

Technically Speaking Enhanced Understanding

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Nita Ranchod

Welcome

Dear colleagues

Welcome to our fifteenth edition of Technically Speaking!

This edition includes articles on the following topics:

Disclosure of remuneration – frequently asked questions

Disclosure of remuneration in terms of the new Companies Act has given rise to various practical implications. This article explores some of the frequently asked questions surrounding the disclosure of directors and prescribed officer's remuneration.

Par value shares and share premium in terms of the new Companies Act

This article provides guidance on how to account for share issued in terms of the new Companies Act.

Implementation date fast approaching

The implementation date for several IFRS standards is fast approaching. This article provides a reminder of the expected impact of these standards.

Auditor reports for the 21st century

The International Auditing and Assurance Standards Board (IAASB) is proposing changes to the reports issued by auditors. This article highlights some of the additional information which will need to be disclosed in audit reports..

Proposed minor amendments to IFRS

The International Accounting Standards Board (IASB) has recently issued several proposed amendments to IFRS. This article provides an overview of these amendments.

Results of the Third Global IFRS Banking Survey

The results of the third global IFRS banking survey have been released and provide insights into how banks view the effect of several new International Financial Reporting Standards (IFRSs), including IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IFRS 13 Fair Value Measurement.

We look forward to your comments on this publication. Please feel free to contact our editor Amy Escott if you have any questions or suggestions for future issues.

A handwritten signature in dark ink that reads "N. Ranchod".

Kind regards
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Disclosure of remuneration – Frequently asked questions

The Companies Act, 2008, requires certain companies to disclose the remuneration received by its directors and prescribed officers. This has been a very contentious issue ever since the Act became effective in May 2011. In this article we deal with a number of frequently asked questions:

1. Should remuneration paid to directors and prescribed officers that relates to their services rendered to other group companies be disclosed?

Section 30 (5) of the Companies Act (the Act) requires that the disclosure must show the amount of any remuneration or benefits paid to or receivable by persons in respect of:

- a. Services rendered as directors or prescribed officers of the company, or
- b. Services rendered while being directors or prescribed officers of the company:
 - i. As directors or prescribed officers of any other company within the same group of companies or
 - ii. Otherwise in connection with the carrying on of the affairs of the company or any other company within the same group of companies

The effect of these requirements is that all remuneration paid to or receivable by a director or prescribed officer must be disclosed – thus, not only the remuneration paid to or received by the director or prescribed officer for services to the company, but also all other remuneration received by the director or prescribed officer for services rendered as a director or prescribed officer to any other company within the group, or in connection with the carrying on of the affairs of the company. One person's remuneration may have to be disclosed by more than one company in the same group of companies.

2. The Act refers to all companies within the same group of companies. Does this only include the subsidiaries of that company and its holding company, or is it wider than this?

Disclosure is required of all remuneration paid to or receivable by the directors and prescribed officers of the company for services rendered as a director or prescribed officer of any other company within the same group of companies. In this regard the definition of a group should be considered. This means disclosure will have to account for all other companies in the group and not only the subsidiaries of the company in question. Therefore the company will have to take into account all companies in the group – thus upward, downward and sideways.

3. Should the company only disclose amounts received by the directors and prescribed officers for their services to South African companies, or should the disclosure also include the remuneration for services to other entities, such as trusts and foreign subsidiaries?

The Companies Act requires the company to disclose all amounts received by the directors and prescribed officers of the company, for their services as directors and prescribed officers to this company, as well as to any other company within the group. As a result, the requirement applies only with respect to all “companies” within the group. In terms of the Companies Act, a “company” is a juristic person incorporated in terms of the previous or current Companies Act, i. e. only South African companies. Therefore, any amounts paid to directors and prescribed officers for services rendered to a trust or a foreign subsidiary within the group would not be included in the disclosure, since a trust or a foreign subsidiary (company) is not a “company” for purposes of the Companies Act.

4. In determining which South African companies form part of a group, do we only include a group where the holding company is a South African company, or should we also consider group structures where the holding company is a trust or a foreign company?

In circumstances where the holding company of the group is a trust or a foreign company, all companies controlled by that trust or foreign company form a group for the purposes of the Companies Act, since a holding company is defined as any juristic person that controls a subsidiary (Note: in terms of the definitions of the Act, both a trust and a foreign company qualify as a “holding company”, even though they are not “companies” as defined in the Act). Therefore, all of the companies within this group need to disclose the remuneration paid to directors and prescribed officers for their services to all of the companies within the group. Anything paid in respect of their services to a trust or a foreign company, including the “holding trust” or the foreign holding company, need not be disclosed.

5. Should the source of the remuneration be considered?

The Act requires all remuneration paid to or receivable by directors and prescribed officers to be disclosed – it does not only account for remuneration paid by the company or another company in the group. Rather, it focuses on the amounts a director or prescribed officer earns for services as a director or prescribed officer (to the company or any other company within the group) or for carrying on the affairs of the company (or any other company within the group). This means that where a person is employed by one company (e. g. an employment company) but spends 100% of their time on rendering services as director to another company (even a company that does not form part of the same group of companies), the full salary paid by the employment company to that person (as its employee) should be disclosed in the annual financial statements of the other company.

This is so because the Act requires disclosure of all remuneration paid to or receivable by the director or prescribed officer for services to the company.

6. If the director of a South African company is paid by a trust or a foreign company for their services to the South African company, should this be included in the disclosure?

If a “holding trust” or foreign company, or any other entity for that matter, paid remuneration to a director for his services to a South African company, this must be included.





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Par value shares and share premium in terms of the new Companies Act

The Companies Act, 2008 (the Act) provides for the creation of a capital adequacy model that is based only on solvency and liquidity and abolishes the concept of par value shares and nominal value. In terms of Section 35, a company may no longer authorise any shares with a par or nominal value.

It is no longer possible for a company to create new classes of shares with a par value. However, this does not imply that all par value shares will disappear. The Act provides for the voluntary conversion of par value shares, but should a company elect not to convert its par value shares, such shares may remain in issue.

If a company has existing issued shares with a par value, these shares will continue to have this par value, unless the entire class of shares is converted in terms of Regulation 31. Regulation 31 contains an extensive process for the conversion of par value shares into no par value shares. The conversion of existing shares to no par value shares is a voluntary process, subject to certain limitations set out in the Regulations.

With respect to par value shares, Regulation 31 makes it clear that:

- No new classes of par value shares may be authorised after 1 May 2011.
- If on or after 1 May 2011 a company has an existing class of par value shares of which no shares are in issue (i. e. only authorised shares), no shares may be issued from that class until the shares have been converted to no par value shares (it should be noted that only a board resolution is required for the conversion of the par value shares in this instance).
- If a company has an existing class of par value shares of which some shares have been issued prior to 1 May 2011:
 - The number of shares may not be increased
 - But the remainder of the existing authorised par value shares may be issued.

It should be clear from the above that it remains possible to issue (but not authorise) par value shares after 1 May 2011. This raises the question as to how par value shares should be dealt with from an accounting point of view. The Act is silent regarding the disclosure of the share capital or share premium accounts on the financial statements after conversion from par value shares to no par value shares.

Accounting issues for consideration

Where a company issues par value shares after the effective date, the existing par value and share premium accounts will remain on the financial statements of the company for as long as the company has par value shares in issue.

The Act does not regulate the accounting for shares. When no par value shares are issued for the first time, amounts received can all be reflected in a share capital account. The Act is not prescriptive in respect of the name of this account (as opposed to the previous Act, which required the use of names such as “stated capital”, “share premium”, etc).

The Framework for the Preparation of Financial Statements and IAS 1 Presentation of Financial Statements, as issued by the International Accounting Standards Board (IASB), do not contain prescriptive requirements for the recording of amounts in share capital and share premium, as this is usually established by law. IAS 1 does, however, require disclosure of amounts recorded in equity, including the number of authorised shares, the par value of the shares or the fact that the shares have no par value, a reconciliation of the number of shares outstanding during the period, if there are any rights or restrictions place on different classes of shares, shares held by a subsidiary or an associate and shares held for issue under option contracts and contracts for the sale of shares.



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Implementation date fast approaching

Introduction

Five standards (IFRSs 10, 11, 12, 13 and IAS 19 (R)) are effective for periods beginning 1 January 2013 with retrospective application required.

Below is a brief summary of each standard.

IFRS 10 – Consolidated Financial Statements

This standard provides a single model for consolidation based on control over the relevant activities. It replaces IAS 27 Consolidated and Separate Financial Statements, as well as SIC 12 Consolidation – Special Purpose Entities.

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. These rights include voting rights, potential voting rights, rights within other arrangements, or a combination of these.

IFRS 10 also introduces the notion of de facto control. This applies, for example, when the investor has control despite having less than 50% of the voting rights as a result of the other shareholdings being widely dispersed.

IFRS 11 – Joint Arrangements

IFRS 11 replaces IAS 31 Joint Ventures. A joint arrangement is an investment in which two or more investors contractually agree to share control over the entity. IFRS 11 distinguishes between:

- Joint venture: An investment in a business reflecting a right to a residual return, which will be equity accounted and
- Joint operation: An investment in assets and liabilities that yield a return, which will be proportionately consolidated

IFRS 12 – Disclosure of Interests in other Entities

This standard contains the disclosure requirements for interests that an entity holds in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Additional disclosure for non-controlling interests, including summarised financial information for certain subsidiaries is required.

IFRS 13 – Fair Value Measurement

IFRS 13 provides guidance on how to measure the fair value of financial assets, financial liabilities, equity instruments and non-financial assets. IFRS 13 does not, however, specify when fair value should be used.

Fair value is defined as 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.

IAS 19 (R) – Employee benefits

This standard has been revised and is effective for periods beginning 1 January 2013. The significant changes are the following:

- All actuarial gains and losses should be recognised in other comprehensive income (OCI)
- All past service costs should be recognised in profit and loss within service costs
- The net defined benefit liability (asset) is now multiplied by the risk free rate to determine a net interest expense (income).
- Extensive disclosure requirements have been introduced and the characteristics, risks and amount in the financial statements as well as the effect of the defined benefit plans on the amount, timing and uncertainty of the entity's future cash flows should be disclosed.

The limitation on the return of plan assets will likely result in a lower net profit than currently reflected by entities with the defined benefit obligations. The disclosure requirements will be more onerous for entities that have unfunded defined benefit obligations.

Accounting & Auditing has recently published The Roadmap to IFRS Future, which is designed to assist clients to best implement the standards. It contains several templates and toolkits to assist in the documentation and measurement of the overall impact of the new standards, including presentation and disclosure.

The Roadmap to IFRS future [PDF download](#) [iPad download](#)





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Auditor reports for the 21st century

In the wake of the recent financial crisis, it has been questioned how companies failed within months of an unmodified audit report being issued. Globally, regulators and standard setters have responded by questioning the true value and relevance of auditor reporting and have tried to understand the real information needs of users. The International Auditing and Assurance Standards Board (IAASB) has commissioned research into the topic, issued a consultation paper in May 2011 and then, in response to the comments received, issued an Invitation to Comment in June 2012, which included their proposals to improve auditor reporting. It is anticipated that a final revised standard on auditor reporting will be issued by June 2014.

What are users looking for?

Financial reporting standards are becoming increasingly complex. Although it is not the role of the auditor to be the provider of information about the entity, users value the independence and the financial expertise of the auditor and therefore seek assistance in navigating and understanding complex financial statements and the conduct of the audit. Improvements to auditor reporting could therefore possibly enhance the users' understanding of the financial statements and the entity, albeit to a limited degree.

It is fundamental that the financial reporting standards evolve too, particularly to increase focus on the quality and conciseness of disclosures which have become complex and extensive. Explicit disclosures by management regarding going concern and material uncertainties (even if none exist), reporting by those charged with governance on their oversight activities and disclosures in the areas of significant accounting policies, critical accounting estimates, key accounting judgements, internal control and strategic risks are some suggestions of where financial reporting standards could be improved.

What has the IAASB proposed?

The IAASB has recognised that the current scope of an International Standards on Auditing (ISA) audit should be maintained and the responsibilities of the auditor must be preserved. The auditor should not be the originator of information, and the primary responsibility to provide information about the entity belongs to management. In light of this, the IAASB has proposed the following key improvements to auditor reporting:

- Inclusion of auditor commentary to highlight matters that, in the auditor's judgement, are likely to be most important to users' understanding of the audited financial statements or the audit (it is proposed that this information would be required for public interest entities and could be discretionary in respect of other entities).
- Clarification of the work effort performed by the auditor in relation to other information and specific identification of the other information. This would include information contained in the annual report, such as the Chairman's statement.

What is required for these proposals to add value to the users and meet their needs?

For the information to remain valuable, it is critical that it be concise, understandable, entity specific, relevant to the user and not uniform across entities. Auditors would need to change their outlook on what an auditor's report should be and respond with what is really important to the users to whom they are reporting and what they would want and need to know. If the profession fails to adapt now, it could diminish the value of audits in the future.

It is also important for the IAASB to establish guidance and criteria that are less prescriptive and that allow sufficient flexibility for the auditor to exercise judgement in what is important to report to the users and scale the audit report to suit various information needs and types and complexities of entities. Furthermore, maintaining flexibility is important for adapting to future changes, including developments in financial reporting. Although the comparability between audit reports will be severely diminished, the value of entity-specific information could far outweigh the cost of comparability.

The purpose of auditor commentary would need to be clear. The auditor should not be the original provider of information, and management still has a responsibility to ensure that the financial statements fairly present the information in an understandable manner. Furthermore, descriptions of audit procedures are unlikely to be understandable to all users, with the result that they should be limited to information on areas of the audit that are important to the users' understanding of the entity, rather than the audit.

It is hoped that an increased focus on the disclosures in the financial statements will motivate preparers to improve the quality of the disclosures. Perhaps the discussions between auditors, management and those charged with governance may also be improved, which would benefit the financial reporting process and could improve the overall quality of the audit. However, the IAASB's proposals indicate that auditor commentary would only be mandated for public interest entities, which would be unhelpful for non-public interest entities, as users may incorrectly assume that a lack of auditor commentary indicates that there are no matters of importance or that a poor quality audit has been performed.

In the current climate, a significant area of user focus is a going concern and users seek the auditor's views on this topic. Users would need to understand that the recommended statement by the auditor on management's assessment of going concern would not be a guarantee on whether an entity will continue as a going concern. Furthermore, there is concern that the disclosure requirements of International Financial Reporting Standards (IFRS) and International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) are lacking, since they only require management to perform an assessment as to whether the going concern basis is appropriate. There is no requirement to disclose the important aspects of the going concern assessment such as the judgements used and procedures performed, and disclosures relating to the evaluation of uncertainties are only made where they are considered material. This will give rise to a disconnect between the audit report and the financial statements, since the auditor will be expected to express its views on management's going concern assessment; however, there is no mandatory disclosure of management's going concern assessment in the financial statements.

The description of the work effort performed in relation to other information and the identification of this information is an area that required improvement. Users incorrectly assume that where the financial statements are presented with other information, all of this information has been audited, and there are some views that the auditor should audit this information.

The IAASB recently issued an exposure draft of the proposed revisions to ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, and therefore the auditor's responsibilities with respect to other information may be enhanced in the future. Perhaps we will see an extended responsibility, such as a statement on whether the other information is suitable in the context of the auditor's knowledge and understanding of the entity. It is interesting to note that in South Africa, this clarified paragraph has already been included in SAAPS 3 (Revised), Illustrative Reports, (issued by the IRBA) with respect to the Directors' Report, Audit Committee's report and the Company Secretary's Certificate.

Existing auditor's reports could be considered boring and uninformative, and users generally only value the pass/fail nature of the opinion paragraph. Therefore, a restructuring of the report will be beneficial, and the IAASB's proposals to include the opinion paragraphs and other more entity-specific information earlier in the report are good responses to users' needs. There is the possibility that the standard descriptions of the nature of the audit and each party's responsibilities which are proposed to be located at the end of the report will remain unread, and although it has been suggested to relocate this information to an appendix or website, it is important that users have direct access to these descriptions. The IAASB has proposed improvements to the descriptions of the responsibilities and the audit, which are quite lengthy, technical and perhaps not as valuable to the users as the IAASB intended.

Based on the existing proposals developed to enhance auditor reporting, the days of one-page standard content audit reports will soon be over. Auditors need to evaluate how they can best meet users' reporting needs and continue to contribute to the economy and society by providing useful and meaningful insights into the entity they are reporting on. Future auditor reports will be entity specific, relevant and will assist users in understanding and navigating through complex financial statements. This will enhance users' interpretation and critical analysis of an entity and its performance.





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Proposed minor amendments to IFRS

Towards the end of 2012 the International Accounting Standards Board (IASB) issued various exposure drafts (EDs) for comment. These EDs propose minor amendments to existing IFRSs. The amendments seek to provide some clarity on areas where diversity exists in practice so as to improve financial reporting. A brief summary of these new EDs is discussed below. The effective dates for these amendments will be determined after comment has been received.

Equity method: Share of other net asset changes

An entity accounts for its interest in associates and joint ventures in terms of the equity method in IAS 28 Investments in Associates and Joint Ventures.

The amendment clarifies that changes in net assets that are recognised directly in equity, and hence not in profit or loss or other comprehensive income, should also be equity accounted. Examples of such a change in net asset include the issue of shares or an equity-settled share-based payment scheme of the associate or joint venture. When equity accounting is applied, these changes are recognised directly in equity. The share of equity changes would be recycled to profit or loss when the investor ceases to apply equity accounting to the investment in the associate or joint venture.

This amendment, when effective, would be applied retrospectively.

Sale or contribution of assets between an investor and its associate or joint venture

When an investor sells or contributes an asset to its associate or joint venture, it currently recognises profit or loss only to the extent of the other investor's/investors' interest in the associate or joint venture.

IAS 27 Separate Financial Statements requires an entity to recognise the full profit or loss on loss of control of a subsidiary.

A question hence arises in practice as to when an investor sells or contributes a business to its associate or joint venture to what extent the profit or loss on disposal may be recognised.

- Either the guidance in IAS 27 should be followed and the full profit or loss on disposal be recognised as the disposal represents the loss of control in a subsidiary.
- Or the guidance in IAS 28 is still applicable and the profit or loss on disposal is only to be recognised to the extent of the other investor(s) share in the associate or joint venture.

The ED proposes that on the disposal of a business to an associate or joint venture the full profit or loss should be recognised. However, on disposal of an asset that does not constitute a business, a partial gain or loss should be recognised. This amendment would be applied prospectively once effective.

Acquisition of an interest in a joint operation

Diversity exists in practice when an investor (joint operator) acquires an interest in a joint operation. Joint operators currently account for the acquisition in the books of the joint operator by:

- Recognising its share of the joint operation at fair value with the difference between the proceeds and fair value as goodwill or
- Allocating the purchase price to the assets and liabilities on the basis of their relative fair values or
- A combination of the above two methods

The IASB views the application of IFRS 3 Business Combinations to be the most appropriate basis for the acquisition of an interest in a joint operation. A joint operator would thus recognise in their accounts the identifiable assets and liabilities at their fair value, with the difference between this fair value and the proceeds being recognised as goodwill.

IFRS 9 Financial Instruments: Classification and Measurement

The IASB proposes three changes to IFRS 9 Financial Instruments.

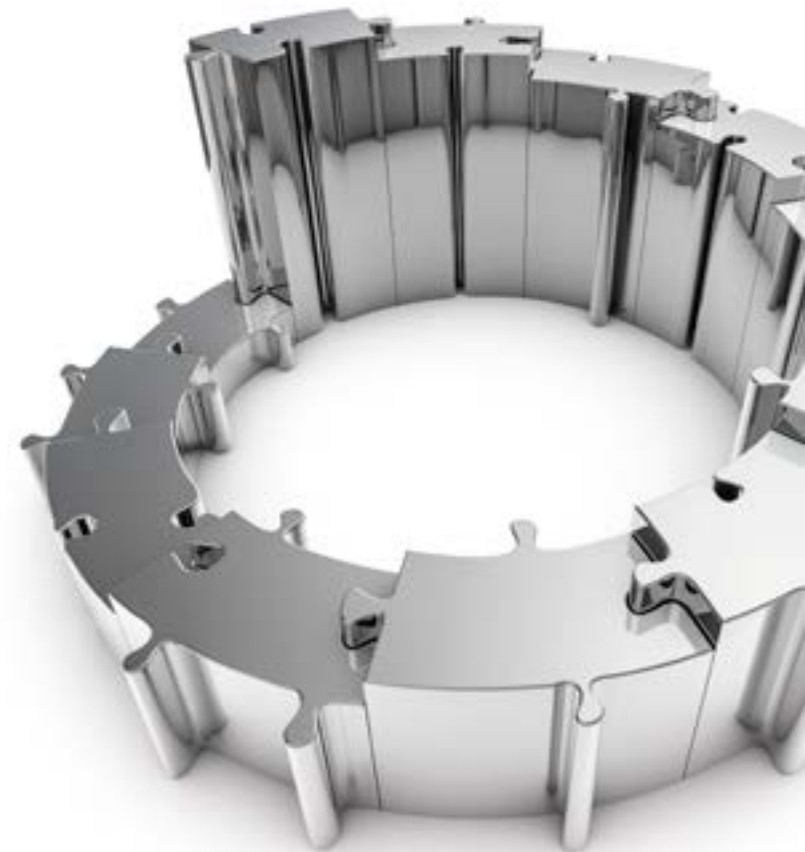
The first amendment is the inclusion on guidance for determining what qualifies as interest in terms of the contractual cash flow model required for amortised cost financial assets. Financial assets may only be recognised at amortised cost if the entity's business model is to hold the instrument to collect the contractual cash flows and these contractual cash flows comprise solely interest and principal.

The proposed guidance defines interest as compensation for the time value of money and credit risk. Should a modification exist in the financial asset, the compensation may be seen as solely compensation for the time value of money and credit risk only if the modification results in interest payments that are not more than insignificantly different to benchmark cash flows that would be solely compensation for the time value of money and credit risk.

The ED's second amendment is to include a new third category of financial asset – fair value through other comprehensive income (FVOCI). A financial asset will be required to be classified at FVOCI if the entity's business model for the financial asset is to both collect contractual cash flows and for sale, with contractual cash flows being solely interest and principal. The frequency of sale for these instruments would be greater than those held at amortised costs. Interest income and credit impairments for FVOCI financial assets would be recognised in profit or loss, while fair value gains or losses would be recognised in OCI. These fair value gains or losses would be reclassified from equity to profit or loss on derecognition of the FVOCI financial asset.

The final amendment changes the transition guidance, so that six months after the issue of the complete IFRS 9 an entity applying IFRS 9 must do so in its entirety. An entity will thus no longer be allowed to elect the application of either IFRS 9 (2009) or IFRS (2010).

An entity may still, however, choose to only apply the presentation of changes in fair value due to own credit risk in other comprehensive income, without applying the rest of IFRS 9.



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Results of the Third Global IFRS Banking Survey

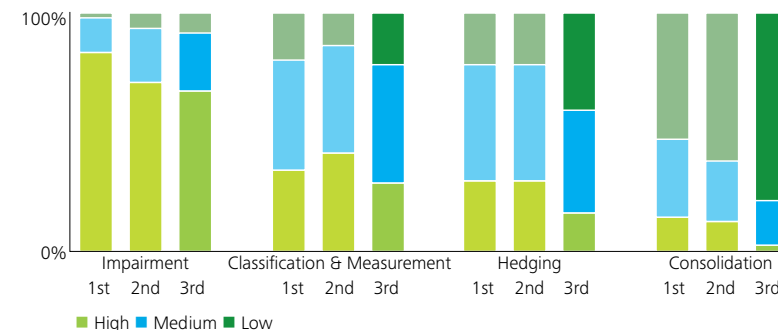
The results of the Third Global IFRS Banking Survey were released in January 2013. Seventy banks from Europe, North America, Africa, Asia Pacific and the Middle East participated in the survey, including 19 global systemically important financial institutions. The major South African banks also had the opportunity to provide input.

The survey covered newly effective accounting standards IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IFRS 13 Fair Value Measurement. The emphasis, however, was on IFRS 9 Financial Instruments, which is expected to become effective in 2015.

Key findings from the survey:**Awareness and high-level impact**

It was apparent from the survey that the vast majority of banks regard either accounting changes or Basel III to have the greatest impact on their organisations over the next five years, with local regulatory changes not expected to have as significant an impact. The vast majority of banks indicated that their boards and audit committees have either high or some involvement and awareness of upcoming accounting change.

When asked about the impact of accounting change on the business model and/or financial statements, the banks responded as follows¹:



¹ 1st and 2nd refer to the first and second global IFRS banking surveys, respectively, with the survey under discussion being the 3rd.

Approximately a third of respondents indicated that they do not believe that the industry as a whole can meet the requirements of IFRS 9 to an adequate level, while still maintaining comparability.

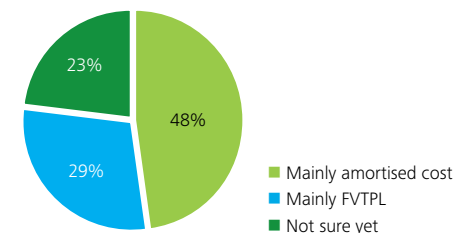
IFRS 9: Timetable, Endorsement and Convergence

Currently the proposed effective date of IFRS 9 is 1 January 2015 (deferred from 1 January 2013); however, three quarters of respondents believe that the mandatory effective date will be deferred again. Approximately a third of the banks indicated that the decision to early adopt the standard will not be influenced by their peer group's decision. Eighty-eight percent of respondents do not believe that the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) will achieve convergence with their financial instruments standards.

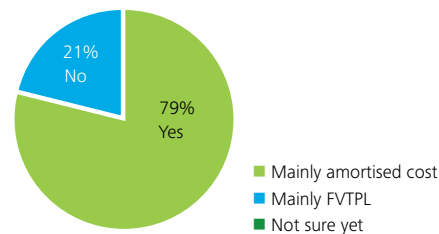
IFRS 9: Classification and Measurement

Banks typically hold certain assets to meet regulatory liquidity requirements. The following questions were asked of banks in respect of the classification of financial assets:

Based on IFRS 9 Classification and Measurement (without the proposed fair value through other comprehensive income (FVTOCI) for debt instruments category), how do you expect the assets you hold to meet regulatory liquidity requirements (excluding trading assets) to be classified?

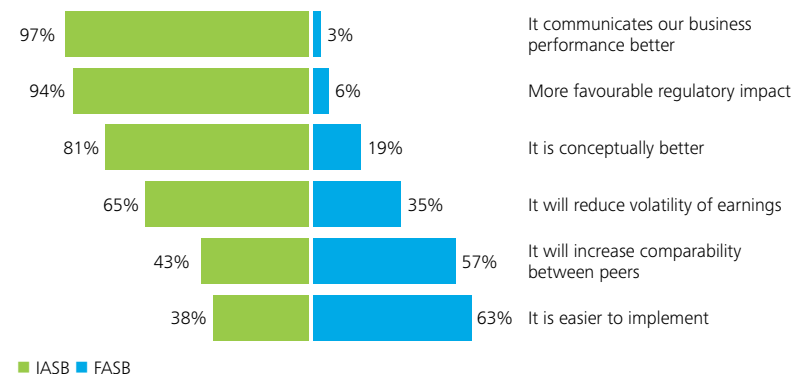


If the IASB goes ahead with the proposed FVTOCI category for debt instruments, do you expect a significant proportion of the assets you hold to meet regulatory liquidity requirements (excluding trading assets) to be classified as FVTOCI?



IFRS 9: Impairment Accounting

Impairment accounting is widely considered to be the chapter of IFRS 9 which will have the greatest impact on banks' business models and financial statements, due to the move from the incurred loss to the expected loss conceptual framework. The IASB and the FASB are currently deliberating different impairment models. Sixty-nine percent of respondents indicated a preference for the IASB's model, 21% prefer the FASB's model, and 10% are neutral. The reasons are as follows:

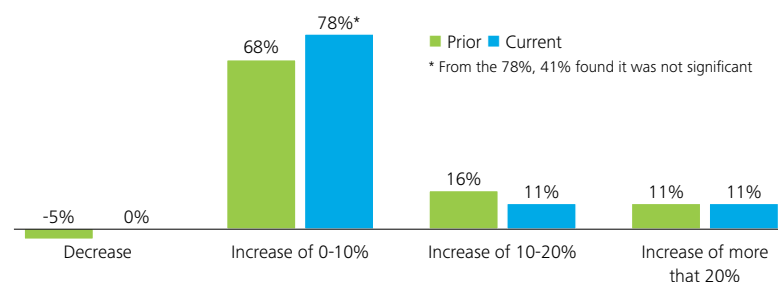


There are many challenges in implementing the expected loss model, and respondents indicated the following to be the biggest challenges (in order of difficulty): (i) setting boundaries and triggers for transfer between buckets; (ii) gathering sufficient data for future economic forecasts in terms of default rates, collateral values, repayment and prepayment behaviour; and (iii) tracking credit quality from origination/purchase. Disclosure requirements also present many challenges, and respondents indicated the following to be the biggest challenges (in order of difficulty): (i) the inputs, assumptions and techniques used in estimating expected losses; (ii) qualitative and quantitative information relating to collateral; and (iii) a reconciliation of the opening and closing carrying value that includes the change in impairment allowance, write-offs and recoveries.

Banks are currently in the process of quantifying the impact of the proposed expected-loss model. Many banks are not at the stage yet where they are able to estimate the impact; however, half of the respondents indicated that their Bucket 2 and 3 provision under IFRS 9 would exceed the impairment provision under IAS 39 Financial Instruments: Classification and Measurement, although the majority of these respondents are not sure of the quantum.

Respondents were asked about the impact of the expected-loss model on regulatory capital requirements and product pricing. Their responses were as follows:

Change in regulatory capital requirements:



Impact on product pricing:



IFRS 9: General Hedge Accounting

The aim of the revised hedge accounting requirements is to move from a rules-based to a principles-based framework for hedge accounting and to encourage more entities to apply hedge accounting. However, two thirds of respondents indicated that they do not expect to increase their use of hedge accounting.

IFRS 9: Impact on Financial Statements

The vast majority of respondents indicated that they do not believe that IFRS 9 will result in a more accurate reflection of the entity's financial performance and financial position.

IFRS 10 and 12

Some of the banks indicated that they have already completed their IFRS 10 and IFRS 12 implementation projects, while most of the others expect to complete theirs during 2013. There are some challenges in implementing the new consolidation model, and respondents indicated the following to be the biggest challenges (in order of difficulty): (i) application and interpretation of the standard to make the consolidation assessment on transition; (ii) availability and access to data; and (iii) implementing a process for continuous assessment of consolidation risk.

Virtually all respondents indicated that they are not considering modifying existing transactions to address the requirements of IFRS 10. It was also apparent from the survey results that entities perceive there to be numerous operational challenges to collating the information required for disclosure purposes.

Hardly any period in history has seen so many new accounting standards promulgated in such a short space of time. Entities will need to consider the impact on their strategy, business model, product pricing and risk management activities. Implementing new accounting standards in a changing regulatory framework presents its own set of challenges. The operational impact on people, processes, data, systems and models also needs to be assessed carefully and incorporated in a well-planned implementation project.



In closing Note from the Editor

Dear colleagues

I hope you've enjoyed reading this issue of Technically Speaking and that it has provided you with a valuable update on the latest development in the accounting and regulatory world.

Please continue to send your comments and suggestions to improve our future issues to technicallyspeaking@deloitte.co.za.

A handwritten signature in black ink, which appears to read "Amy Escott". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Amy Escott

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