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Asia Pacific Dbriefs Presents:

Global Financial Reporting.

IFRS: Important Developments

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Agenda

- IFRS update
- Project update
  – Financial instruments
  – Revenue recognition
  – Leases
- Questions & Answers

Keep in mind

This webcast does not provide official Deloitte Touche Tohmatsu Limited interpretive accounting guidance

Check with a qualified advisor before taking any action

Learning objective

To enhance participants' understanding of important accounting issues and developments pertaining to recent actions of the IASB

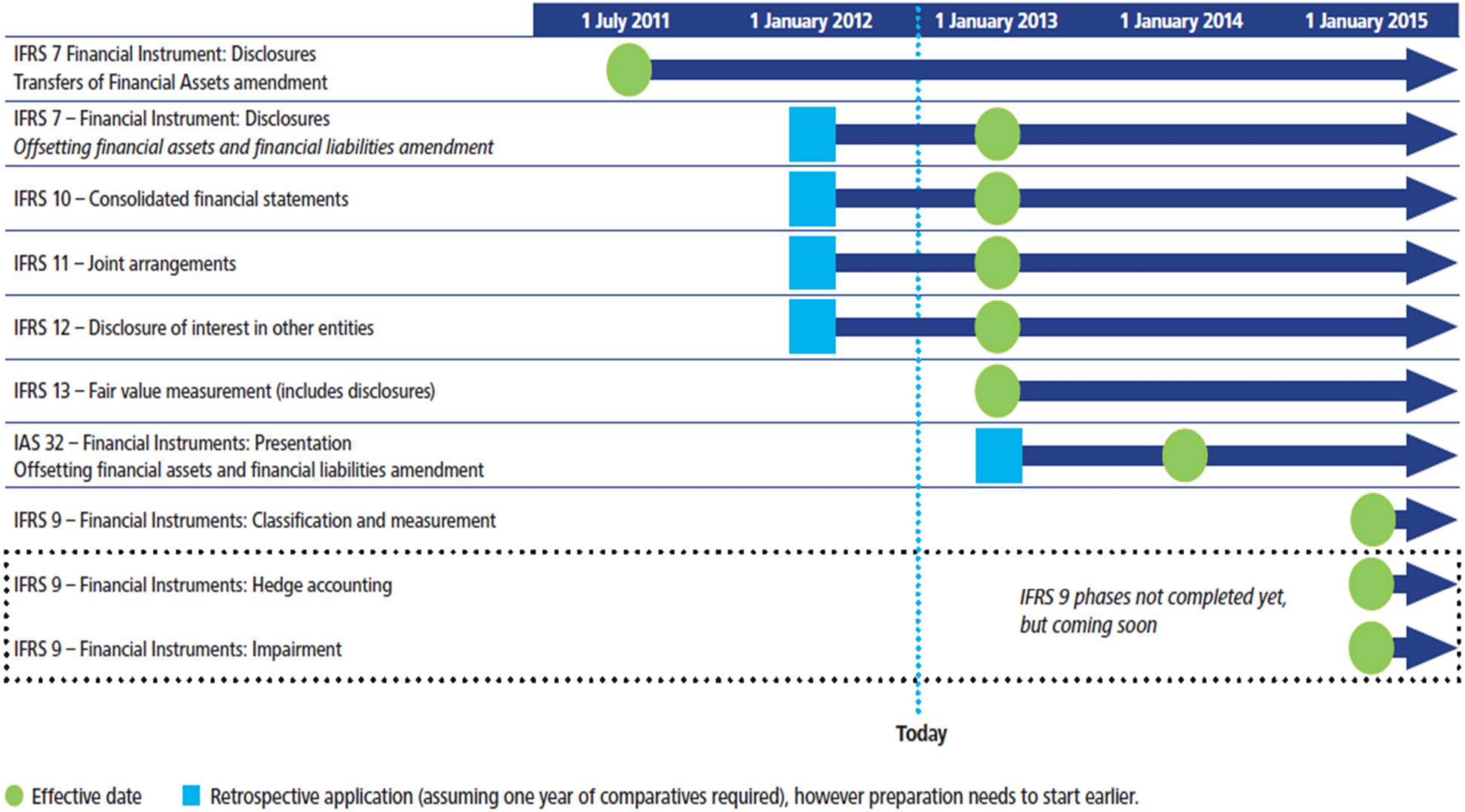
Updated IASB work plan

Project	Exposure draft (ED)	Final standard
Financial instruments		
• General hedging	Q3 2012	2013
• Macro hedging	H2 2012	2015
• Impairment	H2 2012	2013
• Classification and measurement	H2 2012	2013
Insurance contracts	H2 2012	2014
Leases	H2 2012	2014
Revenue recognition	Q4 2011	2013
Consolidation – investment entities	Q3 2011	2012

Financial instruments project update

What is heading your way?

Effective dates that you need to think about



What is heading your way?

Effective dates that you need to think about (cont'd)

Amendments and new standards	Effective date	What is this about?	Things to think about
IFRS 7 – Transfer of financial assets	1 July 2011 *No comparative disclosure required*	• Disclosures about financial assets that are transferred but not derecognised • Disclosures about continuing involvement in transferred financial assets that have been derecognised • Note that the scope of 'continuing involvement' disclosures are broader than continuing involvement accounting used for measuring certain derecognition transactions	• Consider arrangements for collecting information required and controls around completeness • Consider how information will be aggregated and presented in the financial statements and the overall messaging to users of the accounts • Consider how historic information can be collated for transactions that led to full derecognition in the past
IFRS 7 – Offsetting Financial assets and financial liabilities	1 January 2013 *Comparative disclosures are required*	Disclosures about the rights of set-off and related arrangements on an entity's financial position	• Consider arrangements for collecting information required on first time adoption and on-going • Consider how information will be aggregated and presented in the financial statements and the overall messaging to users of the accounts
IFRS 10 – Consolidated financial statements	1 January 2013 *The new standard applied retrospectively*	• Replaces IAS 27 *Consolidation and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities* • A single model for consolidation based on a control model (as opposed to a risk and reward model such as SIC-12)	• Consider the process for determining whether entities currently consolidated should continue to be consolidated under the new control model • Consider the process for identifying and assessing whether entities not currently consolidated should be consolidated under the new control model
IFRS 11 – Joint arrangements	1 January 2013 The new standard applied retrospectively	• Replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non Monetary Contributions by Venturers • Establishes principles applicable to all jointly controlled entities	• Perform assessments to determine classification of any jointly controlled entities • Consider joint arrangements that were accounted for using proportionate consolidation that must now apply equity accounting and prepare journals for first time adoption • Consider knock-on effects of using equity accounting over proportional consolidation (eg effect on ratios, KPI's, hedge accounting, etc)

What is heading your way?
Effective dates that you need to think about (cont’d)

Amendments and new standards	Effective date	What is this about?	Things to think about
IFRS 12 – Disclosure of interest in other entities	1 January 2013 *The new standard applies retrospectively (comparative disclosures required)*	• Disclosures about interests in: – Subsidiaries – Joint ventures and associates – Unconsolidated structured entities	• Collecting information to prepare the disclosures as required for first time adoption and on-going arrangements for collecting information • Consider controls for completeness of the disclosures of interests in other entities • Consider how information will be aggregated and presented in the financial statements and the overall messaging to users of the accounts
IFRS 13 – Fair value measurements	1 January 2013 The new standard applies prospectively	• Defining a fair value measurements • Provides guidance on how to apply a fair value measurement concept where IFRSs use the term ‘fair value’ • Provides a measurement exception for items managed on a portfolio level as well as permitting mid-market pricing more generally • Disclosure requirements related to fair value and assumptions used when measuring fair value	• Consider whether the new guidance changes current valuation inputs, assumptions and methodologies • Consider knock-on effects of changes in valuation (eg effect hedge accounting, FSA reporting, etc) • Consider how disclosures will be aggregated and presented in the financial statements and the overall messaging to users of the accounts
IAS 32 – Offsetting financial assets and financial liabilities	1 January 2014 *Amendment applies retrospectively*	• Clarify the meaning of "currently has a legal enforceable right of set-off" • Clarify that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process cycle	• Consider accounting policies and whether amendments change the application of offsetting under IAS 32 (eg for transactions with clearing houses)
IFRS 9 – Classification and measurement	1 January 2015 *The new standard applies retrospectively*	• Classification and measurement requirements for financial instruments based on a combined business model and contractual cash flow test • Derecognition requirements for financial instruments	• Consider classification and measurement of financial instruments in terms of the business model within which they sit and the contractual terms of their cash flows • Determine accounting policy choices and process for decision making

What is heading your way?

Effective dates that you need to think about (cont'd)

Proposals to be finalised immanently	Effective date	What is this about?	Things to think about
IFRS 9 – Hedge accounting[1]	1 January 2015 *The new standard will be applied prospectively*	• New hedge accounting model (does not include portfolio hedge accounting) • Increases items eligible for designation as hedged items • New hedge effectiveness testing requirements (no more 80-125% effectiveness test)	• Evaluate risk management practice to consider wider application of hedge accounting • Prepare hedge accounting documentation and designations ahead of application date • Evaluate new systems requirements to run hedge accounting modules alongside accounting application software (or integrated)
IFRS 9 – Impairment[2]	1 January 2015 *Unclear what transitional provisions may apply*	• Change from an incurred loss model to expected loss model	• Consider system requirements to measure, track and account for expected losses • Consider integration with other regulatory change projects

1 The IASB is expected to publish a staff draft in July 2012 with expectations that the final standard will be published in December 2012.

2 The IASB plans to publish an new exposure draft on impairment later this year. The expectation is that the exposure draft will be published in October 2012. Even though this is just an exposure draft, the IASB plans to finalise the requirements so that IFRS 9 (including all phases) will be ready for application for periods beginning 1 January 2015. Consequently, this is something to plan for.

IFRS 9 timeline

Where are we?

		2007 to Q3 2010	Q4 2010	2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2013	2014	2015
IFRS 9	Phase I: classification and measurement of financial assets	Final standard phase I assets	Final standard phase I liabilities					Exposure draft			Effective date Jan 1st 2015
	Phase I: classification and measurement of financial liabilities	Exposure draft (ED)									
	Phase II: impairment	Exposure draft		Supple-mentary document			Exposure draft expected				
	Phase III: general hedge accounting		Exposure draft				Final standard expected				
	Phase III: macro hedge accounting						Discussion paper expected				

Today

IFRS 9: classification and measurement of financial assets

Classification and measurement of assets

Amortized cost vs. fair value (current)

Business model test

- Objective of entity's business model is to hold financial asset in order to collect contractual cash flows

Contractual cash flow characteristics

- Contractual terms give rise solely to principal and interest on principal

Amortized cost (only debt instruments)

Fair value through profit and loss (FVTPL) if designated due to an accounting mismatch

Reclassification if change in the business model

Bifurcation

- Embedded derivatives are not split from the host contract

All other instruments

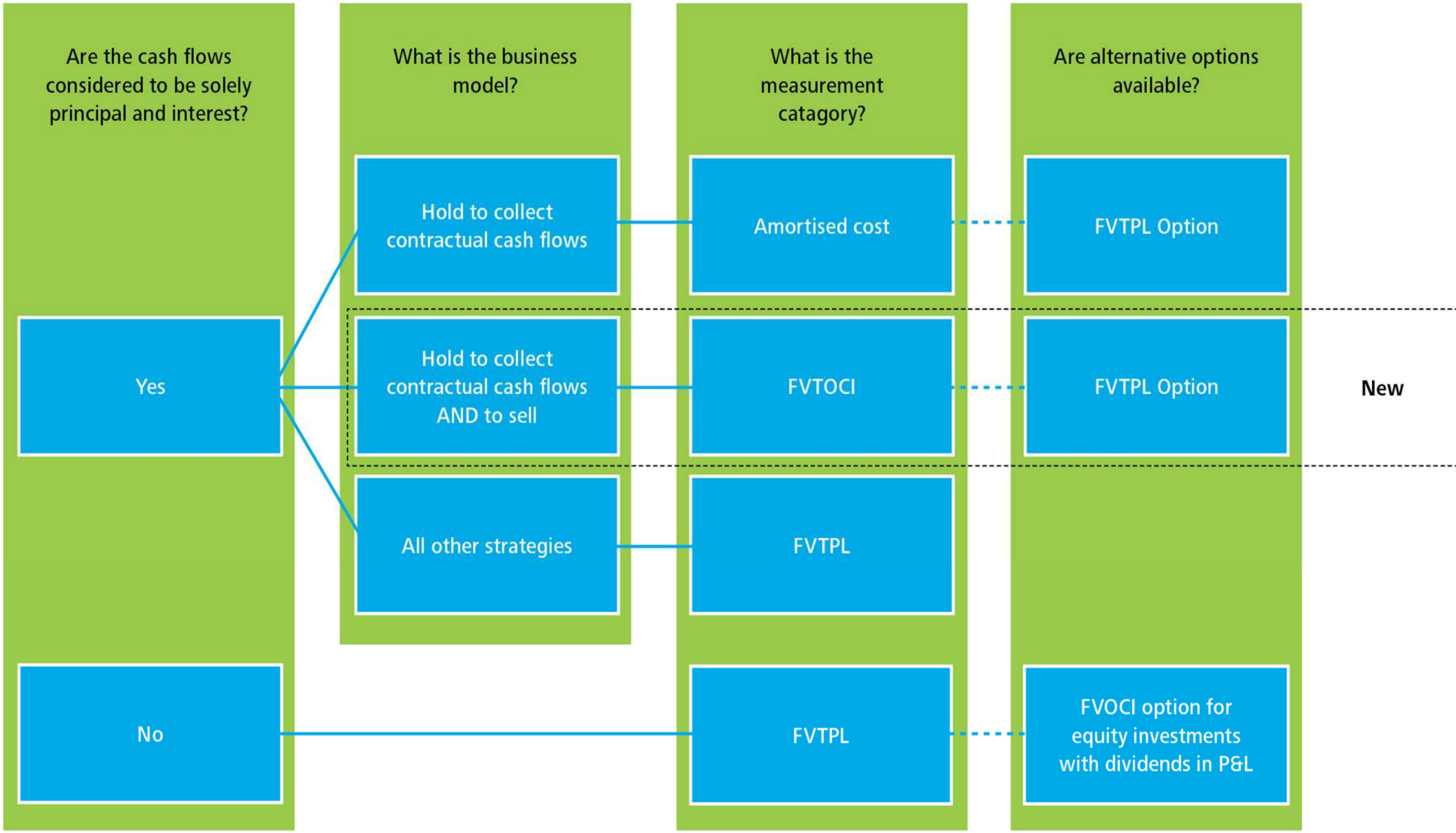
- Equity investments
- Derivatives
- Complex hybrids

Fair value measurement

Equities: other comprehensive income (OCI) presentation available (dividends in P / L)

Classification and measurement of financial assets

Proposed amendments to IFRS 9



IFRS 9: impairment of financial assets

Impairment of financial assets

Scope

- Impairment reforms would apply to
  - Financial assets measured at amortized cost (i.e., loans, debt securities)
  - Financial assets that meet the contractual cash flows test of the amortized cost criteria **but** are classified at FVTOCI (i.e., loans, debt securities) [based on anticipated proposals]
- Impairment reforms would **not** apply to
  - Financial assets measured at FVTPL
  - Equity securities designated at initial recognition at FVTOCI

Impairment of financial instruments

The three bucket approach

Bucket 1	Bucket 2	Bucket 3
• For assets not in bucket 2 or 3 • All financial assets start in bucket 1 at initial recognition • Loan loss provision represents expected losses for the next 12 months from the balance sheet date (i.e., 12-month PD x LGD x EAD) • Calculation on a portfolio basis	• Move from bucket 1 to bucket 2 when there "is a more than insignificant deterioration in credit quality since initial recognition and the likelihood of default is such that it is at least reasonably possible that the **contractual cash flows may not be recoverable**" • The full lifetime **expected credit losses** would be recognized, calculated on a **portfolio basis**	• For individual assets where information is available that specifically identifies that credit losses have occurred or are expected to occur for individual assets • No default need have occurred to become part of Bucket 3 • The full lifetime expected credit losses would be recognized, calculated on an **individual asset basis**
Provide for 12-month expected losses	**Provide for full lifetime expected losses**	

Transfer out of bucket 1 **if**

- **More than insignificant** deterioration in credit quality
- + **reasonably possible likelihood** that some CFs may not be collected

Impairment of financial instruments
Principles

- An estimate of expected credit losses shall reflect
  - Range of possible outcomes considering likelihood and reasonableness of the outcomes (≠ most reasonable outcome)
  - All reasonable / supportable information that is relevant for forward looking estimates
  - Time value of money
  - + Need to consider information that is reasonably available without **undue cost and effort**
- How is level 1 measurement objective characterized ?
- Expected losses for financial assets on which a loss event is expected over the next 12 months (2 step approach)
  - Identify the portion of the portfolio for which a loss event is expected in the next 12 months
  - Measure the expected credit losses realized as a result of the loss event
    - Various approaches can be used to measure expected losses, even those that do not include an explicit “12 month probability of a loss event” as an input
  - Loss event: payment default, past due status for x days, default as defined by regulatory framework (90 days past due)

Impairment of financial instruments
Movements between buckets: principles

- Originated and other purchased financial assets
  - **All** assets except purchased assets with an explicit expectation of loss, trade receivables, and restructured debts
  - Subsequent transfer back to bucket 1 (after previously deterioration and transfer to bucket 2 or 3) is possible **if** the downward transfer notion is no longer satisfied
- **Purchased assets with an explicit expectation of loss:** always categorized **outside of bucket 1**
  - Even if improvements in the credit quality subsequent to the purchase
  - **Scope of instruments:** similar to the scope of existing IFRS (i.e., instruments “acquired at a deep discount that reflects incurred credit losses”)
  - Impairment allowance **always** based on changes in lifetime expected credit losses since initial recognition
  - Any subsequent change in lifetime expected credit losses = gain / loss in P&L (“catch up”)

Polling question 1

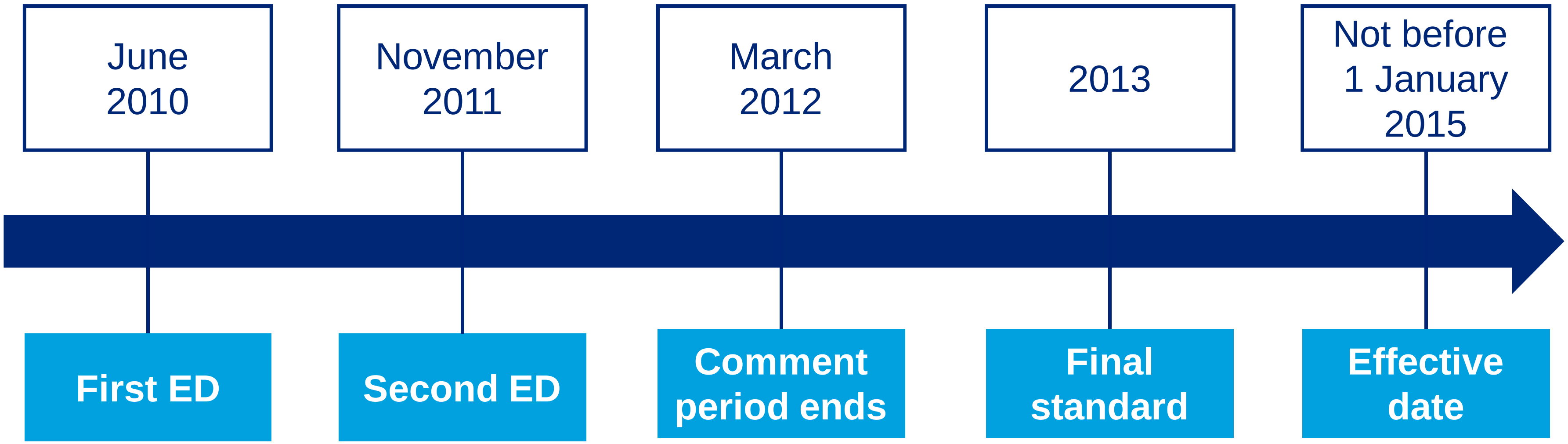
How closely are you following the IASB standard-setting activities?

- Very closely
- Somewhat closely
- Not at all
- Don't know / not applicable

Revenue recognition project update

Revenue from contracts with customers project timeline

- Joint project with IASB (identical exposure draft (ED), comments shared)



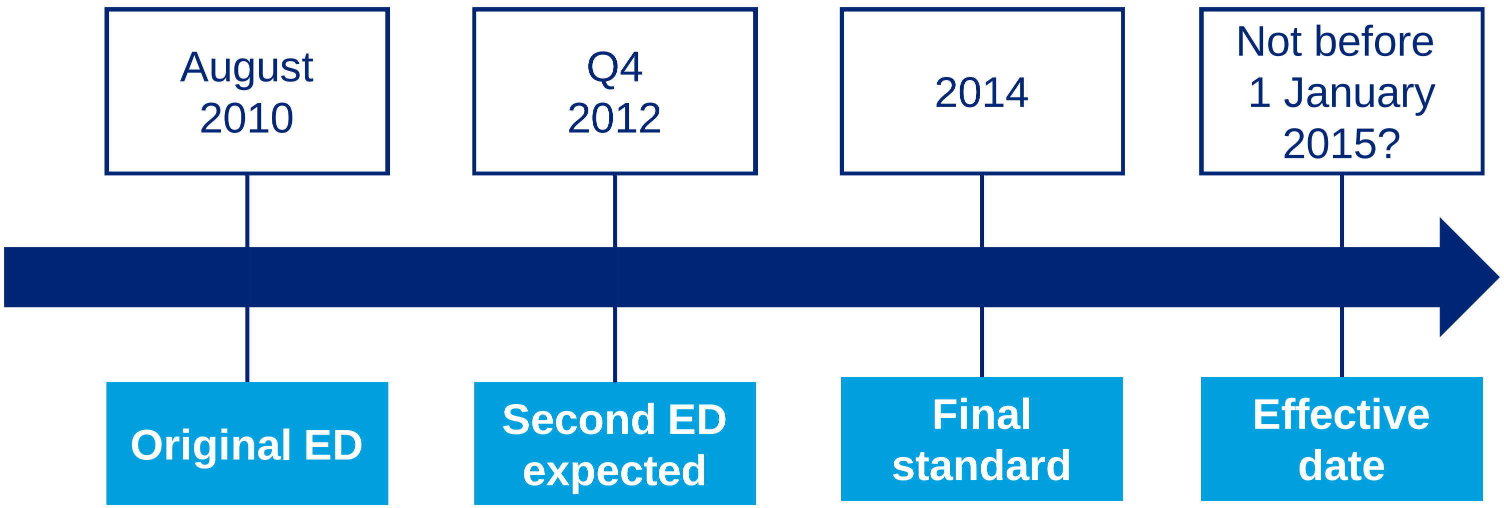
Revenue recognition

- Boards received about 350 comment letters
- Commenters generally supportive of model
  - Clarifications and implementation guidance required
  - Certain industries identified problems with model
- Board began redeliberations on 19 July 2012
  - Identifying performance obligations
  - Performance obligations satisfied over time
  - Licenses and rights to use
  - Identifying onerous losses

Leases project update

Leases project timeline

- Joint project with IASB (identical ED, comments shared)



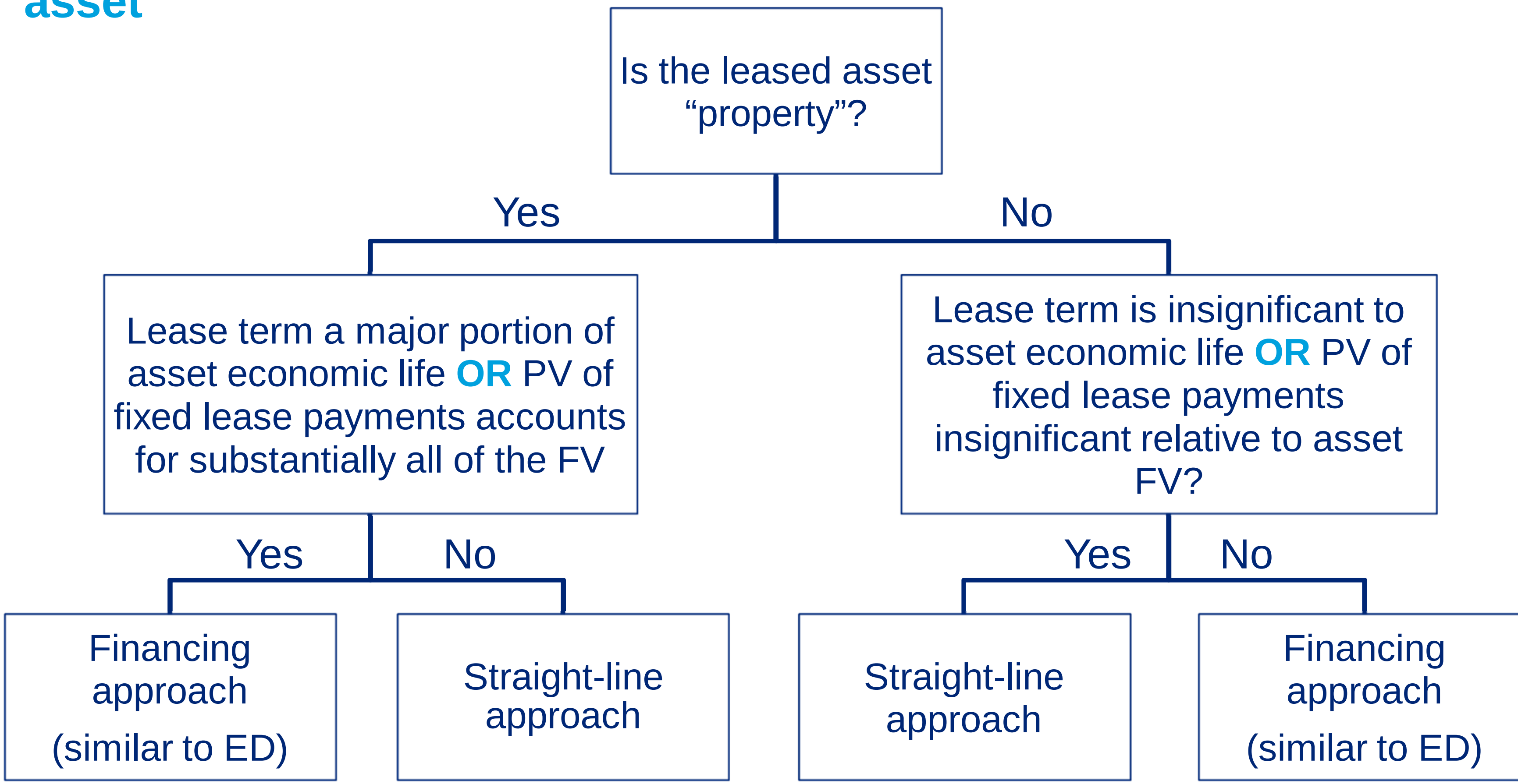
Definition of a lease

- Contract in which the use of the underlying asset is conveyed, for a period of time, for consideration
  - – Underlying asset must be identifiable (physically distinct)
    - Is the portion explicitly or implicitly specified?
    - Is it practical and economically feasible to substitute at anytime without customer consent?
  - – Right to control use of the underlying asset
    - Can lessee direct use of and receive the benefit of the asset?

Exception: if supplier directs the use of the asset used to perform services and use of asset is inseparable from services

Expense recognition pattern

- A lessee's and lessor's determination of the appropriate expense recognition pattern would be based on **"whether the lessee acquires and consumes more than an insignificant portion of the underlying asset"**



Lessee model

All leases except short-term leases		
	Statement of financial position	**Profit and loss**
Accelerated approach	Right-of-use asset and liability for lease payments	Interest and amortization expense
Straight-line approach	Right-of-use asset and liability for lease payments	Straight-line rent expense

- Short-term leases have a maximum possible lease term, including options to renew, of 12 months or less
- Asset and liability discounted using the rate implicit in the lease, if available, or the incremental borrowing rate

Lessee model (cont'd)

	Initial measurement	Subsequent measurement
Liability for lease payments	Present value of lease payments	Amortized cost with no revisions to the discount rate unless there is a change in payments
Right-of-use asset	Present value of lease payments (including any initial direct costs)	Amortised cost **or** adjusted for straight-line expense

- Asset and liability discounted using the rate implicit in the lease, if available, or the lessee's incremental borrowing rate
- Straight-line expense adjustment recognized as part of asset

Redeliberations: lessor model

All leases except short-term leases		
	Statement of financial position	**Profit and loss**
Accelerated approach	Residual asset*	Profit on transfer of right-of-use
	Right to receive lease payments	Accretion of residual
	(Derecognize underlying asset)	Interest income
Straight-line approach	No entries	Rental revenue

* Measured as an allocation of the carrying amount of the underlying asset based on its fair value

Other tentative decisions

Topic	Tentative decision
Lease term	• Option period included if lessee has significant economic incentive to exercise • Considers contract, asset, entity, and market based factors • Reassessed other than for market conditions
Variable lease payments	• Excluded from liability and accounted for as incurred unless based on an index or rate or in-substance fixed • Reassessed for those based on index or rate

Polling question 2

What is a reasonable period of time for adoption of the new standards relating to the convergence projects if comparative periods must be restated?

- 2 years
- 3 years
- 4 years
- 5 years
- Don't know / not applicable

Questions & Answers

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