permits reclassification of financial instruments to eliminate differences between the reclassification requirements of IAS 39 and US GAAP (non-derivative financial assets held for trading and available-for-sale financial assets to be reclassified in particular situations).

IRSA and TASB consulted with each other to solve the problem of banks about classification of financial instruments and convergency with other countries concurrently.

TASB approved and issued the amendment immediately (October 30, 2008).

IRSA amended Regulation on Measurement and Evaluation of Adequacy of Banks to comply with IFRSs.

a tax based accounting system

chart of accounts issued by Ministry of Finance (for non-financial institutions)

chart of accounts will be revised according to IFRSs to ease the transition between the tax based system and IFRSs.

Negotiation process with EU

Turkey should make its regulations parallel with EU at the same time adopts IFRSs

TASB issues up-to-date comparative statements about the differences with full IFRSs and the IFRSs adopted by EU.

THANK YOU FOR YOUR ATTENTION
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Leases project update

RACHEL KNUBLEY
Staff
IASB

BARBARA DAVIDSON
Staff
IASB
Why a lease project?

- Existing lease accounting doesn’t meet users’ needs
  - Accounting depends on classification
  - Users adjust financial statements to recognise assets and liabilities arising in operating leases

- Complexity
  - Difficult to define dividing line between finance and operating

Scope

- Includes simplified accounting for short-term leases
  - Lessee: recognise gross asset and gross liability
  - Lessor: use accrual accounting

- Includes certain requirements for sale/leasebacks

- Excludes:
  - Lessors with investment property at fair value under IAS 40
  - Purchase and sale contracts
  - Leases of intangible assets
  - Leases of biological assets or to explore for or use natural resources

Lessee model

Lessee has acquired a right to use the underlying asset and is paying for that right with its lease payments

- Balance sheet
  - Right-of-use asset
  - Liability to make lease payments

- Income Statement
  - Amortisation expense
  - Interest expense

Lessor model

- Based on exposure to risks or benefits of the underlying asset during or subsequent to the expected term of the lease contract
- Counterparty credit risk is not considered

Lessee measurement

<table>
<thead>
<tr>
<th>Initial Measurement</th>
<th>Subsequent Measurement</th>
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<tbody>
<tr>
<td>Liability to make lease payments</td>
<td>PV of lease payments discounted using incremental borrowing rate</td>
</tr>
<tr>
<td>Right-of-use asset</td>
<td>Cost (= liability to make lease payments) Amortised cost (option to revalue*)</td>
</tr>
</tbody>
</table>

*Revaluation of entire class of PP&E is required if right-of-use is revalued
Lessor model

Does the lessor retain significant risks or benefits of the underlying asset?

No

Derecognition approach

Balance sheet
- Residual asset X
- Right to receive lease payments X

Income Statement
- Revenue X
- Cost of sales (X) (gross or net based on business model)
- Interest income X

Yes

Performance obligation approach

Balance sheet (Gross with linked presentation)
- Underlying asset X
- Right to receive lease payments X
- Lease liability
- Net lease asset (liability) X

Income Statement (Separate presentation – IASB)
- Lease income X
- Depreciation expense (X)
- Interest income X

Lessor model - measurement

Initial Measurement

- Right to receive lease payments
- PV of lease payments discounted using the rate charged in the lease
- Residual asset
- Allocated carrying amount

Subsequent Measurement

- Amortised cost
- No remeasurement (except for impairment)
- Recognise income as the liability is satisfied over the lease term

Lessor model - measurement

- Performance obligation approach:
  - Right to receive lease payments
    - PV of lease payments discounted using the rate charged in the lease
  - Lease liability
    - Transaction price (right to receive payments)
    - Recognise income as the liability is satisfied over the lease term

Options to extend lease term

- Include longest possible lease term that is more likely than not to occur
  - In lessee’s liability to make lease payments
  - In lessor’s right to receive lease payments
- Reassess if facts or circumstances indicate that there is a significant change
  - Adjust liability and right-of-use asset for lessees
  - Adjust right to receive and liability or residual asset for lessors
- Purchase options
  - Account for only when they are exercised

Options to extend and contingent rentals: potential concerns

Concerns
- Subjectivity of judgement
- Renewals are avoidable – understates financial flexibility

Response
- Requirement to reassess (true-up information)
- Provides estimates of likely cash outflows

- Subjectivity of information
- Cost/benefit of determining information
- Reliable measurement

- Requirement to reassess (true-up information)
- Ignoring would lead to structuring
- Some users prefer estimates to no information

Contingent rentals

- Include expected outcome in lease asset and liability
  - Lessees must always include, lessors only if measured reliably
- Include residual value guarantees
- Reassess if facts or circumstances indicate a significant change
Disclosures
• Identify and explain the amounts recognised in the financial statements arising from leases; and
• Describe how leases may affect the amount, timing and uncertainty of the entity’s future cash flows.
• Include:
  — Nature of lease contracts
  — Accounting policy for models used (lessee)
  — Maturity analyses
  — Income recognition information
  — Discount rates
  — Roll-forward of right-of-use asset / liability to make lease payments (lessees)
  — Roll-forward of right to receive payments / lease liability or residual asset (lessors)

Transition
• All leases
  — Simplified retrospective approach
  — Present value of remaining lease payments
• First time adoption
  — Same treatment as transition

What next?
Discussion paper March 2009
Exposure Draft 17 August 2010
Comment period ends 15 December 2010
Outreach and fieldwork
IFRS planned Q2 2011

IASB contacts
Outreach:
• Barbara Davidson (Technical Manager): bdavidson@ifrs.org
Project team:
• Rachel Knubley (Technical Principal): rknubley@ifrs.org
• Li Li Lian (Technical Manager): lian@ifrs.org
• Aida Vatrenjak (Assistant Technical Manager): avatrenjak@ifrs.org
• Sunhee Kim (Technical Associate): skim@ifrs.org

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.
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Leases
Break-out discussions

FELIPE PEREZ-CERVANTES
Chairman
CINIF

ALEX WATSON
Chairman, APC
SAICA

ANDREW LEE
Council Member
SINGAPORE ACCOUNTING STANDARDS COUNCIL

LIESEL KNORR
President
GASB

ISABELLE GRAUER-GAYNOR
Technical Director
AUTORITE DES NORMES COMPTABLES
# Leases break-out discussion groups

**13.30-15.00 Monday 20 September 2010**

<table>
<thead>
<tr>
<th>Group</th>
<th>CHAIR</th>
<th>ROOM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group 1</td>
<td>Felipe Perez-Cervantes (Chairman, CINIF)</td>
<td>BALLROOM (LOWER GROUND FLOOR)</td>
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<tr>
<td>Group 2</td>
<td>Alex Watson (Chair, SAICA)</td>
<td>LITTLETON BRYCE &amp; TEMPLE (GROUND FLOOR)</td>
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<tr>
<td>Group 3</td>
<td>Andrew Lee (Council Member, ASC)</td>
<td>MANSFIELD SUITE (GROUND FLOOR)</td>
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<tr>
<td>Group 4</td>
<td>Liesel Knorr (President, GASB)</td>
<td>STAPLE AND GRAYS (LOWER GROUND FLOOR)</td>
</tr>
<tr>
<td>Group 5</td>
<td>Isabelle Grauer-Gaynor (Technical Director, ANC)</td>
<td>CLEMENTS, THAVIES AND LINCOLN (LOWER GROUND FLOOR)</td>
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<thead>
<tr>
<th>COUNTRY</th>
<th>ORGANISATION</th>
<th>NAME</th>
<th>GROUP</th>
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<tbody>
<tr>
<td>ALBANIA</td>
<td>Albanian Institute of Authorised Chartered Accountants</td>
<td>Agim Binaj</td>
<td>Group 1 BLUE</td>
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<td></td>
<td></td>
<td>Elira Hoxha</td>
<td>Group 2 GREEN</td>
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<tr>
<td>ARGENTINA</td>
<td>Argentine Federation of Professional Councils of Economic Sciences (FACPCE)</td>
<td>Jorge Jose Gil</td>
<td>Group 3 PINK</td>
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<tr>
<td>AUSTRIA</td>
<td>Austrian Financial Reporting and Auditing Committee (AFRAC)</td>
<td>Alfred Wagenhofer</td>
<td>Group 4 RED</td>
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<td></td>
<td></td>
<td>Gerhard Prachner</td>
<td>Group 5 YELLOW</td>
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<tr>
<td>AUSTRALIA</td>
<td>Australian Accounting Standards Board</td>
<td>Kevin Stevenson</td>
<td>Group 1 BLUE</td>
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<tr>
<td>BELGIUM</td>
<td>Commissie voor Boekhoudkundige Normen (BASB)</td>
<td>Jan Verhoeve</td>
<td>Group 2 GREEN</td>
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<td></td>
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<td>Sadi Podevijn</td>
<td>Group 3 PINK</td>
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<tr>
<td>BRAZIL</td>
<td>CPC – Comitê de Pronunciamentos Contábeis</td>
<td>Nelson Carvalho</td>
<td>Group 4 RED</td>
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<td>Idesio Coelho</td>
<td>Group 5 YELLOW</td>
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<tr>
<td>BRAZIL</td>
<td>Accounting and Auditing Regulation Superintendency - Securities and Exchange Commission (CVM)</td>
<td>Alexandro Broedel Lopes</td>
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<td>Osvaldo Zanetti Favero Junior</td>
<td>Group 2 GREEN</td>
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<tr>
<td>BRAZIL</td>
<td>Financial System Regulation Department - Central Bank of Brazil (BCB)</td>
<td>Renato Kiyotaka Uema</td>
<td>Group 3 PINK</td>
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<td>Fabiano de Oliveira Silva</td>
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<td>BULGARIA</td>
<td>Institute of Certified Public Accountants in Bulgaria (ICPA)</td>
<td>Hristo Mavrudiev</td>
<td>Group 5 YELLOW</td>
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<tr>
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Introduction

1. As part of their joint project under the Memorandum of Understanding, the IASB and the FASB aim to improve the accounting for leases by issuing a high quality joint standard. The goal of the standard is to:

   (a) eliminate the classification between finance (capital) leases and operating leases, thus improving comparability and providing users with complete information on cash flows that arise from leases; and

   (b) develop a consistent accounting model for lessees and lessors.


   The deadline for comments is 15 December 2010. During the comment period, the boards will perform fieldwork to assess the costs and benefits of applying the new proposals and undertake further outreach to discuss the proposals.

3. The staff would like to use the WSS break-out sessions to discuss and obtain feedback on some of the more contentious issues under the proposals.
Overview of the proposals

4. The boards are proposing a single accounting model, the ‘right-of-use’ model, for both lessees and lessors.

5. Under the right-of-use model, lessees would recognise a right to use the underlying asset (the ‘right-of-use’ asset) arising from all leases in the statement of financial position, along with a corresponding liability to make lease payments.

6. Lessors would recognise a right to receive lease payments arising from all leases. The lessors’ approach to accounting for the underlying asset would depend on whether they retain exposure to significant risks or benefits associated with the underlying asset. If they do not retain exposure to significant risks or benefits, they would derecognise the portion of the underlying asset that represents the lessee’s right to use the underlying asset during the term of the lease (the derecognition approach). If they retain exposure, they would keep the underlying asset on their statement of financial position and recognise a lease liability representing their obligation to permit the lessee to use the underlying asset over the lease term (the performance obligation approach).

Issues to discuss

7. The issues we would like to discuss with the WSS are:

(a) Treatment of complex features:
   (i) options to extend or terminate
   (ii) contingent rentals
   (iii) purchase options

(b) Lessor accounting model: performance obligation versus derecognition approach

(c) Scope:
(i) service contracts versus leases

(ii) purchases or sales versus leases.

Treatment of complex features

Options to extend or terminate

8. Many leases include options to extend or terminate. Under the proposals, lessees and lessors would determine the longest possible term that is more likely than not to occur and recognise the related assets and liabilities based on that term. In addition, the lease term should be reassessed at each reporting date if there are changes in facts or circumstances that indicate that there is a material change in the assets or liabilities.

9. Some note that determining the present value of lease payments on the basis of the most likely lease term might result in the recognition of an asset or liability that does not meet the definition of an asset or liability. Also this approach does not distinguish between a five-year, non-cancellable lease and a three-year lease with an option to extend for two years that is likely to be exercised.

10. However, the boards think that using the most likely lease term is a practical solution to the problems associated with the accounting for leases with options. If optional periods are not included in the lease term, the related assets and liabilities might be misstated or this may encourage structuring.

Question #1

Do you agree with the boards’ proposed approach to recognition and measurement of options in lease contracts? If not, why not? What would you recommend?

Contingent rentals

11. Lease contracts may also include payments that are linked to usage of the underlying asset, an index or a rate, or lessee performance. Under the proposals, lessees would include in their liability to make lease payments amounts payable
under contingent rental arrangements and lessors would include these amounts in their right to receive lease payments if they can be measured reliably. The liability and the asset would be reassessed at each reporting date if there are changes in facts or circumstances that indicate that there is a material change in the liability or asset.

(a) Changes in contingent rentals for lessees: The changes in amounts payable under contingent rental arrangements arising from current or prior periods should be recognised in profit or loss. All other changes would be recognised as an adjustment to the lessee’s right-of-use asset.

(b) Changes in contingent rentals for lessors: A change in contingent rentals should be recognised in profit or loss under the derecognition approach. Under the performance obligation approach, the boards propose to adjust the lease liability for any change in the amount of contingent rentals if it relates to unsatisfied obligations and to recognise any change in profit or loss if it relates to satisfied obligations.

12. Some think that the lessee’s liability to pay and the lessor’s right to receive contingent rentals do not exist until the future event requiring the payment occurs. Accordingly, they suggest that entities should only provide disclosure of contingent rentals.

13. However, in the boards’ view, the liability to pay and the right to receive contingent rentals exist at the date of inception of the lease. Such contingent rentals meet the definition of a liability for the lessee and an asset for the lessor. It is only the amount to be paid that is uncertain.

**Question #2**

Do you agree with the boards’ proposed approach to recognition and measurement of contingent rentals? If not, why not? What would you recommend?

Do you think that different types of contingent rentals (e.g., those linked to usage, an index or a rate, or lessee performance) should have a different recognition and measurement requirement (including reassessment)?
Purchase options

14. The exposure draft proposes that purchase options should not be accounted for until they are exercised. The boards think that when a lessee exercises a purchase option, it terminates the lease and purchases the underlying asset. Thus, the exercise price of the option is not a lease payment and should not be included in the measurement of assets and liabilities arising from a lease.

15. Some think that purchase options should be treated consistently with options to extend or terminate because purchase options are the ultimate extension options.

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<tr>
<td>Do you agree with the boards’ proposed approach to purchase options in lease contracts? If not, why not? What would you recommend?</td>
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Lessor accounting model

Performance obligation versus derecognition approach

16. The boards propose that the lessor’s accounting for the underlying asset should differ depending on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term.

17. The derecognition approach views the lessor as having transferred significant economic risks and benefits associated with the underlying asset during or after the expected lease term to the lessee at the date of commencement of the lease. The lessor derecognises the economic benefits associated with the rights it transfers to the lessee when it transfers those rights. Under this approach, the lessor may recognise revenue on commencement of the lease. The remaining economic benefits, ie the lessor’s residual interest in the underlying asset, are classified as a residual asset in the lessor’s statement of financial position.

18. The performance obligation approach views the underlying asset as the lessor’s economic resource. The lessor continues to recognise the underlying asset in the statement of financial position, and recognises a lease liability, representing its
obligation to permit the lessee to use the underlying asset during the lease term. That liability is satisfied over the lease term (on a systematic basis) as the lessor permits the lessee to use the underlying asset. Thus, the lessor would recognise lease income during the lease term.

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<td>Do you agree with the boards’ proposals regarding the different approaches to lessor accounting for the underlying asset? Specifically, do you agree that a lessor should apply (i) the derecognition approach if it does not retain exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term, and (ii) the performance obligation approach if it does? Why or why not? If not, what alternative approach would you propose and why?</td>
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**Scope**

Service contracts versus leases

19. To help entities determine whether an arrangement is within the scope of the proposals (ie is a lease contract or a service contract) the exposure draft carries forward the guidance in IFRIC 4 *Determining whether an Arrangement contains a Lease*. In particular, the exposure draft indicates that a contract is or contains a lease if:

   (a) fulfilment of the contract depends upon providing a specified asset; and
   (b) the contract conveys the right to control the use of a specified asset.

20. A contract conveys that right to control the use of an underlying asset if:

   (a) The entity has the ability or right to operate the asset (or direct others to operate the asset) while obtaining more than an insignificant amount of the output or utility of the asset; or
   (b) The entity has the ability or right to control physical access to the asset while obtaining more than an insignificant amount of the output or utility of the asset; or
(c) The entity will obtain all but an insignificant amount of the output or other utility of the asset and the price paid is neither contractually fixed per unit of output nor equal to the market price per unit of output.

Question #5

Do you think the proposed criteria for differentiating service contracts from leases is appropriate? If not, what alternative criteria would you use and why.

Do you think that further guidance is needed to help differentiate leases from service contracts?

Purchases or sales versus leases

21. The exposure draft would not apply to transactions in which control and all but a trivial amount of the risks and benefits associated with the underlying asset is transferred at the end of the lease term, because such transactions represent purchases or sales of the underlying asset.

22. Some were concerned that attempting to distinguish between purchases or sales and leases would reintroduce a classification requirement that would increase the complexity of the proposals. However, the boards think that purchases or sales and leases have different economic effects and that the accounting should reflect those economic differences, regardless of the way that the contract describes the transaction.

23. Some note that the proposed lessee accounting is similar (but not identical) to purchase or sale accounting. In addition, the proposed lessor accounting under the derecognition approach (applied if a lessor has not retained exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term) is similar to purchase or sale accounting. Therefore, differentiation between purchases or sales and leases is not necessary.
Question #6

Do you agree with the boards’ proposed approach to distinguishing between purchases or sales and leases? If not, why not? What would you recommend?
World Standard-setters Conference
Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

NOTES
Leases
Break-out feedback

FELipe PEREZ-CERVANTES
Chairman
CINIF

ALEX WATSON
Chairman, APC
SAICA

ANDREW LEE
Council Member
SINGAPORE ACCOUNTING STANDARDS COUNCIL

LIESEL KNORR
President
GASB

ISABELLE GRAUER-GAYNOR
Technical Director
AUTORITE DES NORMES COMPTABLES
World Standard-setters Conference
Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

Keynote speaker

TOMOYUKI FURUSAWA
Director, Corporate Accounting and Disclosure,
Planning and Coordination Bureau
FSA (JAPAN)
**JFSA’s collaboration with Standard-setters**

September 2010
JFSA (Financial Services Agency, Japan)
Tomoyuki Furusawa

**“IFRS” is now becoming a hot issue in Japan**

Sir. David is one of the most famous people in Japan

Nihon Keizai Shimbun, 3 September 33

**JFSA engages in the development of IFRSs**

- JFSA supports the IASB’s global outreach activities with various stakeholders: JFSA supports regional exchanges among Asian-Oceanian Standard-setters and other stakeholders
  - AOSSG, India-Japan IFRS Dialogue
- JFSA collaborates with the ASBJ, ensuring its independence
- JFSA contributes to the sound development of IASB through the proper governance management of the IFRS Foundation
  - IFRS Foundation Monitoring Board

**Asia-Oceania Region Activities**

- Important meetings in Japan
  - India-Japan IFRS Forum (7/27)
  - IFRS Conference (7/28-29)

- Enhancement of the importance of the Asia-Oceania Region
  - Adoption of IFRSs in this region has been expanding.
  - The scale of economies in this region has become larger.
  - gathering the Asian-Oceanian opinions
  - strengthening the connection with IASB

**JFSA collaborates with the ASBJ**

- BAC (※) drew and issued the “Japan’s Roadmap for IFRS Application”
  - (※) Business Accounting Council; an advisory body to the commissioner of JFSA
- JFSA prepared the legal status of IFRSs in Japan
  - The legal designation system of IFRSs
- JFSA collaborates with the ASBJ in meeting the challenges for the adoption of IFRSs
  - Human resource development: ASBJ’s critical challenge
Tokyo Agreement: ASBJ agreed with IASB to accelerate convergence between J-GAAP and IFRSs:
- Eliminate the major differences or provide compatible accounting standards by 2008
- Set a target date of 30 June 2011 for resolving other issues
- Enhance cooperation to facilitate Japan’s greater contribution to the international standard-setting process

EU’s Actions ➔ Japan’s Actions:

- Adoption of EU Directives ➔ (‘03, ‘04)
- CESR Advice ➔ (Jul ‘05)
- Establishment of Japan-EU Monitoring Meeting ➔ (Nov ‘06)
- CESR Advice ➔ (Jul ‘05)
- BAC report “Towards International Convergence of Accounting Standards” ➔ (Oct ‘06)
- BAC published the project plan ➔ (Nov ‘06)

Japan’s Convergence Process:

EU’s Actions ➔ Japan’s Actions:
- Adoption of EU Directives ➔ (‘03, ‘04)
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Japan’s Roadmap for IFRSs Application:

In addition to the need for continuing convergence between J-GAAP and IFRSs, many stakeholders express their opinions that Japan needs to consider an application of IFRSs:

- Around 2012: Decision regarding mandatory application of IFRSs
- Preparation period: Minimum 3 years
- 2015 or 2016: Beginning of mandatory application (if decided in 2012)

Japan’s Roadmap (June 2009): Basic Concept

- To improve quality and international comparability of financial reporting for investors;
- To enhance the international competitiveness of Japanese financial market; etc.

Japan’s Roadmap (June 2009): Key Conclusion

- Before making a decision regarding mandatory use of IFRSs, JFSA will consider the achievement of some points, such as:
  - whether the governance of the IFRS Foundation is improved
  - whether IFRSs appropriately reflect business practices
  - whether Japanese accounting stakeholders express opinions to IASB proactively and effectively
  - whether IFRSs are appropriately and promptly translated into Japanese
  - whether education and training on IFRSs are sufficiently conducted

Japan’s Roadmap (June 2009): Requirements for IFRSs Designation by the Commissioner of the JFSA

- Financial Instruments and Exchange Act: Financial Statements shall be prepared in conformity with the terms, forms and preparation methods which the Commissioner of the JFSA prescribes in a Cabinet Office Ordinance in accordance with the manner generally accepted as fair and proper.

- Regulation for Consolidated Financial Statements: Certain Japanese companies whose financial or operational activities are conducted internationally may prepare their consolidated financial statements in accordance with IFRSs designated by the Commissioner of the JFSA.

- IFRSs are designated with no carve-ins or carve-outs.
- IFRS 9 was designated in March 2010 after public consultation process.
Challenges for the Adoption of IFRSs (1)

- Ensuring due process and governance improvement of the IFRS Foundation
- Maintenance of convergence progress between IFRSs and Japanese GAAP
- Quality of IFRSs appropriately reflecting business practices
- Human resource development; Education and training

Challenges for the Adoption of IFRSs (2)

- Human resource development; Education and training for
  (1) Financial statement preparers
  (2) Auditors
  (3) Standard-setters
  (4) Regulators

IFRS Foundation Monitoring Board

- First Meeting: April, 2009
- Role: To provide a formal link between the Trustees and public authorities
- Members:
  - Representative of the IOSCO Technical Committee
  - Commissioner of the Japan FSA
  - Representative of the IOSCO Emerging Markets Committee
  - Chairman of the US SEC
  - Commissioner for Internal Market and Services, EC
- Observer:
  - Representative of the Basel Committee on Banking Supervision

IFRS Foundation Governance Review (1)

- Working Group was established by the MB in July 2010
- Working Group aims to finish its job by the end of 2010
- Chaired by Masamichi Kono, Vice Commissioner for International Affairs of the JFSA

Objective of Governance Review

- The review will focus on the overall governance model of IFRS Foundation including the composition of the MB, in order to assess whether the current governance structure adequately:
  - provides appropriate representation for relevant authorities such as capital market and other public authorities;
  - makes the IASB sufficiently transparent, and accountable to the relevant authorities, such as capital market and public authorities;
  - ensures the appropriate involvement of all relevant stakeholders in the standards elaboration process;
  - ensures that all relevant public policy objectives are taken into account in the standard setting process; and
  - protects the IASB’s independent standard setting process.

Thank you
Japan FSA
September 2010

World Standard-setters Conference
Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

NOTES
IASB planning and priorities (post 2011 agenda)

SIR DAVID TWEEDIE  
Chairman  
IASB

ALAN TEIXEIRA  
Staff  
IASB

PETER CLARK  
Staff  
IASB
Background

1. Today, the primary focus of the Board is on the completion of its current agenda, with a particular emphasis on financial instruments, revenue recognition, leases and insurance contracts. Those projects are scheduled for completion by 30 June 2011. Between now and March 2011 the Board also expects to complete projects on derecognition-related disclosures, consolidations, joint arrangements, employment benefit plans, fair value measurement and management commentary, as well as two chapters of the Framework and some narrower improvements to IFRSs.

2. By July 2011 the Board will therefore have completed much of its current agenda and will have three new members, including a new Chairman. Planning has begun to develop a new agenda for this future phase in the IASB’s work.

Constitutional review

3. In the second part of its constitutional review, the Trustees introduced a requirement that, in addition to consulting the Trustees and its advisory council annually on the current and future agenda, the IASB should undertake a three-yearly public consultation on its future technical agenda. The Trustees stated at the time that the requirement to give a formal opportunity for public
comment addresses one of the major issues raised by stakeholders. The IASB must begin the first public review before 30 June 2011.

4. The purpose of this consultation is to solicit input to guide and help the IASB in setting the agenda. The IASB has full discretion to develop and pursue its technical agenda.

Advice from the IFRS Advisory Council

5. In November 2009, February 2010 and June 2010, the IFRS Advisory Council discussed strategic considerations in the light of the financial reporting environment. The Advisory Council discussed a range of issues, including (i) the characteristics of an effective financial reporting system, (ii) a consideration of the state of IFRS as it is expected to exist in June 2011 and (iii) potential targets and milestones for important accomplishments. The Advisory Council’s discussions were undertaken on the basis that the Board’s current agenda would be completed successfully by June 2011. The Advisory Council did not discuss the implications for the post-2011 work plan if delays were to occur, and encouraged the Board to monitor closely its progress in meeting the June 2011 deadline.

6. The Advisory Council wrote to the Board in August 2010 outlining the collective views of council members. That letter summarised its advice as follows:

   Basic policies
   (a) Focus on serving those who have adopted or wish to adopt IFRS. Convergence is no longer a prime consideration.
   (b) Retain the current objective of serving the reporting needs of capital market participants for profit-oriented entities.

   Short- to medium-term objectives
   (c) Provide a period of calm in issuing new standards to bed down the numerous new and revised standards coming into effect. Stand ready to assist in resolving implementation issues. Assess proposals for new standard-setting projects against strict selection criteria. Provide some capacity and flexibility to deal with unforeseen urgent issues without disrupting the work plan.
(d) Allocate significant resources to ensuring that the standards are interpreted and applied with an appropriate degree of consistency, and that they are producing the intended results. Post-implementation reviews become a significant activity.

(e) Expedite completion of the conceptual framework project and developing a disclosure framework.

(f) Monitor trends and developments that are likely to affect financial reporting in the future.

Interaction with constituents

(g) Manage the relationship between IFRS and IFRS for SMEs. The first periodic update of IFRS for SMEs will be particularly challenging because of the recent spate of new or revised standards.

(h) Continue and expand outreach activities with particular emphasis on users and emerging markets.

The Advisory Council believes that this approach would allow the new Board to become better oriented before making extensive longer-term commitments, and would ease the transition from the old to the new Board.

Next steps

7. The Board is currently developing a plan for the first of the new three-yearly public consultations on its agenda. The Board will be seeking input on the strategic direction that it should take in developing its future agenda as well as identifying potential new projects.

8. To give WSS participants a sense of what we mean by strategic direction, the Board’s informal consultation has already suggested that the Board could focus on four general areas: implementation and maintenance (including post-implementation reviews); the conceptual framework (including a disclosure framework); a strategic review of the future shape of financial reporting (including its interaction with XBRL); and ‘some’ major projects.

9. The Board will be interested in hearing views as to whether these are the right areas for it to focus on and, if so, what should be the relative balance (or effort) among these areas.

10. The Board has already identified some projects that should at least be considered as potential agenda items. Some of these are topics that have been on the agenda but for which work has been suspended—e.g. earnings per share and
common control. The Board has also published a discussion paper prepared by staff of national standard-setters on *extractive activities*, and it seems appropriate to consider this as a potential agenda topic. It is also possible that some projects that are currently on the agenda might be at a point where they should be assessed against other projects. In other words, are they still a priority? The Board is aware of other matters that some in the IFRS community would like the Board to address. The public consultation process should help the Board to identify whether its list of potential candidate projects is sufficiently comprehensive.

11. We encourage participants to think about the matters raised in this paper and hope that you will participate in the public consultation.
World Standard-setters Conference
Monday 20 and Tuesday 21 September 2010
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Engaging with the IASB

STEPHEN COOPER
Member
IASB
What is outreach?

**Formal Due Process**
- Always: ED and comment letters
- When required: DP + comment letters, roundtables, working groups

**Additional outreach**
- Meetings
- Webcasts
- Discussion Forums
- Surveys
- Etc…

Who does outreach?

- Trustees
  - Not at a technical level
- Board members
- Technical Staff
  - Director of International Activities
  - Project outreach managers
  - Technical staff
- Communications team

Outreach – what is the objective?

- Identify issues and look for solutions when researching a project
- Help us produce a good quality answer
- Explain and clarify our proposals

Types of non-Due Process outreach

- Discussion Forums
- Webcasts / webinars / podcasts
- Surveys
- Meetings with individual constituents

Discussion Forum meetings

**What is the format?**
- Panel + audience style meeting, open to the public
- Held worldwide, hosted by a local organisation/NSS
- Usually update on the IASB workplan, followed by 1-3 sessions on individual projects (usually those which are open for comment)
- Short IASB presentation followed by Q&A
**Who from the IASB will participate?**

- At least one IASB member / Director to attend in person
- Additional participation from London by video if facilities are available

**How will the agenda be set?**

- Projects to be discussed will be agreed between the host organisation and the IASB’s Outreach Coordinator, Jennifer Wilson

**What is the purpose?**

- **Education**: Summarise the proposals in EDs
- **Clarification**: Question IASB members and staff on points in exposure drafts
- **Understanding**: Gain insight into the rationale for the IASB’s proposals
- **Discussion**: An opportunity for discussion with IASB members and staff
- **Not intended to replace formal due process mechanisms (comment letters, roundtables)**

**Discussion Forum meetings - schedule**

- Discussion Forum meetings are planned for Q4 in Belgium, Singapore, Malaysia, France, Denmark and Norway – latest schedule of confirmed meetings is available on IFRS Foundation website: [http://www.ifrs.org/Outreach+activities/Discussion+Forums+meetings.htm](http://www.ifrs.org/Outreach+activities/Discussion+Forums+meetings.htm)
- For more information, or to discuss the possibility of hosting a Discussion Forum, please contact Jennifer Wilson – jwilson@ifrs.org

**Investor resources on our website**

- [http://www.ifrs.org/Investor+resources/Investors+and+IFRS.htm](http://www.ifrs.org/Investor+resources/Investors+and+IFRS.htm)

**IASB Director, International Activities**

Wayne Upton: [wupton@ifrs.org](mailto:wupton@ifrs.org)

- The senior member of the IASB staff tasked to work with countries on adoption and convergence
- Helping to identify problem areas and possible solutions through:
  - Amendments to IFRS 1
  - Improvements and Amendments to other standards
  - IFRIC interpretations
  - Local educational materials

---

**Discussion Forum meetings**

**Targeting Investors**

- Key constituent group, but not always easy to reach and engage with
- Analyst Representative Group (ARG): Public meetings in London with IASB representatives three times a year
- Engagement with other organized groups – CFA, CRUF, etc
- Proactive work to meet individual analysts and investment companies
- Dedicated investor liaison manager: Luci Wright – lwright@ifrs.org
Project-specific outreach

- Key projects have a dedicated staff member to manage outreach activities
- Projects with very active outreach activities:
  - Revenue Recognition – April Pitman: apitman@ifrs.org
  - Leases – Barbara Davidson: bdavidson@ifrs.org
  - Insurance Contracts – Sandra Hack: shack@ifrs.org
  - Financial Instruments – Sue Lloyd: slloyd@ifrs.org
  - Financial Statement Presentation – Denise Gomez: dgomez@ifrs.org and Holger Obst: hobst@ifrs.org

Revenue Recognition outreach

- A broad spectrum of participants – revenue affects a wide range of entities
- A diverse range of formats depending on objective – webcasts, podcasts, investor blogs, workshops as well as updates and conferences
- Target those most affected by change – constructors; telecoms; manufacturers’ warranties
- Detail important in developing a workable standard – workshops with preparers to test key principles

Leases outreach

- Exposure draft August 2010, final standard June 2011
- Focus on lessees as nearly all entities lease, but proposals for lessors as well
- A diverse range of outreach activities in all regions – webcasts, podcasts, user meetings, discussion forums, fieldwork, articles and conferences
- Treatment of contingent rentals, options to extend, P&L, services versus leases
- Analysis of costs and benefits (fieldwork) and user feedback key to finalising a workable standard

Insurance Contracts outreach

- ED published: 30th July 2010
- Outreach: meetings with constituents worldwide – outreach meetings, Working Group, field tests...
- Project webcasts and podcasts
- Comment period ends: 30th November 2010

Financial Instruments outreach

- Throughout the project to replace IAS 39 we have tried to get input from specific groups of constituents including:
  - Users – to understand what information is useful to them
  - do not routinely write comment letters
  - have used tailored surveys, utilised user groups and had numerous small group meetings
  - Preparers – to understand operational implications (particularly on impairment) and real world consequences
  - Have used industry groups and audit firms to arrange groups
  - Also numerous one-on-one meetings (particularly on hedge accounting)
- Regulators – regular dialogue established
- Audit firms – to understand operational issues and real world consequences of decisions
- In addition to the outreach targeted at particular constituents we have utilised web-based communications to access a wide audience
  - Email alert system for the project
  - Webcasts used to inform of ongoing developments during re/deliberations
  - Podcasts
  - Recorded Q&A on frequently asked questions
Financial Statement Presentation outreach

- **Exposure draft** (May 2010) – Presentation of Items of Other Comprehensive Income
- **Staff draft** of exposure draft (July 2010):
  - Replacement of IAS 1 and IAS 7
  - Discontinued operations
- Extended outreach activities on staff draft proposals (Aug – Nov 2010)
  - Benefits and costs
  - Implications for financial services entities
- All information available: [http://go.ifrs.org/FSP](http://go.ifrs.org/FSP)

How can National Standard Setters get involved?

- You are key constituents and a vital part of our outreach activities
- Contact Jennifer Wilson, Outreach Co-ordinator with any queries: jwilson@ifrs.org
- Alternatively, contact Wayne Upton, Director of International Activities: wupton@ifrs.org

What do we need from you?

- Contact us early
  - Project teams / outreach managers
  - Director of International Activities: Wayne Upton
  - Outreach Co-ordinator: Jennifer Wilson
- Be proactive
  - Suggest events / conferences / meetings
- Be efficient and productive
  - Coordinate with other local NSS
  - Use technology – video conferencing

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.
Advisory Council update

PAUL CHERRY
Chairman
ADVISORY COUNCIL
IAC Terms of Reference

- Advice on agenda decisions/priorities
- Views on major standard-setting projects
- Other advice to IASB or Trustees
- Promotion & adoption of IFRS

Membership

- Appointed by Trustees
- In representative capacity
- Global network of influential organizations
- 47 members + 3 observer organizations

Views and Advice (1/2)

- Current work plan “aggressive”
  - Quality more important than speed
  - Completion by June 2011 not essential
- Responding to financial crisis
  - Support a comprehensive new standard
  - Support a “mixed measurement” reflecting the business model
  - Prefer global standard but not FASB proposals

Views and Advice (2/2)

- Enhance process for setting IASB technical agenda and priorities
  - Broad consultation
- Post-2011: a “settling in” period
  - Consistent interpretation/application
  - Updated conceptual framework + disclosure framework
- Resolving controversial issues
  - IASB on right track

In Summary

- By 2012, robust IFRS standards will exist
- Focus post 2011 should be to “test” to see if the standards are working as intended
  - Take time to set path forward in a sensible way
- IASB agenda setting process needs improvement
- Council has made progress
  - Performance review underway
Contact details

• Public website of the IFRS Advisory Council:
  – http://www.ifrs.org/The+organisation/Advisory+bodies/The+SAC/Standards+Advisory+Council.htm

• IASB staff contact:
  – Jon A. Baldurs, Technical Manager
  – Email: jbaldurs@ifrs.org
  – Phone: +44 (0) 207 246 6467

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.
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IFRS for SMEs
Adoption and implementation update

JAN ENGSTRÖM
Member
IASB

PAUL PACTER
Member
IASB

MICHAEL WELLS
Staff
IFRS Foundation
**Tuesday 21 September 11.30-12.45**

**BALLROOM**

**IFRS for SMEs Adoption and implementation update**

Jan Engstrom, IASB Member  
Paul Pacter, IASB Member  
Mike Wells, IFRS Foundation Staff

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<thead>
<tr>
<th>NAME</th>
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<tr>
<td>Ahmad Abu Elhommos</td>
<td>Arab Society of Certified Accountants</td>
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<td>Jorge Jose Gil</td>
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<td>Danny Nkuvu</td>
<td>Institute De Reviseurs Comptables au Congo (IRC)</td>
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The IFRS for SMEs

Adoption Update

Paul Pacter
Board Member
International Accounting Standards Board


The IFRS for SMEs

“Good Financial Reporting Made Simple”

• 230 pages
• Simplified IFRSs, built on an IFRS foundation
• Completely stand-alone
• Designed specifically for SMEs
  – User needs for information about cash flows, liquidity, and solvency
  – Costs and SME capabilities
• Final standard issued July 2009


Who is the standard aimed at?

Millions of companies (over 99%)!

• The 52 largest stock exchanges in the world together have only 45,000 listed companies
• Europe: 25 million private sector enterprises
• USA: 20 million private sector enterprises
• UK alone: 4.7 million private sector enterprises
  – 99.6% have fewer than 100 employees


How does it differ from full IFRSs?

Simplifications from full IFRSs

1. Some topics in IFRSs omitted if irrelevant to private entities
2. Where IFRSs have options, include only simpler option
3. Recognition and measurement simplifications
4. Reduced disclosures
5. Simplified drafting


Jurisdiction plans for adoption

66 jurisdictions have adopted or stated a plan to adopt. Some examples:

• South America: Argentina, Brazil, Guyana, Venezuela, Suriname
• Caribbean: Dominican Republic, Barbados, Trinidad, Bahamas, etc
• Central America: Belize, Costa Rica, El Salvador, Panama, Nicaragua
• Africa: South Africa, Botswana, Egypt, Namibia, Tanzania, Uganda, Ethiopia, Sierra Leone
Jurisdiction plans for adoption

**Adoption examples, continued:**

- **Asia:** Cambodia, Philippines, Hong Kong, Malaysia (proposal), Singapore, Sri Lanka, Fiji
- **Europe:** United Kingdom (proposed), Ireland (proposed), Turkey, Denmark, Latvia. Others studying. Note that European Commission is currently consulting on the IFRS for SMEs. See next slide.
- **Available for use:** United States

Adoption in Europe

- **Nov. 2009:** EC consultations on IFRS for SMEs, Directives, Micro exemptions
- **Question:** Do you think adoption of the IFRS for SMEs should be provided for within the EU accounting legal framework?
- **Response:**
  - **Yes – 19 Member States:** BG, CY, CZ, DK, EE, EL, ES, HU, IE, LT, LU, MT, NL, PL, PT, RO, SE, SL, UK, EU Org and Registered Lobbyists
  - **No – 6 Member States:** AT, BE, DE, FR, IT, SK

Consistent with EU Directives?

**EFRAG:** Compared thousands of requirements in Directives with thousands in IFRS for SMEs

- **Found only six differences**
  1. No income or expense called ‘extraordinary’
  2. Measurement of some financial liabilities at FV
  3. Goodwill amortisation 10 years if life is not known
  4. Receivable for unpaid shares is offset to equity
  5. Reversal of goodwill impairment is not permitted
  6. Optional fallback to IAS 39 may result in differences

Implementation Support

- Released with the *IFRS for SMEs*
  - Illustrative financial statements
  - Presentation and disclosure checklist
- IFRS Foundation training material
- Facilitate regional ‘train the trainers’ workshops organised by others
- IFRS for SMEs Update newsletter
- SME Implementation Group to address questions

IFRS for SMEs

**IFRS Foundation Training Material and Regional Train-the-Trainer Workshops**

Michael Wells
Director
IFRS Foundation Education Initiative

**IFRS for SMEs training material**

- IFRS Foundation does not certify accountants
- Training material developed for use by others
  - developed by IFRS Foundation education staff
  - multi-level peer review
  - not IASB approved
- 35 standalone modules (1 for each section of the *IFRS for SMEs*)
- Training material = ±2,000 A4 pages
Access to training material

• Free to download (PDF files of modules)
  www.ifrs.org/IFRS+for+SMEs/Training+modules.htm

• Self study

• You can incorporate the modules (PDF files) into your IFRS for SMEs education and training programmes

• Translations underway
  – Russian-language (funded by USAID)
  – Spanish-language (funded by Spanish government facilitated by World Bank)

Content of training material

• Each module includes
  – Introductory material
  – Explanation of the requirements
  – Full text of the requirements
  – ‘how to’ examples
  – other explanations
  – Discussion of important judgements
  – Comparison with full IFRSs
  – Test your knowledge – multiple choice
  – Apply your knowledge – case studies

Train-the-trainers workshops

• 3-day regional workshops
  – Organised and funded by development agencies (World Bank, Asian Development Bank, etc) and regional professional associations (CAPA, ECSAFA, etc)
  – IFRS Foundation/IASB provides:
    – workshop material
    – workshop facilitators (usually Paul Pacter and Michael Wells)

Training workshop material

• Three-day regional workshops
  – 20 PowerPoint presentations covering 24 hours (8 hours a day)

  – English, Portuguese and Spanish (other languages to follow)

  – Covers most sections of IFRS for SMEs

  – Includes quizzes and several case studies

  – Free to download from the IFRS Foundation website

  http://www.ifrs.org/Conferences+and+Workshops/IFRS+for+SMEs+Train+the+trainer+workshops.htm

IFRS for SMEs

Implementation

Paul Pacter
Board Member
International Accounting Standards Board
Translators

- **Completed**
  - Chinese, Spanish, Italian, Portuguese, Romanian, Arabic, Czech, Armenian
- **In process**
  - French, Serbian, Turkish, Japanese, Khmer
- **Proposed or in discussion**
  - Macedonian, Polish, Russian, Ukrainian, Mongolian

**Newsletter**

- **Monthly IFRS for SMEs Update newsletter**
  - Free subscription delivered by email
  - 4,000 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

**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:
  - For implementation issues that cannot be addressed by Q&As; and
  - For new and amended IFRSs that have been adopted since the IFRS for SMEs was issued

**Membership**

- Nearly 90 applications
- Trustees selected 21 people
- From 16 jurisdictions
- Paul Pacter will chair
- Initially focus on resolving pervasive implementation issues by developing unofficial guidance in the form of Q&As
- Initially work via email rather than meetings

**Membership by region**

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<tr>
<td>Africa</td>
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<td>Asia/Oceania</td>
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<td>Europe</td>
<td>5 + EC + EFRAG</td>
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<tr>
<td>Latin America/Caribbean</td>
<td>6</td>
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**Criteria for Q&As**

- Pervasive issue (affects broad group of SMEs in many jurisdictions)
- Due to lack of clarity, unintended or inconsistent implementation is likely to result
- SMEIG can reach consensus on timely basis
- Q&A will not change or conflict with the IFRS for SMEs
**SME Implementation Group (SMEIG)**

**Due process for developing Q&As (1 of 2)**

- Identify the issue
- Decide if Q&A needed and, if yes, proposed answer
- Tentative consensus by simple majority
- Negative clearance by IASB. Draft Q&A released for public comment unless 4 or more IASB members object.
- Invite public comment on draft Q&A – minimum 30 day exposure period

**SME Implementation Group (SMEIG)**

**Due process for developing Q&As (2 of 2)**

- Responses will be public
- Staff summary of responses
- Redeliberation by SMEIG
- Final Q&A (simple majority vote) sent to IASB
- Negative clearance by IASB. Q&A adopted and published unless 4 or more IASB members object.
- Q&A published on IASB website and in newsletter

**SME Implementation Group (SMEIG)**

**What kinds of issues in Q&As?**

- Without yet soliciting, we have received about 40 technical enquiries
  - Many are about eligibility to use IFRS for SMEs
- We plan to have a formal solicitation of issues

**SME Implementation Group (SMEIG)**

**What kinds of issues in Q&As?**

- Examples – eligibility to use IFRS for SMEs
  - Group uses full IFRS. Can parent use SMEs?
  - Captive insurance company?
  - Property/casualty insurance company?
  - Venture capital fund with just a few investors?
  - Balance sheet (only) submitted to government agency?
  - Unlisted parent with a listed subsidiary?
  - Not-for-profit entity? Governmental entity?

**SME Implementation Group (SMEIG)**

**What kinds of issues in Q&As?**

- A few more examples of other issues
  - If I use equity method for associates, do I have to use FVTPL for quoted associates?
  - Meaning of ‘undue cost or effort’?
  - Must investment property treated as PP&E be disclosed separately from other PP&E?
  - Initial measurement of NCI include goodwill?
  - In measuring value in use, discount using the incremental borrowing rate or the weighted average cost of capital?
Free downloads from IASB

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

Training materials: http://go.ifrs.org/smetraining

PowerPoint Training Modules:
http://go.ifrs.org/trainingppts

Update Newsletter:
http://www.ifrs.org/IFRS+for+SMEs/

Implementation Group Q&As and proposals:
http://go.ifrs.org/smieg

IFRS for SMEs

Jurisdiction plans and approaches:
- South Africa: Alex Watson
- Sierra Leone: Dele Jones
- UK and Ireland: Ian Mackintosh

Then others from the floor:
- Albania
- Argentina
- Austria
- Bulgaria
- Czech Rep.
- DR Congo
- Denmark
- Egypt
- ELSAFA
- India
- Indonesia
- Japan
- Jordan
- Kenya
- Lebanon
- Libya
- Malaysia
- Nigeria
- Norway
- Romania
- Russia
- Singapore
- South Africa
- Tanzania
- Turkey
- Ukraine
- United Arab Emirates
- United States of America
- Zambia

Questions or comments?

Thank you to all.

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.
World Standard-setters Conference
Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

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Insurance contracts

WARREN McGREGOR
Member
IASB

PETER CLARK
Staff
IASB
Tuesday 21 September  11.30-12.45

MANSFIELD SUITE, GROUND FLOOR

Insurance contracts

Warren McGregor, IASB Board Member
Peter Clark, IASB Staff

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<tr>
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<tr>
<td>Zein El Abdin Borai Ahmed</td>
<td>The Sudanese Association of Certified Accountants</td>
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<td>Philippe Bui</td>
<td>Autorité des Normes Comptables</td>
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<td>Wenxian Xia</td>
<td>Ministry of Finance (China)</td>
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Exposure Draft
Insurance Contracts
Peter Clark
Director of Research

Project basics

Project history
- IFRS 4 Insurance Contracts
  - started in 1997
  - standard issued in 2004 (Phase I)
  - aimed at making only limited improvements
- Discussion Paper Preliminary Views on Insurance Contracts (Phase II)
  - issued in 2007
  - further discussed since early 2008
  - 162 comment letters received

Why are we doing this project?
Accounting for insurance contracts TODAY
- IFRS 4 (Phase I) temporary solution
- Wide variety of
  - accounting practices for different contract types and jurisdictions
  - measurement models
- Lack of comparability and transparency
- Current insurance accounting does not provide users with relevant information

Agenda

IASB project on Insurance Contracts
- Project basics
- Proposals in the Exposure Draft
  - Measurement model
  - Presentation and disclosures
  - Recognition
  - Transition
- What are the next steps? How can you get involved?

What did respondents tell us about the Discussion Paper?
- Measurement model: current exit value
  - Typically no transfer, but fulfilment
- Non-performance risk
  - Should not be reflected
- Building block approach to measurement
  - Supported, but some concerns

Insurance accounting TODAY is a black box
What did respondents tell us about the Discussion Paper? continued

- Current estimates based on observable market prices for interest rates and equity prices
  - Generally supported
  - Market consistent where available, if not, entity’s own inputs
- Explicit risk margin
  - Generally supported
  - For comparability reasons, limited number of techniques

Advantages of the proposed model continued

- Relevant information for users:
  - Focus on drivers of profitability of insurance contracts
  - Amount, timing and uncertainty of future cash flows
  - Current estimates
  - Income recognised in line with release from risk
  - Eliminate accounting mismatches
  - Consistent accounting for embedded options and guarantees

Scope of the project

- Accounting for insurance contracts
  - The contract
    - Combination of rights and obligations
    - Presented on a net basis
  - One model for all insurance types
  - Not about the insurer’s other assets or liabilities
  - For the time being: not policyholder accounting
  - Definition
  - Investment contracts with discretionary participating feature

Related projects

- Financial Instruments
  - Eliminate accounting mismatches
  - Use of OCI
  - Aligning of effective dates
- Revenue Recognition
  - Contracts with customers
- Liabilities (Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets)
  - Measurement of uncertain liabilities
Proposals in the Exposure Draft

- Measurement model
  - inputs and estimates
  - building blocks
- Presentation and disclosures
- Recognition
  - contract boundaries
  - unbundling
  - reinsurance
- Transition

Measurement model

- Current measurement of an insurance contract
  - remeasured each reporting period
  - not locked-in
  - not updated for own credit risk
- Reflect insurer’s perspective of the contract
- Building block approach
  - Four (or three) building blocks
- No deposit floor

Measurement model continued

 Inputs and changes in estimates

- Inputs
  - Financial market variables: consistent with observable market prices
  - Other variables: use all available information
  - unbiased
- Changes in insurance liabilities
  - profit or loss

Measurement model continued

- Building blocks
  - Expected (probability-weighted) future incremental cash flows (that arise from the contract)
  - Time value of money
  - Risk adjustment
  - No day one gains: residual margin
  - Day one losses recognised in profit or loss

Measurement model continued

Expected (probability-weighted) future incremental cash flows

- current estimates
- on a portfolio level
- expected to arise from the contract, including
  - incremental acquisition costs
  - cash flows arising from participating features
Measurement model continued

**Acquisition costs**
- Costs of selling, underwriting and initiating an insurance contract
- Some insurers currently defer all acquisition costs
- Proposal in the ED:
  - incremental acquisition costs (on a contract level) are included in the cash flows
  - non-incremental acquisition costs are expensed

**Time value of money**
- Discount rate: Reflecting characteristics of the insurance contract
  - Non-participating: risk-free plus adjustment for illiquidity
  - Participating: consider performance of assets
- Excluded: non-performance risk

**Risk adjustment**
- Explicitly measures the effects of uncertainty associated with future cash flows
  - insurer’s view of uncertainty
- Remeasured each reporting period
- Measured at portfolio level
- Permitted measurement techniques
  - Confidence interval
  - Conditional Tail Expectation
  - Cost of Capital

**Residual margin**
- Allocation of ‘day-one gain’ - releasing it to profit or loss over the coverage period in a systematic way
  - passage of time, or
  - pattern that better reflects the occurrence of benefits and claims
- ‘Day-one loss’ exists when:
  - \( \text{Premium received} - 12 < \text{Expected claim payments} - 10 + \text{Risk adjustment} - 3 \)
  - Accumulation of interest (locked-in)

**Participating contracts**
- Cash flows from participating features
  - (incremental) Participating benefits an insurer expects to pay arising from participating insurance contracts
  → Contract cash flows like any other
- Mutual insurers?
Measurement model continued

The Board also considered as an alternative:
Composite margin (not part of the proposal!)

- Allocation of ‘day-one gain’ - subsequent release to profit or loss
  - over coverage period plus claims handling period
  - amortisation according to the exposure from
    - providing insurance coverage
    - uncertainties related to future cash flows
- ‘Day-one loss’ exists when: cash inflows < cash outflows

Modified approach

- Premium allocation model (‘unearned premium’)
- Required for pre-claim liability of most short-duration contracts
- General measurement model for claim liability (risk adjustment, discounting…)

Presentation and disclosures

Presentation of income statement

- Margin-based approach
  - follows the direct measurement model
  - what insurers expect to earn from providing insurance services and investment return
  - treating insurance premiums as deposits
  - broadly showing:
    - change in the risk adjustment and the release of the residual margin
    - gross inflows and outflows in the disclosures

Disclosures

- Disclosure principle aims at
  - explaining the amounts recognised in the financial statements arising from insurance contracts; and
  - the nature and extent of risks arising from those contracts.
- Auditable information about effectiveness in risk management practices (vs. non-audited MD&A info)
- Risk disclosures similar to IFRS 7
  - Sensitivity analyses
Recognition

• At the earlier of
  – the insurer being on risk to provide insurance coverage
  – the signing of the contract

Recognition continued

Contract boundaries

• Where does an ‘existing contract’ end?
• Existing contract ends if insurer
  – is no longer required to provide coverage, or
  – can reassess the risk for a particular policyholder and change the pricing accordingly

Which future cash flows are included?

Cash flows from
FUTURE PREMIUMS
Contract Boundaries
• insurer is no longer required to provide insurance coverage
• Insurer can reassess risk for a particular policyholder and change pricing accordingly

Unbundling

• Account for components of a contract as if they were separate contracts
• Unbundle components of an insurance contract that are not closely related to the insurance coverage
• Most common examples:
  – Policyholder account balances
  – Embedded derivatives
  – Goods and services that are not closely related to insurance
• Not permitted otherwise

Reinsurance

• One model for all insurance and reinsurance contracts
  – No anti-abuse rules necessary
• Cedant: same measurement as used for underlying direct insurance contracts
  – Initial measurement: residual margin
  – Ceding commission reduces premium
• No offsetting
  – unless requirements for offsetting are met
• No derecognition of ceded contracts
  – unless obligation is discharged, cancelled or expired

Derecognition

• When the insurance liability no longer qualifies as a liability
  – When it is extinguished, i.e., when the obligation is discharged or cancelled or expires
  – Clarification in guidance: at that point where the insurer is
    – no longer at risk and
    – no longer required to transfer any economic resources for the insurance obligation
What happens on transition?

- Existing insurance liabilities
- Deferred acquisition costs
- Intangible assets
- Risk adjustment
- Cash flows

Difference to retained earnings

Transition continued

- Redesignation of financial assets
  - permitted
  - measured at fair value through profit or loss
  - to reduce inconsistency in measurement or recognition
  - adjustment to retained earnings
- Disclosure exemption
  - previously undisclosed claim development information
  - > 5 years

What are the next steps?

- ED published: 30th July 2010
- FASB: issues a Discussion Paper
- Outreach: Working Group, field tests...
- Comment period ends: 30th November 2010
- Final standard by mid-2011

How can you get involved?

Staying up to date
- www.ifrs.org
- go.ifrs.org/insurance_contracts
- IASB Update
- Board meeting webcasts
- Project webcasts and podcasts

Contacts
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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.
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NOTES
Introduction

1. The IASB aims to improve the financial reporting for insurance contracts by issuing a high quality standard for all types of insurance contracts that provides a consistent basis for the accounting and analysis of financial statements that contain insurance contracts. The accounting following from the proposal is supposed to present clearly how insurance contracts affect the insurer’s financial position, performance and its cash flows. The proposal also intends to enhance comparability across business sectors and entities.

2. The IASB published the Exposure Draft *Insurance Contracts* on 30 July 2010 (which can be downloaded from: [http://www.ifrs.org/Current+Projects/IASB+Projects/Insurance+Contracts/Exposure+draft+2010/Exposure+draft+and+Comment+letters.htm](http://www.ifrs.org/Current+Projects/IASB+Projects/Insurance+Contracts/Exposure+draft+2010/Exposure+draft+and+Comment+letters.htm)) with a comment period until 30 November 2010. In addition to that, the IASB intends to undertake further outreach, including a second round of field tests.

3. The staff would like to use the WSS break-out session in two ways:
   
   (a) to present the main features of the exposure draft; and

   (b) to discuss the measurement model and some specific components of the measurement model.
Overview of the proposal

4. The exposure draft proposes a comprehensive measurement approach for all types of insurance contracts issued by entities (and reinsurance contracts held by entities), with a modified approach for some short-duration contracts. The measurement approach is based on the following building blocks:

(a) a current estimate of the future cash flows
(b) a discount rate that adjusts those cash flows for the time value of money
(c) an explicit risk adjustment
(d) a residual margin.

5. For most short-duration contracts, a modified model would apply. During the coverage period, the insurer would measure the contract using an allocation of the premium received. The insurer would use the building block approach to measure claims liabilities.

Issues to discuss

6. Some of the key issues of the measurement model are listed below to facilitate the discussion with the WSS.

Risk adjustment

7. The proposal introduces an explicit risk adjustment, which represents the maximum amount that an insurer would rationally pay to be relieved of the risk that the ultimate fulfilment cash flows exceed those expected. The risk adjustment has to be calculated with one of three permitted methods: confidence interval, conditional tail expectation or cost of capital.

Discount rate

8. Time value of money is one of the building blocks of the measurement. The discount rate shall reflect the characteristics of the insurance liability. For non-
participating insurance contracts, the proposal suggests a current, risk-free discount rate, which is adjusted for liquidity.

Residual margin

9. The residual margin eliminates any gain at inception of the contracts and shall subsequently be recognised in profit or loss over the coverage period in a systemic way. The residual margin does not act as a ‘shock absorber’, which means that the residual margin is not being updated, but ‘locked-in’ at inception.

Acquisition costs

10. Insurers often incur significant costs to sell, underwrite and initiate a new insurance contract. The proposal requires an insurer to include incremental acquisition costs as part of the contract cash flows, and therefore, in the measurement for the insurance contract. All other acquisition costs are recognised as expense when incurred.

Questions

Do you think the proposed measurement model will produce relevant information that will help users of an insurer’s financial statements to make economic decisions? Why or why not? If not, what changes do you recommend and why?

What are your views on the individual components of the measurement model?
World Standard-setters Conference
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NOTES
PHILIPPE DANJOU  
*Member*  
IASB

DENISE GOMEZ  
*Staff*  
IASB
Tuesday 21 September  11.30-12.45

**STAPLE & GRAY S, LOWER GROUND FLOOR**

Financial statement presentation

**Philippe Danjou, IASB Board Member**  
**Denise Gomez, IASB Staff**

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<td>Fabiano de Oliveira Silva</td>
<td>Financial System Regulation Department - Central Bank of Brazil (BCB)</td>
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<td>EFRAG</td>
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<td>Sue Ludolph</td>
<td>The South African Institute of Chartered Accountants (SAICA)</td>
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<td>Liesel Knorr</td>
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<td>Hans de Munnik</td>
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<td>FSR Danish Accounting Standards Committee</td>
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<td>Agnieszka Stachniak</td>
<td>Polish Accounting Standards Committee</td>
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<td>Alfred Wagenhofer</td>
<td>Austrian Financial Reporting and Auditing Committee (AFRAC)</td>
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13.45-15.00 **STAPLE & GRAYS, LOWER GROUND FLOOR**

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<td>Leonid Shneydman</td>
<td>The Ministry of Finance of The Russian Federation</td>
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The views expressed in this presentation are those of the presenters, not necessarily those of the IASB, the IFRS Foundation, the FASB or the Financial Accounting Foundation.

Financial Statement Presentation (FSP) Update
a joint FASB/IASB project
World Standard Setters Meeting September 2010

Project timeline

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<th>Timeline</th>
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<tr>
<td>October 2008</td>
<td>Discussion Paper issued (6-month comment period)</td>
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<td>July 2010</td>
<td>Staff draft issued</td>
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<tr>
<td>Q3 2010 – Q4 2010</td>
<td>Field testing &amp; extended stakeholder outreach program</td>
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<tr>
<td>Q1 2011</td>
<td>Exposure Draft</td>
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<tr>
<td>Q4 2011</td>
<td>Final standard</td>
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Why a project on FSP?

• **Today** in the financial statements:
  – Lack of comparability
  – Lack of linkage
  – Lack of disaggregation

What are the project’s main proposals?

- **Standardise the organisation and presentation of information in financial statements (cohesiveness)**
- **Obtain more disaggregated information (by function, nature, measurement basis)**
- **Clarify links between financial statements**
- **Separate business and financing activities**
- **Improve comparability and understandability**
- **Facilitate analysis as information is more apparent**

Key features and changes from the discussion paper

• Financial statements should be **cohesive at the category level**
  – Don’t have to align on a line-by-line basis

• **Common sections and categories**
  – More specific and less subjective definitions:
    – **Business** section includes operating and investing categories and an **operating finance** subcategory
    – **Financing** section includes debt and equity categories

Key features and changes from the discussion paper (continued)

• **Disaggregation** by function, nature and measurement bases

• Disaggregation of income and expenses
  – **By-function on the face** of the statement of comprehensive income (SCI)
  – IASB: by-nature may be in the notes
  – FASB: by nature as part of the segment note and disclose additional operating measures per segment
Key features and changes from the discussion paper (continued)

- Present operating cash receipts and payments in the statement of cash flows (SCF):
  - Less disaggregation of operating cash flows
  - Need not align with line items on the SCI
- Provide a reconciliation of operating income to operating cash flows
  - as an integral part of the SCF

Key features and changes from the discussion paper (continued)

- The reconciliation schedule replaced by disclosure of:
  - An analysis of changes between the beginning and ending balances of line items that are important for understanding changes in an entity’s financial position
    - IASB: include a net debt roll-forward
  - All remeasurements in a single note

Proposed structure

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<tr>
<td>Balance sheet</td>
<td>Business section</td>
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<td>Operating category</td>
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<td>Multi-category transaction</td>
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<td>Discontinued operations section</td>
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<tr>
<td>Detailed function and nature analysis and forecasting of revenue and expenses</td>
<td>Detailed function and nature information – enables better analysis and forecasting of revenue and expenses</td>
<td>Detailed function and nature analysis and forecasting of revenue and expenses</td>
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<td>Profit or loss subtotal still presented as a basis for EPS</td>
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Statement of Financial Position (SFP)

Changes from current practice: Benefits for users:

- Assets and liabilities grouped by function (sections and categories) – not by elements
- Short- and long-term subcategories or arranged in order of liquidity
- Display total assets and total liabilities at bottom of SFP
- Classify cash balance in operating category

- Operating assets segregated from non-operating investments; operating liabilities segregated from financing liabilities
- Easier to calculate “activity based” metrics eg. return on operating assets, return on investing assets, cost of debt and equity financing

Statement of Comprehensive Income

Changes from current practice: Benefits for users:

- Income and expenses grouped by function (sections and categories)
- More disaggregation by function and nature
- Distinction between profit or loss/net income and other comprehensive income (OCI).
- OCI items identified as operating, investing, or financing activities

- Detailed function and nature information – enables better analysis and forecasting of revenue and expenses
- Profit or loss subtotal still presented as a basis for EPS

Statement of Cash Flows

Changes from current practice: Benefits for users:

- Present operating cash receipts and payments (direct method)
- Reconciliation of operating income to operating cash flows (integral to SCF)
- Elimination of notion of cash equivalents
- Definitions of operating, investing and financing are different

- Operating cash movements are more explicit
- Provides a meaningful depiction of how an entity generates and uses cash
- Allows new metrics – Cash gross margin, Cash op margin
### Some possible areas of concern

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<th>Cohesiveness</th>
<th>Should the structure apply to the SFP?</th>
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<td>How to improve it?</td>
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<td>Notes</td>
<td>Are disclosures on analyses of changes and remeasurements useful?</td>
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<td>Disaggregation</td>
<td>What’s the right balance?</td>
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### We’d like your input on: cohesiveness

- Will the revised structure and modified cohesiveness principle result in a meaningful presentation?
- Will the benefit of segregating operating finance liabilities and related income/expenses in the business section outweigh any additional complexity in the format of the SFP and SCI?
- Should assets and liabilities be classified in sections and categories on the SFP?

### We’d like your input on: cash flows

- Should there be more details about operating cash flows in the statement of cash flows?
  - If so, what is the right level of disaggregation (specific line items to be presented)?
- Is the proposed disaggregation of operating cash flows more useful for financial services entities?

### Cash flows – what is wrong today?

- Lack of standardisation – format and level of disaggregation
- Mix of cash flows, non-cash adjustments and SFP changes in the operating section is confusing
- Starting point for reconciliation of profit to operating cash flows varies in practice
- Information not linked with other statements

### Notes – analyses of changes

- Analyses of changes might result in reconciling every line item in the SFP
- Existing IFRS and US GAAP already require reconciliations
- Not meant to be duplicative, need to integrate with current requirements

**Response in Staff Draft:**

- Management uses its judgement to determine which A/L are important
- Not meant to be duplicative, need to integrate with current requirements
Notes – remeasurements

The definition captures a variety of changes in assets and liabilities including changes in estimates.

Users want to understand how changes in estimates affect carrying amounts.

Remeasurements should be understood in the context of an entity’s financial performance -- not just in the context of a specific account.

Information already required as part of the analyses of changes.

Response in Staff Draft:

We’d like your input on: the notes

- Is the proposed requirement to disclose analyses of changes in asset and liability line items operational? Cost beneficial?
  - Should an entity be required to analyse the changes in all SFP line items?
- Is the remeasurements note operational? Cost beneficial?

Disaggregation – some concerns

Disaggregation principle will lead to very detailed information on the face of the financial statements.

By-nature income and expense information presented in the notes.

Flexibility on amount of disaggregation (by-function not relevant for some entities).

Response in Staff Draft:

We’d like your input on: disaggregation

- Are the three disaggregation attributes (function, nature, and measurement basis) appropriate? Should an attribute be added or removed?
- Is the requirement to disaggregate income and expenses by-nature (for each function) operational? Cost beneficial?
- Should by-nature information be presented for each reportable segment (as proposed by FASB)?

What is next?

- The boards welcome constituents to engage in their outreach activities that will be addressing:
  - the costs and benefits of the proposals
  - the implications of the proposals for financial reporting by financial services entities
- Outreach activities will be in the form of:
  - field visits and field tests
  - meetings with users, preparers, other stakeholders
- More information on the website

How can you get involved?

Staying up to date

- www.ifrs.org
- http://go.ifrs.org/FSP
- www.fasb.org
- IASB Update and FASB Action Alert
- Board meeting webcasts
- Project webcasts and podcasts

Contacts

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  Project manager
  hobst@ifrs.org
World Standard-setters Conference
Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

NOTES
Introduction

1. In June 2010, the boards decided to engage in additional outreach activities before finalising and publishing an exposure draft on financial statement presentation. In July 2010 the staff of the IASB and the FASB posted on each board’s website a staff draft (which can be downloaded from: http://www.ifrs.org/Current+Projects/IASB+Projects/Financial+Statement+Presentation/Phase+B/Staff+draft+of+proposed+standard.htm) of an exposure draft that reflects the boards’ cumulative tentative decisions on financial statement presentation, concluding with their joint meeting in April 2010. The proposals in that staff draft (draft proposals) are the basis for the staff outreach activities.

2. These activities will include: field tests where participating companies will be recasting their financial statements according to the draft proposals; field visits in which staff will meet with companies to discuss the types of systems and process changes that would be involved in implementing the draft proposals; and conference calls with users of financial statements, accounting firms, and other constituents. The activities will focus primarily on two areas:

   (i) the perceived benefits and costs of the proposals, and

   (ii) the implications of the proposals for financial reporting by financial services entities.
3. The staff would like to use the WSS break-out session in two ways:
   (a) to present the key features of the draft proposals and major changes from the discussion paper; and
   (b) to discuss some of the areas where concerns have been raised.

4. The staff would like to discuss the following issues during the break-out session:
   (a) Cohesiveness principle and classification

   In a change from the discussion paper, cohesiveness will no longer be required on a line item by line item basis. The financial statements will align at either the section or category level as illustrated in the following table.

<table>
<thead>
<tr>
<th>Statement of financial position</th>
<th>Statement of comprehensive income</th>
<th>Statement of cash flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business section</td>
<td>Business section</td>
<td>Business section</td>
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<td>Equity category</td>
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<tr>
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<td>Income tax section</td>
<td>Income tax section</td>
</tr>
<tr>
<td>Discontinued operation section</td>
<td>Discontinued operation section, net of tax</td>
<td>Discontinued operation section</td>
</tr>
<tr>
<td>Other comprehensive income, net of tax</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Questions on cohesiveness and the proposed structure**

1. Do you think that the revised structure and modification to the cohesiveness principle will result in a meaningful presentation of financial information?
2. Do you think that the benefit of segregating operating finance liabilities and related income/expense in the business section will outweigh any additional complexity that it may add to the format of the statements of financial position and comprehensive income?

3. Do you think that assets and liabilities should be classified in sections and categories (consistent with cohesiveness principle) on the statement of financial position?

(b) Statement of cash flows

The draft proposals require to present:

- actual operating cash inflows and outflows (direct method), and separately

- a reconciliation of operating income to operating cash flows as an integral part of the statement of cash flows.

Questions on the statement of cash flows

4. Should there be more details about operating cash flows in the statement of cash flows? If so, what is the right level of disaggregation of operating cash flows information (e.g., what specific line items should be disaggregated)?

5. Do you think that disaggregation of operating cash flows as proposed in the staff draft will be more useful for financial services entities (than the statement of cash flows they prepare today)?

(c) Analyses of changes and remeasurements

The draft proposals require disclosure in the notes to the financial statements an analyses (or roll-forwards) of changes between the opening and closing balances of asset or liability line items (or groups of line items) that management regards as important for understanding the current period change in the entity’s financial position.

In addition, more detailed information would be provided in the notes on information about remeasurements. A remeasurement is a change in the net carrying amount of an asset or liability arising from amounts recognized in comprehensive income (for example, the effects of fair
value remeasurements, as well as the effects of changes in estimates of the value of assets and liabilities, such as goodwill impairment).

### Questions on new note disclosures

<table>
<thead>
<tr>
<th>Question</th>
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<tbody>
<tr>
<td>6. Do you think that the proposed requirement to disclose analyses of changes of asset and liability line items is operational? Do you think it will be cost beneficial? Should an entity be required to analyse the changes in <strong>all</strong> asset and liability line items?</td>
</tr>
<tr>
<td>7. Do you think that the remeasurement note requirement is operational? Do you think it will be cost beneficial?</td>
</tr>
</tbody>
</table>

### (d) Disaggregation

One of the core principles of the draft proposals is disaggregation, with its three main attributes being: function, nature, and measurement basis.

In a change from the discussion paper, entities do not have to present their disaggregated by-nature income and expense information on the face of the statement of comprehensive income – it can be in the notes to financial statements. In fact, the FASB is proposing that the information be disaggregated in the segment note.

### Questions on disaggregation

<table>
<thead>
<tr>
<th>Question</th>
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<tbody>
<tr>
<td>8. Do you think that the three proposed disaggregation attributes (function, nature, and measurement basis) are appropriate? Is there an attribute that should be either added or removed from the disaggregation principle?</td>
</tr>
<tr>
<td>9. Do you think that the requirement to disaggregate income and expenses by nature (for each function) is operational? Do you think it will be cost beneficial?</td>
</tr>
<tr>
<td>10. Do you think that by-nature income and expense information should be presented for each reportable segment as proposed by the FASB?</td>
</tr>
</tbody>
</table>
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Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

NOTES
Revenue recognition

PRABHAKAR KALAVACHERLA (PK)
Member
IASB

HENRY REES
Staff
IASB

APRIL PITMAN
Staff
IASB
Tuesday 21 September  11.30-12.45

LITTLETON BRYCE AND TEMPLE, GROUND FLOOR

Revenue recognition

Prabhakar Kalavercherla (PK), IASB Board Member
Henry Rees, IASB Staff
April Pitman, IASB Staff

<table>
<thead>
<tr>
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<td>Commissie voor Boekhoudkundige Normen (BASB)</td>
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<tr>
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<tr>
<td>Toru Yoshioka</td>
<td>Accounting Standards Board of Japan (ASBJ)</td>
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Project objectives

- Single model based on clear principles
- Improve accounting for contracts with customers by:
  - providing a more robust framework for addressing revenue issues
  - increasing comparability across industries and capital markets
  - providing enhanced disclosures
  - clarifying accounting for contract costs

Summary of the revenue proposals

Core principle:
Recognise revenue to depict the transfer of goods or services in an amount that reflects the consideration expected to be received in exchange for those goods or services

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

Key proposal: price interdependence
- combine contracts if prices are interdependent
- segment a contract if prices are independent
- contract modifications accounted for separately if priced independently

Agenda

- Project objective
- The exposure draft
- Summary of the revenue proposals
- Steps to apply the model including discussion points:
  - Distinct performance obligations
  - Transfer of control
  - Accounting for warranties
  - Accounting for licenses

The exposure draft

- Converged proposal with unanimous support of both the IASB and the FASB
- Published for public comment on 24 June 2010. Comments due 22 October 2010.
- Based on further development of the principles proposed in the December 2008 discussion paper
- Developed using feedback from over 220 comment letters and input from other outreach activities
### Step 2

**Key proposal: distinct goods or services**
- A separate performance obligation is a promise to transfer a distinct good or service to the customer.
- A good or service is distinct if it:
  - is sold separately, or
  - has a distinct function and a distinct profit margin.

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

### Step 3

**Key proposal: expected amount**
- Transaction price is the expected (probability-weighted) consideration from the customer, and reflects:
  - reasonable estimates of contingent amounts
  - credit risk
  - implicit financing

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

### Step 4

**Key proposal: relative selling price allocation**
- Transaction price allocated to the separate performance obligations on relative selling price basis.
- Selling prices estimated if necessary
- No residual method

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

### Example - equipment manufacturer

#### Scenario 1
Contract to build highly customised equipment:
- Customer has unconditional obligation to pay throughout contract
- Customer specifies design and has involvement in manufacturing
- Customer has ability to take possession during construction

Customer controls equipment as built—contract is for manufacturing services. Revenue recognised continuously only if customer controls WIP.

#### Scenario 2
Contract for standard equipment built to order:
- Customer makes payments on account throughout contract
- Customer specifies only minor aspects of design
- Customer cannot take possession until built

Customer controls equipment on delivery—contract is for manufactured equipment. Revenue recognised on delivery.
Transfer of control

• Is the guidance adequate?
• Are the indicators useful?
• How would you solve the particular problems associated with services?

Accounting for warranties

• Cover for latent defects (‘quality assurance’ warranty)
  – not a performance obligation
  – requires evaluation of whether the performance obligation to transfer product is satisfied
  – revenue not recognised until the defective product or component is replaced
• Cover for faults post-delivery (‘insurance’ warranty)
  – is a performance obligation
  – revenue is recognised over the warranty period

Example: Product warranties

A company sells 1,000 products for CU10 each. Each product costs CU8. The company expects that 5% of products will need to be replaced after sale for latent defects.

US GAAP and IFRS
• When the products are delivered, recognise revenue of CU10,000 and expected warranty costs of CU400

Proposed model
• When the products are transferred, recognise revenue of CU9,500 and a contract liability of CU500 for unsatisfied performance obligations (selling price 50 defective products)
• Recognise revenue of CU500 when the company satisfies its performance obligations by replacing faulty goods

Accounting for licenses

• Customer obtains control of the entire licensed IP (eg exclusive license for economic life)
  – sale of the IP, not a license
• Exclusive license, but customer does not obtain control of entire licensed IP
  – performance obligation to permit customer to use IP
  – revenue over time
• Non-exclusive license
  – performance obligation to transfer licenses
  – revenue when the customer is first able to use the license

Do you think it is useful to try to distinguish between different types of warranties?
• Do you agree with the articulation of two types of warranties proposed?
• Do you agree with the accounting treatment proposed?
Background


2. The staff would like to discuss four questions from the exposure draft’s invitation to comment with members of the world standard setters’ forum:

   (a) Do you agree that an entity should identify separate performance obligations based on whether the promised good or service is distinct?

   (b) Do you think the proposed guidance is sufficient for determining when control of a good or service has been transferred to the customer?

   (c) Do you agree with the proposed distinction between types of warranties and the proposed accounting for each?

   (d) Do you agree with the patterns of revenue recognition proposed by the boards for licences?

This paper has been prepared by the technical staff of the IFRS Foundation for discussion at a public meeting of the IASB. The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB Update. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.
3. A presentation that summarises the proposed standard and includes examples illustrating each question to prompt discussion will be made available at the conference.
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NOTES
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Financial instruments: replacing IAS 39

PATRICK FINNEGAN
Member
IASB

SUE LLOYD
Staff
IASB
Tuesday 21 September 11.30-12.45

CLEMENTS THAVIES LINCOLN, LOWER GROUND FLOOR

Financial instruments: replacing IAS 39

Patrick Finnegan, IASB Board Member
Sue Lloyd, IASB Staff

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## Financial instruments: replacing IAS 39

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

**Project to replace IAS 39**

**Update on status and recent decisions**

**ED FVO for Financial Liabilities**

To address 'own credit risk':

- Retain IAS 39 measurement requirements for financial liabilities:
  - held for trading ➔ fair value through P&L
  - hybrid liabilities ➔ bifurcation requirements in IAS 39
  - ‘vanilla’ liabilities ➔ amortised cost
  - maintain FVO (with current eligibility conditions)

**BUT**

- Separate out ‘own credit risk’ for FVO
- ‘Own credit risk’ portion would be separated in a manner similar to that used in IFRS 7 for disclosure (IFRS 7 B4)

**FVO proposals**

Profit or Loss (liabilities under FVO)

<table>
<thead>
<tr>
<th>Total change in FV</th>
<th>XX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in FV due to 'own credit'</td>
<td>(X)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>XXX</td>
</tr>
</tbody>
</table>

Statement of Comprehensive Income (liabilities under FVO)

Other Comprehensive income: Change in FV due to 'own credit'**

* Not recycled

**Tentative decisions in September**

**IAS 39 replacement – phase II**

**Major operational issues – decoupling**

Major operational issue #1:

- Allocation of initial expected losses (EL)
  - ED requires allocating the initial EL estimate over the expected life of the financial asset
  - Allocation mechanism: the (credit cost adjusted) effective interest rate (EIR)

- Potential simplification: 'decoupling' of interest and credit loss calculations
Major operational issues – lifetime EL

Major operational issue #2:

- Estimating lifetime EL
  - Consider and use best available information
  - Based on historical information adjusted for management expectations of future conditions and likely changes in the portfolio
  - Basel II EL can be used as one possible starting point but would require adjustments
  - Reasonable estimates over 1 to 3 years, then revert to long-term average loss rate

Overview – expected loss considerations

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>TO BE CONSIDERED</th>
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</thead>
<tbody>
<tr>
<td>Which expected losses?</td>
<td>Over the life or shorter?</td>
</tr>
<tr>
<td>When are expected losses recognised?</td>
<td>Integrated in IFRS</td>
</tr>
<tr>
<td>How are changes in loss estimates treated?</td>
<td>Full catch-up to profit or loss</td>
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<tr>
<td>Allowance account floor?</td>
<td>No floor</td>
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Outlook...

Approach for re-deliberations (the ‘game plan’…)

- First develop an impairment model for open portfolios
  - Basic architecture
  - Details
- Ascertain whether that approach ‘fits all’...
  - Single instruments
  - Short-term trade receivables
  - Variable-rate instruments
  - Loan commitments
  - Other instruments
- Revisit presentation and disclosure

Outlook… (cont’d)

Topics to be considered in finalising the project...

- Probability weighting of possible outcomes
  - Expected loss = expected value?
- How does the impairment model fit into amortised cost?
  - Cost plus vs present value notion
- Extent of guidance
  - Application guidance
  - Implementation guidance
- Illustrative examples
- Scope: off balance sheet credit exposures...

Tentative decisions to date

- The Board has tentatively decided:
  - to move forward using an expected loss impairment approach.
  - to consider an expected loss approach based on lifetime expected losses.
  - that entities should consider all reasonable and supportable information (including forecasts of future conditions) when calculating expected losses.
Introduction

• The Board is considering hedge accounting comprehensively
• Addressing hedging of both financial and non-financial exposures

Overall approach:
– Use existing architecture
– Address specific problem areas
– Use clear and explicit principles
– Identify any exceptions clearly

Tentative decisions in September

Hedged items – groups and net positions

• Issues:
  – Alignment of hedge accounting with common risk management practice
  – Identification and tracking of hedged items in a group hedge
  – Net positions – allocation of hedge gains/losses:
    – profit or loss geography (single line vs grossing up of derivative gains or losses)
    – groups that include income/expense items and assets/liabilities

Hedged items – groups and net positions continued

• Tentative decisions (deliberations continuing):
  – Change in fair value of individual hedged items need not be proportional to that of the group
  – Permit layer approach (eg bottom layer) to identifying hedged items from a group (in some circumstances)
  – Separate line item presentation of hedging instrument gains or losses for net position hedges (in some circumstances)

Test hedge effectiveness

• Objective
  – Hedging relationship should produce an unbiased result and minimise expected hedge ineffectiveness
  – To achieve this:
    – Risk management determines the ‘optimal’ hedge ratio
      ie no expectation that changes in the value of the hedging instrument will systematically exceed or be less than changes in the value of the hedged item
    – Demonstrate offset in hedge relationship is not accidental

Test hedge effectiveness continued

• Tentative decisions:
  – No bright-line (ie no 80% to 125% range)
  – The characteristics of the hedging relationship and the potential sources of ineffectiveness determine:
    – whether a qualitative or quantitative assessment is appropriate
    – what method of assessment is appropriate
  – The assessment is forward looking and performed at inception and on an ongoing basis
  – Rebalancing of the hedge ratio and a change of the assessment method can become necessary
Fair value hedge mechanics

- Issues
  - Different mechanics used for fair value and cash flow hedges increase complexity
  - Adjusting hedged item results in a measurement that is neither cost nor fair value
  - Cash Flow hedge accounting mechanics create OCI volatility
  - Presentation of hedging gains or losses

Tentative approach to hedge accounting

- Cash flow hedge accounting
  - Ways to account today:
  - Unchanged

- Fair value hedge accounting
  - Cumulative gain or loss on the hedged item attributable to the hedged risk as a separate line item in the balance sheet
  - Hedged item’s carrying amount not changed
  - The fair value changes for hedging instruments and hedged items are taken to other comprehensive income and any ineffectiveness is transferred immediately to profit or loss

Knock-on effects of other project phases

- Equity investments for which the OCI presentation alternative is elected
  - Tentative decision:
    - Prohibit the application of hedge accounting for instruments designated at fair value through OCI

Tentative decisions in September

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.
World Standard-setters Conference
Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

NOTES
Introduction

1. All three phases of the project to replace IAS 39 are currently active. The classification and measurement of financial liabilities and impairment phases are being redeliberated and the hedge accounting deliberations are ongoing.

2. In addition, the IASB has requested that its constituents provide the FASB with comments on their comprehensive exposure draft on financial instruments—the comment period for that document ends on 30 September 2010. The IASB and FASB have undertaken to investigate ways to address any differences that ultimately remain between their models to assist the users of financial statements.

3. The staff would like to use the WSS break-out session in the following ways:
   (a) to obtain feedback on possible ways to bridge any remaining gaps between the FASB and IASB models;
   (b) to provide an update on the tentative decisions that have been made in each of the three phases; and
   (c) to obtain feedback on some of the tentative decisions made to date.

Issues to discuss

4. The FASB ED (which can be downloaded from: http://www.fasb.org) proposes a symmetrical model for financial assets and liabilities with most financial...
instruments required to be measured at fair value on the balance sheet. If an 
entity has a business strategy of holding debt instruments for collection or 
payment of contractual cash flows and those debt instruments are not 
bifurcable under current US GAAP then the entity can elect ‘FV-OCI’ 
presentation - this means both fair value and amortised cost information is 
provided on the face of the balance sheet, amortised cost information is reflected 
in net income and other changes in fair value are recognised in Other 
Comprehensive Income.

5. This contrasts with IFRS 9 Financial Instruments which requires financial 
assets to be measured at amortised cost if an entity has a ‘hold to collect’ 
business model and the financial asset has contractual cash flows that only 
represent the payment of principal and interest. The IASB has proposed that the 
accounting for financial liabilities be unchanged from IAS 39 except in respect 
of the treatment of changes in fair value due to own credit.

6. The FASB is yet to finalise its classification and measurement model. It is 
possible that their final position will be closer to IFRS 9. While the IASB is 
committed to a mixed measurement model, we are interested in considering how 
any remaining differences between the models are best addressed such as by 
providing parenthetical disclosure of fair value information on the face of the 
balance sheet.

<table>
<thead>
<tr>
<th>Question 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you have any suggestions for how best to reconcile any differences that may remain between the FASB and IASB financial instrument classification and measurement models in order to assist users of financial statements?</td>
</tr>
</tbody>
</table>

1 Subject to the fair value option which is available for accounting mismatches.
Impairment

7. The exposure draft *Amortised Cost and Impairment* proposed an expected loss impairment approach for all financial assets measured at amortised cost including short-term trade receivables. However, it was noted that practical expedients could be used for short-term trade receivables (so for example the effect of discounting could be ignored if immaterial and/or a provision matrix of historical loss experience could be used to determine expected credit losses). Application of the proposals would result in revenue being recognised adjusted for expected credit losses. (This is consistent with the exposure draft *Revenue from Contracts with Customers*. However, some respondents felt that recognising revenue related to short-term accounts receivables should only be dealt with in the Revenue Recognition project and not addressed in the Amortised Cost and Impairment project).

8. Many respondents (especially those from non-financial institutions and those with a professional interest in non-financial institutions) to the exposure draft commented on a need for a different approach for non-interest bearing financial instruments (eg short-term trade receivables) and non-financial institutions, in general.

9. Most of the respondents that commented on the treatment of short-term trade receivables in the ED also provided their concerns on the proposed treatment of related revenue (see comment above). They state that allocating the expected losses against revenue when first recording the receivable is inconsistent with the treatment for the other financial assets in the ED which allocate the expected credit losses over the life of the asset. They also state that the losses incurred on trade receivables are a business expense and should be shown separately from revenue.

10. Whilst most respondents that commented on the treatment of non-interest bearing short-term financial assets agree that such instruments should not be treated the same as financial assets created solely as a result of lending
transactions, they provided different suggestions for how to resolve the treatment. Some suggestions received included:

(a) provide more practical expedients (for example related to presentation and disclosure); or

(b) scope out such transactions, and maybe even non-financial institutions in general, from the final standard.

<table>
<thead>
<tr>
<th>Question 2 – Impairment for short term trade receivables</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Do you believe that the initial and subsequent measurement and presentation of non interest bearing short term trade receivables should be as proposed in the exposure draft <em>Amortised Cost and Impairment</em>? If not why not and what would you propose instead?</td>
</tr>
<tr>
<td>(b) Do you believe that short-term trade receivables and non-financial institutions should remain in the scope of the proposed impairment approach? If not, why and what would you suggest?</td>
</tr>
</tbody>
</table>

**Hedge accounting**

*Fair value hedge accounting mechanics*

11. Earlier in the hedge accounting deliberations (September 2009), the IASB tentatively decided to improve hedge accounting requirements by replacing the mechanics used for fair value hedge accounting with an approach that is similar to cash flow hedge accounting (the tentative approach).

12. This decision was made in response to concerns raised by users about the current fair value hedge accounting mechanics which results in hedged items being carried neither at (amortised) cost nor at fair value but rather at an adjusted amount that depends on what risks have been hedged, and how and when that hedging has occurred. This makes the carrying amounts of hedged items difficult to understand.
13. However, during the outreach activities we received feedback that the tentative approach would give rise to OCI volatility that was considered by many to be problematic. As a result of this feedback the Board changed its tentative decision to an approach for fair value hedge accounting that presents the cumulative gain or loss on the hedged item attributable to the hedged risk as a separate line item in the balance sheet. That line item is presented within assets (or liabilities) for those reporting periods for which the hedged item is an asset (or liability). The fair value changes of the hedging instrument and the hedged item attributable to the hedged risk are taken to other comprehensive income, and any ineffectiveness is transferred immediately to profit or loss. (See further Agenda Paper 8A July 2010 which can be downloaded from: http://www.ifrs.org/Meetings/IASB+Board+Meeting+22+July+2010.htm).

<table>
<thead>
<tr>
<th>Question 3 – Fair value hedge accounting mechanics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the proposed change in fair value hedge accounting mechanics improve the decision usefulness of information for users of financial statements? Why or why not?</td>
</tr>
</tbody>
</table>

**Hedge accounting – eligibility criteria**

14. The Board has discussed the hedge effectiveness testing that should be required to determine whether a relationship qualifies for hedge accounting.

15. The Board has tentatively agreed on a hedge effectiveness testing approach for hedge qualification as follows:

(a) The objective of the effectiveness assessment is to ensure that the hedging relationship that will produce an unbiased result and minimise expected ineffectiveness. Thus, for accounting purposes hedging relationships should not reflect a deliberate mismatch between the weightings of the hedged item and hedging instrument within the hedging relationship.
(b) In addition to that objective, hedging relationships are expected to achieve other than accidental offsetting of changes between the hedged item and hedging instrument attributable to the hedged risk.

(c) The assessment is forward looking and performed at inception and on an ongoing basis.

(d) The type of assessment (quantitative or qualitative) depends on the relevant characteristics of the hedging relationship and the potential sources of ineffectiveness. Entities’ risk management is the main source of information to perform the effectiveness assessment.

(e) No particular methods for assessing hedge effectiveness are prescribed. However, the method used should be robust enough to capture the relevant characteristics of the hedging relationship including the sources of ineffectiveness.

(f) Changes in the method for assessing effectiveness are mandatory if there are unexpected sources of ineffectiveness (i.e., new sources not initially anticipated) or if upon a rebalancing in the hedging relationship the method used previously is no longer capable of capturing the sources of ineffectiveness and therefore is not capable of demonstrating whether the hedge produces an unbiased result and minimises ineffectiveness.

(See further Agenda Paper 4A 24 August 2010 meeting which can be downloaded from: http://www.ifrs.org/Meetings/IASB+Meeting+24+August+2010.htm).

**Question 4 – Hedge accounting effectiveness testing (for hedge accounting qualification)**

Will the proposed hedge accounting effectiveness test (for hedge qualification purposes) address the existing issues with hedge qualification criteria? Why or why not?
World Standard-setters Conference
Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

NOTES
World Standard-setters Conference
Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

IFRSs
Technical update and Q&A

AMARO GOMES
Member
IASB

ELKE KÖNIG
Member
IASB

WAYNE UPTON
Staff
IASB

WEI-GUO ZHANG
Member
IASB
Tuesday 21 September 13.45-15.00

BALLROOM

IFRS – Tech update & Q&A

Amaro Gomes, IASB Member
Wayne Upton, IASB Staff
Wei-Guo Zhang, IASB Member
Elke König, IASB Member

<table>
<thead>
<tr>
<th>NAME</th>
<th>ORGANISATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ahmad Abu Elhommos</td>
<td>Arab Society of Certified Accountants</td>
</tr>
<tr>
<td>Rafid Al Nawas</td>
<td>Iraqi Union of Accountants and Auditors (IUAA)</td>
</tr>
<tr>
<td>Harald Brandsås</td>
<td>Norsk RegnskapsStiftelse (Norwegian Accounting Standards Board)</td>
</tr>
<tr>
<td>Avinash Chander</td>
<td>Institute of Chartered Accountants of India</td>
</tr>
<tr>
<td>Agron Dida</td>
<td>Kosovo Board on Standards for Financial Reporting (KBSFR)</td>
</tr>
<tr>
<td>Niels H Enevoldsen</td>
<td>FSR Danish Accounting Standards Committee</td>
</tr>
<tr>
<td>Manoj Fadnis</td>
<td>Accounting Standards Board of India</td>
</tr>
<tr>
<td>Osvaldo Zanetti Favero Junior</td>
<td>Accounting and Auditing Regulation Superintendency - Securities and Exchange Commission (CVM) (Brazil)</td>
</tr>
<tr>
<td>Fatmir Gashi</td>
<td>Kosovo Board on Standards for Financial Reporting (KBSFR)</td>
</tr>
<tr>
<td>Omodele R.N. Jones</td>
<td>Council for Standards of Accounting, Auditing, Corporate &amp; Institutional Governance (CSAAG)</td>
</tr>
<tr>
<td>Atsu Kato</td>
<td>Accounting Standards Board of Japan (ASBJ)</td>
</tr>
<tr>
<td>Philipp Leu</td>
<td>Swiss GAAP FER</td>
</tr>
<tr>
<td>Ian Mackintosh</td>
<td>Accounting Standards Board (UK)</td>
</tr>
<tr>
<td>Pius A Maneno</td>
<td>National Board of Accountants and Auditors Tanzania</td>
</tr>
<tr>
<td>Hristo Mavrudiev</td>
<td>Institute of Certified Public Accountants in Bulgaria (ICPA)</td>
</tr>
<tr>
<td>Hans de Munnik</td>
<td>Dutch Accounting Standards Board</td>
</tr>
<tr>
<td>Tomas Severa</td>
<td>Ministry of Finance (Czech Republic)</td>
</tr>
<tr>
<td>Kevin Stevenson</td>
<td>Australian Accounting Standards Board</td>
</tr>
<tr>
<td>Ouussama Ali Tabbara</td>
<td>Arab Society of Certified Accountants</td>
</tr>
<tr>
<td>Irena Vavrinova</td>
<td>Ministry of Finance (Czech Republic)</td>
</tr>
</tbody>
</table>
The importance of 2011

- IASB commitment remains
- A number of countries adopting or converging to IFRS around that time (2011/2012)
- G20 target date
- MoU target date

However:
Primary focus: achieve significant improvements to financial reporting without compromising due process

Modified strategy and work plan

Target date for priority projects remains June 2011

- Prioritise major projects to permit sharper focus on those areas in most urgent need for improvement in both IFRS and US GAAP
- Phasing of publication of EDs and related consultations to enable broad-based, effective stakeholder participation
- Publication of separate consultation document seeking stakeholder input about effective dates and transition methods

The Major Projects

**Crisis (MoU)**
- Financial instruments
- Fair value measurement
- Consolidation
- Derecognition

**Other (MoU)**
- Revenue recognition
- Leases
- Post-retirement benefits
- Financial statement presentation
- Liability/Equity

**Other (Non MoU)**
- Insurance contracts

www.ifrs.org
The Major Projects

<table>
<thead>
<tr>
<th>Project</th>
<th>ED issued</th>
<th>Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derecognition</td>
<td>✓</td>
<td>Q3 2010</td>
</tr>
<tr>
<td>Consolidation</td>
<td>✓</td>
<td>Q4 2010</td>
</tr>
<tr>
<td>Financial statement presentation (OCI)</td>
<td>✓</td>
<td>Q4 2010</td>
</tr>
<tr>
<td>Liability/Equity</td>
<td>✓</td>
<td>Q1 2011</td>
</tr>
<tr>
<td>Fair value measurement</td>
<td>✓</td>
<td>Q1 2011</td>
</tr>
<tr>
<td>Post-retirement benefits</td>
<td>✓</td>
<td>Q1 2011</td>
</tr>
</tbody>
</table>

Financial crisis projects - Derecognition

<table>
<thead>
<tr>
<th>Project</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derecognition</td>
<td>Near-term priority; improving and converging US GAAP and IFRS disclosure requirements</td>
</tr>
<tr>
<td></td>
<td>Additional research and post-implementation review of FASB amendments to assess future of the project (2012)</td>
</tr>
<tr>
<td></td>
<td>Q3 2010: finalised improved disclosure requirements similar to US GAAP</td>
</tr>
</tbody>
</table>

Derecognition Disclosures
Amendments to IFRS 7

- Converge the disclosures on transfers of financial assets
- Similar to those in ED Derecognition - Proposed amendments to IAS 39 and IFRS 7 (published March 2009)
Disclosures: Objectives

On-balance sheet disclosures
To help understand the relationship between financial assets that are not derecognised and associated liabilities

Off-balance sheet disclosures
To help evaluate the nature of and risks from continuing involvement in derecognised financial assets

Users' concerns!

On-balance sheet disclosures
Currently required (IFRS 7)
- Nature of (non derecognised) financial assets
- Nature of risks to which entity remains exposed
- Carrying amounts of assets and associated liabilities

New
- Description of nature of relationship between assets and associated liabilities (incl. restrictions on use of assets)
- If recourse only to assets: FV of assets, associated liabilities and net position

Off-balance sheet disclosures... all new

QUANTITATIVE disclosures – Part 1
- Carrying amount and FV of continuing involvement
- Maximum exposure to loss from continuing involvement
- Cash outflows to repurchase assets
- Maturity analysis of future cash outflows

Aggregate disclosures when more than one category of continuing involvement with same derecognised assets

Off-balance sheet disclosures ... all new

QUANTITATIVE disclosures - Part 2
- Gain or loss at date of derecognition
- Income and expense recognised from continuing involvement
- If transfer activity not evenly distributed in reporting period:
  (a) Total amount of activity and related gain or loss in period and
  (b) When greatest activity within period took place

Off-balance sheet disclosures ... all new

QUALITATIVE disclosures
Terms of the transaction that resulted in derecognition of financial assets:
(a) Description of the derecognised assets
(b) Nature and purpose of continuing involvement
(c) Risks to which entity remains exposed:
   (i) How entity manages risk from continuing involvement
   (ii) Whether entity bears losses before other parties + ranking and loss amounts borne by each category of party involved
   (iii) Events/circumstances that would trigger financial support or repurchase of derecognised asset

Financial crisis projects – Consolidation

<table>
<thead>
<tr>
<th>Project</th>
<th>Objective</th>
<th>Target date</th>
</tr>
</thead>
</table>
| Consolidation | • Boards agreed that standard should include common objectives and principles.  
  • IASB project in three parts | Full completion (IASB): Q4 2010 |
### Consolidation continued

<table>
<thead>
<tr>
<th>Project part</th>
<th>Target dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replacement of IAS 27</td>
<td>• Q3 2010: ED</td>
</tr>
<tr>
<td>Disclosures about unconsolidated SPEs/structured entities</td>
<td>• Q4 2010: finalised IASB standard</td>
</tr>
<tr>
<td>Investment companies (part of Consolidation project)</td>
<td>• Q4 2010: ED</td>
</tr>
<tr>
<td></td>
<td>• 1H 2011</td>
</tr>
</tbody>
</table>

### Prioritised projects - other

<table>
<thead>
<tr>
<th>Project</th>
<th>Objective</th>
<th>Target dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presentation of OCI</td>
<td>develop presentation standards that improve the reported items of OCI and allow easier comparability between US GAAP and IFRSs</td>
<td>Q4 2010: converged and improved standard</td>
</tr>
</tbody>
</table>

### Other joint projects

<table>
<thead>
<tr>
<th>Project</th>
<th>Status</th>
<th>Target dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial statement presentation</td>
<td>• DP feedback suggested concerns that benefits could be outweighed by expected implementation costs.</td>
<td>• Q3 2010: draft proposed standard</td>
</tr>
<tr>
<td></td>
<td>• Boards decided to engage in additional outreach activities and potentially reconsider proposals</td>
<td>• Q4 2010: completion of outreach</td>
</tr>
<tr>
<td></td>
<td>• Q1 2011: ED</td>
<td></td>
</tr>
</tbody>
</table>

### Financial crisis projects - Other

<table>
<thead>
<tr>
<th>Project</th>
<th>Status</th>
<th>Target dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Instruments with characteristics of equity</td>
<td>• Effects of proposal in draft ED being explored</td>
<td>• Q1 2011: Joint ED (re-exposure)</td>
</tr>
<tr>
<td>Fair Value Measurement</td>
<td>• develop a converged definition of fair value and common implementation guidance (incl for illiquid markets)</td>
<td>• Q3 2011: round tables</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Q4 2011: issuance of improved and converged standards</td>
</tr>
</tbody>
</table>

### Other MoU projects

<table>
<thead>
<tr>
<th>Project</th>
<th>Status</th>
<th>Target dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post-employment benefits – defined benefit plans</td>
<td>• ED issued in April 2010</td>
<td>• Q1 2011: IFRS expected</td>
</tr>
<tr>
<td></td>
<td>• Comments due 6 Sept 2010</td>
<td></td>
</tr>
</tbody>
</table>

### Other joint projects

<table>
<thead>
<tr>
<th>Project</th>
<th>Status</th>
<th>Target dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance contracts</td>
<td>• In 2009 the boards begin discussing the project jointly – agreed on joint approach in most areas</td>
<td>• IASB ED comments due 30/11/2010</td>
</tr>
<tr>
<td></td>
<td>• FASB to issue DP compare the IASB’s proposed model with the FASB’s tentative decisions reached to date</td>
<td>• Q2 2011: final standard</td>
</tr>
</tbody>
</table>
### Prioritised projects – Financial Instruments

<table>
<thead>
<tr>
<th>Project</th>
<th>Objective</th>
<th>Target date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial instruments</td>
<td>Issuance of comprehensive improvements that foster international comparability of financial instruments</td>
<td>Full completion: Q2 2011</td>
</tr>
</tbody>
</table>

Differing development timetables and imperatives resulted in differing conclusions in a number of areas. **Strategy to address differences:**
- Encouraged IFRS constituents to comment on FASB proposals
- FASB round-table meetings on their comprehensive FI proposals (IASB participation) – Q4 2010
- The Expert Advisory Panel is helping the boards to identify and resolve operational aspects of credit impairment models

**IASB’s work on financial instruments**
- Financial instruments (replacement of IAS 39):
  - Phase I: Classification and measurement
  - Phase II: Impairment
  - Phase III: Hedge accounting
- Other FI projects (not included in this presentation)
  - Financial instruments with characteristics of equity
  - Offsetting
  - Derecognition—Disclosures

### Phase I: Classification and measurement

**Overview of classification model**

- **Entity’s business model for managing:**
  - Amortised cost (one impairment method)
  - FVO for accounting mismatch (option)
  - Reclassification required when business model changes

- **Contractual cash flow characteristics:**
  - **Equities:**
    - Fair Value (No impairment)
  - **Derivatives**
  - **Some hybrid contracts**

- **Fair Value:**
  - **Equities:** OCI presentation available (alternative)
Financial liabilities—background

Feedback on ED:
- Financial liabilities 'not broken'
- Financial liabilities less urgent
- Need to address 'own credit'

Excluded financial liabilities from the scope of IFRS 9 for 2009 year ends

To seek input on best way to address 'own credit'

Results of outreach

<table>
<thead>
<tr>
<th>Preparers</th>
<th>Own credit' hard to separate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Users</td>
<td>Liabilities viewed differently to assets – symmetry not useful</td>
</tr>
<tr>
<td></td>
<td>P&amp;L volatility from own credit not useful</td>
</tr>
<tr>
<td></td>
<td>Do not invent new measurement method: If remeasured prefer full fair value</td>
</tr>
<tr>
<td>Overall</td>
<td>No consensus</td>
</tr>
</tbody>
</table>

Tentative decisions

To address 'own credit risk':
- Retain IAS 39 measurement requirements for financial liabilities:
  - Held for trading ➔ fair value through P&L
  - Hybrid liabilities ➔ bifurcation requirements in IAS 39
  - ‘Vanilla’ liabilities ➔ amortised cost
  - Maintain FVO (with current eligibility conditions)

BUT
- Separate out ‘own credit risk’ for FVO
- ‘Own credit risk’ portion would be separated in a manner similar to that used in IFRS 7 disclosure (IFRS 7 B4)

FVO proposals

<table>
<thead>
<tr>
<th>Profit or Loss (liabilities under FVO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total change in FV XX</td>
</tr>
<tr>
<td>Change in FV due to 'own credit' (X)</td>
</tr>
<tr>
<td>Profit for the year XXX</td>
</tr>
</tbody>
</table>

Statement of Comprehensive Income (liabilities under FVO)

| Other Comprehensive Income: |
| Change in FV due to ‘own credit’* |
| X                               |

* Not recycled

Why this approach?

- Five alternatives explored during outreach. No consensus as to 'best' approach.
- Minimise disruption
  - Most entities bifurcate and will likely continue
  - Bifurcation method: IAS 39 similar outcomes to IFRS 9
- But addresses 'own credit'
  - Separate 'own credit' only if use FVO
  - Have to do that today for disclosure purposes

Next steps

- Redeliberations ongoing
- Final Standard: 2010
Phase II: Impairment

IAS 39 replacement – phase II

July 2008: IASB publishes Request for Information on the Feasibility of the ECF approach (RfI)

September 2009: Comment period ended for RfI. IASB deliberations on the ECF approach

November 2008: IASB publishes ED Financial Instruments: Amortised Cost and Impairment


December 2009 – June 2010: EAP meetings and outreach

June 2010: Comment period for ED ends

July 2010: IASB re-deliberations begin

End of 2010 – first half of 2011: IASB intends to issue final standard on impairment

Expert Advisory Panel

- What is it for?
  - To consider how to address operational challenges
- Who is on it?
  - Credit and risk experts from different regions and sectors
- How does it work?
  - Public meetings
  - Formed: Dec 2009   Ended: June 2010
  - EAP subgroups
    - Cash flow estimates
    - Effective interest method

Major operational issues #1

Infrastructure separates accounting (interest rate) systems and credit risk systems

Accounting Systems (interest rate)

IASB Expected EIR

Credit risk systems

Major operational issues #2

Open portfolios—EL data required versus readily available

Vintages | 1 | 2 | 3 | 4 | 5 | 6 | 7
--- | --- | --- | --- | --- | --- | --- | ---
Level of accuracy | 10.60% | 5.90% | 4.00% | 4.00% | 5.90% | 10.60%

Major operational issues #3

Estimating lifetime EL

Long life may lead to less accurate estimate

Level of accuracy

Life
Overview – expected loss considerations

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>TO BE CONSIDERED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which expected losses?</td>
<td>Over the life or shorter?</td>
</tr>
<tr>
<td>When are pooled loss expectations recognised?</td>
<td>Integrated in EIR</td>
</tr>
<tr>
<td>How are changes in loss estimates treated?</td>
<td>Full catch-up to profit or loss in period of change</td>
</tr>
<tr>
<td>Allowance account floor?</td>
<td>No floor</td>
</tr>
</tbody>
</table>

Outlook…

Approach for re-deliberations (the ‘game plan’…)
• First develop an impairment model for open portfolios
  - Basic architecture
  - Details
• Ascertain whether that approach ‘fits all’…
  - Single instruments
  - Short-term trade receivables
  - Variable-rate instruments
  - Loan commitments
  - Other instruments
• Revisit presentation and disclosure

Outlook… (cont’d)

Topics to be considered in finalising the project…
• Probability weighting of possible outcomes
  - Expected loss = expected value?
• How does the impairment model fit into amortised cost?
  - ‘Cost plus’ vs present value notion
• Extent of guidance
  - Application guidance
  - Implementation guidance
  - Illustrative examples
• Scope: off balance sheet credit exposures…

Phase III: Hedge accounting

Introduction
• Extensive outreach has been undertaken throughout this phase.
• In response to overwhelming feedback the Board is considering hedge accounting comprehensively
• Overall approach:
  - Use existing architecture
  - Address specific problem areas
  - Use clear and explicit principles
  - Identify any exceptions clearly

Hedge Accounting – broad direction
• Simplify hedge accounting
• Consider application to portfolios

This project will not look at hedge accounting for hedges of net investments in foreign operations
Objective

Risk management objective: Seeks to link risk management and financial reporting (top down)

Accounting objective: Seeks to manage timing of recognition of gains or losses (bottom up)

Hedged items – risk components

- Fixed element
- Variable element
- Benchmark (eg commodity price)
- Financial and non-financial

Hedged items – derivative as hedged item

- Issuer
- Cross-currency interest rate swap
- €
- Debt holder
- US$ Not allowed to be designated as a hedged item under IAS 39

Test hedge effectiveness

- Objective
  - Hedging relationship should produce an unbiased result and minimise expected hedge ineffectiveness
  - To achieve this:
    - Risk management determines the ‘optimal’ hedge ratio
      - ie no expectation that changes in the value of the hedging instrument will systematically exceed or be less than changes in the value of the hedged item
    - Demonstrate offset in hedge relationship is not accidental

Test hedge effectiveness continued

- Tentative decisions:
  - No bright-line (ie no 80% to 125% range)
  - The characteristics of the hedging relationship and the potential sources of ineffectiveness determine:
    - whether a qualitative or quantitative assessment is appropriate
    - what method of assessment is appropriate
  - The assessment is forward looking and performed at inception on an ongoing basis
  - Rebalancing of the hedge ratio and a change of the assessment method can become necessary

Tentative approach to hedge accounting

- Cash flow hedge accounting
  - Unchanged
- Fair value hedge accounting
  - Cumulative gain or loss on the hedged item attributable to the hedged risk is a separate line item in the balance sheet
  - Hedged item’s carrying amount not changed
  - The fair value changes for hedging instruments and hedged items are taken to other comprehensive income and any ineffectiveness is transferred immediately to profit or loss
Next steps

• Continue deliberations
• Exposure draft expected in Q4 2010
• Continued outreach
• IFRS in Q2 of 2011

Prioritised projects - other

<table>
<thead>
<tr>
<th>Project</th>
<th>Objective</th>
<th>Target date</th>
</tr>
</thead>
</table>
| Revenue Recognition | development of a single, common standard for a wide range of industries and transaction types | • ED comments due 22/10/2010  
                          |                                                                                      | • Q4 2010: round tables  
                          |                                                                                      | • Q2 2011: joint standard |
| Leases          | development of a joint lease standard that improves lease accounting and ensures that all lease contracts are recognised on the statement of financial position | • ED comments due 15/12/2010  
                          |                                                                                      | • Q4 2010: round tables  
                          |                                                                                      | • Q2 2011: joint standard |

Revenue project objectives

• Single model based on clear principles
• Improve accounting for contracts with customers by:
  – providing a more robust framework for addressing revenue issues
  – increasing comparability across industries and capital markets
  – providing enhanced disclosures
  – clarifying accounting for contract costs

The exposure draft

• Converged proposal with unanimous support of both the IASB and the FASB
• Published for public comment on 24 June 2010. Comments due 22 October 2010.
• Based on further development of the principles proposed in the December 2008 discussion paper
• Developed using feedback from over 220 comment letters and input from other outreach activities

Summary of the revenue proposals

Core principle:
Recognise revenue to depict the transfer of goods or services in an amount that reflects the consideration expected to be received in exchange for those goods or services

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

- Most cases apply standard to a single contract
- Combine two or more contracts if prices are interdependent
- Segment a single contract into two or more contracts if some goods or services priced independently of other goods and services
- Account for a modification to a contract as a part of the original contract if price is interdependent with original contract. Otherwise accounted for as a separate contract.

2 Identify separate performance obligations

A performance obligation is an enforceable promise in a contract with a customer to transfer a good or service to that customer

- Account for a performance obligation separately if promised good or service is distinct
  - good or service is distinct if an identical or similar good or service is sold separately
  - if not sold separately, goods and services are distinct if function and margin are distinct

Performance obligations - warranties

- Cover for latent defects (‘quality assurance’ warranty)
  - not a performance obligation
  - requires evaluation of whether the performance obligation to transfer product is satisfied
  - revenue not recognised until the defective product or component is replaced
- Cover for faults post-delivery (‘insurance’ warranty)
  - is a performance obligation
  - revenue is recognised over the warranty period

Example: Product warranties

A company sells 1,000 products for CU10 each. Each product costs CU 8. The company expects that 5% of products will need to be replaced after sale for latent defects.

US GAAP and IFRS

- When the products are delivered, recognise revenue of CU10,000 and expected warranty costs of CU400

Proposed model

- When the products are transferred, recognise revenue of CU9,500 and a contract liability of CU500 for unsatisfied performance obligations (selling price 50 defective products)
- Recognise revenue of CU500 when the company satisfies its performance obligations by replacing faulty goods

3 Determine the transaction price

The transaction price is the amount of consideration the company receives, or expects to receive, from the customer

- Probability-weighted amount of uncertain consideration included in transaction price if:
  - experience of similar contracts
  - expects circumstances will not change significantly
- Adjust consideration for collectibility
- Adjust consideration for the time value of money
- Measure non-cash at fair value

4 Allocate the transaction price

- Allocate transaction price to all separately identified performance obligations in proportion to standalone selling prices
- The standalone selling price of a good or service is the price at which the entity would sell that good or service if it was sold separately at contract inception
- Standalone selling prices estimated if not observable
5 Recognise revenue

- Revenue is recognised when a performance obligation is satisfied by transferring a good or service to the customer.
- Good or service transferred when customer obtains control of it.
- Control has transferred when the customer has the ability to direct the use of and receive the benefit from that good or service.
- Transfer or control can be at a point in time or can be continuous.

Example - equipment manufacturer

Scenario 1
Contract to build highly customised equipment
- Customer has unconditional obligation to pay throughout contract.
- Customer specifies design and has involvement in manufacturing.
- Customer has ability to take possession during construction.

Scenario 2
Contract for standard equipment built to order
- Customer makes payments on account throughout contract.
- Customer specifies only minor aspects of design.
- Customer cannot take possession until built.

Customer controls equipment as built—contract is for manufacturing services. Revenue recognised continuously.
Customer controls equipment on delivery—contract is for manufactured equipment. Revenue recognised on delivery.

Disclosure

Enhanced disclosures to help users understand the amount, timing and uncertainty of revenue and cash flows
- Information about contracts with customers
- Information about judgments and changes in judgments
- Disaggregation of revenue—eg by product lines, geography, customer type, type of contract
- Maturity analysis of remaining performance obligations

Other joint projects

<table>
<thead>
<tr>
<th>Project</th>
<th>Status</th>
<th>Target dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emission trading schemes</td>
<td>While understanding the growing importance of the project, the boards agreed that other MoU projects have a higher priority.</td>
<td>H2 2011: ED</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2012: Converged standard</td>
</tr>
<tr>
<td>Income taxes</td>
<td>Significant negative comments on ED; Board considers limited scope ED</td>
<td>H2 2010: ED expected</td>
</tr>
<tr>
<td></td>
<td></td>
<td>H1 2011: IFRS expected</td>
</tr>
<tr>
<td>Joint ventures</td>
<td></td>
<td>Q3 2016: IFRS expected</td>
</tr>
</tbody>
</table>

Other projects

<table>
<thead>
<tr>
<th>Project</th>
<th>H2 2010: ED expected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual improvements 2009-2011</td>
<td>Q4 2010: ED planned</td>
</tr>
<tr>
<td></td>
<td>Q2 2011: IFRS planned</td>
</tr>
<tr>
<td>Extractive activities (oil and gas and mining)</td>
<td>Comments due 30 July 2010</td>
</tr>
<tr>
<td></td>
<td>planned agenda decision</td>
</tr>
<tr>
<td>Measurement of liabilities under IAS 37</td>
<td>Q3 2010: deliberations on re-exposure draft (Jan 2010)</td>
</tr>
<tr>
<td>Management commentary</td>
<td>Q4 2010: Final ‘guidance’ document expected</td>
</tr>
<tr>
<td>Rate-regulated activities</td>
<td>Q3: decision on next steps</td>
</tr>
<tr>
<td>Effective date and transition</td>
<td>Q3: discussion document expected that will guide other final IFRSs</td>
</tr>
</tbody>
</table>
Conceptual Framework (joint with FASB)

Documents currently being developed:

- **Phase A  Objective and qualitative characteristics**
  - Final chapter expected 3Q 2010

- **Phase B  Elements and recognition**
  - To be determined

- **Phase C  Measurement**
  - Discussion Paper planned 4Q 2010 or 1Q 2011

- **Phase D  Reporting entity**
  - ED was issued March 2010
  - Comments due 15 July 2010
  - Final chapter expected 4Q 2010

Potential future phases:

- **Phase E  Presentation and disclosure**
  - Not yet active

- **Phase F  Purpose and status of framework**
  - Not yet active

- **Phase G  Applicability to not-for-profit entities**
  - Not yet active

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.
World Standard-setters Conference
Monday 20 and Tuesday 21 September 2010
Renaissance Chancery Court Hotel, London

NOTES
Fair value measurement

PATRICIA McCONNELL  
*Member*  
IASB

HILARY EASTMAN  
*Staff*  
IASB
Tuesday 21 September 13.45-15.00

MANSFIELD SUITE, GROUND FLOOR

Fair value measurement

Pat McConnell, IASB Board Member
Hilary Eastman, IASB Staff

<table>
<thead>
<tr>
<th>NAME</th>
<th>ORGANISATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nelson Carvalho</td>
<td>CPC – Comité de Pronunciamentos Contábeis</td>
</tr>
<tr>
<td>Clement Chang</td>
<td>Hong Kong Institute of Certified Public Accountants (HKICPA)</td>
</tr>
<tr>
<td>Pieter Dekker</td>
<td>EFRAG</td>
</tr>
<tr>
<td>Juan M Gras</td>
<td>Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. (CINIF)</td>
</tr>
<tr>
<td>Radoslaw Ignatowski</td>
<td>Polish Accounting Standards Committee</td>
</tr>
<tr>
<td>Erlend Kvaal</td>
<td>Norsk RegnskapsStiftelse (Norwegian Accounting Standards Board)</td>
</tr>
<tr>
<td>Vickson Ncube</td>
<td>ECSAFA</td>
</tr>
<tr>
<td>Godson Sunday Nnadi</td>
<td>Nigerian Accounting Standards Board</td>
</tr>
<tr>
<td>Steve Ong</td>
<td>Hong Kong Institute of Certified Public Accountants (HKICPA)</td>
</tr>
<tr>
<td>Joanna Perry</td>
<td>Financial Reporting Standards Board (New Zealand)</td>
</tr>
<tr>
<td>Jean-Pierre Pfingu</td>
<td>Institute De Reviseurs Comptables au Congo (IRC)</td>
</tr>
<tr>
<td>John Stanford</td>
<td>IPSASB - International Public Sector Accounting Standards Board</td>
</tr>
<tr>
<td>Renato Kiyotaka Uema</td>
<td>Financial System Regulation Department - Central Bank of Brazil (BCB)</td>
</tr>
<tr>
<td>Jan Verhoeve</td>
<td>Commissie voor Boekhoudkundige Normen (BASB)</td>
</tr>
<tr>
<td>Flerida Gutierrez Vidal</td>
<td>National Banking and Securities Commission (Mexico)</td>
</tr>
</tbody>
</table>
This project…
✓ Clarifies the measurement objective
✓ Creates a single source of guidance
✓ Improves and harmonises disclosures
✗ Does not introduce new fair values
✗ Does not change the measurement objective in another IFRS

Why are we doing the project?

IFRS
Existing fair value measurement guidance
May 2009 exposure draft Fair Value Measurement

US GAAP
Topic 820 Fair Value Measurements and Disclosures (codified SFAS 157)

Objective: Common IFRS and US GAAP fair value measurement and disclosure standards
Fair value measurement timeline

Questions for WSS

1. Has the work to develop common fair value measurement standards in IFRSs and US GAAP been worthwhile?
   - Are there improvements to US GAAP?
   - Have the modifications to the IASB’s original proposals helped clarify the requirements?

Potential differences between FASB and IASB standards

Questions for WSS

2. Do you think there are differences in the fair value measurement guidance proposed that would result in a lack of comparability between IFRSs and US GAAP?
Comments received

Measurement uncertainty analysis disclosure

- Current disclosure for financial instruments is important
- Correlation between inputs is necessary for the disclosure to be meaningful
- Not necessary to require for all assets and liabilities
  - most important for financial instruments,
  - least important for specialised, operating PP&E

Comments received continued

Measurement uncertainty analysis disclosure

- Unclear how to include effect of correlation
  - when is correlation ‘relevant’?
  - how do you know which inputs are correlated?
  - portfolio or individual item level?
  - why limit to unobservable inputs?
  - is it a statistical analysis?
- What is the threshold for ‘significant’? Is it the same as the materiality test?

Comments received continued

Measurement uncertainty analysis disclosure

- Example is not realistic or detailed enough
- Alternative disclosures suggested:
  - standardise the disclosure by requiring a +/- X standard deviation change in key inputs
  - retain current 'sensitivity analysis' instead (excluding correlation)

Questions for WSS

3. Do you have any other observations about the measurement uncertainty analysis disclosure?
What do we mean by ‘how to’?

Knowledge about valuation
Measurement for financial reporting
Guidance for measuring fair value
Guidance for measuring value in use
Guidance for measuring expected value

Fair value thought process

- How do I identify the principal market?
- How do I identify market participants?
- How do I know what is the highest and best use of an asset?

These three questions should be answered together and be internally consistent—it is an iterative process.

Fair value thought process continued

- How do I value unquoted equity instruments?
- What do I do when trading in the asset is restricted or infrequent?
- How do I select an appropriate valuation technique?
- Where do I find inputs to valuation techniques?

Fair value thought process continued

- How do I determine appropriate classes for disclosures?
- How do I determine whether an asset or liability is a Level 2 or Level 3 fair value measurement when it uses both observable and unobservable inputs?
- How do I know which unobservable inputs are correlated for the measurement uncertainty analysis?

Example: Selecting a valuation technique

Market approach
- Price is available
- Price is for an identical asset or liability and must be used
- No adjustment is necessary or allowed

Income approach
- Directly identifiable cash flows
- No income producing
- No historical financial data
- No price needs adjustment

Cost approach
- Not income producing
- No historical financial data
- No price needs adjustment

Questions for WSS

4. What other topics should the educational material cover?
5. How soon after publication of the final IFRS is the educational material needed? Is the current plan of 3-4 months sufficient?
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.

Appendix: Comparison of tentative decisions

Definition of fair value
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

Scope
• All assets and liabilities for which fair values are measured in the statement of financial position or are disclosed in the notes

Market participants

The transaction

Use of principal market
IASB proposed using most advantageous market. Tentative decision refers to principal market
Unchanged

Definition of principal market
Proposed ASU clarifies that principal market is the market with the greatest volume and level of activity for the asset or liability, not the entity’s transaction volume
Proposed ASU clarifies that transport costs are to be taken into account in addition to transaction costs

Determination of most advantageous market
Proposed ASU clarifies that the price in a related-party transaction may be used
Proposed ASU clarifies that:
• market participants need to be independent of each other, not necessarily independent of the reporting entity
• the price in a related-party transaction may be used

Appendix:
Comparison of tentative decisions

Definition of fair value
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

Unchanged

Comparison with current Topic 820

Scope exceptions
IFRS 2 Share-based Payment and IAS 17 Leases to be excluded from the scope
Unchanged

Proposed ASU clarifies that transport costs are to be taken into account in addition to transaction costs

Proposed ASU clarifies that:
• market participants need to be independent of each other, not necessarily independent of the reporting entity
• the price in a related-party transaction may be used
Highest and best use and valuation premise

- Highest and best use and valuation premise are only relevant for non-financial assets
  - not relevant for financial assets or for liabilities because they do not have alternative uses

Comparison with IASB May 2009 exposure draft

<table>
<thead>
<tr>
<th>Non-financial assets only</th>
<th>Comparison with current Topic 820</th>
</tr>
</thead>
<tbody>
<tr>
<td>IASB proposed that the in-exchange valuation premise must be used for financial assets. Tentative decision specifies that the valuation premise is only relevant for non-financial assets.</td>
<td>Proposed ASU clarifies that the highest and best use and valuation premise concepts only apply to non-financial assets.</td>
</tr>
</tbody>
</table>

Highest and best use and valuation premise continued

- Describe the meaning of physically possible, legally permissible, financially feasible

Comparison with IASB May 2009 exposure draft

<table>
<thead>
<tr>
<th>Highest and best use criteria</th>
<th>Comparison with current Topic 820</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unchanged</td>
<td>Proposed ASU describes the meaning of physically possible, legally permissible, financially feasible.</td>
</tr>
</tbody>
</table>

Comparison with current Topic 820

- Assumes that the asset is sold consistently with its unit of account (which might be the individual asset)

<table>
<thead>
<tr>
<th>Describing what is being sold</th>
<th>Comparison with current Topic 820</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unchanged</td>
<td>Proposed ASU clarifies that the objective is to determine the price for an individual asset at the given unit of account.</td>
</tr>
</tbody>
</table>

Comparison with IASB May 2009 exposure draft

- Eliminate the terms ‘in use’ and ‘in exchange’
  - in use: used in combination with other assets or with other assets and liabilities (complementary assets and liabilities)
  - in exchange: used on a stand-alone basis

<table>
<thead>
<tr>
<th>‘In use’ and ‘In exchange’</th>
<th>Comparison with current Topic 820</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tentative decision is to remove these terms because they have been misused and instead describes the objective of the valuation premise. Proposed ASU does not use these terms and instead describes the objective of the valuation premise</td>
<td></td>
</tr>
</tbody>
</table>

An entity’s own equity instruments

- Assumes perspective of a market participant who holds the entity’s equity instrument as an asset

<table>
<thead>
<tr>
<th>Own equity</th>
<th>Comparison with current Topic 820</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unchanged</td>
<td>In addition to stating that the definition of fair value also applies to own-equity instruments, the proposed ASU contains explicit guidance on measuring the fair value of an entity’s own equity instruments.</td>
</tr>
</tbody>
</table>
Fair value of net positions of financial instruments

- Can measure the fair value of the net position
  - bid-ask spread guidance
  - offsetting positions in a particular market risk (or risks)
  - offsetting positions with a particular counterparty

Comparison with IASB May 2009 exposure draft
Comparison with current Topic 820

Fair value of net position
IASB proposed requiring in-exchange valuation premise, implying that each instrument must be measured on a stand-alone basis. Tentative decision clarifies that an entity can measure the fair value of the net position in specific circumstances.

Topic 820 is not explicit about measuring fair value when there are offsetting positions in market or credit risks. Proposed ASU clarifies that an entity can measure the fair value of the net position in specific circumstances.

Comparison with IASB May 2009 exposure draft
Comparison with current Topic 820

Compensation
IASB proposal was not explicit about the compensation market participants would require. Tentative decision is to specify the compensation market participants would require.

Proposed ASU specifies the compensation market participants would require.

Liabilities

- A market participant would require compensation for undertaking the activity and for assuming the risk associated with the obligation

Comparison with IASB May 2009 exposure draft
Comparison with current Topic 820

Compensation
IASB proposal was not explicit about the compensation market participants would require. Tentative decision is to specify the compensation market participants would require.

Proposed ASU specifies the compensation market participants would require.

Premiums and discounts

- Distinguish blockage factors from other premiums and discounts (eg control premiums)

Comparison with IASB May 2009 exposure draft
Comparison with current Topic 820

Level 1
Unchanged—no adjustment for blockage factors or other premiums and discounts
Unchanged—no adjustment for blockage factors or other premiums and discounts

Levels 2 and 3
IASB proposal implied that no premium or discount could be applied in Levels 2 or 3. Tentative decision clarifies that blockage factors are prohibited when using a quoted price, but that other premiums or discounts are applied if applicable in Levels 2 and 3.

Proposed ASU clarifies that:
- in Level 2 using a quoted price, a blockage factor cannot be applied and when using a valuation technique it is not relevant (no market price to depress)
- other premiums and discounts are applied if applicable given the unit of account

Inactive markets

- Focus on whether transaction is orderly, not on market activity
- Consider observable prices unless there is evidence that the transaction is not orderly

Comparison with IASB May 2009 exposure draft
Comparison with current Topic 820

Orderly transactions
Tentative decision clarifies proposal
Unchanged

Valuation adjustments

- Describe valuation adjustments entities might need to make when using a valuation technique
  - model risk
  - liquidity risk
  - non-performance (credit) risk
  - measurement uncertainty

Comparison with IASB May 2009 exposure draft
Comparison with current Topic 820

Valuation adjustments
IASB proposal implicitly included valuation adjustments. Tentative decision is to describe the valuation adjustments.

Proposed ASU describes valuation adjustments.

Fair value at initial recognition

- List of indicators that the transaction price does not equal fair value will be labelled as examples

Comparison with IASB May 2009 exposure draft
Comparison with current Topic 820

Indications that transaction price does not equal fair value
IASB proposal implied that the conditions listed are the only reasons the transaction price could differ from fair value. Tentative decision clarifies that these are examples.

This is only relevant when another standard requires fair value at initial recognition—not most standards use the transaction price.
Disclosure

- Enhanced disclosures about fair value measurements

<table>
<thead>
<tr>
<th>Comparison with IASB May 2009 exposure draft</th>
<th>Comparison with current IFRS 820</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Classes of assets and liabilities</strong></td>
<td>Unchanged</td>
</tr>
<tr>
<td>IASB proposed did not include guidance for determining appropriate classes of assets and liabilities for disclosure purposes. Tentative decision is to provide such guidance.</td>
<td></td>
</tr>
</tbody>
</table>

**Policy for transfers between levels**

<table>
<thead>
<tr>
<th>Comparison with IASB May 2009 exposure draft</th>
<th>Comparison with current IFRS 820</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unchanged</td>
<td></td>
</tr>
<tr>
<td>IASB proposed did not include guidance for determining a policy for determining when transfers between levels of the hierarchy are recognized. Tentative decision is to provide examples of such policies (e.g. actual date of transfer, beginning of period, end of period).</td>
<td></td>
</tr>
</tbody>
</table>

**Measurement uncertainty analysis for Level 3**

<table>
<thead>
<tr>
<th>Comparison with IASB May 2009 exposure draft</th>
<th>Comparison with current IFRS 820</th>
</tr>
</thead>
<tbody>
<tr>
<td>Topic 820 does not currently contain such a disclosure. Proposed ASU requires disclosure of changes in fair value from changes in unobservable inputs, including the effect of correlation between those inputs.</td>
<td></td>
</tr>
</tbody>
</table>

**Level of hierarchy for items disclosed but not recognized at fair value**

<table>
<thead>
<tr>
<th>Comparison with IASB May 2009 exposure draft</th>
<th>Comparison with current IFRS 820</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unchanged</td>
<td>Topic 820 does not currently contain such a disclosure. Proposed ASU requires disclosure of the level of the fair value hierarchy.</td>
</tr>
<tr>
<td>Topic 820 currently requires disclosure of changes in fair value from changes in unobservable inputs, including the effect of correlation between those inputs.</td>
<td></td>
</tr>
</tbody>
</table>

**Difference between highest and best use and current use**

<table>
<thead>
<tr>
<th>Comparison with IASB May 2009 exposure draft</th>
<th>Comparison with current IFRS 820</th>
</tr>
</thead>
<tbody>
<tr>
<td>Topic 820 does not currently contain such a disclosure. Proposed ASU requires disclosure if the highest and best use is different from current use.</td>
<td></td>
</tr>
</tbody>
</table>

IASB proposed that an entity should present the difference between the fair value and current use value, along with a related disclosure. Tentative decision is not to require presentation, but to disclose the fact that highest and best use is different from current use.
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Implementation activities update

MICHAEL STEWART
Staff
IASB
Agenda

• The IFRS Interpretations Committee
• Interpretations
• Current agenda topics
• Annual Improvements
• Other amendments

The IFRS Interpretations Committee: What it does

• Seeks possible solutions to questions:
  – Develop an Interpretation
  – Change existing standards
    – Annual Improvements project
  – Include in a current IASB project
  – Explain via Committee agenda decision
  – Reason for not adding to the Committee’s agenda

The IFRS Interpretations Committee: Activity in the 12 months to August 2010

<table>
<thead>
<tr>
<th>Issues considered</th>
<th>63</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interpretations</td>
<td>1</td>
</tr>
<tr>
<td>Draft Interpretations</td>
<td>1</td>
</tr>
<tr>
<td>Taken on formal agenda</td>
<td>2</td>
</tr>
<tr>
<td>Referred to Annual Improvements</td>
<td>21</td>
</tr>
<tr>
<td>Referred to Board</td>
<td>2</td>
</tr>
<tr>
<td>Other agenda decisions</td>
<td>28</td>
</tr>
<tr>
<td>Pending/WIP</td>
<td>8</td>
</tr>
</tbody>
</table>

Interpretations
Interpretations:
Issued in the last 12 months

• IFRIC 19 – Extinguishing Financial Liabilities with Equity (was D25)
  – Issue
    – How to measure the equity instruments issued to settle financial liability, fully or partially
  – Draft consensus
    – Shares issued are part of consideration paid to extinguish financial liability
    – Fair value measurement of equity instrument issued
    – Difference between the FV of shares issued and carrying amount of financial liability extinguished in profit or loss
  – Scope exclusions
  – Transition and effective date

Interpretations:
Draft published for public comment

• DI/2010/1 – Stripping Costs in the Production Phase of a Surface Mine
  – Open for comment until 30 November 2010
  – Issue: how to account for stripping (waste removal) costs?
    – Development phase – usually capitalised; little diversity
    – Production phase – accounting diversity
  – Consensus
    – Stripping activity creates benefit → improved access to ore
    – Identify a stripping campaign – differs from routine stripping
    – Costs of stripping campaign must be specifically associated with the quantity of ore directly benefiting from the campaign
    – Benefit is realised as the ore is mined
  – Current period benefit: stripping costs included in current costs of production
  – Future period benefit: stripping costs accounted for as addition to/enhancement of an existing asset
    – Component accounting → ‘stripping campaign component’
  – Measurement:
    – Initial – accumulated costs of the stripping campaign
    – Subsequent – stripping campaign component carried at cost less amounts amortised, less impairment
  – Amortisation: over the reserved that directly benefit from the stripping campaign

Current agenda topics

• IFRS 2: Vesting/non-vesting conditions
  – Need for clearer definitions
  – Proposals to distinguish more clearly between
    – Service conditions, performance conditions, other vesting conditions
    – Non-vesting conditions, contingent features
    – Interaction between multiple vesting conditions, and impact on attribution period
  – Next steps
    – In September 2010, the Committee referred the issue to the Board for recommendation on how to proceed (Interpretation, Annual Improvement or separate amendment)

• Put options over non-controlling interests
  – Request
    – How to account for changes in carrying amount of ‘NCI put’ liability in consolidated financial statements
    – Focused on NCI puts after 2008 amendments to IFRS 3 and IAS 27
  – Issue
    – Potential conflict between IAS 32/IAS 39 and guidance in IAS 27
      – IAS 32/IAS 39 → subsequent changes in profit or loss
      – IAS 27: transactions with NCI → subsequent changes in equity
  – Next steps
    – Committee recommended that the issue be addressed as part of the Board’s FICE project
Annual Improvements

- For non-urgent but necessary amendments
  - Resolve inconsistencies between standards
  - Clarify fuzzy wording
- Process
  - Annual cycle: ED and IFRS
  - 90 day comment period
- Benefits
  - Improved use of IASB’s time
  - Less burdensome for constituents

Annual Improvements: Committee’s involvement

- Additional role from January 2010
- Committee’s involvement
  - identifying and discussing new issues
  - deliberating comments received on exposure drafts
  - recommendations to the Board
- Board discusses recommendations
- Improvements to IFRSs issued by the Board
  - exposure drafts
  - final standards

Annual Improvements: Issued May 2010

- 10 amendments to 6 standards and 1 interpretation
- Noteworthy amendments
  - IFRS 3
  - Measurement of non-controlling interests
  - Un-replaced and voluntarily replaced share-based payment awards
  - IFRS 7
  - Clarification on disclosures about the nature and extent of risks arising from financial instruments
  - IAS 3
  - Emphasis on general principles for disclosures in interim financial reports

Annual Improvements: Issues to be included in the 2009 – 2011 cycle

- IFRS 1 - Clarification of borrowing costs exemption
  - Repeat application of IFRS 1
- IFRS 3 - Regrouping and consistency of contingent consideration guidance
- IAS 1 - Comparative information
- IAS 16 - Clarification of accounting for servicing equipment
- IAS 24 - Key management personnel
- IAS 32 - Tax effect of distributions to holders of equity instruments
- IAS 34 - Consistency in disclosure of total segment assets

Consultation on Annual Improvements Criteria

- Review of AIP criteria requested by the Trustees’ Due Process Oversight Committee
- Proposed enhanced criteria published August 2010
  - Comments due 30 November 2010
- Proposed criteria as follows:
  - A proposed amendment must result in clarifying and/or correcting IFRSs;
  - It must have a narrow and well-defined purpose;
  - The IASB will be able to conclude on the issue on a timely basis; and
  - If the proposed amendment is to IFRSs subject to a current/planned IASB project, is there a pressing need to make the amendment sooner?
Other amendments

- IAS 32 Classification of Rights Issues
  - financial instrument = equity instrument
  - when holder has right to acquire
    - fixed number of entity’s own equity instruments
    - for fixed amount of cash, and
    - regardless of currency in which exercise price is denominated
  - if, and only if, offer is pro rata to all existing owners
  - applies retrospectively – annual periods commencing on or after 1 February 2010

Other amendments continued

- IFRS 1 First-time Adoption of International Financial Reporting Standards
  - Proposal to replace fixed date of 1 January 2004 with ‘date of transition to IFRSs’ in:
    - derecognition exception
    - day 1 gains/losses exemption
  - ED/2010/10 published August 2010
  - comments due 27 October 2010

Other amendments continued

- IAS 29 Financial Reporting in Hyperinflationary Economies – Reporting in accordance with IFRSs after a period of severe hyperinflation
  - Request: how to resume presenting IFRS financial statements after a period when unable to comply with IAS 29?
  - Solutions considered:
    - amendment to IAS 29; or
    - amendment to IFRS 1
  - Discussed at July 2010 Board meeting. Issue to be re-presented at September 2010 Board meeting

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.
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Effective dates and transitional provisions

ALAN TEIXEIRA
Staff
IASB
Effective dates and transitional provisions

Alan Teixeira | Director of Technical Activities

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

Overview

• The Board has heard some reports that preparers and users are concerned about their ability to cope with a wave of new requirements.

• They are concerned about:
  – having to make many consecutive changes or many simultaneous changes, or both; and
  – comparability of information.

• Recent exposure drafts have not included effective dates. The Board is seeking more general input on effective dates and transition.

Effective dates

• Preparers need sufficient time to prepare for change.

• Preparers and users tell us that they prefer stability in the requirements, not changes month after month.

• Some preparers are worried about having to make too many changes at the same time.

Transition – early adoption

• In general, IFRSs allow for early adoption
  – Analysts tell us early adoption undermines comparability.
  – Some preparers want to bring in improvements as soon as possible.
  – First time adopters do not want to be prevented from adopting requirements that take effect soon after they have adopted IFRS for the first time.

• Should we allow early adoption?

Transition – retrospective application

• New IFRSs’s are generally required to be applied retrospectively

• Retrospective application:
  – Enhances comparability
  – Places greater demands on preparers

• Are there any ways that we can make it easier to apply a new IFRS without undermining the benefits of retrospective application?

Helping manage change

• In 2009 the Board decided, as far as possible:
  – To limit effect dates to periods beginning on or after 1 January or 1 July.
  – For major changes to provide a minimum of a year from the date an IFRS is issued to the effective date.

    – IFRSs issued in 2010 would have an effective date of 1 January 2012 or later.
    – IFRSs issued in 2011 would have an effective date of 1 January 2013 or later.
Helping manage change

• In June 2010 the Board announced modifications to its work programme:
  – Completion of the joint arrangements, consolidations and related disclosure standards was aligned;
  – The plans for derecognition and liabilities / equity were modified;
  – The timetable for the Financial Statement Presentation project has pushed completion beyond 2011.
• The number of projects scheduled for completion in June 2011 was reduced significantly.

Public consultation

• In the next month the Board will, in conjunction with the FASB, seek input on:
  – Whether some projects should be paired together when the Board sets effective dates.
  – Whether some projects need a longer lead-time before the effective date.
  – Early adoption.
  – Transition.
• The feedback and input received will:
  – be discussed in public
  – help the Board set effective dates for the MoU project IFRSs.
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Concluding comments

TATSUMI YAMADA
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