International Financial Reporting Standards (IFRSs) Conference

Wednesday 28 July 2010 and Thursday 29 July 2010
Mandarin Oriental Hotel (Tokyo)

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

Wednesday 28 July 2010

**Special interest sessions (pre-conference)**

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>09:00</td>
<td>Registration</td>
</tr>
<tr>
<td>09:30–12:00</td>
<td>Register for one of:</td>
</tr>
<tr>
<td></td>
<td>IFRS for insurance contracts</td>
</tr>
<tr>
<td></td>
<td>IFRS for financial instruments</td>
</tr>
<tr>
<td></td>
<td>IFRS for academics, educators and trainers</td>
</tr>
<tr>
<td></td>
<td>IFRIC update</td>
</tr>
<tr>
<td></td>
<td>First-time adoption of IFRSs</td>
</tr>
</tbody>
</table>

Wednesday 28 July 2010

**Conference programme**

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>12:00</td>
<td>Registration (12:00–12:15)</td>
</tr>
<tr>
<td></td>
<td>Light buffet and refreshments</td>
</tr>
<tr>
<td>13:00</td>
<td>Introduction</td>
</tr>
<tr>
<td></td>
<td>Sir David Tweedie, Chairman, IASB</td>
</tr>
<tr>
<td>13:15</td>
<td>IFRSs in 2011 and beyond</td>
</tr>
<tr>
<td></td>
<td>Sir David Tweedie, Chairman, IASB</td>
</tr>
<tr>
<td>13:45</td>
<td>Japanese perspectives (panel discussion)</td>
</tr>
<tr>
<td></td>
<td>Chair: Ikuo Nishikawa, Chairman, ASBJ</td>
</tr>
<tr>
<td></td>
<td>Panellists:</td>
</tr>
<tr>
<td></td>
<td>Kazuo Hiramatsu, Professor of Accounting, Kwansei Gakuin University and President, Japan Accounting Association</td>
</tr>
<tr>
<td></td>
<td>Sei-Ichi Kaneko, Executive VP and Member of the Board, The Securities Analysts Association of Japan</td>
</tr>
<tr>
<td></td>
<td>Hidenori Mitsui, Director, Corporate Accounting and Disclosure, Financial Services Agency (Japan)</td>
</tr>
<tr>
<td></td>
<td>Questions from the audience</td>
</tr>
<tr>
<td>14:45</td>
<td>Tea/Coffee break</td>
</tr>
<tr>
<td>15:15</td>
<td>Preparers’ implementation perspectives</td>
</tr>
<tr>
<td></td>
<td>Chair: Noriake Shimazaki, Trustee, IFRS Foundation and Chairman of the sub-committee on Accounting, Nippon Keidanren</td>
</tr>
<tr>
<td></td>
<td>Speakers:</td>
</tr>
<tr>
<td></td>
<td>How we implemented IFRSs—Peter Day, Director of companies, Australia</td>
</tr>
<tr>
<td></td>
<td>How we are implementing IFRSs—Yul Ryu, CFO, S-OIL Corporation</td>
</tr>
<tr>
<td></td>
<td>How we are preparing to implement IFRSs—Joji Okada, Executive Managing Officer, Deputy CFO, Global Controller, Mitsui &amp; Co Ltd</td>
</tr>
<tr>
<td></td>
<td>Questions from the audience</td>
</tr>
<tr>
<td>17:15</td>
<td>Keynote speaker</td>
</tr>
<tr>
<td></td>
<td>Katsunori Mikuniya, Commissioner, Financial Services Agency (Japan)</td>
</tr>
<tr>
<td>18:00–19:00</td>
<td>Cocktail reception</td>
</tr>
</tbody>
</table>
Programme:

**Thursday 29 July 2010**

08:00–08:45  **Early Bird Session**
Olivier Servais, Director, XBRL Activities, IFRS Foundation
Atsushi Takeda, Deputy Chief, Corporate Accounting and Disclosure Division, Financial Services Agency (FSA)
Makoto Koizumi, XBRL Japan

09:00  **Financial instruments: IASB progress and plans**
Prabhakar Kalavacherla (PK), Member, IASB
Bob Garnett, Member, IASB
Questions from the audience

10:00  **Revenue recognition: IASB progress and plans**
Wei-Guo Zhang, Member, IASB
Questions from the audience

10:30  **Financial statement presentation and post-employment benefits: IASB progress and plans**
Tatsumi Yamada, Member, IASB
Questions from the audience

11:00 Coffee break

11:30  **Break-out sessions (conducted by IASB members and staff):**
Choose one of (the sessions are repeated after lunch):
1. Conceptual framework (Wei-Guo Zhang and Mary Barth)
2. Consolidation and Derecognition (Prabhakar Kalavacherla and Wayne Upton)
3. Leases (Warren McGregor)
4. Post-employment benefits and Fair value measurement (Tatsumi Yamada)
5. Hedge accounting (Bob Garnett)

13:00 Lunch

14:00  **Break-out sessions (conducted by IASB members and staff):**
Choose one of:
1. Conceptual framework (Wei-Guo Zhang and Mary Barth)
2. Consolidation and Derecognition (Prabhakar Kalavacherla and Wayne Upton)
3. Leases (Warren McGregor)
4. Post-employment benefits and Fair value measurement (Tatsumi Yamada)
5. Hedge accounting (Bob Garnett)

15:15 Coffee break

15:30  **Implementation update: processes, progress and plans**
Bob Garnett, Chairman, IFRIC

16:15 End of conference
Day 1
International Financial Reporting Standards

IFRS in 2011 and beyond
Sir David Tweedie
Chairman, International Accounting Standards Board (IASB)

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

© 2010 IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. www.ifrs.org

- Benefits of IFRS
- IFRS around the world
- Principle-based standards
- Modified strategy and work plan
- The future
Benefits capital markets…

- credibility of local market to foreign investors;
- greater cross-border investment;
- efficient capital allocation;
- comparability across political boundaries; and
- facilitates global education and training.

...and companies

- lower cost of capital;
- integrated IT systems;
- easier consolidation;
- ‘one set of books’;
- assist in raising capital overseas;
- understand financial statements of overseas suppliers, customers, subsidiaries.
Status of IFRS use around the world

- Since 2001, over 120 countries have required or permitted the use of IFRSs.
- Remaining major economies have time lines to converge with or adopt IFRSs in the near future.
- Next wave of new joiners in 2011/2012: Argentina, Canada, India, Mexico, South Korea, etc
- Japan: IFRS permitted for a number of international companies since 2010; decision about mandatory adoption around 2012.
More than 100 countries require or permit the use of International Financial Reporting Standards (IFRSs), or are converging with the IASB’s standards.

**The World is Getting Smaller**

**Fortune Global 500 (July 2009)**

<table>
<thead>
<tr>
<th>Fortune G500</th>
<th>Based on announced plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which GAAP?</td>
<td>2009</td>
</tr>
<tr>
<td>IFRSs and word-for-word IFRS equivalents</td>
<td>190</td>
</tr>
<tr>
<td>US GAAP</td>
<td>155</td>
</tr>
<tr>
<td>National GAAPs</td>
<td>155</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
</tr>
</tbody>
</table>
### Continuous progress
#### IFRS-US convergence efforts

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001 – 04</td>
<td>Growing interest in IFRSs following US financial scandals</td>
<td>2002 - Norwalk agreement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- remove differences</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- align agendas</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Short-term: remove major differences</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Medium-term: new joint standards where significant improvements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>required</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- 2007 - MoU and SEC reconciliation requirement removal</td>
</tr>
</tbody>
</table>

- continued

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 – 09</td>
<td>Consideration US adoption and a date certain</td>
<td>Update of MoU with 2011 targets and SEC roadmap</td>
</tr>
<tr>
<td>Nov 2009</td>
<td>Renewed commitment to MoU – achieving 2011 target</td>
<td>- Joint statements by IASB-FASB and Trustee bodies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- monthly meetings and quarterly progress updates</td>
</tr>
<tr>
<td>June 2010</td>
<td>Statement on convergence work</td>
<td>Recognition of challenges regarding effective global stakeholder</td>
</tr>
<tr>
<td></td>
<td></td>
<td>engagement on a large number of projects</td>
</tr>
<tr>
<td></td>
<td>➤ Prioritization of major convergence projects</td>
<td></td>
</tr>
<tr>
<td></td>
<td>➤ Target date for main projects remains June 2011</td>
<td></td>
</tr>
</tbody>
</table>
Support for a single set of standards  
G20 Summit – 25 September 2009

- Redouble efforts to:
  - achieve a single set of high quality, global accounting standards within the context of their independent standard setting process
  - complete convergence project by June 2011.
- IASB’s institutional framework should further enhance the involvement of various stakeholders.
- G20 acknowledge that there could be differences between capital requirements and accounting rules:
  - to ensure comparability, the details of the leverage ratio will be harmonized internationally, fully adjusting for differences in accounting.

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
Managing transition

- Limited effective dates: New requirements take effect either 1 January or 1 July of any given year
  - projects completed in 2010 not before 1 January 2012
  - projects completed in 2011 not mandatory before 1 January 2013
  - some even later

- Enhanced stakeholder engagement
  - improved and additional outreach activities
  - additional steps to engage with investors
  - enhanced technical dialogue with prudential supervisors and market regulators

Improved and additional outreach methods

- Enhanced investor engagement (among others dedicated Investor Relations Manager)
- Enhanced outreach activities (project specific email alerts, podcasts of Board meetings, Feedback statements,..)
- Enhanced technical dialogue
  - in line with G20 recommendations: proposals take account of guiding principles of Basel Committee and Financial Crisis Advisory Group report
  - regular meetings with the Basel Committee
  - member of the Financial Stability Board
  - regular meetings with EFRAG
  - national standard-setters are partners in our work
  - participation in regional meetings of national standard-setters
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
### 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></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>
<tr>
<td>Financial instruments</td>
<td>Q3 &amp; Q4 2010</td>
<td>Q2 2011</td>
</tr>
<tr>
<td>Revenue recognition</td>
<td>✓</td>
<td>Q2 2011</td>
</tr>
<tr>
<td>Leases</td>
<td>Q3 2010</td>
<td>Q2 2011</td>
</tr>
<tr>
<td>Insurance</td>
<td>Q3 2010</td>
<td>Q2 2011</td>
</tr>
</tbody>
</table>
IASB work plan

- Financial crisis projects (joint with FASB)
- Other projects
  - some are joint with FASB
  - others are IASB alone
- Conceptual Framework (joint with FASB)
### Financial crisis projects - Derecognition

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

### 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: FASB round tables on IASB’s proposed standard</td>
</tr>
<tr>
<td></td>
<td>Q4 2010: finalised IASB standard</td>
</tr>
<tr>
<td></td>
<td>possible FASB ED on IASB standard?</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>Q3 2010: ED</td>
</tr>
<tr>
<td></td>
<td>Q1 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>
</table>
| Financial statement presentation       | ▪ DP feedback indicated concerns that benefits could be outweighed by expected implementation costs.  
                                         ▪ Boards decided to engage in additional outreach activities and potentially reconsider proposals. | ▪ Q3 2010: staff draft of proposed standard  
                                         ▪ Q4 2010: completion of outreach  
                                         ▪ Q1 2011: ED                                                   |

### Financial crisis projects - Other

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

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

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:**
- Boards will publish each others proposals
- Joint consideration of feedback received
- FASB round-table meetings on their comprehensive proposals (IASB participation) - Q4 2010
- The Expert Advisory Panel is helping the boards to identify and resolve operational aspects of credit impairment models
### Prioritised projects - Financial Instruments

<table>
<thead>
<tr>
<th>Project part</th>
<th>Target date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedge accounting ED (Phase III)</td>
<td>ED: Q3 2010</td>
</tr>
<tr>
<td>Impairment (Phase II)</td>
<td>ED comments due 30 Jun 2010</td>
</tr>
<tr>
<td>Classification and measurement: financial liabilities</td>
<td>ED comments due 16 July 2010</td>
</tr>
<tr>
<td>Asset and liability offsetting</td>
<td>Q4 2010: ED publication (IASB and FASB)</td>
</tr>
<tr>
<td></td>
<td>Q1 2011: round tables</td>
</tr>
<tr>
<td></td>
<td>Q2 2011: publication of standards – timing aligned with other changes to the FI standards</td>
</tr>
<tr>
<td>Responding to stakeholder concerns (BCBS and FSB and others) to address differences between IFRSs and US GAAP</td>
<td></td>
</tr>
</tbody>
</table>

### Prioritised projects - other

<table>
<thead>
<tr>
<th>Project</th>
<th>Objective</th>
<th>Target date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Recognition</td>
<td>development of a single, common standard for a wide range of industries and transaction types</td>
<td>Q4 2010: round tables, Q2 2011: joint standard</td>
</tr>
<tr>
<td>Leases</td>
<td>development of a joint lease standard that improves lease accounting and ensures that all lease contracts are recognised on the statement of financial position</td>
<td>Q3 2010: joint ED, Q4 2010: round tables, Q2 2011: joint 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><strong>Insurance</strong></td>
<td>In 2009 the boards begin discussing the project jointly – agreed on joint approach in most areas</td>
<td>Q3 2010: IASB ED</td>
</tr>
<tr>
<td></td>
<td></td>
<td>July 2010: FASB decision about how to proceed with IASB proposals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Q2 2011: final standard</td>
</tr>
<tr>
<td><strong>Emission trading schemes</strong></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><strong>Income taxes</strong></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><strong>Joint ventures</strong></td>
<td></td>
<td>Q3 2010: IFRS expected</td>
</tr>
</tbody>
</table>

*© 2010 IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. www.ifrs.org*
### Other projects

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Details</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:**

<table>
<thead>
<tr>
<th>Phase A  Objective and qualitative characteristics</th>
<th>Final chapter expected 3Q 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase B  Elements and recognition</td>
<td>To be determined</td>
</tr>
<tr>
<td>Phase C  Measurement</td>
<td>Discussion Paper planned 4Q 2010 or 1Q 2011</td>
</tr>
<tr>
<td>Phase D  Reporting entity</td>
<td>ED was issued March 2010</td>
</tr>
<tr>
<td></td>
<td>Comments due 15 July 2010</td>
</tr>
<tr>
<td></td>
<td>Final chapter expected 4Q 2010</td>
</tr>
</tbody>
</table>
### Conceptual Framework (joint with FASB)

### Potential future phases:

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>E</td>
<td>Presentation and disclosure</td>
<td>Not yet active</td>
</tr>
<tr>
<td>F</td>
<td>Purpose and status of framework</td>
<td>Not yet active</td>
</tr>
<tr>
<td>G</td>
<td>Phase G Applicability to not-for-profit entities</td>
<td>Not yet active</td>
</tr>
</tbody>
</table>
Structure of IFRSs

A principle based standard

- No exceptions
- Core principles (objectives)
- No inconsistencies
- Tied to conceptual framework
- Judgement
- Minimum guidance
**Rule-based Standards**

- If don’t act with integrity
- If attack reasonable judgement in court
- If ask for voluminous interpretations
- If raw economic facts are unacceptable
- If regulators want one answer

---

**So what will the future look like?**

- **Principles**
- **Rules**
## The future

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>IFRS in +120 countries and US convergence programme</td>
</tr>
<tr>
<td>2013</td>
<td>IFRS in +150 countries and US convergence programme</td>
</tr>
<tr>
<td>Vision</td>
<td>A single set of high quality global accounting standards</td>
</tr>
</tbody>
</table>
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.
Japanese Perspectives (panel discussion)
I FRS Adoption: 
Japanese Educators’ Perspective

Kazuo Hiramatsu
Professor, Kwansei Gakuin University
President, Japan Accounting Association

Contents

I. Tentative Decision on the Adoption of IFRS
II. General Education of IFRS
III. Research on IFRS Education
IV. Graduate Education of IFRS
V. Issues of IFRS Education
I. Tentative Decision on the Adoption of IFRS

The Business Accounting Council, FSA (June 30, 2009)


→ Indicated the importance of education/training.

II. General Education of IFRS

JIIAE (1999-)
(Japanese Institute of International Accounting Education)

- Provides seminars on int’l accounting.
- Publishes books in IFRS
- Member of IAAER
III. Research on IFRS Education

Japanese Association for Accounting Education and Research (JAAER) (2009-)

- Established on February 10, 2009
- The 1st Annual Meeting:
  - October 24-25, 2009 at Hiroshima Shudo University
  - Major interest: Education of IFRS

---

III. Research on IFRS Education

- The 2nd Annual Meeting:
  - July 29-30, 2010 at Aomori Public College
  - Plenary Session: IFRS Education at Undergraduate Level
IV. Graduate Education of IFRS

**Accounting Schools (2005-)**
(Graduate School for Professional Accountancy)

- To educate candidates of future accountants, with professional ethics and global level of professional knowledge.

- Japan Association of Graduate Schools for Professional Accountancy (18 Universities)

---

IV. Graduate Education of IFRS

**Accounting Schools provide Education based on International Education Standards (IES) of IFAC’s IAESB.**

(International Accounting Education Standards Board of International Federation of Accountants)
V. Issues of IFRS Education

Differences in Basic Concepts

1. Conceptual Framework approach
   vs Inductive approach
2. Principles-based approach vs Rules-based approach
3. Asset-Liability approach vs Revenue-Expense approach
4. Fair value vs Historical cost
5. Economic Unit concept vs Parent Company concept

Japanese senior educators are strongly influenced by “Distillation of Experience”. It is not easy to change the mindset to the conceptual framework approach.
V. Issues of IFRS Education

2. Principles-based approach vs Rules-based approach

Japanese academics are accustomed to teaching the rules.

They have less experience on the judgements of IFRS.

3. Asset-Liability approach vs Revenue-Expense approach

From the static view of accounting of the 19th century to the dynamic view of accounting of the 20th century. Then the new static view of accounting of the 21st century. It is not difficult for Japanese educators to understand the changes. But these approaches are not made very clear.
V. Issues of IFRS Education

4. Fair value vs Historical cost

Fair value is not easily measured. Educators believe that historical cost is objective.

Educators themselves are not confident on teaching measurement of financial instruments, impairment, and retirement benefit, etc.

5. Economic Unit concept vs Parent Company concept

Japan takes the parent company concept. The Japanese accounting standards for comprehensive income is based on both. In that standards, net income is based on parent company concept while the comprehensive income is based on the economic unit concept.
V. Issues of IFRS Education

Other issues include (examples only):

Translation of IFRS

Timing and readability

CPA Examination

Currently, IFRS is not incorporated into CPA exam.

Textbooks for university education. Not enough.

Thank you very much -- Kazuo Hiramatsu
khira@wansei.ac.jp
Adopting IFRS
Japanese Users’ Perspective

Sei-Ichi Kaneko
Executive Vice President
The Securities Analysts Association of Japan
28 July 2010, IFRS Conference, Tokyo Japan

The Securities Analysts Association of Japan (SAAJ)

- 1962: Established as the Tokyo Security Analysts Association
- 1977: Commenced CMA education/examinations
- Individual members: 23,111  Corporate members: 505

CMA (Chartered member of the SAAJ)
- 1st and 2nd level examinations (13 hours)
- Distance education
- Economics, financial accounting and analysis, securities analysis, and portfolio management
- Cumulative exam takers: 303,754
- CMAs: 23,038
What do we want?
- A single set of high quality globally accepted accounting standards.

Why?
- So as to be able to compare financial statements worldwide.

What can we do?
- Pursue the bottom-up approach as opposed to the top-down approach with respect to international equity investments.

What do we get?
- Coverage of 50,000 companies vs. 1,700.
Are IFRS really a single set of high quality globally accepted accounting standards?

- User oriented.
- Detailed disclosure, particularly in notes.
- Good balance between asset liability views and income expense views.
- Use of statistical concepts (e.g. expected loss model) that reflect business reality.
- The Monitoring Board and Trustees act as guardians against country/region specific political pressures.

Survey of Analyst Opinions Regarding Accounting Issues

1. Objectives
   To understand the opinions of our certified member analysts regarding accounting issues in order to reflect them in the Association’s opinion letters submitted to standard setters such as the ASBJ and IASB.

2. Methodology
   A questionnaire was sent by e-mail to 17,363 registered members, 690 of whom responded, giving a response ratio of 4.0%.

3. Survey Date
   June 2010.

Survey results will be available from:
   http://www.saa.or.jp/english/research/accounting.html (English)
   http://www.saa.or.jp/account/account/enquete.html (Japanese)
Survey Findings (1)

Q: Do you think all countries and regions should adopt a single set of accounting standards?

A:

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Yes—the globalization of business reduces the importance of domestic-only standards and there is an advantage in making inter-company comparison easy.</td>
<td>49.3%</td>
</tr>
<tr>
<td>B. A cautious approach is necessary as, even after adoption of a single set of standards, differences may remain in implementation including auditing.</td>
<td>40.3%</td>
</tr>
<tr>
<td>C. Not desirable as accounting standards should reflect local business customs.</td>
<td>8.6%</td>
</tr>
<tr>
<td>D. Other.</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

Survey Findings (2)

Q: It is thought that IFRS will be adopted by more than 100 countries/regions worldwide. The US will make a decision in 2011 and Japan in 2012. What is your opinion of Japan’s adoption of IFRS?

A:

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Japan should adopt even if the US decides not to.</td>
<td>58.6%</td>
</tr>
<tr>
<td>B. Japan should adopt if the US does.</td>
<td>26.4%</td>
</tr>
<tr>
<td>C. Japan should not adopt IFRS.</td>
<td>8.6%</td>
</tr>
<tr>
<td>D. Other.</td>
<td>6.5%</td>
</tr>
</tbody>
</table>
Survey Findings (3)

Q: The IASB proposes applying the amortized cost method to certain bonds and loans held for non-trading purposes, while the FASB requires fair value measurement for such instruments (recognized in OCI and recycled). Which do you support?

A:

| A. The IASB proposal which takes account of management intent. | 63.5% |
| B. The FASB proposal which applies fair value measurement to all financial instruments. | 32.3% |
| C. Other. | 4.2% |

Survey Findings (4)

Q: What are your concerns regarding Japan’s possible adoption of the IFRS (plural answers permitted)?

A:

| A. Standards that are significantly different from current Japanese ones are being proposed. | 48.6% |
| B. The IASB will perhaps not be able to maintain political independence and standards will be developed based on the opinions of non-Japanese countries/regions such as the EU and the US. | 50.7% |
| C. Even after global adoption, significant differences may remain in financial reporting because of divergence in the application of standards and varying auditing level by countries/regions | 50.7% |
| D. No concerns. | 7.4% |
| D. Other. | 4.8% |
20~30 Years Later

- It may be hard to imagine a time when each and every country/region had its own accounting standards….
- The standards have to be really good. Otherwise all of us will be in deep trouble….
- The SAAJ is fully committed to contribute to developing better standards for our children and grandchildren.

Thank you very much!
Sei-Ichi Kaneko
s-kaneko@saa.or.jp
Progress towards Adoption of IFRSs in Japan

July 2010
Financial Services Agency, Japan
Hidenori Mitsui

Japan’s Roadmap for IFRSs Application

- Voluntary Application
  Scope: Certain listed companies whose financial or business activities are conducted internationally
  Applied to: Consolidated Financial Statements
  From: Fiscal year ending 31 March 2010

- Minimum 3 Years

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

- Possible Start of Mandatory Application

Publication of Japan’s Roadmap (June 30, 2009)
From the end of March 2010: Voluntary application for the consolidated financial statements of certain listed companies whose financial or business activities are conducted internationally

Around 2012: Decision regarding mandatory application of IFRSs for listed companies

Before making a decision regarding mandatory use of IFRSs, the FSA considers achievements of some issues, such as;
- whether governance of IFRS Foundation is improved
- whether IFRSs appropriately reflect business practices in Japan
- whether Japanese accounting stakeholders express opinions to IASB proactively and effectively ⇒ Liaison Office can be efficient
- whether IFRSs are appropriately and promptly translated into Japanese
- whether education and training on IFRSs are sufficiently conducted

Basic Concept for Application of IFRSs in Japan

To improve quality and international comparability of financial reporting for investors; and
To enhance international competitiveness of Japanese financial market; etc.
⇒ must draw a roadmap with a concrete vision for the future toward a possible voluntary or mandatory application of IFRSs in statutory disclosure of financial statements by Japanese companies

Japan’s Roadmap: Basic Concept & Key Conclusion

Conclusion

⇒ must draw a roadmap with a concrete vision for the future toward a possible voluntary or mandatory application of IFRSs in statutory disclosure of financial statements by Japanese companies

IFRS Foundation Governance Review

First Meeting: April, 2009
Role: To provide a formal link between the Trustees and public authorities
Member:
- 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

Working Group for Governance Review of IFRS Foundation

Working Group has been established by the MB in July, 2010
The review will focus on the overall governance model of IFRS Foundation including the composition of the MB
Working Group aims to finish its job at the end of 2010
Chaired by Masamichi Kono, Vice Commissioner for International Affairs of the FSA
Voluntary Application of IFRSs (1)

On December 11, 2009, FSA published the set of revised Cabinet Office Ordinances

Criteria for voluntary application of IFRSs

✔ Listed on a Security Exchange in Japan
✔ Disclose in their Annual Securities Reports information regarding specific efforts to ensure appropriateness of their consolidated financial statements
✔ Allocate executives or employees with ample knowledge about Designated IFRSs and have in place a structure that enables them to properly prepare consolidated financial statements in accordance with Designated IFRSs
✔ Companies, parent companies, other related companies or parent companies of the other related companies shall either:
  (a) disclose under laws and regulations of foreign jurisdiction periodically as required thereby, documents on their business conditions prepared in accordance with IFRSs;
  (b) disclose under rules set by foreign security exchange markets periodically as required thereby, documents on their business conditions prepared in accordance with IFRSs; or
  (c) own a foreign subsidiary whose capital is equal to or exceeds the equivalent of 2 bln yen.

Voluntary Application of IFRSs (2)

Other

✔ The current treatment where certain Japanese listed companies are allowed domestically to submit their consolidated financial statements prepared under US-GAAP for the purpose of meeting the requirements under Financial Instruments and Exchange Act, will be discontinued for consolidated fiscal years ending after March 31, 2016
✔ On March 10, 2010, the amendment of the Regulatory Notices was published, which includes designation of IFRS 9 as the Designated IFRSs

Effective Date

✔ Starting from the consolidated fiscal years ending on or after March 31, 2010
## Legal status of IFRS in Japan

### Financial Instruments and Exchange Act

Financial Statements shall be prepared in conformity with the terms, forms and preparation methods which the Commissioner of the FSA prescribes in a Cabinet Office Ordinance in accordance with the manner generally accepted 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 FSA.

### Requirements for IFRSs Designation by the Commissioner of the FSA

1. clearly drafted and made generally known to the market in advance;
2. carefully considered by various stakeholders;
3. assessed by a large number of stakeholders as reasonable standards reflecting actual economic conditions; and
4. widely received by stakeholders as fair and appropriate financial reporting standards.

- IFRSs are designated with no carve-ins or carve-outs.
- IFRS 9 was designated in March, 2010.

## Measures Taken Towards IFRS Adoption in Japan

Various measures are taken towards smooth adoption of IFRS in Japan.

### Cooperation among Japanese Constituencies

- “IFRS Council” identifies issues concerning implementation of IFRSs, and establishes overall policies and strategies.
- “IFRS readiness taskforce” enhances discussion among financial statements preparers on key issues for the IFRSs implementation.

### Illustrative Financial Statements

- FSA released Illustrative financial statements under IFRSs.
  - Year-end Consolidated Financial Statements and footnotes
  - Quarterly Consolidated Financial Statements and footnotes
Thank you

Japan FSA
July 2010

Preparers’ implementation perspectives
How have we prepared for IFRS Adoption?

July 28, 2010

Yul Ryu
CFO

Contents

- S-OIL overview
- IFRS in Korea
- IFRS adoption at S-OIL
  - Challenges
  - Conclusion
1. S-OIL overview

Highly Competitive Refinery

- **Refinery with economies of scale**
  - Crude distillation capacity: 580,000 barrels per day
    (World’s 8th largest refinery)

- **Refining facilities of high complexity**
  - Converts 100% of low value residual crude into high value products
  - Supplies quality products across the region as the cost leader

- **Well-integrated refinery**
  - Petrochemical plant and lube base oil plant within a refinery
    - Capacity: Petrochemicals 1,200 KTA, Lube base oils 30 MB/D
Well-balanced Marketing

- **Profit-based sales by exploring both domestic & global market**
  - Focuses on brand market for dedicated sales outlets in domestic market
  - Supplies high quality products with easy access to key importing countries

### Year 2009

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume (MB/D)</td>
<td>201 MB/D</td>
<td>330 MB/D</td>
</tr>
<tr>
<td>Percentage</td>
<td>38%</td>
<td>62%</td>
</tr>
</tbody>
</table>

- **Service Stations**: 53%
- **Government & Corporate customers**: 41%
- **Others**: 6%

#### International Sales

- **Japan**: 17%
- **Singapore**: 17%
- **China**: 15%
- **USA**: 14%
- **Australia**: 8%
- **Netherlands**: 7%
- **India**: 6%
- **Others**: 24%

### S-OIL Overview

#### Sound Financial Structure

- **Solid performance and low leverage**
  - Revenue & net income
  - Asset & net debt to equity ratio

- **Revenue & Net Income** (in bil. Won)

- **Net Income**
  - 2005: 6,115
  - 2006: 6,664
  - 2007: 9,460
  - 2008: 7,656
  - 2009: 9,050

- **Revenue**
  - 2005: 12,954
  - 2006: 14,868
  - 2007: 15,216
  - 2008: 13,009
  - 2009: 17,434

- **Asset & net debt to equity ratio** (in bil. Won)

- **Strong credit ratings**
  - Baa2(stable) by Moody’s, BBB (stable) by S&P
Transparent Governance

- **Transparency as core value**
  - As a joint venture between an oil consuming country and an oil producing country, the Company has set transparency as core value for ensuring the best interest of shareholders.

- **Shareholder structure**
  - Saudi Aramco (AOC)
    - Global #1 Crude Producer & Exporter
    - World’s Largest Crude Reserve Owner
  - Hanjin Group (Hanjin Energy)
    - Leading logistics, aviation, transport and shipping company in Korea
  - Others
    - Institutional investors & minority shareholders

- **Subsidiary and joint venture**
  - S-I International (100% owned)
  - S-OIL Total Lubricant Co. (Joint venture with TOTAL)

II. IFRS in Korea
Korean regulatory body’s decision in 2007 to adopt IFRS in a big bang way from 2011 for listed companies

**Roadmap**

- 2009: Date of Transition
- 2010: Comparison
- 2011: Date of Adoption

- IFRS-based financial statement of FY 2010 required of companies that will adopt IFRS in 2011 for comparison purpose in 2011 disclosure
- Early adoption from 2009
  - As of FY 2010, 59 companies opted for early adoption (e.g. Samsung Electronics, LG Electronics etc.)

**Background of Big-bang Approach**

- Higher credibility by global investors
  - Differences between K-GAAP and IFRS justified global investors to devaluate financial performance of Korean companies
  - IFRS will help to remove ‘Korea discount’ in the global market

- Global trend
  - More than 100 countries including those in EU zone have either adopted or are planning to adopt IFRS

- Cost savings of Korean companies listed on global stock markets
  - Companies were obliged to submit financial statements based on global standards
  - F/S based on global standard is required for audit
III. IFRS adoption at S-OIL

Organisation for IFRS Adoption

- Separate organization for IFRS adoption

  - B O D
  - Management Committee
  - CFO
  - Project Leader: VP
  - Accounting (with Deloitte)
  - IT (with IBM)

[Roles]
- Review and approval
- Management’s support
- Monitoring
- Co-work of accounting and IT expert
- Implement of project
- Proposal of accounting policy
4 Areas of Focus

- Higher level of automation and minimum manual work
- System integration
- Shorter closing period
- Accurate disclosure of financial status and performance
- H/W & S/W upgrade
- Accounting manual update
- Training programs
- Closer communication with external stakeholders
- Alert to potential accounting standard change after IFRS
- Minimum business impact

Timeline

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS Adoption</td>
<td>Identify accounting issues</td>
<td>Select accounting policy</td>
<td>Systemize</td>
<td>Prepare dual F/Ss</td>
</tr>
<tr>
<td>Gap analysis</td>
<td>Benchmarking</td>
<td>Monitoring industry practice</td>
<td>Revising accounting issues</td>
<td></td>
</tr>
<tr>
<td>ERP embedding</td>
<td>Updating accounting manual</td>
<td>Training manpower</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dual GAAP F/Ss</td>
<td>IFRS</td>
<td>Attestation by external auditor</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Identifying areas for process improvement
- Identifying areas for process improvement
- Determining improvement plan
- Improving accounting process
IV. Challenges

- **Principle Based Standard**
  - Lack of internal IFRS experts
  - Different standards applied in the same industry
  - Divergent opinions from accounting firms

  - Elevates dependence on external experts
  - Challenges apple-to-apple comparison of financial performance
  - Tempts potential policy change
Fair Value Principle

- Difficulty in fair valuation of non-financial assets for manufacturing companies
  - No market data, lack of expert, poor creditability of estimated value
  - Frequent value update
    - Periodical revaluation incurs cost
    - Financial performance could be influenced by the change of asset value

Despite of fair value principle, most manufacturing companies adopt cost method for non-financial asset valuation.

Legal Amendment in Lengthy Delay

- K-GAAP for tax purpose
- Profit difference in the two financial statements irrelevant to the company’s nature
- Asymmetric tax treatment on opening balance

Requires the Company to issue F/Ss based on K-GAAP and IFRS

Possibility of additional tax burden
Moving Target

- Convergence of IFRS and US GAAP
  - Complete by 2011 according to roadmap
  - Towards objectives-oriented principle from principle-oriented one

New standards & amendments

Potential cost burden for additional consulting & system embedding immediately after IFRS adoption in 2011

V. Conclusion
Conclusion

- IFRS adoption is a nationwide project to embrace the sole global accounting standard conducive to higher transparency

- Followings are helpful to ensure successful adoption;
  - Preparation of companies
    - Proper adoption plan, management’s full support, platform for system & process upgrade
  - Support by regulatory authorities
    - Legal update and concrete roadmap to prevent confusion
  - Role of accounting experts
    - Reasonable consulting fees, consensus on controversial accounting issues
  - Role of IFRSF (International Financial Reporting Standards Foundation)
    - No radical change of IFRS, full communications prior to issuing new standards, sufficient lead time for preparing

Thank you
Agenda

1. Introducing myself
2. Our basic function
3. History of Mitsui
4. Change in climate surrounding Mitsui
5. Our current status
6. What we are planning to gain
7. Challenges we are facing
8. Expectations of IFRS (IASB)
1. Introducing myself

Joji Okada

- Deputy Chief Financial Officer of Mitsui & Co., Ltd.
- Joined Mitsui in 1974
- Developed career mostly in the field of finance & accounting
- Experienced assignments in the U.S., France, and Canada
- Managing Officer from 2008 & Global Controller from 2009

2. Our basic function

Sogo shosha (総合商社)
= Full-Service Trade and Industrial Development Enterprise

Business Domain:
- Iron & Steel Products
- Mineral & Metal Resources
- Machinery & Infrastructure Projects
- Chemicals
- Energy
- Foods & Retail
- Consumer Service & IT
- Logistics & Financial Markets

Number of Consolidated Companies: 461
- Subsidiaries: 292 (Japan 88, Overseas 204)
- Associated Companies: 169 (Japan 50, Overseas 119)

Number of Employees: 41,454

Above Data is as of 31/3/2010
3. History of Mitsui

**History of “Challenge and Innovation”**

- 1876: Original foundation
- 1947: Establishment of the present company
- 1949: Listed on the Tokyo Stock Exchange
- ’60s: Stable supply of resources which supported the growing economy
- 1963: Issued American Depositary Shares
- ’70s: Positive responses to the rapidly changing international environment
- 1971: Listed on NASDAQ
- ’80s: Development of new markets, including hi-tech fields
- ’90s: Taking up challenges in the information and communications fields
- Since 2000: Challenges and creativity in new fields

4. Change in climate surrounding Mitsui

1. Our current status
   - We are listed on stock exchanges both in Japan & US
   - We prepare our consolidated financial statements based on US GAAP

2. Change in climate surrounding us
   - 2007: US Foreign Private Issuers are allowed to file using IFRS
   - 2008: US Roadmap opened for comments
   - 2009: Japanese Roadmap issued
   - 2016: Reporting under US GAAP will be precluded in Japan
1. Our targeted first IFRS reporting date:  
   Fiscal year ending March 31/2014

   a) Preparation to maximize the advantages:

   - GAAP difference research and impact assessment
   - Internal infrastructure – accounting policies, manual, systems
   - IFRS training

   ⇒ 2 to 3 years for preparation

b) MoU projects

⇒ MoU projects are expected to be completed by 2011
5. Our current status

2. Our project approach

IFRS Implementation Committee

- Chairman
- Committee Members
  - Accounting Div.
  - Finance Div.
  - IAS 40 Investment Property
  - IFRS 3 Business Combination

Success factor: Collaboration with the business departments

IFRS Implementation Committee

- System revision
- Reporting process
- Performance evaluation
- Etc.

6. What we are planning to gain

1. Three primary advantages

- Achieve prompt and efficient reporting
  ⇒ Less GAAP adjustments

- Drive the engine of M&A
  ⇒ Accelerate buyout decisions

- Enhance internal control
  ⇒ Integrated accounting and reporting policy
6. What we are planning to gain

2. Change in business management

Active changes:
- Enhance synergy through revision of global infrastructure

   Top down approach
   - What’s going on at our affiliates??
   - IFRS?? What is the management talking about??
   - I want to manage our group on IFRS basis!!

   Bottom up approach
   - New I know what’s really going on at our affiliates!
   - IFRS, I got it!! I will manage my company on IFRS basis!!

Passive changes:
- Business Management
  - Individual management
  - Group management

- Accounting
  - Separate F/S
  - Consolidated F/S

Accounting mirrors Business
⇒ Change in business management is inevitable!
6. What we are planning to gain

- Implementation of IFRS
- Chance of building globalized infrastructure
- Accelerate global business decisions
- Enhance our corporate value

7. Challenges we are facing

Our challenges
1. Businesses of a “General trading company” are broad

General Trading Company
- Machinery & Infrastructure projects
- Marine & Aerospace
- Energy
- Food & Retail
  - Financial Instruments
  - Leases
  - Investments in Associates
  - Agriculture
  - Investment Properties
  - etc.
7. Challenges we are facing

Concerns arise like.....

- Food & Retail:
  "How should we measure the fair value of livestock and plants?"

- Machinery & Infrastructure projects:
  "What is the impact of applying IFRIC12 Service concession arrangements to our business?"

- Mineral & Metal resources:
  "The discussion paper on Extractive activities proposes a single accounting model for minerals and oil & gas even though the business models for these activities seems very different for us."

"What is the actual impact of adopting IFRS? What will change from our current practice? By when should we be ready?"

\[\Rightarrow\] Moving Target of IFRS

---

7. Challenges we are facing

2. IFRS in different countries

Difficulties in deciding:
- “Carve outs” from IFRS
- Possibility of “local accents”
- Accounting standard “equivalent” to IFRS

![Diagram showing IFRS in different countries]

- Subsidiary in Country A: IFRS
- Subsidiary in Country B: IFRS with “carve outs”
- Subsidiary in Country C: “Equivalent” of IFRS

How should we adjust the differences??
7. Challenges we are facing

Minor differences resulting from convergence

- “Convergence” sometimes leaves “minor” differences
- Some “minor” differences could have significant impacts

3. Different reporting requirements:

- IFRS for consolidated financial statements
- JGAAP for separate financial statements
- JGAAP for Corporate tax law
- Other local GAAPs required in different countries
7. Challenges we are facing

4. Interpretation of IFRS

- ‘De facto’ interpretation or practice
- Information gap between preparers and auditors

5. IFRS training

- Understanding of the underlying concepts is crucial
- Lack of learning materials
- Broad understanding from preparers, auditors to users
- IFRS is in English

8. Expectations of IFRS (IASB)

1. Balance between cost and benefit

- We are concerned about post-implementation costs
- We are concerned about IFRS becoming over academic
- Example: “Expected loss model” discussed in “Impairments”

Unnecessary additional costs and efforts for preparers

Disadvantages to stakeholders
8. Expectations of IFRS (IASB)

2. Due process

- Due process should never become just a protocol
- Change in current practice should be well discussed before put into practice
- Standard setting process should be sound and fair from long-term perspective

3. Punctual completion of MoU projects by 2011

- As a global accounting standard completion of revision itself should not be the goal
- Divergence between the GAAPs in the meantime is unfavourable
- The true goal is to complete the revision in a steady and orderly manner
- “Festina lente”
How we are implementing IFRS

IFRS
= One single set of global accounting standards

Thank you
Keynote Speech

Katsunori Mikuniya
Commissioner, Financial Services Agency (Japan)
Good evening, ladies and gentlemen. I am Katsunori Mikuniya, the Commissioner of the Financial Services Agency of Japan. It is my privilege to speak in front of such a distinguished audience, and I would like to thank the IFRS Foundation for giving me such an opportunity.

As you may be aware, the Financial Services Agency of Japan assumes a wide range of responsibilities, including those as a prudential regulator, a securities regulator, and an insurance regulator. In fact, I am personally engaged in discussions in the Basel Committee on Banking Supervision as a prudential regulator. Today, however, I would like to speak from the securities regulator’s point of view about the ‘hottest’ of all the ‘hot’ issues in the financial world: that is, accounting.

To begin with, today ‘July 28th’ is statistically one of the hottest days in Japan. It is such a unique match-up that the ‘hottest’ issue in the
world economy is being discussed on such a hot day, here in Tokyo—a city sizzling with not only heat but also with economic and financial activities. I would like to extend my warmest, or rather, hottest, welcome to the heated discussion by the experts of the world.

In step with the rapid globalization in many fronts, there has been a remarkable progress in the convergence toward a single set of high quality international accounting standards, centering around IFRS. At the same time, an increasing number of jurisdictions all over the world have adopted or are now in progress of adopting IFRS. Such an environment underscores the significance of having the IFRS conference today in Tokyo, and we are truly delighted to be part of it.

Today, I would like to speak about four topics. First, I will speak about the difficulties associated with setting accounting standards and lessons learned from overcoming such difficulties, based on my own experiences as a former setter of accounting standards in Japan.
Second, I will identify challenges expected in the course of setting IFRS and possible solutions thereof.

As a third topic, I will shed light on the importance of human resource development. I would like to emphasize the need for capacity building by all the relevant parties, including preparers, users and auditors. I would also like to talk about Japan’s possible contributions towards achieving a single set of high quality international accounting standards by providing competent individuals.

Fourth and last, but not least, I will briefly touch upon the role of regulatory authorities in capital markets, where accounting standards play an integral part, and my commitment as a market regulator to pursue such a role.
1. Experiences as a accounting standard setter

Let me begin with my first agenda item: what I have learned from my experience about accounting standards setting.

Looking back, when I first really stepped into the realm of financial regulation twelve years ago, it was in the area of accounting and disclosure.

At that time, accounting standards were still set by the public sector—i.e., Business Accounting Council, an advisory council to the Ministry of Finance. I was involved in the standard setting process as the director in charge of coordinating that council.

We were carrying out a fundamental reform of the Japanese accounting standards, or so-called “Accounting Big Bang.” The scope of the reform was very broad, including topics like accounting for financial products. Among other things, I handled major projects such as “establishment of the pension accounting standard” and “coordination between accounting for capital market in accordance with Securities and Exchange Act and statutory accounting under
Japanese Commercial Code.”

To be more specific, the objective of establishing the pension accounting standard was to introduce a standard to properly recognize the value of pension assets and liabilities. In the 90s, the Japanese economy experienced a significant change, where the era of robust growth came to an end and the burst of the bubble resulted in diminished asset values. We learned then that we needed, especially in such circumstances, accounting standards that clearly reflected the impact of changes in economic trends, not phenomena, on the financial positions of companies.

The other major challenge was to coordinate sets of accounting standards under the Securities and Exchange Act and Japanese Commercial Code. For those of you who are not so familiar, there are two sets of accounting standards in Japan. One set is for security trading to ensure proper disclosure in capital markets. The other is for statutory purpose targeted at dividend calculation and reconciliation of stakeholders’ interests. Back then, they had a large number of
differences, which imposed additional burden for financial statement preparers.

We advocated achieving convergence of the two sets of standards. However, the differences reflecting different purposes were die-hard. I experienced first hand the challenges in coordinating such differences.

Carrying out these tasks as a coordinator of standards setting, I had to go around and talk with preparers, investors and auditors everyday. I learned from the experience that accounting standards can never be set just by sitting at the desk and deducing from accounting theory. Instead, accounting standards are molded through harmonization of accounting theory and dialogues among various stakeholders with varying mandates.

Each stakeholder has different opinion depending on where he or she stands. And in order to overcome such differences, we need to actually visit each stakeholder and sincerely discuss his or her concerns.

That is the reason why I always tell my staff at the Financial Services Agency that “setting accounting standards needs a lot of legwork.”
 Needless to say, tireless limbs alone are not sufficient for standards setting—so I have to remind them, “use your brain as well.”

As the Commissioner of the Financial Services Agency, I believe that the challenges of setting accounting standards lie in the following three points.

1. Needs to establish accounting standards that accurately reflect economic trends in today’s global economy;
2. Importance of application of accounting standards in various legal systems and coordination between the systems; and
3. Challenges to coordinate stakeholders with different interests.

Currently, Japanese accounting standards are set by the private sector, namely ASBJ, and not the public sector—however, I suppose ASBJ is facing same kind of challenges.

In addition to the challenges I mentioned, today’s accounting standards setters also have to face the more globalized economy and
the globalization of capital markets.

In Japanese GAAP, there are core principles—such as truthfulness, clarity, and consistency. I believe that the challenge for today’s accounting standards setters amounts to how skillfully they can incorporate the element of “globalization” to principles underlying GAAP and achieve “Aufheben.” They face the objective to improve the global comparability of financial statements for investors as well as to make it easier for the preparers to raise capital globally. This very proposition, I believe, is the driving force for the global convergence of accounting standards. It seems that standards setting is becoming much more challenging compared with what I experienced a decade ago.
2. Setting IFRS in the future

Now, I will turn to my second agenda topic.

From my experiences as an accounting standard setter and lessons learned, I would like to express my views on the factors required of accounting standards setters with regard to IFRS going forward.

First of all, I would like to repeat that IFRS should be such accounting standards that accurately reflect the economic trends and situations surrounding companies. For instance, we have recently experienced a global financial crisis originated from capital markets, where the problems with accounting standards on securitized products had become a big issue. The point is that there have been too much confidence in market values as the indicator of economic values for accounting purposes, and it has not been properly questioned even in the cases where the market transactions have dried up. From this priceless experience, I believe the call has grown stronger for accounting standards to be sensitive to actual economic and financial
At the same time, the issue of accurately reflecting the changes in values and their impacts goes beyond national borders. If IFRS is to be implemented around the world, it would be critical that IFRS is not biased to reflect economic practices in a particular jurisdiction or region. Instead, IFRS should be established based on a thorough understanding of practices in various jurisdictions and paying due attention to their inputs.

For a smooth implementation of IFRS in the Asia-Oceania region, it is important to convey practical needs of the region to the IASB. Also, it is equally important to share important information regarding IFRS within the region. I would like to emphasize that Japan is ready to take the role of promoting such interactive communications. I would like to take this opportunity to bring to your attention that Japan is making every effort to inviting a liaison office of the IASB to be established here in Tokyo.
In addition to hearing from different jurisdictions and regions, it is also essential to take into consideration varying needs of different subset of stakeholders, such as preparers, users and auditors.

Another issue is to ensure that the governance of the IASB and the IFRS Foundation is in line with their aim of achieving high quality international accounting standards. Since its establishment in April 2009, the Monitoring Board has played a key role in monitoring the governance of the international accounting standards setter. The Monitoring Board has recently initiated a project to review the overall governance model of the IFRS Foundation under a newly established Working Group chaired by Masamichi Kono, Vice Commissioner for International Affairs of the Japan FSA. Since the Monitoring Board is mandated to ensure that the IASB has sufficient dialogues with global stakeholders, it must also look at its own governance structure.

So far, I have talked about challenges in the course of setting accounting standards and the importance of the standard setter’s governance. Now, I would like to relate these to the decision regarding
mandatory application of IFRS in Japan.

Japan has been engaged in the convergence of the Japanese GAAP and IFRS in accordance with the “Tokyo Agreement” in August 2007. By December 2008, the EU decided on the equivalence of the Japanese GAAP with IFRS. Further, in terms of adoption of IFRS, a system of voluntary application of IFRS was put in force starting end-March this year for consolidated financial statements of certain listed companies operating internationally.

Before making the decision regarding mandatory application of IFRS around 2012, the FSA will assess whether IFRS can truly be considered a set of international accounting standards against certain criteria. It includes: improvement of the IFRS Foundation’s governance: appropriate reflection of business practices in Japan to IFRS; and engagement of Japanese stakeholders to IFRS setting. In order to make such a decision, it will be essential that we listen to the views of Japanese stakeholders and have interactive dialogues with them. We will highly appreciate cooperation by relevant stakeholders in Japan.
3. Human resource development and contribution to international standard setting activity

Let us move on to my third agenda item: human resource development and contribution to the international standard setting activity.

We believe it is very important to enhance the accounting literacy of stakeholders. Considering that the most important objective of accounting standards is enabling investors to make informed investment decisions, it is also essential to advance accounting literacy of a wide range of stakeholders, beyond the users themselves. I will elaborate on it focusing on the following four groups.

• Financial statement preparers;
• Auditors;
• Standard setters; and
• Regulators.
On the first issue, it is important to increase accounting literacy among financial statement preparers as the accounting practice grows more and more complicated. For the purpose of reliable financial reporting, technical competence of accounting personnel in preparers is critical, along with appropriate external audit. It is highly significant that we discuss this issue at this very juncture when voluntary application of IFRS has just started in Japan. As IFRS is a set of principles-based accounting standards, judgments by the preparers including accounting policy and estimates play a key role in financial reporting.

Let me now turn to the second issue of increasing professional competence of auditors. Competencies required for auditing has substantially changed, reflecting recent advancements in accounting and auditing standards. Frequent occurrence of possible fraudulent financial reporting cases is making people wonder if all auditors have sufficient professional competencies to support market integrity. While continuous professional education has been made mandatory in Japan with the view to ensuring the quality of auditors, we are also
considering further steps toward improving and maintaining their professional competence.

In terms of the IFRS application, auditors need to make judgments based on proper understanding of standards themselves as well as Japanese accounting and business practices developed over time.

For example, I hear that many people in Japan mistakenly understood that straight-line method was the only depreciation method accepted under IFRS just because some auditors implied that way. However, IFRS stipulates differently. As stated in the IAS16, IFRS allows not only straight-line method, but also diminishing-balance method, as long as depreciation method “reflects the pattern in which the asset’s future economic benefits are expected to be consumed by the entity”. Instead of blindly following accounting practices in other jurisdictions, just because they have already applied IFRS, I expect that auditors understand the true meaning of accounting standards and appropriately reflect practices in Japan.
Meanwhile, in cases where certain provisions of IFRS are not clear enough for financial statement preparers or auditors to make their judgment, we would appreciate it if IASB could take appropriate measures to assist their understanding. I believe such kind of engagement by IASB would be helpful for Japanese preparers to move towards applying IFRS.

Thirdly, I would like to talk about our challenges to secure competent individuals who can effectively contribute to the global standard setting activity.

Stakeholders in Japan are trying hard to send a larger number of Japanese individuals to the IASB as its staff. To further enhance such contribution, it would be ideal if a certain career path could be prepared through cooperation by both preparers and accounting firms. I would like to encourage companies and accounting firms to send competent employees to ASBJ to acquire skills for standard setting. By going back and forth, those personnel can acquire the valuable capacity to understand accounting standards both from theoretical and practical aspects. That would build their capacity to be involved in
debates in global standard setting arena. Eventually, such people could assume a responsible position in the IASB. I would encourage proper support by the private sector to constantly supply such individuals, and FSA would stand ready to support such an initiative in its capacity.

And finally, I would like to elaborate on the point that human resource development is important also on the side of the regulators. As the securities regulator responsible for the enforcement of financial reporting and to detect fraudulent financial reporting, it is critical for us to have skillful staff with high accounting literacy. The FSA has experts with up-to-date skills and knowledge as we hire many CPAs with professional experiences. We also provide continuous education programs and opportunities for studying at graduate schools for regular employees. We place high priority on keeping a sufficient number of competent employees that enable us to have dialogue with the best and the brightest in the private sector and further to earn their confidence.
4. Role of regulatory authorities with regard to accounting standards

For further development of capital markets in Japan as well as those around the world, private stakeholders should play out their respective roles as accounting standard setters, preparers, users and auditors. For that, public sector also should do the same in its role. As the last topic of my speech, I would like to emphasize the role of regulatory authorities with regard to accounting standards, and also express my determination as a regulator.

Accounting standards do not exist on its own, but are closely related to various regulatory systems in each jurisdiction, such as those governing designation of applicable accounting standards, disclosure, auditing and public accountants. The role of public authorities is to design such regulations and enforce them.

Each of such regulations needs to have the flexibility to adapt to the global economic situations. It is the same for enforcement, and the
FSA will continue to endeavor to improve enforcement structure in accordance with its ‘Better Regulation’ initiative. For example, the ‘New Growth Strategy’ published by the Japanese government this June includes projects such as simplification of quarterly disclosure requirements, operational review of requirements on internal control system reporting, and consideration of how earnings estimate should be disclosed.

Looking into the future, I would like to express my ever-increasing expectation for the works of IASB and ASBJ. Furthermore, we will continue to play our role as the securities regulator, and seek the best way to establish accounting standards while listening to the voices of a wide range of stakeholders.

With that, I would like to close my speech. Thank you very much.
Day 2
International Financial Reporting Standards (IFRSs) Conference

Wednesday 28 July 2010 and Thursday 29 July 2010
Mandarin Oriental Hotel (Tokyo)

Early Bird Session
IFRS XBRL Taxonomy update
Agenda

• What is XBRL?
• XBRL at the IFRS Foundation
• IFRS Taxonomy adoption
• Conclusion
What is XBRL?

in a nutshell

• Universal, XML-based, royalty-free standard to improve publishing, exchange, analysis & comparison of financial data and business information
• Dedicated to: regulators, companies, banks, insurance, software vendors, analysts, auditors & accountants …
• Accounting principles translated (tagged) in an electronic set of data (taxonomy)
• Developed and coordinated by XBRL International, a not-for-profit organisation
  – Public authorities: central banks, banking supervisors, securities regulators…
  – Business NPO: accountants, banks, vendors, analysts…
  – Commercial companies: firms, banks, software vendors, issuers…
• Adopted and implemented worldwide
International Financial Reporting Standards

XBRL at the IFRS Foundation

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

© 2010 IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. www.ifrs.org
IFRSs and XBRL

• Trustees’ decision in 2001
• Part of the adoption and implementation of IFRSs
  – XBRL is the de facto standard for electronic reporting
  – Part of IFRS development (IASB goal to provide high quality standards (IAS 1 par 9)
  – Organising the Presentation of Financial Statements (ie True and Fair view - Framework 46)
  – Codification of concepts (help in convergence)
  – Improve access for users to financial information
  – Could increase the users range (i.e. translation)
  – Could ease IFRS conversion, understanding and implementation
• Quality-assurance, maintenance and coordination of the IFRS Taxonomy
  
  The mission of the XBRL team is to create and provide a framework for the consistent adoption and implementation of IFRSs with a high quality IFRS Foundation-developed IFRS Taxonomy in the same languages and at the same time as the IFRSs

XBRL governance
What we provide

- A licence-free IFRS Taxonomy consistent with the IFRSs and the IFRSs for SMEs
- Translations of the IFRS Taxonomy available for 2009 in Arabic, (Simplified) Chinese, Dutch, French, German, Italian, Japanese, Korean and Spanish
- Support materials
  - IFRS Taxonomy Guide, a technical guide for issuers and preparers, analysts, accountants, regulators, software vendors and service providers
  - IFRS Taxonomy Illustrated, presents a simplified view of the Taxonomy in an easy to read, visual format, with non-technical language
  - xIFRS (IFRSs with XBRL), presents a view of the electronic IFRSs with embedded XBRL available for both the IFRSs and the IFRS for SMEs
  - IFRS Taxonomy Modules Manager, an online tool which helps users to navigate and customise the Taxonomy according to their requirements
- Outreach activities to national jurisdictions, regulators and supervisors, issuers and preparers, software vendors...

Due process stages
Due process requirements

**Business requirements:**
- **Time line** - alignment between the IFRS Taxonomy development time line and the IASB delivery timetable (i.e. the publication time line of the yearly Bound Volume of IFRSs).
- **Consistency** - the IFRS Taxonomy must reflect and be consistent with the IFRSs.

**Functional requirements:**
- **Interoperability** - the IFRS Taxonomy should ensure interoperability between different software systems.
- **Flexibility** - the IFRS Taxonomy should be usable throughout the financial reporting supply chain where IFRSs are implemented (increasing market transparency, supporting better analysis, reducing reporting burden, enhancing regulation & supervision) & geographic regions.
- **Extensibility** - the IFRS Taxonomy (like the IFRSs) aims to ensure comparability of financial information (not just uniformity). Users of the IFRS taxonomy can extend it for their specific needs.
- **Stability** - the IFRS Taxonomy is intended for use by all participants of the financial reporting supply chain; the technical and accounting design must ensure it is stable and sustainable; however alignment with the IFRSs will entail necessary adjustments to the taxonomy from an accounting perspective.

**Technical requirements:**
- **Compliance** - the IFRS Taxonomy must be compliant with XII specifications.
- **New XBRL technologies** - the impact of new technologies (specifications) developed by XII should be considered.

---

**IFRS Taxonomy 2010**

**Development and release time line**

- **XBRL Quality Review Team (XQRT) review**
  - 4 Jan – 1 Feb 2010

- **Public review of ED**
  - IFRS Taxonomy 2010
  - 19 Feb – 22 Apr 2010

- **Final release**
  - IFRS Taxonomy 2010
  - End of April 2010
International Financial Reporting Standards

IFRS Taxonomy adoption – some examples

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

© 2010 IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. www.ifrs.org

Around the world

© 2010 IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. www.ifrs.org
The SEC rule 33-9002: phase-in schedule

<table>
<thead>
<tr>
<th>Filer group</th>
<th>What?</th>
<th>Starting from quarters ending 15 June or later</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic / foreign large &amp; accelerated filers using US GAAP:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Public float &gt; $5 billion</td>
<td>2009</td>
<td>2010</td>
</tr>
<tr>
<td>• All other large / accelerated filers</td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>All other filers using US GAAP (inc. smaller reporting companies)</td>
<td></td>
<td>2011</td>
</tr>
<tr>
<td>All issuers using IFRS</td>
<td>2011</td>
<td>2012</td>
</tr>
</tbody>
</table>

30 day grace period from the filing date of the related report, for the initial submission of interactive data (ie XBRL) exhibit

The SEC rule 33-9002: IFRS

• Rule 33-9002 "Interactive Data to Improve Financial Reporting" enforces the use of Interactive Data (ie XBRL) for:
  – public companies and foreign private issuers (FPIs) that prepare their financial statements in accordance with US GAAP; and
  – foreign private issuers that prepare their financial statements using International Financial Reporting Standards (IFRS) as issued by the IASB.

• FPIs "using IFRS as issued by the IASB will be required to tag their financial information using the most recent list of tags for international financial reporting, as released by the IFRS Foundation and specified in the EDGAR Filer Manual‘

• The IFRS Foundation has developed the list of IFRS tags. To create interactive data filings using these IFRS tags, an issuer generally will need to follow the same mapping, extension and tagging process than a company that uses the list of tags for US financial statement reporting.
IFRS Foundation call for interest: FPIs filings to the US SEC in IFRS

What are the objectives of the initiative?

- Support preparers using the IFRS Taxonomy in meeting the 15 June 2011 date by
  - Assisting companies with preparing IFRS sample filings to the US SEC (reducing time and cost).
  - Sharing and learning from other participants’ filing experiences.
- Engage with preparers using the IFRS Taxonomy and obtain feedback.

What is the scope of the initiative?

- US SEC filings for foreign private issuers (Form 20-F) in IFRS, prepared using the IFRS Taxonomy 2010.
  - Detailed tagging of information on the face of the financial statement (PFS).
  - Single text blocks for notes.

What is the time line of the initiative?

- Completion of the initiative by the end of August 2010.
Other XBRL projects around the world

Contact us

xbrl@ifrs.org
+44 (0)207 246 6410
www.ifrs.org/xbrl
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.
JFSA’s XBRL Project and IFRS-related Activities in EDINET

July 2010

Financial Services Agency
1. Current Status of XBRL Project

1. EDINETにおけるXBRLの現状
1-1. Overview of EDINET

Electronic Disclosure for Investors’ NETwork

- Electronic disclosure system under the Financial Instruments and Exchange Act
  - Mandatory use for filing annual report, quarterly report, internal control report, securities registration statement, shelf registration statement, tender offer notification, report of possession of large volume, etc.
- Accessible through the internet to file or browse the disclosure documents
- Number of filers (annual report):
  - Approx. 5,000 companies (mainly listed companies)
  - Approx. 3,000 investment funds

Financial Services Agency
EDINET
金融商品取引法に基づく有価証券報告書等の開示者に関する電子開示システム

有価証券報告書等の開示者を簡易的に確認できます。

http://info.edinet-fsa.go.jp/
1-2. **Implementation Outline of XBRL**

- **Scope of XBRL documents**
  - Primary financial statements in annual reports, semi-annual reports, quarterly reports and securities registration statements
  - Both consolidated FS and non-consolidated FS
  - Out of scope: FS notes
- **Scope of XBRL filers**
  - All filers using Japanese GAAP (Mandatory)
  - IFRS adopters (Optional)
  - Out of scope: Other filers (ex. US GAAP filers, foreign filers)

---

1-2. **EDINETにおけるXBRL導入の概要**

- **XBRLの対象範囲**
  - 有価証券報告書、半期報告書、四半期報告書及び有価証券届出書の財務諸表本表
  - 連結財務諸表及び個別財務諸表の両方が対象
  - 財務諸表注記は対象外
- **XBRLの対象者**
  - 日本基準で財務諸表を作成する全ての提出者（必須）
  - IFRSを適用する国内の提出者（任意）
  - その他の提出者は対象外（例：米国基準適用会社、外国会社）
1-3. Current Status of XBRL filing and usage

- Number of XBRL documents (as of May 2010)
  - 37,000 reports (4,800 companies) have been already filed.

- Monthly Usage of EDINET (as of May 2010)

![Graph showing usage statistics]
1-4. Overview of Next Generation EDINET

Since 2009, we started the new project, towards the Next Generation EDINET, to promote further utilization of XBRL and to enhance the convenience of EDINET.

NextGen EDINET

- Tool Vendors
- Service Providers
- Portal Site
- Dealers
- Domestic Investors
- Foreign Investors

Movements regarding IFRS

- Expansion of Scope of XBRL
- IFRS-based XBRL
- Data Dissemination function
- Enhanced search function
- English site
- Analytical tool

Tool Vendors

Service Providers

Portal Site

Dealers

Domestic Investors

Foreign Investors

Printing Companies

Filers

Dealers

Tool Vendors

Printing Companies

Filers

6
1-5. Expansion of the scope of XBRL

- Annual Report
- Semiannual Report
- Quarterly Report
- Securities Registration Statement
- Report of Possession of Large Volume
- Share Buyback Report
- Extraordinary Report
- Tender Offer Notification
- Shelf Registration Statement / Shelf Registration Supplements
- Internal Control Report

Expansion in annual reports etc.

Expansion to other disclosure documents

---

1-5. XBRL 対象範囲の拡大

- 有価証券報告書
- 半期報告書
- 四半期報告書
- 有価証券届出書
- 大量保有報告書
- 自己株券買付状況報告書
- 臨時報告書
- 公開買付届出書
- 発行登録書/追補書類
- 内部統制報告書

有価証券報告書等における定性情報への範囲拡大

その他の開示書類における多様な情報への範囲拡大

---

Financial Services Agency
2. IFRS-related Activities in EDINET

2. EDINETにおけるIFRSへの対応
2-1. Global Interoperability of XBRL

JFSA, IASCF, SEC and EC has been discussing to ensure global interoperability of XBRL. (ITA project)

- Ensuring comparability and compatibility among XBRL data based on multiple GAAPs,
  - to make it possible for investors to analyse XBRL data based on multiple GAAPs in the same way
  - to make it possible for filers to provide multiple regulators with same XBRL data
- Case of Multiple GAAPs
  - Japanese companies vs Foreign companies
  - Early adopters of IFRS vs Other Japanese filers
  - Consolidated FS(IFRS) vs Non-Consolidated FS(JP-GAAP)

2-1. XBRLの国際的相互運用性確保に向けた取組み

金融庁、IASCF、SEC、ECにより、XBRLの国際的な相互運用性を確保するための検討を開始（ITAプロジェクト）。

- 複数の会計基準のXBRLが混在する状況において、XBRLデータの比較可能性及び互換性を確保する。これにより、
  - 投資家が異なる会計基準のXBRLデータを同様に分析可能とする。
  - 企業が複数の当局へ、共通のXBRLデータを提出可能とする。
- 複数の会計基準のXBRLが混在するケース：
  - 日本における開示と外国における開示
  - IFRS先行適用会社と日本基準適用会社
  - IFRS適用後の連結財務諸表（IFRS）と個別財務諸表（日本基準）
2-1. Global Interoperability of XBRL

- Regulation (Scope of XBRL, Data assurance)
- Filing System (Rendering, Validation)
- Taxonomy Items (Common practice / Industry specific, Comparability)
- Taxonomy & Instance Creation Guideline
- Design of Taxonomy
- Design of Instance
- Base Specification

Under consideration by each regulator
Under discussion (ITA)
Completed 1st phase (ITA)
Developed by XBRL International

2-1. XBRLの国際的相互運用性確保に向けた取組み

- 制度 (対象範囲、データ保証等)
- 受理システム (表示変換、検証等)
- タクソノミの項目 (実務慣行/業種、比較可能性等)
- 企業別タクソノミ及びインスタンス作成ガイドライン
- タクソノミ設計 インスタンス設計
- 基本仕様

各国において取組み中
ITAにおいて現在検討中
ITAにおいて第一段階の検討を終了
XBRL Internationalにおいて策定済み
2-2. XBRL Regulation for IFRS adopter (immediate measures)

Specified Companies may apply IFRS to their consolidated FS (CFS) starting from the consolidated FY ending on or after March 31, 2010.

- IFRS CFS may be prepared in XBRL format.
- XBRL-based IFRS CFS should be prepared by using IFRS Taxonomy.

<table>
<thead>
<tr>
<th></th>
<th>GAAP</th>
<th>XBRL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M/O</td>
<td>Taxonomy</td>
</tr>
<tr>
<td>JP-GAAP adopters</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CFS</td>
<td>JP-GAAP</td>
<td>Mandatory</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EDINET Taxonomy</td>
</tr>
<tr>
<td>NFS</td>
<td>JP-GAAP</td>
<td>Mandatory</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EDINET Taxonomy</td>
</tr>
<tr>
<td>IFRS adopters</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CFS</td>
<td>IFRS</td>
<td>Optional</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IFRS Taxonomy</td>
</tr>
<tr>
<td>NFS</td>
<td>JP-GAAP</td>
<td>Mandatory</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EDINET Taxonomy</td>
</tr>
</tbody>
</table>

* CFS: Consolidated FS
* NFS: Non-consolidated FS

2-2. IFRS適用時のXBRL対応 (当面の対応)

2010年3月期に係る連結財務諸表等よりIFRSの適用が可能

- IFRSによる連結財務諸表等は、XBRL形式で作成することが可能。
  (任意)
- XBRLを作成する際にはIFRSタクソノミを使用する。

<table>
<thead>
<tr>
<th></th>
<th>会計基準</th>
<th>XBRL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>必須/任意</td>
<td>使用するタクソノミ</td>
</tr>
<tr>
<td>日本基準適用会社</td>
<td></td>
<td></td>
</tr>
<tr>
<td>連結</td>
<td>日本基準</td>
<td>必須</td>
</tr>
<tr>
<td></td>
<td>EDINETタクソノミ</td>
<td></td>
</tr>
<tr>
<td>個別</td>
<td>日本基準</td>
<td>必須</td>
</tr>
<tr>
<td></td>
<td>EDINETタクソノミ</td>
<td></td>
</tr>
<tr>
<td>IFRS適用会社</td>
<td>IFRS</td>
<td>任意</td>
</tr>
<tr>
<td>連結</td>
<td>IFRSタクソノミ</td>
<td></td>
</tr>
<tr>
<td></td>
<td>EDINETタクソノミ</td>
<td></td>
</tr>
<tr>
<td>個別</td>
<td>日本基準</td>
<td>必須</td>
</tr>
<tr>
<td></td>
<td>EDINETタクソノミ</td>
<td></td>
</tr>
</tbody>
</table>
### 2-3. EDINETタクソノミとIFRSタクソノミの比較

<table>
<thead>
<tr>
<th>準拠する会計基準</th>
<th>日本基準</th>
<th>IFRS</th>
<th>米国基準</th>
</tr>
</thead>
<tbody>
<tr>
<td>開発主体</td>
<td>金融庁</td>
<td>IASCF</td>
<td>FASB / XBRL US</td>
</tr>
<tr>
<td>範囲</td>
<td>財務諸表本表</td>
<td>財務諸表本表 / 注記</td>
<td>財務諸表本表 / 注記</td>
</tr>
<tr>
<td></td>
<td>基準 / 実務慣行</td>
<td>基準</td>
<td>基準 / 実務慣行</td>
</tr>
<tr>
<td>項目数</td>
<td>約5,000</td>
<td>約2,000</td>
<td>約16,000</td>
</tr>
<tr>
<td>言語</td>
<td>日本語 / 英語</td>
<td>英語 / 各国語（日本語を含む）</td>
<td>英語</td>
</tr>
<tr>
<td>技術</td>
<td>Spec2.1</td>
<td>Spec2.1</td>
<td>Spec2.1</td>
</tr>
<tr>
<td></td>
<td>Dimension1.0</td>
<td>Dimension1.0</td>
<td></td>
</tr>
</tbody>
</table>

※PFS- Primary FS
2-4. Efforts to Introduce IFRS Taxonomy

- **Japanese translation of IFRS Taxonomy (ASBJ)**
- **Common practice and industry specific extension of IFRS Taxonomy (JFSA)**
- **Taxonomy and instance creation guideline (JFSA)**
- **EDINET system capable of accepting IFRS Taxonomy (JFSA)**
- **Filer’s tools and investor’s tools capable of handling IFRS Taxonomy**

---

2-4. IFRSタクソノミ適用のための対応

- **タクソノミの日本語翻訳 (ASBJ)**
- **タクソノミの実務慣行・業種への対応 (JFSA)**
- **XBRL作成ガイドライン (JFSA)**
- **IFRSタクソノミを受理可能とするためのEDINETシステムにおける対応 (JFSA)**
- **IFRSタクソノミを処理可能とするための提出者・利用者のツール等における対応**
2-5. Issues of IFRS Taxonomy Towards Mandatory Use of IFRS

- **Taxonomy** - high-quality, usable and timely
- **Japanese translation** - high-quality and timely
- **Common practice and industry specific extension of IFRS Taxonomy**
- **Compatibility and comparability with EDINET Taxonomy**
- **Common taxonomy and instance creation guideline capable of ensuring global interoperability**
- **Stability of taxonomy architecture and explicit development plan (mid- and long-term)**

Financial Services Agency
Thank you.

ご清聴ありがとうございました。
Financial Instruments: IASB progress and plans
IASB’s work on financial instruments

- Financial instruments (replacement of IAS 39):
  - Phase I: Classification and measurement
  - Phase II: Impairment
  - Phase III: Hedge accounting
- Financial instruments with characteristics of equity
- Offsetting
- Derecognition—Disclosures
Phase I: Classification and measurement

IFRS 9—for financial assets only

Overview of classification model

Entity's business model for managing + Contractual cash flow characteristics

- Amortised cost (one impairment method)
- FVO for accounting mismatch (option)

Reclassification required when business model changes

All other instruments:
- Equities
- Derivatives
- Some hybrid contracts
- ...

- Fair Value (No impairment)
- 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></td>
<td>Bifurcation of liabilities means don’t have to deal with complexity of identifying own credit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Users</th>
<th>Liabilities viewed differently to assets – symmetry not useful</th>
</tr>
</thead>
<tbody>
<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>Bifurcation helps address own credit concerns</td>
</tr>
<tr>
<td></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>
<th>Financial liability on balance sheet at (full) fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total change in FV</td>
<td>XX</td>
</tr>
<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’*  
  - 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**

• Exposure draft: May 2010
• Comment Deadline: **16 July 2010**
• Final Standard: 2010
Phase II: Impairment

Impairment of financial assets

November 2009 | December 2009 | June 2010 | September 2010 | December 2010

ED issued with 8 month comment period

Expert Advisory Panel (EAP) meetings, other outreach, user survey, and webcasts

Feedback analysis (from comment letters, EAP meetings, other outreach, and user survey)

Board redeliberations
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)

Credit risk systems

IASB Expected EIR
Major operational issues #2

Open portfolios—EL data required versus readily available

<table>
<thead>
<tr>
<th>Vintages</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.60%</td>
<td>2.30%</td>
<td>4.00%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.30%</td>
<td>4.00%</td>
<td>5.90%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4.00%</td>
<td>5.90%</td>
<td>10.60%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

IASB ED

Risk system

Major operational issues #3

Estimating lifetime EL

Long life may lead to less accurate estimate

Level of accuracy

<table>
<thead>
<tr>
<th>Life</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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

- **Phased approach:**
  - General hedge accounting first
    - Modification of fair value hedge accounting
    - Simplification of cash flow hedge accounting mechanics
  - Against the background of the general approach consider:
    - Portfolio hedge accounting

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

Next steps

- Continue deliberations
- Exposure draft expected in Q3 2010
- Continued outreach
- IFRS in Q2 of 2011
FASB’s Financial Instruments Model

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

© 2010 IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. www.ifrs.org

Timetable

<table>
<thead>
<tr>
<th>Phases</th>
<th>Due process documents</th>
<th>Finalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Classification and measurement</td>
<td>IFRS 9 published on 12 Nov 2009</td>
<td>In time for year end financial statements 2009 for financial assets</td>
</tr>
<tr>
<td></td>
<td>ED on financial liabilities published on 11 May 2010</td>
<td>During 2010 for financial liabilities</td>
</tr>
<tr>
<td>2. Impairment methodology</td>
<td>ED published in November 2009 Comments due by 30 June 2010</td>
<td>Target during 2010</td>
</tr>
<tr>
<td>3. Hedge accounting</td>
<td>ED target Q3 2010</td>
<td>Expected during H1 2011</td>
</tr>
</tbody>
</table>

FASB ED covers all phases
Key differences between IASB and FASB

• FV-NI is the default under the FASB ED
• But generally impact on net income/P&L should be similar* for financial assets

* Differences will however arise due to differences in impairment proposals

<table>
<thead>
<tr>
<th>Topic</th>
<th>FASB ED</th>
<th>IASB Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and debt securities (assets) meeting criteria</td>
<td>May elect FV-OCI</td>
<td>Required to be at amortised cost (subject to FVO)</td>
</tr>
<tr>
<td>Equity investments</td>
<td>FV-NI</td>
<td>FV but, if not held for trading OCI election available</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>For financial institutions most at FV and many FV-NI (symmetrical model)</td>
<td>Retains IAS 39, except for presentation changes for FVO so most financial liabilities at amortised cost or bifurcated</td>
</tr>
<tr>
<td>Core deposits</td>
<td>‘Remeasurement value’</td>
<td>Redemption amount</td>
</tr>
</tbody>
</table>
Financial instruments with equity characteristics

Project timeline

IASB did not deliberate the FASB PV and did not have a preliminary view

FASB Preliminary Views November 2007
IASB Discussion Paper February 2008

The subsequent phases of the project are being undertaken jointly with the FASB

Exposure Draft Q1 2011
IFRS Q4 2011

Input from constituents
Project objectives

To develop the distinction between equity and non-equity instruments, and in so doing:

1. Achieve convergence with US GAAP
2. Address known IAS 32 practice problems
3. Eliminate IAS 32 rules-based approach to some long-standing problematic issues

Settlement-form approach

- Approach based on the fact that at some point an entity is required to settle every instrument either in:
  - Cash or other assets (cash-settled), and/or
  - The issuer’s own equity instruments (equity-settled)

- Approach has classification criteria for cash-settled and for equity-settled
Differences from IAS 32

Based on the tentative decisions to date

- New criteria for classifying redeemable shares as equity
- Additional guidance for share-settled instruments
- More instruments are separated
  - Foreign currency convertible bonds
  - Puttable instruments
- Transaction costs are expensed
- Remeasurement of equity classified redeemable shares
  - At current redemption value through equity

International Financial Reporting Standards

Offsetting & Derecognition—Disclosures
**Offsetting**

- In response to stakeholders’ concerns (e.g., Basel Committee and the Financial Stability Board)
- A significant financial instrument presentation difference between IFRSs and US GAAP
  - US GAAP exception for derivatives regardless of intent to offset
- Joint project to address differences
- Exposure draft estimated Q4 2011

**Derecognition—Disclosures**

- Converge the disclosures on transfers of financial assets
- Objectives:
  - To understand relationship between non-derecognised assets and liabilities
  - Evaluate risks of continuing involvement
- Exposure draft *Derecognition—Proposed amendments to IAS 39 and IFRS 7* (published March 2009)
- Final amendments to IFRS 7 planned in **Q3 2010**.
## Project timelines

<table>
<thead>
<tr>
<th>Projects</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derecognition—disclosures</td>
<td>IFRS</td>
<td></td>
</tr>
<tr>
<td>Classification and Measurement—financial liabilities</td>
<td></td>
<td>IFRS</td>
</tr>
<tr>
<td>Impairment</td>
<td></td>
<td>IFRS</td>
</tr>
<tr>
<td>Hedge accounting</td>
<td>ED</td>
<td></td>
</tr>
<tr>
<td>Offsetting</td>
<td>ED</td>
<td></td>
</tr>
<tr>
<td>FI with characteristics of equity</td>
<td>ED</td>
<td>IFRS</td>
</tr>
</tbody>
</table>

## 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.
Revenue recognition:
IASB progress and plans
The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

**Revenue from Contracts with Customers**

**Agenda**

- Project objectives
- Summary of the revenue proposals
- Feedback on the discussion paper
- Contract costs
- Disclosure
- Project timeline
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
  – requiring 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 separate contract if priced independently of original contract. Otherwise accounted for as if part of original 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

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 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 of control can be at a point in time or can be continuous
**Contract costs**

Clearer guidance for costs, particularly for service contracts

- Recognise inventory, intangibles and PP&E under other standards
- Recognise contract fulfilment costs (eg setup costs) as asset if:
  - relate directly to a contract (or contract under negotiation)
  - generate or enhance a resource used to satisfy performance obligations in future
  - expected to be recovered
- Recognise as expense;
  - costs of obtaining a contract
  - costs of abnormal amounts of wasted materials and labour

**Disclosure**

Enhanced disclosures to help users understand the amount, timing and uncertainty of revenue and cash flows

- Information about
  - contracts with customers
  - judgments and changes in judgments
- Disaggregation of revenue
  - eg by product lines, geography, customer type
- Maturity analysis of remaining performance obligations for contracts > one year
- Reconciliation of contract balances
Feedback on the Discussion Paper

**Feedback**
- Clear definition & guidance required for control
- More guidance to identify separate performance obligations
- Address contract costs
- Product warranties – not all are performance obligations
- Guidance for intellectual property

**Boards’ response**
- Definition and indicators proposed
- Clarified not requiring completed contract method for all construction contracts
- Criteria proposed (‘distinct’)
- Guidance proposed
- Distinguish between product warranties that are a performance obligation & a failed sale
- Guidance proposed on licenses

---

**Project timeline**

- **24 June 2010**
  - Exposure Draft
  - Targeted outreach

- **22 October 2010**
  - Comment letters received
  - Boards’ re-deliberations
  - Public roundtables

- **2011**
  - Final standard

To be held in London, Norwalk and Asia. Let us know by 1 October if you wish to participate
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.
Financial statement presentation and post-employment benefits: IASB progress and plans
The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.
Project timeline

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

Why a project on financial stat. presentation?

• Today:
  – No common format for financial statements
  – Relationships between individual statements unclear
  – Dissimilar items are aggregated into highly simplified, condensed amounts

• Proposals:
  – Provide a common organisation and presentation of information in financial statements
  – Detail on the nature of (and changes in) assets, liabilities, income, expenses and cash flows
Project Objective and Scope

• **Objective:** Establish a global standard that will guide the organisation and presentation of information in the financial statements
  – Directly affect how management communicates information to users of its financial statements
  – Improve the usefulness of financial statement information to help users in their decision-making

• **Scope:**
  – All business entities
  – All financial statements

---

Key features of the proposed model

• **Common** sections and categories

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

• **Direct method** for cash flows and a reconciliation of operating income to operating cash flows

• **Analysis of changes** in balance sheet line items

• **Remeasurement** information in a single note
Core presentation principles

Information should be presented in the financial statements in a manner that:

• Portrays a **cohesive** financial picture of an entity’s activities
  – Relationships are clear, statements are complementary

• **Disaggregates** information so that it explains the components of an entity’s financial position and financial performance
  – Consider disaggregation by function, nature and measurement basis in each financial statement

Structure of the financial statements

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Business section</td>
<td>Business section</td>
<td>Business section</td>
</tr>
<tr>
<td>Operating category</td>
<td>Operating category</td>
<td>Operating category</td>
</tr>
<tr>
<td>Operating finance subcategory</td>
<td>Operating finance subcategory</td>
<td></td>
</tr>
<tr>
<td>Investing category</td>
<td>Investing category</td>
<td>Investing category</td>
</tr>
<tr>
<td>Financing section</td>
<td>Financing section</td>
<td>Financing section</td>
</tr>
<tr>
<td>Debt category</td>
<td>Debt category</td>
<td>Debt and equity</td>
</tr>
<tr>
<td>Equity category</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multi-category transaction section</td>
<td>Multi-category transaction section</td>
<td></td>
</tr>
<tr>
<td>Income tax section</td>
<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, net of tax</td>
</tr>
</tbody>
</table>
Statement of Financial Position

- Assets and liabilities classified in:
  - sections/categories
  - short- and long-term subcategories or arranged in order of liquidity
- Display total assets and total liabilities at bottom of SFP
- Eliminate concept of cash equivalents – classify as short-term investments
- Classify cash balance in operating category

Statement of Comprehensive Income

A single statement that displays in two parts:

- Profit or loss (relevant subtotal)
  - Disaggregate by function or nature on the face, with by nature in the notes
- Other comprehensive income:
  - whether items relate to operating, investing, or financing activities
  - OCI items recycled from OCI section to other sections or categories
Statement of Cash Flows

• Present all cash flows using a *direct method*
  – Provide a meaningful depiction of how an entity generates and uses cash
  – Disaggregate and present gross cash receipts and gross payments
  – Consider timing differences between current period cash flows and related amounts recognised in the SCI

• Also a *reconciliation* of operating income to operating cash flows
International Financial Reporting Standards

Exposure draft

Defined benefit plans

Comment deadline 6 September 2010

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

Why is the IASB amending IAS 19?

- Options for recognising gains and losses
- Options for presenting profit and loss amounts in different ways
- Defined benefit obligation measurement
- Net presentation of defined benefit liability (asset)
- Disclosures are voluminous, contain limited information about risks
How will the ED help?

• Improve **understandability** and **transparency** of reported changes in net defined benefit liability (asset)
• Improve **comparability** by eliminating options for presenting items
• Improve **disclosure** about risks arising from defined benefit plans
• Reduce diverse practices in some areas

We are not changing the measurement model for pension assets or liabilities or their net presentation in the balance sheet

Proposals - Recognition

• No corridor
• No deferred recognition
• No expected return on plan assets

Result: Gains and losses recognised in the period they occur
Proposals - Presentation

Net interest on the net defined benefit liability (asset)

- Plan assets 700
- Discount rate 5%
- Net interest 15
- Interest income 35
- Interest cost 50
- Defined benefit obligation 1000
- Net DB liability 300
- Re-measurement 65
- Actual return on plan assets (100)
- Actual salary (100)
Proposals - Disclosures

+ Focused on disclosure objectives
  + Explain characteristics of an entity’s defined benefit plans
  + Identify and explain amounts in financial statements resulting from defined benefit plans
  + Describe how defined benefit plans affects the amount, timing and variability of future cash flows.

+ New disclosures
  - Delete disclosures relating to deferred recognition
  ✗ No additional guidance on materiality for disclosures

Further ahead?

A future comprehensive review?
• Possibly in conjunction with FASB
• Will not commence before mid-2011
• Subject to agenda setting process
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.
Implementation update: processes, progress and plans
Agenda

- Overview of IFRS Interpretations Committee activity
- Annual Improvements
  - Committee’s involvement
  - Published May 2010
- IFRIC 19 Extinguishing Financial Liabilities with Equity
- Other amendments
- Current agenda topics
  - Production stripping
  - IFRS 2: Vesting/non-vesting conditions
  - Put options over non-controlling interests
- Other items under consideration
Overview of IFRS Interpretations Committee activity in the last 12 months

<table>
<thead>
<tr>
<th>Issues considered</th>
<th>63</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of which</td>
<td></td>
</tr>
<tr>
<td>Interpretations</td>
<td>1</td>
</tr>
<tr>
<td>Taken on formal agenda</td>
<td>3</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>
<tr>
<td></td>
<td>63</td>
</tr>
</tbody>
</table>

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**
Published 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 34
    - Emphasis on general principles for disclosures in interim financial reports

---

**IFRIC 19 Extinguishing Financial Liabilities with Equity**

- Issue
  - How to measure the equity instruments issued to settle financial liability, fully or partially
- Main features of IFRIC 19
  - Consensus
    - part of consideration paid to extinguish financial liability
    - fair value measurement of equity instrument issued
    - difference with carrying amount of financial liability extinguished in profit or loss
  - Scope exclusions
  - Transition and effective date
    - annual periods beginning on or after 1 July 2010
    - retrospective application but only from beginning of earliest comparative period
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)

• First-time adoption – relief from comparatives for certain financial instruments disclosures
  – March 2009’s Amendments to IFRS 7 *Improving Disclosures about Financial Instruments*
  – Limited amendment published in January 2010
    – no additional disclosures required on fair value measurement and liquidity risk for first-time adopters
    – same transition provisions for first-time adopters and current IFRS preparers
    – effective annual periods commencing on or after 1 July 2010
Current agenda topics: Production stripping

- Production stripping: removal of overburden/waste in the production phase of a surface mine
- Issue: how to account for stripping costs?
  - development phase – usually capitalised; little diversity
  - production phase – accounting diversity
- Interpretations Committee: tentative decisions
  - Stripping activity creates benefit → improved access to ore
  - Identify a stripping campaign – differs from routine stripping
  - Costs of stripping campaign is a systematic process undertaken to gain access to a specific section of the ore base
  - Benefit is realised when the ore is mined

Current agenda topics: Production stripping (2)

- Interpretations Committee: tentative decisions
  - Current period: stripping costs included in current costs of production
  - Future period(s): 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
  - Amortisation: over the reserves 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
  – assess impact of proposed changes on current practice
  – clarification of proposed definitions
  – decision from Committee on how to proceed – interpretation or amendment

Current agenda topics: Put options over non-controlling interests

• Request
  – how to account for changes in carrying amount of “NCI put” liability in consolidated financial statements
  – limited to NCI puts issued 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
  – identify approach to initial recognition of a NCI put
  – define scope of project
Other items under consideration

- IAS 29 *Financial Reporting in Hyperinflationary Economies*
  - how to resume presenting IFRS financial statements after chronic/severe hyperinflation
- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
  - removing fixed date in exceptions
- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
  - circumstances in which IFRS 1 applies more than once

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.
Prabhakar Kalvacherla, IASB member
Wayne Upton, Director of International Activities, IASB

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

Criticisms: Current accounting

- Inconsistencies in practice
- Tension between IAS 27 (control) and SIC-12 (risks and rewards)
- Concerns that they are not being applied consistently
- Financial crisis
  - Was guidance for structured entities sufficient?
  - Should reputational risk be a basis for consolidation?
  - Concerns disclosure was inadequate?

Solution: Proposed accounting

- Develop a single control model for all entities
- Provide clearer principles of control and additional application guidance
- SIC-12 performed well but proposals giving more guidance on consolidation of SPEs
- Enhanced disclosure – particularly for unconsolidated structured entities

Where are we now?

ED10 Published 12/08

Public consultation – comment letter process & round tables (June 2009)

Board deliberations (joint with FASB from Nov 2009) Began July 2009

Additional input from:
Users, preparers, firms, special interest groups, local standard setters and regulators during the comment period, at round table meetings in June 2009 and on ongoing basis
The control model – overview

Definition of control
A reporting entity controls another entity when the reporting entity has the **power** to direct the activities of that other entity to generate **returns** for the reporting entity

- Single consolidation model for all entities, including structured entities
- Consolidation based on control – ‘power so as to benefit’ model
- Controller must have some exposure to risks and rewards. Exposure is an indicator of control but is not control of itself
- Power arises from contractual rights—voting rights (either majority or less than a majority), potential voting rights, other contractual arrangements, or a combination thereof.

The control model - overview

**Assessing control of an entity:**

1. Understand the purpose and design of the entity
2. Identify the activities of the entity that significantly affect the returns of the entity
3. Identify how decisions about those activities are made
4. Determine whether the contractual rights of the reporting entity give it the ability to direct those activities
   - Voting interest entities: Assessment of voting rights will normally be conclusive
   - Structured entities: Assessment of all contractual rights necessary
The control model - overview

Assessing control of an entity (cont’d):

5. Determine whether the reporting entity is exposed, or has rights, to the variability associated with the returns of the entity

6. Determine whether the reporting entity has the ability to direct the activities of an entity primarily for its own benefit

Main changes from IAS 27 / SIC-12

1. “De facto” control

Current IFRS:

• Control with less than 50% implicit in IAS 27

ED10:

• Explicit statement that entity can control with less than 50%
• Feedback: operationality issues
“De facto” control

Boards’ tentative decisions:
• Entity can control with less than 50%. Factors to consider include:
  – Size of the holding rights relative to the size and dispersion of other vote holders
  – Voting patterns at previous shareholders meetings
  – Potential voting rights (see below)
  – Other contractual rights
• If those indicators are not conclusive consider additional indicators of power (eg appointment of management, etc)

Main changes from IAS 27 / SIC-12

2. Potential voting rights

Current IFRS:
• Currently exercisable potential voting rights give the holder power

ED10:
• Potential voting rights can give the holder power (examples listed)
Potential voting rights

Boards’ tentative decisions:
• Substantive potential voting rights can give the holder power
• Determining whether potential voting rights are substantive requires judgement. Consider the terms and conditions of the instrument, including:
  – Whether the rights are currently exercisable
  – Whether exercise of the rights would be beneficial to the holder

Main changes from IAS 27 / SIC-12

3. SPEs / structured entities

Current IFRS:
• Indicators of control of an SPE:
  – purpose of SPE
  – decision-making powers
  – rights to majority of benefits
  – exposure to majority of risks

ED10:
• Apply general control definition—specific guidance included
SPEs / structured entities

Boards’ tentative decisions:

• Apply general control definition

• No specific guidance. However, the following general guidance will often be relevant:
  – the purpose and design of an entity
  – the activities that significantly affect the returns (including multiple parties involved)
  – rights that are available when particular events happen
  – protective rights
  – agency relationships (see next slide)

Main changes from IAS 27 / SIC-12

4. Agency relationships

Current IFRS:

• No specific guidance regarding agent/principal relationships

ED10:

• Removal rights and remuneration are indicators of an agency relationship
Agency relationships

Boards’ tentative decisions:

- Consider all of the following factors:
  - scope of the decision-making authority
  - rights held by other parties
  - remuneration of the decision-maker
  - the decision-makers’ exposure to variability of returns because of other interests that it holds in the entity

- List of examples of non-contractual agency relationships (related parties)

Main changes from IAS 27 / SIC-12

5. Investment entities

Current IFRS:

- An investment entity consolidates investments in entities that it controls

ED10:

- No change to current requirements
- Feedback from users: fair value provides the best information
- Input from the industry: proposals to define an investment entity
Investment companies

Boards’ tentative decisions to date

- **Investment company level:**
  - measure investments in controlled entities at fair value through profit or loss
  - measure investments in joint arrangements and associates at fair value through profit or loss

- **Parent level:**
  - consolidate all controlled entities, even if an entity is controlled through an investment company (unless the parent is also an investment company)
  - continue the use of fair value for investments in joint arrangements and associates (see above) held by an investment company subsidiary in its consolidated financial statements
Investment companies

Criteria to be an ‘investment company’

1. **Investment activity**: the entity does not have substantive activities other than investing for current income, capital appreciation, or both

2. **Express business purpose**: investment activity is the sole purpose of the entity

3. **Exit strategy**: the entity must have a documented exit strategy

4. **Unit ownership**: represented by units of investments (i.e. ordinary shares) to which proportionate shares of the net assets can be attributed

5. **Pooling of funds**: funds of the investors are pooled to avail the investors of professional investment management; the entity must have significant investment from unrelated investors

6. **Fair value**: the investments of the entity are managed and their performance is evaluated on a fair value basis

7. **Reporting entity**: the entity is a reporting entity (as discussed in Phase D of the conceptual framework project)
Main changes from IAS 27 / SIC-12

6. Disclosures

Current IFRS:
• Limited disclosures for both consolidated entities and unconsolidated SPEs

ED10:
• Disclose information that enables users to evaluate:
  – the basis of control and the related accounting consequences
  – the interest that the non-controlling interests have in the group’s activities

Disclosures

ED10:
• Disclose information that enables users to evaluate (cont’d):
  – the nature and financial effect of restrictions that are a consequence of assets and liabilities being held by subsidiaries
  – the nature of, and risks associated with, the reporting entity’s involvement with securitisation and other similar vehicles that the reporting entity does not control
• Feedback from users: generally agreed with proposals
• Feedback from others: generally, proposals were excessive
Disclosures

Boards’ tentative decisions:
• Carry-over the disclosures in ED10, but give preparers more freedom to tailor disclosures according to their needs
• Develop a disclosures standard for a reporting entity’s involvement with other entities, including subsidiaries, joint ventures, associates and unconsolidated structured entities
Agenda

- Derecognition – Disclosures
- Offsetting – Financial assets and liabilities
- Next steps

Derecognition - Disclosures
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)
• Final standard planned in Q3 2010.

Derecognition Disclosures
Background

• Feb 2006:
  – Original MoU
• March 2009:
  – IASB ED on transfers of financial instruments
• June 2009:
  – FASB ED on transfers of financial instruments
• June 2010:
  – Boards’ near-term priority on increasing transparency, comparability and convergence of disclosure requirements
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

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

Offsetting – Financial assets and liabilities
Offsetting

• In response to stakeholders’ concerns (eg Users, Preparers and Regulators)

• Significant presentation difference between IFRSs and US GAAP
  – US GAAP allows netting of derivative positions
  – US GAAP allows netting of derivative positions and the collateral relating to those positions
  - US GAAP allows netting of some repo and reverse repo positions

• Joint project to address differences

Usefulness of offsetting

• Does offsetting make sense
  – Is gross or net presentation more useful?

• If allowed, should offsetting be based on:
  – Cash flows
  – Risk exposure

• If based on risk exposure, should offsetting be allowed for different types of risks?
  – Credit
  – Market
  – Other?
Accounting issues to be addressed

Right of offset

- Unconditional
  - enforceable through the life of the instrument/contract

- Conditional
  - only in default or insolvency of counterparty

Intent to offset

- Is intent necessary? Right might be sufficient
- Single asset/liability regardless of intent
- Why settle gross if the right-to-net exist?
- Net presentation may not reflect amount of cash flows if settling gross
- Intent is subjective and difficult to substantiate
Accounting issues to be addressed

Master Netting Agreements

• Single agreement:
  – Consolidates all transactions?
  – Similar to the effect of trades with central counterparties?

• Payment netting:
  – Automatic set-off

Accounting issues to be addressed

Master Netting Agreements continued

• Close-out netting:
  – Conditioned on event of default
  – Ensures orderly unwinding of transactions
  – Minimises credit exposure
  – Should it matter for presentation?
Getting there…

- IASB + FASB discussion/decision
- Exposure draft in Q4 2010
- Final standard?

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.
International Financial Reporting Standards (IFRSs) Conference

Wednesday 28 July 2010 and Thursday 29 July 2010
Mandarin Oriental Hotel (Tokyo)

Break-out sessions
International Financial Reporting Standards

Conceptual Framework

July 2010

Wei-Guo Zhang, Board member, IASB
Marry Barth, Academic Advisor, IASB

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

© 2010 IFRS Foundation. 30 Cannon Street | London EC4M 6XH | UK. www.ifrs.org

Agenda

• Importance of a Conceptual Framework
• Current FASB and IASB Conceptual Frameworks
• Conceptual Framework Project
  – History of Project
  – Active Phases
  – Key decisions reached to date
• Next Steps
Importance of a Conceptual Framework

- Individual concepts held by each member
  - Agreement would require intersection of personal frameworks
  - Compounded by changes in board membership
  - Greater risk of
    - Transitory concepts & resulting standards
    - Different conclusions on identical issues
    - Ad hoc decisions leading to inconsistent standards

Examples

- Leases
  - What is an asset?
- Liabilities
  - Probability
- Financial Instruments
  - Measurement
Converged Frameworks

• Similar conclusions on accounting issues
• Converged and improved global accounting standards
• Differences in IASB & FASB frameworks:
  – FASB: ‘relevance’ is a recognition criterion
  – Role of “probable” in recognition (IASB) and definition (FASB)

Current FASB and IASB Frameworks

• Basic structure of both frameworks
  – Objective of financial reporting
  – Qualitative characteristics
  – Elements of financial statements
  – Recognition
  – Measurement
  – Display and disclosure
FASB

• Statement of Financial Accounting Concepts
• FASB currently has seven Concepts Statements
  – First six issued between 1978 and 1985
  – Last issued in 2000
  – Directed at financial reporting
  – Not authoritative

IASB

• Framework for the Preparation and Presentation of Financial Statements
  – Developed by IASC
  – Adopted by IASB in April 2001
  – Directed at financial statements
  – Authoritative via IAS 8
Joint Conceptual Framework Project

• Added to agenda in October 2004

• Objective:
  – To develop an improved and common conceptual framework that will provide a sound foundation for the development of accounting standards

Project Plan

• Eight phases:
  – Objective of financial reporting and qualitative characteristics of financial reporting information
  – Elements of financial statements and recognition
  – Measurement
  – Reporting entity
  – Presentation and disclosure, including reporting boundaries
  – Purpose and status in GAAP hierarchy
  – Applicability to the not-for-profit sector
  – Entire framework, remaining issues if any
Project Plan

• The project focus is on:
  – Omissions in the original frameworks
  – Concepts applicable to private sector business entities
• Not intended to be a fundamental rethink of the existing frameworks

9 August 2010

International Financial Reporting Standards

The Objective
Objective of Financial Reporting

• First phase to start
• Discussion Paper in July 2006
  – Received 179 comment letters
• Exposure Draft in May 2008
  – Received 142 comment letters

“Provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity.”
Objective of Financial Reporting

- Primary users
  - Provide resources, but cannot demand information
  - Common information needs
- Assess the prospects for future net cash inflows
  - Buy, sell, hold
  - Efficient and effective use of resources

Main respondent concerns

- Identifying the users
- Stewardship
- Transparency versus stability
Qualitative Characteristics

- Relevance
  - Predictive Value
  - Confirmatory Value
  - Materiality, entity-specific

- Faithful representation (replaces reliability)
  - Completeness
  - Neutrality
  - Free from error
Qualitative Characteristics

• Enhancing Qualitative Characteristics
  – Comparability
  – Verifiability
  – Timeliness
  – Understandability

• Pervasive Constraint
  – Cost

Main respondent concerns

• Why is there a hierarchy?
• Why replace the term reliability?
Elements

- Identifying the components for presentation in the financial statements
- When does an element exist?
  - Physical
  - Based on contracts
  - Rights
    - Intangible assets
    - Goodwill
      - Non-contractual intangibles
      - Actual obligation gives rise to a future claim
Elements

• Other questions:
  – What about stocks and flows (changes in stocks)?
  – How many elements?

<table>
<thead>
<tr>
<th>FASB (10)</th>
<th>IASB (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>Gains</td>
</tr>
<tr>
<td>Liabilities</td>
<td>Losses</td>
</tr>
<tr>
<td>Equity</td>
<td>Revenue</td>
</tr>
<tr>
<td>Investments by owners</td>
<td>Comprehensive Income</td>
</tr>
<tr>
<td>Distributions to owners</td>
<td>Expenses</td>
</tr>
<tr>
<td></td>
<td>Expenses</td>
</tr>
</tbody>
</table>

Recognition/Derecognition

– Currently recognition criteria in both frameworks
– Revise the concepts for recognition
  – Eliminate differences
  – Provide a framework for resolving derecognition issues
– Look at standards projects
  – Revenue Recognition
  – Financial Instruments
  – Leases
  – Consolidation
  – Insurance
Measurement

- What is the most appropriate measurement attribute for a particular asset or liability?
  
  - Financial instruments
  - Investment properties
  - Biological assets (e.g., agriculture)
Measurement

• Started in 2007
• New approach in November 2008:
  – Standards-level decisions in multiple-measurement environment
  – Qualitative characteristics and cost constraint are measurement selection factors
  – Value realisation connects relevance to the objective
• May 2010: Develop a DP without PV?
  – Boards wanted to develop PV

Current staff thinking

• July 10: What should the measurement chapter accomplish?
• Implications of the objective of financial reporting
  – Balance sheet view
  – Income statement view
  – Holistic view (both balance sheet and income statement)
• Necessary to add on relevance & faithful representation in measurement chapter?
  – Implications of those views, fundamental QCs on historic cost and fair value
Reporting Entity

• No reporting entity concept to guide
  – Yet we report about it

• Objective of reporting entity phase:
  – To determine what constitutes a reporting entity
    for the purposes of financial reporting

• Published Discussion Paper in mid-2008

• Published Exposure Draft 11 Mar 2010
  – Comments by 16 July 2010
Consolidation and Control

A parent and entities it controls
– Most respondents agreed

Control = Power + Benefits

Risks and rewards alone not appropriate
– Most respondents also agreed

Consolidated financial statements are general purpose

May also be a group of entities under common control

Parent-only financial statements useful with consolidated financial statements
Next steps

- Objective & QC final chapters:
  - Q3 2010

- Reporting Entity phase
  - ED: 11 March 2010
  - Comments by 16 July 2010

- Measurement phase
  - DP 2010

- Elements
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.
Hedge accounting

Introduction

• The Board intends to consider 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 portfolio hedge accounting

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

Components of the hedge accounting model

Objective
Hedged items – eligibility
Hedging instruments – eligibility
Effectiveness – qualification
Ineffectiveness – measurement
Optionality of Hedge Accounting
Presentation / disclosure
Fair value hedge accounting mechanics
Knock-on effects of other project phases

Hedge accounting (IAS 39)
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
Commodity benchmark
Financial and non-financial

Commodity benchmark
Hedged items – derivative as hedged item

- **Debt holder**
  - US$

- **Cross-currency Interest rate swap**
  - US$
  - €

- **Issuer**

- **Interest rate swap**
  - €
  - €

Not allowed to be designated as a hedged item under IAS 39

Hedged items – groups and net positions

- **Issues:**
  - The profit or loss geography of gains and losses
  - The timing of recognition in profit or loss of gains and losses when the hedged items affect profit or loss in different reporting periods
  - Identifying when the group of items is no longer hedged
  - Intra group hedging activities
Hedging instruments – eligibility

• Issues:
  – **Purchased options**: time value of an option is treated as a separate held-for-trading instrument (or as ineffectiveness)
  – **Cash instruments**: the designation of non-derivative assets and liabilities is only allowed for a hedge of foreign currency risk
  – **Risk components**: arbitrary distinction between requirements for hedged items and hedging instruments

Hedge effectiveness

• Issues:
  – Requirements to perform quantitative tests are onerous
  – Arbitrary bright lines of 80-125%
  – Failing effectiveness has severe consequences
  – Conflicting guidance how to quantify effectiveness
Hedge accounting as a choice?

• Issues:
  – Onerous documentation
  – Free choice?
  – Implications for designation
  – Implications for dedesignating

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

Ways to account today

**Cash flow hedge accounting**

- 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 hedges items are taken to other comprehensive income and any ineffectiveness is transferred immediately to profit or loss

Knock-on effects of other project phases

- **Embedded derivatives**
  - separate embedded derivative features that are available for designation as hedging instruments under IAS 39 disappear under IFRS 9 (for asset host contracts)

- **Impairment**
  - the proposed use of expected loss without an incurred loss threshold raises questions about requirements that hedged cash flows must be highly probable of occurring

- **Equity investments for which the OCI presentation was elected**
  - eligibility for designation as hedged items
Disclosures

- Presentation
  - Level of granularity
  - Balance sheet
  - OCI (recycling)
- Risk management strategy
  - Risks hedged (notional amounts and fair value movements)
  - Instruments used (fair value movements and effectiveness)
  - Hedging relationships
- Forecasting cash flows
  - Period of hedging
  - Rates and cash flows locked in

IFRS project vs FASB exposure draft

<table>
<thead>
<tr>
<th>IFRS hedge accounting project (comprehensive review)</th>
<th>FASB exposure draft (limited changes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>Eases qualitative testing for hedge effectiveness</td>
</tr>
<tr>
<td>Hedged items eligibility</td>
<td>Eliminates ‘lower of’ test by recognising all ineffectiveness in net income</td>
</tr>
<tr>
<td>Hedging instrument eligibility</td>
<td>Bifurcation by risk (benchmark interest rate risk, foreign currency and credit risk) allowed only for financial items</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>Only reassess if circumstances suggest a change</td>
</tr>
<tr>
<td>Measurement of ineffectiveness</td>
<td>Prohibits an entity from electing to dedesignate</td>
</tr>
<tr>
<td>Hedge accounting as a choice</td>
<td></td>
</tr>
<tr>
<td>Presentation and disclosure</td>
<td></td>
</tr>
<tr>
<td>Fair value hedge accounting mechanics</td>
<td></td>
</tr>
<tr>
<td>Knock-on effects of other projects</td>
<td></td>
</tr>
</tbody>
</table>
July 2010 IASB meeting

- Eligibility of hedged items – net positions of highly probable forecast transactions
- Hedge effectiveness
- Fair value hedge accounting mechanics (revisited)
- Linked presentation (fair value hedges)

Next steps…

- Continue deliberations
- Exposure draft expected in Q3 2010
- Continued outreach
- IFRS in Q2 of 2011
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.
Post-employment benefits and Fair value measurement

Tatsumi Yamada, IASB Member

Exposure draft
Defined benefit plans
Comment deadline 6 September 2010
Outline

• Where are we?
• Why is the IASB amending IAS 19?
• What does ED Defined Benefit Plans propose?
• Further ahead?

Where are we?

Discussion Paper
Published March 2008
• 150 comment letters on DP
• Input from interested parties
• EBWG meetings
• 13 Board meetings

Exposure Draft
Published April 2010

Target Date IFRS
Comments due 6 September 2010
Q1 2011
• Comment letters on ED
• Extensive outreach
• EBWG meeting
• Board re-deliberations
Why is the IASB amending IAS 19?

- Options for recognising gains and losses
- Options for presenting profit and loss amounts in different ways
- Defined benefit obligation measurement
- Net presentation of defined benefit liability (asset)
- Disclosures are voluminous, contain limited information about risks

---

Why is the IASB amending IAS 19? (cont)

Costs can be recognised in different expense categories:

- Long-term employee benefit cost in period
- Expected return on plan assets
- Actuarial gains and losses
- Interest cost
- Service cost

In accordance with accounting policy:

- Operating expense
- Other comprehensive income

Recognised in period:

- Gains and losses from previous periods can be recognised in the current period, preventing a clear picture of current cost

Not recognised in period:

- Gains and losses are sometimes recognised in the period and sometimes not

Gains and losses are sometimes recognised in the period and sometimes not.
Why is the IASB amending IAS 19? (cont)

**Impact on DB pension provision**

- IASB focus is on providing relevant, transparent and neutral information to investors and other users of the sponsors financial statements
- We do not take a view on:
  - The merits of DB pension provision
  - The merits of particular investment strategies

How will the ED help?

- Improve **understandability** and **transparency** of reported changes in net defined benefit liability (asset)
- Improve **comparability** by eliminating options for presenting items
- Improve **disclosure** about risks arising from defined benefit plans
- Reduce diverse practices in some areas

We are not changing the measurement model for pension assets or liabilities or their net presentation in the balance sheet
Proposals - Recognition

- No corridor
- No deferred recognition
- No expected return on plan assets

Result: Gains and losses recognised in the period they occur

Proposals - Disaggregation

- Changes in net defined benefit liability (asset) disaggregated into three components:
  - Service cost = cost of employee service rendered
  - Finance cost = interest on the net surplus/deficit
  - Remeasurements = all other changes
Proposals - Presentation

Long-term employee benefit cost in period

- Service cost
- Net interest income (expense)
- Remeasurement

Recognised in period

- Employment expense (Profit or loss)
- Finance costs (Profit or loss)
- Other comprehensive income

Net interest on the net defined benefit liability (asset)

Net DB liability 300

Discount rate 5% to 1000

Plan assets 700

Re-measurement 65

Interest income 35

Interest cost 50
Proposals – Impact

Impact on reported profit

• If OCI approach currently used
  – No (material) change in asset and liability measurement hence no overall effect on aggregate gain or loss
  – But likely reduction in profit combined with an increase in other comprehensive income
• If corridor method currently used
  – Further increase or reduction in profit due to removing the amortisation of past losses and gains

Proposals - Disclosures

+ Focused on disclosure objectives
  + Explain characteristics of an entity’s defined benefit plans
  + Identify and explain amounts in financial statements resulting from defined benefit plans
  + Describe how defined benefit plans affects the amount, timing and variability of future cash flows.
+ New disclosures (details next slide)
- Delete disclosures relating to deferred recognition
× No additional guidance on materiality for disclosures
Proposals – Disclosures (cont)

New disclosures
+ Characteristics of the company’s defined benefit plans
+ Disaggregation of the defined benefit obligation
+ Information about process used to determine demographic actuarial assumptions
+ Information about risk, including sensitivity analysis for actuarial risk, ALM strategies etc
+ Information about factors that could cause contributions to differ from service cost
+ Improved multi-employer plan disclosure

Proposals - Other

• Clarify:
  – treatment of taxes and administration costs
  – ‘risk-sharing’ features
  – definitions of long-term and short-term employee benefits
  – effect of future salary increases on attribution

• Incorporate conclusions of IFRIC
Further ahead?

**Contribution-based promises**
- Significant unresolved issues on proposals in the discussion paper
- IASB will review after mid-2011

**A future comprehensive review?**
- Possibly in conjunction with FASB
- Will not commence before mid-2011
- Agenda setting process

Where to get more information

- ED Defined Benefit Plans available on [http://go.iasb.org/pensions](http://go.iasb.org/pensions)
- Sign up to our email alert [http://www.iasb.org/IASB+Registration.htm](http://www.iasb.org/IASB+Registration.htm)
- Project staff:
  - Andrea Pryde apryde@iasb.org
  - Manuel Kapsis mkapsis@iasb.org
Why have this project?

- Fair value guidance is dispersed across IFRSs. As a result:
  - Inconsistent measurement objective
  - Some IFRSs have no fair value measurement guidance
  - Sometimes the fair value measurement guidance in one IFRS is inconsistent with the guidance in another IFRS
- Increase convergence with US GAAP
  - Became a joint project in October 2009
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

Timeline

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>Discussion paper published (using SFAS 157 as starting point)</td>
</tr>
<tr>
<td>2007</td>
<td>Oct 2008</td>
</tr>
<tr>
<td>2008</td>
<td>May 2008</td>
</tr>
<tr>
<td>2009</td>
<td>Nov-Dec 2009</td>
</tr>
<tr>
<td>2010</td>
<td>June 2010</td>
</tr>
<tr>
<td>2011</td>
<td>Q1 2011</td>
</tr>
<tr>
<td></td>
<td>Sep 2010</td>
</tr>
<tr>
<td></td>
<td>Q2 2011</td>
</tr>
<tr>
<td></td>
<td>Oct 2010 – Jan 2011</td>
</tr>
</tbody>
</table>
Clarify the measurement objective

**Current definition of fair value**

The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm’s length transaction

- Does it reflect buying or selling the asset?
- What is meant by ‘settling’ a liability?
- When does the exchange (or settlement) take place?

**Proposed 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

- Exit price notion
- A current price as of a particular date
- Not a liquidation price or a forced sale
- Market participant assumptions vs. entity intentions
Measurement uncertainty analysis

✓ Provides information about the subjectivity of Level 3 fair value measurements
✓ Required unless scoped out in another IFRS
✓ Requires an entity to take into account any correlation between unobservable inputs
✓ An entity takes into account correlation if there is a relationship between two or more unobservable inputs
✗ Does not take into account correlation between observable inputs
✗ Not a statistical analysis

Pricing model

unobservable input X (eg revenue growth)
unobservable input Y (eg fixed cost growth)
observable input Z (eg inflation)

Questions to ask:
1. Given observable input Z, what could unobservable inputs X and Y reasonably have been?
2. If you were to change unobservable input X, would there be an effect on unobservable input Y?
Educational material

- How do I identify the principal market?
- How do I know what is the highest and best use of the asset?
- How do I select an appropriate valuation technique?
- Etc.

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.
## Comparison of tentative decisions

<table>
<thead>
<tr>
<th>Topic</th>
<th>IASB ED/2009/5</th>
<th>Topic 820</th>
<th>Tentative decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value</td>
<td>Exit price</td>
<td>Exit price</td>
<td>Exit price</td>
</tr>
<tr>
<td>Scope</td>
<td>All assets and liabilities measured at fair value, unless stated otherwise</td>
<td>All assets and liabilities measured at fair value, unless stated otherwise</td>
<td>All assets and liabilities measured at fair value, unless stated otherwise IASB: Exclude IFRS 2, IAS 17 from scope</td>
</tr>
<tr>
<td>The transaction</td>
<td>Most advantageous market</td>
<td>Principal (or most advantageous) market</td>
<td>Principal (or most advantageous) market</td>
</tr>
<tr>
<td>Most advantageous market</td>
<td>Determined by net amount received after transport and transaction costs</td>
<td>Determined by net amount received after transaction costs (silent about transport costs)</td>
<td>Determined by net amount received after transport and transaction costs</td>
</tr>
</tbody>
</table>
### Comparison of tentative decisions

**continued**

<table>
<thead>
<tr>
<th>Topic</th>
<th>IASB ED/2009/5</th>
<th>Topic 820</th>
<th>Tentative decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge of market participants</td>
<td>Market participants have the same information (no information asymmetry)</td>
<td>Market participants have a reasonable understanding of the asset or liability and the transaction (some information asymmetry may exist)</td>
<td>Market participants have a reasonable understanding of the asset or liability and the transaction (some information asymmetry may exist)</td>
</tr>
<tr>
<td>Independence of market participants</td>
<td>Market participants are independent of each other</td>
<td>Market participants are independent of the reporting entity</td>
<td>Market participants are independent of each other, but the price in a related party transaction can be used if there is evidence it is at market terms</td>
</tr>
<tr>
<td>Liabilities</td>
<td>Transfer price can be estimated from: (a) the actual transfer price, (b) the fair value to the asset holder or (c) the price to fulfil the obligation</td>
<td>Transfer price can be estimated from: (a) the actual transfer price, (b) the fair value to the asset holder, (c) the price to fulfil the obligation or (d) the price to incur an identical liability</td>
<td>Transfer price can be estimated from: (a) the actual transfer price, (b) the fair value to the asset holder, (c) the price to fulfil the obligation or (d) the price to incur an identical liability</td>
</tr>
<tr>
<td>Own equity instruments</td>
<td>Own equity instruments should be measured from the perspective of the asset holder</td>
<td>No explicit guidance States that the definition of fair value also applies to equity instruments</td>
<td>Own equity instruments should be measured from the perspective of the asset holder</td>
</tr>
</tbody>
</table>
### Comparison of tentative decisions

**continued**

<table>
<thead>
<tr>
<th>Topic</th>
<th>IASB ED/2009/5</th>
<th>Topic 820</th>
<th>Tentative decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest and best use</td>
<td>Applies to assets in general</td>
<td>Applies to assets in general</td>
<td>Applies to non-financial assets only</td>
</tr>
<tr>
<td>Valuation premise</td>
<td>Applies to assets in general</td>
<td>Applies to assets in general</td>
<td>Applies to non-financial assets only</td>
</tr>
<tr>
<td>Highest and best use presentation and disclosure</td>
<td>Present the highest and best use value (fair value) separately from the current use value, if they are different</td>
<td>Measure and present only the highest and best use value (fair value)</td>
<td>Measure and present only the highest and best use value (fair value) Disclose any difference between highest and best use and current use</td>
</tr>
<tr>
<td>NAV practical expedient (investments in investment company entities)</td>
<td>Silent</td>
<td>Practical expedient allowed if specific criteria are met</td>
<td>This will remain as a difference for now because of different accounting requirements for investment companies</td>
</tr>
<tr>
<td>Blockage factors</td>
<td>Implies no blockage factor for Levels 1, 2 or 3 for financial instruments accounted for in IAS 39</td>
<td>No blockage factor for Level 1</td>
<td>Describe what a blockage factor is and prohibit blockage factors in Levels 1 and 2 (not relevant in Level 3), but allow other premiums and discounts, if applicable, in Levels 2 and 3</td>
</tr>
</tbody>
</table>
Comparison of tentative decisions

**continued**

<table>
<thead>
<tr>
<th>Topic</th>
<th>IASB ED/2009/5</th>
<th>Topic 820</th>
<th>Tentative decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inactive markets guidance</td>
<td>Focus on markets that are typically inactive as well as markets that have become less active (ie previously had more activity than they do now)</td>
<td>Focus on markets that have become less active (ie previously had more activity than they do now)</td>
<td>Focus on markets that have become less active (ie previously had more activity than they do now)</td>
</tr>
<tr>
<td>Valuation adjustments</td>
<td>Implicit</td>
<td>Implicit</td>
<td>Describe types of valuation adjustments (eg for liquidity or other risks) and when such adjustments would be made</td>
</tr>
<tr>
<td>In-exchange valuation premise</td>
<td>Financial instruments are always in-exchange</td>
<td>Suggests that in-use premise might apply to financial instruments</td>
<td>Applies to non-financial assets only</td>
</tr>
<tr>
<td>Offsetting market risks</td>
<td>Silent</td>
<td>Silent</td>
<td>Allow exception to fair value measurement requirements when there are offsetting positions in the same market risks</td>
</tr>
<tr>
<td>Counterparty credit risk</td>
<td>Fair value reflects non-performance risk Silent about whether non-performance risk can be assessed on a net basis</td>
<td>Fair value reflects non-performance risk Silent about whether non-performance risk can be assessed on a net basis</td>
<td>Counterparty credit risk exposure can be assessed at the legal entity level when there is a legally enforceable right of offset in the event of default</td>
</tr>
</tbody>
</table>
Comparison of tentative decisions

<table>
<thead>
<tr>
<th>Topic</th>
<th>IASB ED/2009/5</th>
<th>Topic 820</th>
<th>Tentative decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure</td>
<td>Applies to recurring fair value measurements only</td>
<td>Applies to recurring and non-recurring fair value measurements</td>
<td>IASB: recurring measurements FASB: recurring and non-recurring measurements</td>
</tr>
<tr>
<td></td>
<td>Silent about initial vs subsequent measurement</td>
<td>Subsequent measurement only</td>
<td>Subsequent measurement only</td>
</tr>
<tr>
<td></td>
<td>Measurement uncertainty analysis</td>
<td></td>
<td>Measurement uncertainty analysis (see IASB exposure draft ED/2010/7)</td>
</tr>
</tbody>
</table>

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.
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
What will proposals cover?

• Include:
  – Simplified accounting for short-term leases
    Lessee: recognise gross asset and liability
    Lessor: use accrual accounting
  – Long-term leases of land

• Exclude:
  – Contracts representing the purchase/sale of the underlying asset
  – Investment property (IAS 40) carried at FV
  – Leases of intangible or biological assets
  – Leases to explore for or use natural resources

Lessee right-of-use model

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

<table>
<thead>
<tr>
<th>All leases in scope</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>B/S</strong></td>
</tr>
<tr>
<td>• Right-of-use asset</td>
</tr>
<tr>
<td>• Obligation to pay rentals</td>
</tr>
<tr>
<td><strong>P&amp;L</strong></td>
</tr>
<tr>
<td>• Amortisation of right-of-use asset</td>
</tr>
<tr>
<td>• Interest expense</td>
</tr>
</tbody>
</table>
### Lessee - Measurement

<table>
<thead>
<tr>
<th>Initial Measurement</th>
<th>Subsequent Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Obligation to pay rentals</strong></td>
<td>PV of lease payments discounted using incremental borrowing rate</td>
</tr>
<tr>
<td><strong>Right-of-use asset</strong></td>
<td>Cost</td>
</tr>
<tr>
<td></td>
<td>Amortised cost -option to revalue</td>
</tr>
<tr>
<td></td>
<td>Amortised cost -no revision of incremental borrowing rate</td>
</tr>
</tbody>
</table>

### Lessee - Options to extend

- Recognise obligation to pay rentals for the **longest possible lease term that is more likely than not to occur**
- Reassess at each reporting date
- Any change in obligation is an adjustment to the right-of-use asset
- Account for purchase options when exercised

**Example**

- A machine is leased for 10 years
- Lease includes an option to extend for an additional 5 years
- Lessee must decide whether to recognise:
  - an obligation to pay 10 years of rentals
  - an obligation to pay 15 years of rentals
Lessee - Contingent rentals

- Include expected payments in obligation to pay rentals
- Reassess at each reporting date
- Recognise change in obligation:
  - arising from current or prior periods in profit or loss
  - all other changes as an adjustment to the right-of-use asset
- Residual value guarantees
  - treat the same as contingent rentals

Lessee - Presentation

- Statement of financial position
  - Obligation to pay rentals
  - Right-of-use asset within PP&E, separately from assets owned
- Statement of comprehensive income
  - Amortisation and interest expense presented separately
- Statement of cash flows – current format
  - Cash payments in financing activities
Lessee - Transition

- All leases except simple finance leases

| Obligation to pay rentals | = | Right-of-use asset | = | PV of lease payments |

- Adjust for prepaid or accrued rentals
- Review asset for impairment
- For simple finance leases, the measurement of the assets and liabilities would not be changed on transition or subsequently

Lessor – Hybrid Model

- A performance obligation approach for leases that expose the lessor to significant risks and benefits associated with the underlying asset

- A derecognition approach for all other leases
Lessor – two approaches

- Performance Obligation
  - Lease creates a new asset (receivable)
  - Records a performance obligation to permit lessee to use the asset
  - Underlying asset continues to be recognised

- Derecognition
  - Lessor transfers and derecognises a portion of the leased asset
  - Recognises right to receive payment over lease term (receivable)

Lessor – measurement: two approaches

Performance obligation:
- Receivables
  - Initial measurement: PV of lease payments
  - Subsequent: amortised cost
- Performance obligation
  - Initial measurement: transaction price (= receivable)
  - Subsequent: over the lease term

Derecognition:
- Receivables – same as performance obligation approach
- Residual asset-allocated carrying value (except impairment)
## Lessor – presentation: two approaches

<table>
<thead>
<tr>
<th>Performance obligation</th>
<th>Derecognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of financial position</td>
<td></td>
</tr>
<tr>
<td>Underlying asset</td>
<td>Lease receivable</td>
</tr>
<tr>
<td>Receivable</td>
<td>X</td>
</tr>
<tr>
<td>Performance Obligation (X)</td>
<td>(separate from other receivables)</td>
</tr>
<tr>
<td>Net leasing asset / liability X</td>
<td>PP&amp;E (by class):</td>
</tr>
<tr>
<td>(gross with linked presentation)</td>
<td>Residual asset X</td>
</tr>
<tr>
<td>Statement of comprehensive income</td>
<td>Owned assets X</td>
</tr>
<tr>
<td>Lease income</td>
<td>Revenue X</td>
</tr>
<tr>
<td>Interest income</td>
<td>Cost of sales (X)</td>
</tr>
<tr>
<td>Depreciation (X)</td>
<td>(gross or net depending on business model)</td>
</tr>
<tr>
<td>(separate presentation)</td>
<td>Interest income</td>
</tr>
</tbody>
</table>

## Options to extend – lessor

Same as lessee accounting

- Performance obligation
  - record any change as adjustment to receivable

- Derecognition
  - treat as derecognition/re-recognition event for the residual asset

- Purchase options
  - account for only when exercised
Contingent rentals –lessor

- Only include if reliably measurable
- Reassess at each reporting date and adjust receivable
- Performance obligation:
  - Record corresponding adjustment to P&L if related to a satisfied performance obligation
  - Adjust performance obligation if not yet satisfied
- Derecognition:
  - Recognise all corresponding changes in P&L

Lessor - Transition

- Performance obligation
  - All leases
  - Measure using original rate charged by the lessor

  \[
  \text{Receivable} = \text{Performance obligation} = \text{PV of lease payments}
  \]

  - Reinstate previously derecognised underlying assets
    - Depreciated cost or FV
Lessor – Transition continued

• Derecognition
  – All leases
  – Measure using original rate charged by the lessor

\[
\text{Receivable} = \text{PV of lease payments}
\]

– Residual asset measured at fair value

Disclosures

To enable users to evaluate the nature, amount, timing, and uncertainty of cash flows arising from lease contracts and how the entity manages those cash flows

Include:

- Nature of lease arrangements, including contingencies
- Short term leases
- Maturity analysis of contractual and total obligations (lessees) / receivables (lessors)
- Roll-forward of related assets and liabilities
- Incremental borrowing rate (lessees) / rate charged (lessors)
- Revenue recognition information (lessors)
**Sale and leasebacks**

- Determine if underlying asset has been sold
  - transfers control and
  - all but a trivial amount of the risks and benefits
- If underlying asset sold
  - Record sale/purchase and lease
- If underlying asset not sold
  - Treat as financing
- Adjust assets, liabilities, gains and losses to reflect market rentals

**Subleases**

- Account for assets/liabilities in accordance with the related lessee and lessor models
- Performance obligation approach
  - Show the leased asset, lease receivable and performance obligation with "linked" presentation
  - Present separately the obligation to pay rentals to the head lessor
- Present all assets and liabilities gross under the derecognition approach
- Disclose the nature and amount of significant subleases
Other issues

To be addressed in July 2010 board meeting

• Lessors
  – Accounting for services integral to leases
  – Indicators for how to apply hybrid models

What next?

Discussion paper March 2009

Comment period & boards deliberations

Exposure Draft Q3 2010

Comment period & boards deliberations

Standard planned Q2 2011
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.