Agenda

2013 new standards effective:

- IAS 19R Employee Benefits
- Consolidation “Package of five”

Highlight on selected projects:

- Revenue recognition
- Lease
- Financial instruments

Questions & Answers

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IFRS Update: stay tuned

IAS 19 Employee Benefits

Background–Why was IAS 19 revised?

To report changes in defined benefit obligation and plan assets in a more understandable way	Multiple presentation options were allowed under existing Standard, limiting comparability
Amendments were needed to clarify areas where diversity in practice existed	Enhanced disclosures about the risks arising from defined benefit plans were needed

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Significant amendments: post-employment defined benefit plans

Key elements

- IAS 19R eliminates option to use the "corridor approach" in recognising actuarial gains and losses
- Amendments introduce new approach for presenting changes in defined benefit obligations and plan assets
- Changes to required disclosures were made to improve the understandability and usefulness of disclosures

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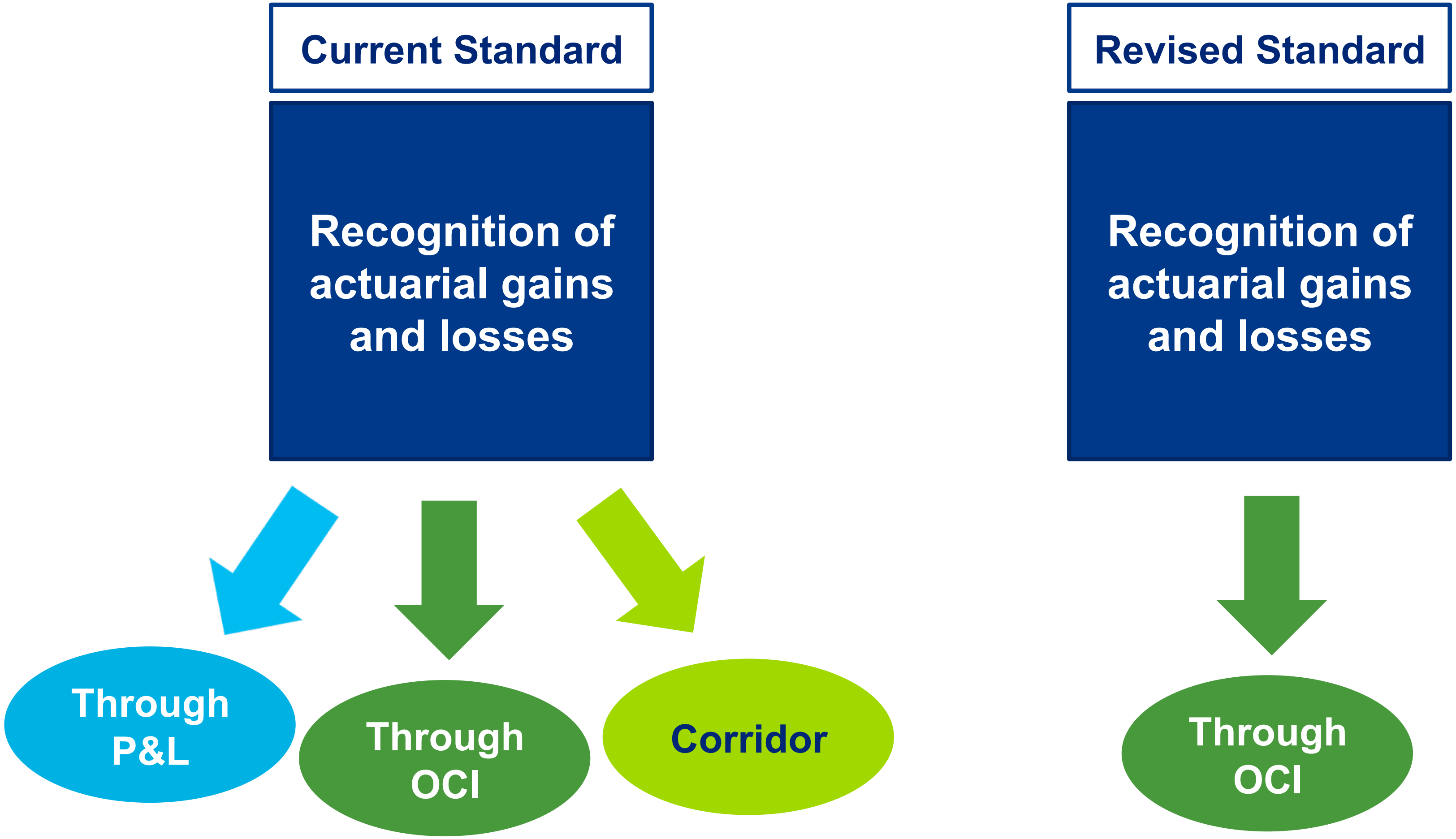
Recognition of actuarial gains and losses
Comparison of revised and current Standard



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Net interest component

Presenting changes in defined benefit obligations and plan assets

Net defined benefit liability (asset) [at beginning of year] × **Discount rate** [at beginning of year] = **Net interest on net defined benefit liability (asset)**

- Discount rate shall be determined by reference to market yields on high quality corporate bonds
- Net interest on the net defined benefit liability (asset) can be viewed as comprising
  - Interest income on plan assets
  - Interest cost on the defined benefit obligation
- **The concept of expected return on plan assets has been eliminated**
- **Actual return: difference between actual return and discount rate recognised in OCI**

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Change in presentation approach

Presenting changes in defined benefit obligations and plan assets

Component	Current IAS 19[1]	IAS 19 (Revised 2011)	
		P&L	OCI
(1) Service Cost	80	80	
(2) Interest Cost	100		
(3) Expected Return on Assets	(140)		
(3a) Net Interest		25	
(4) [Amortisation of] Past Service Cost[2]	40	210	
(5) [Amortisation of] Actuarial (Gain)/Loss	20		400
(6) Curtailments/Settlements	15		
(7) Total Movements in Plan	115	315	400

[1] For an entity using the corridor approach

[2] Includes curtailments and settlements, if any, and all past service cost is immediately recognised

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New disclosure objectives

New Objectives	Considerations
Explain the characteristics and risks of defined benefit plans	Level of detail?
Identify and explain the amounts in the financial statements	Emphasis to place on each requirement?
Describe potential impact on future cash flows	Level of aggregation?
	Additional information needed?

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Retrospective presentation

- **IAS19R should be applied retrospectively**
  - Exemption from requirement to disclose comparative information regarding sensitivity of defined benefit obligation for periods beginning before 1 January 2014
- **Retrospective application is defined in IAS 8**
  - The opening balance of each affected component of equity for the earliest prior period presented is adjusted as if the new accounting policy had always been applied

  → All cumulative unrecognised actuarial gains and losses at the start of the earliest comparative period will be recognised in retained earnings
- **IAS 1: requirement to present a minimum of THREE statements of financial position in the case of a retrospective restatement**
  - This requirement also applies to ‘related notes’

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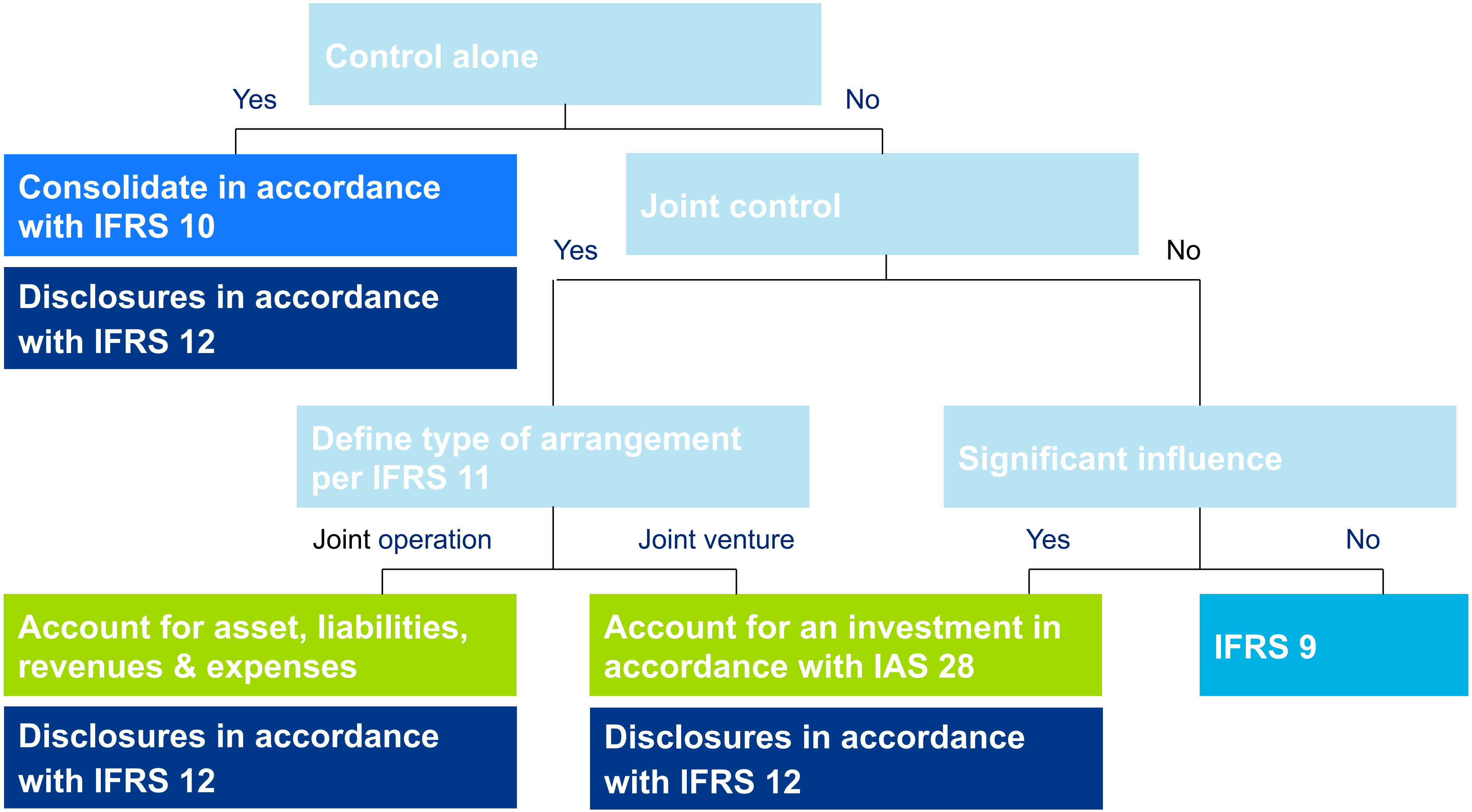
IFRS Update: stay tuned

Consolidation “Package of five”

Consolidation – Package of five
Interaction between IFRS 9,10,11,12 & IAS 28



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IFRS 10 - Consolidated Financial Statements

Consolidation – Package of five
Fundamental principle

IAS 27/SIC 12	IFRS 10
• Consolidation is based on control • IAS 27: control is the power to govern the financial and operating policies of an entity so as to obtain benefits • SIC 12: in an SPE, exposure to the majority of risks and rewards may be the determining factor in establishing control	• Consolidation is based on control • Control may be obtained in various manners, and not solely as a result of the power to direct the financial and operating policies • Exposure to risks/rewards is one of the factors necessary to the existence of control, but it is never the determining factor

IFRS 10 requires extensive use of judgment
(IFRS 12 requires disclosure of areas of judgment)

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Consolidation – Package of five
Definition of control

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.

Power	Substantive rights to direct "relevant activities"
Exposure (rights) to variable returns	Potential variability to positive or negative returns (broad definition of returns)
Ability of the investor to affect its returns through its power	Need to determine whether the "decision-maker" is an agent of another investor

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Consolidation – Package of five
Determination of whether control exists

Power = Substantive rights to direct relevant activities

1. What are the relevant activities?
2. How are decisions over these relevant activities taken?

Votes

> 50%

- Rights of minority shareholders

< 50%

- De facto control
- Potential voting rights
- Other contractual rights

Other

Exposure (rights) to variable returns

Ability of the investor to affect its returns through its power

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Consolidation – Package of five
Principal - Agent relationship

IAS 27/SIC 12	IFRS 10
• Not addressed	• An investor can exercise power on behalf of another investor − The agent does not control − The principal must treat the delegated rights as its own

When is the decision-maker an agent?

- Scope of the authority over relevant activities
  - Degree of independence in the decision-making process
- Substantive rights held by other parties
  - Kick-out right without cause
- Remuneration of the decision-maker
  - Indexation based on returns
  - Commensurate to service rendered and market conditions
- Exposure to variability of returns from other interests
  - The greater the magnitude, the more likely the decision-maker is a principal

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Consolidation – Package of five
Example of agent vs principal

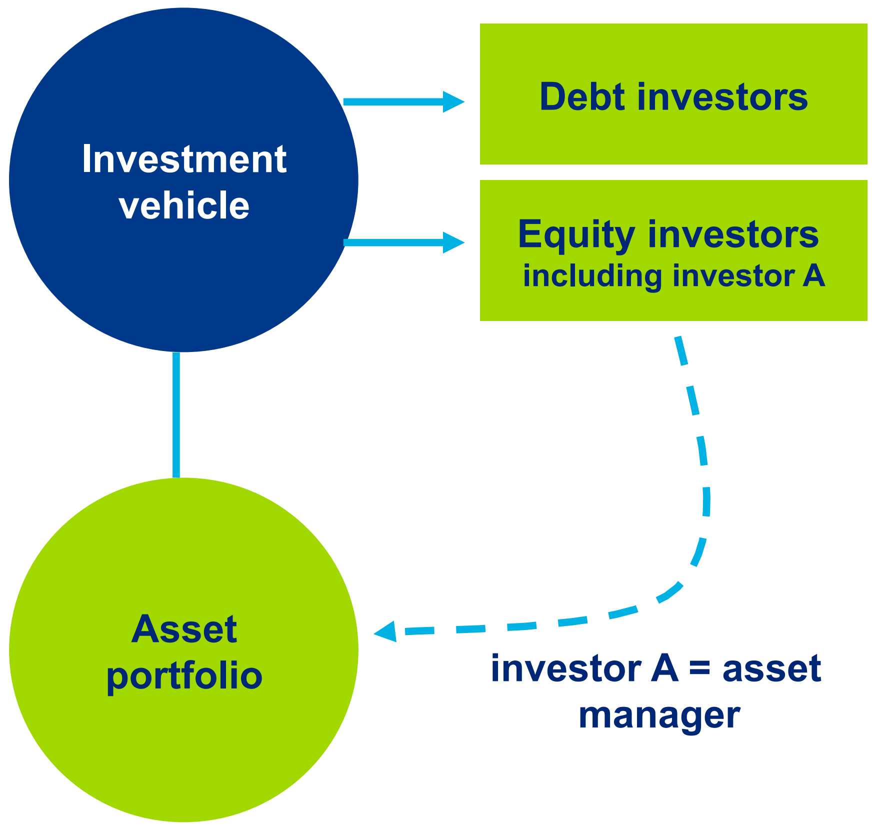
An **investment vehicle**

- is created to purchase a **portfolio of financial assets**
- is funded by **debt** and **equity instruments** issued to a number of investors. The equity tranche is designed to **absorb the first losses** and to receive residual returns of the investee.

Investor A holds 30 per cent of the equity and is also the **asset manager** who manages the vehicle's asset portfolio within portfolio guidelines.

A's management contract includes:

- decisions about acquisition and disposal, and upon default of any asset;
- management fee of **20% of returns**, which is a **market rate;**
- **removal** for breach of contract.



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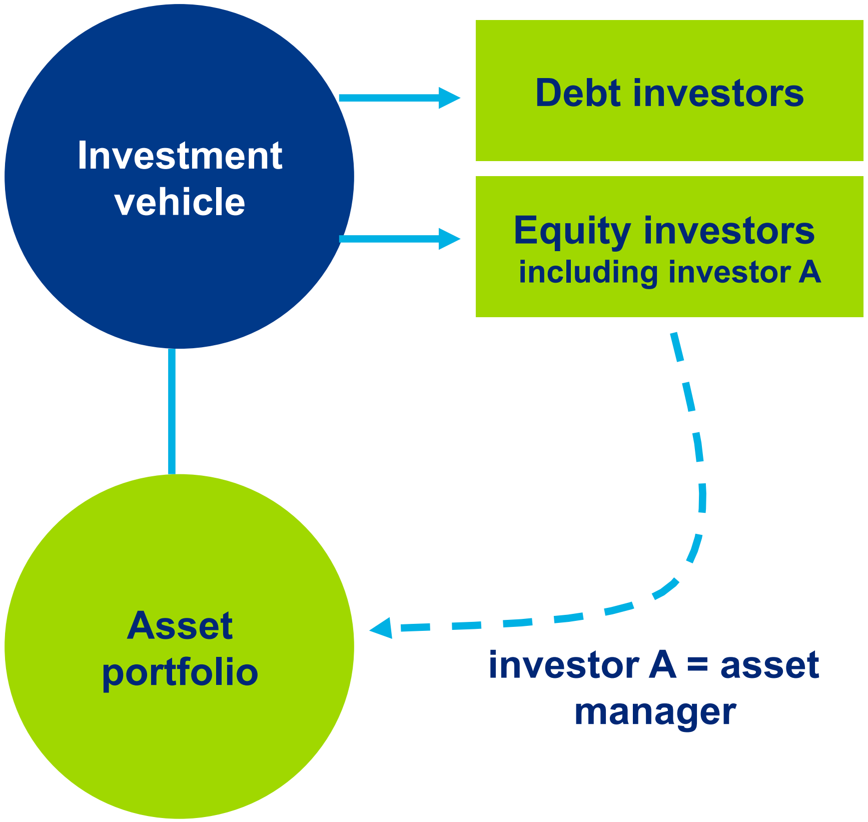
Consolidation – Package of five
Solution

SIC-12

In applying SIC-12, some would conclude that Investor A does not consolidate the investment vehicle. Investor A holds 30 per cent of the equity and therefore does not bear the majority of the risks and rewards.

IFRS 10

Remuneration is a market rate, which is consistent with an agent.
However: A has the ability to direct the relevant activities; it's 30% stake in equity implies A is taking investment risk and has rights to variable returns; and removal rights are protective.
Conclusion ➔ on balance, principal.



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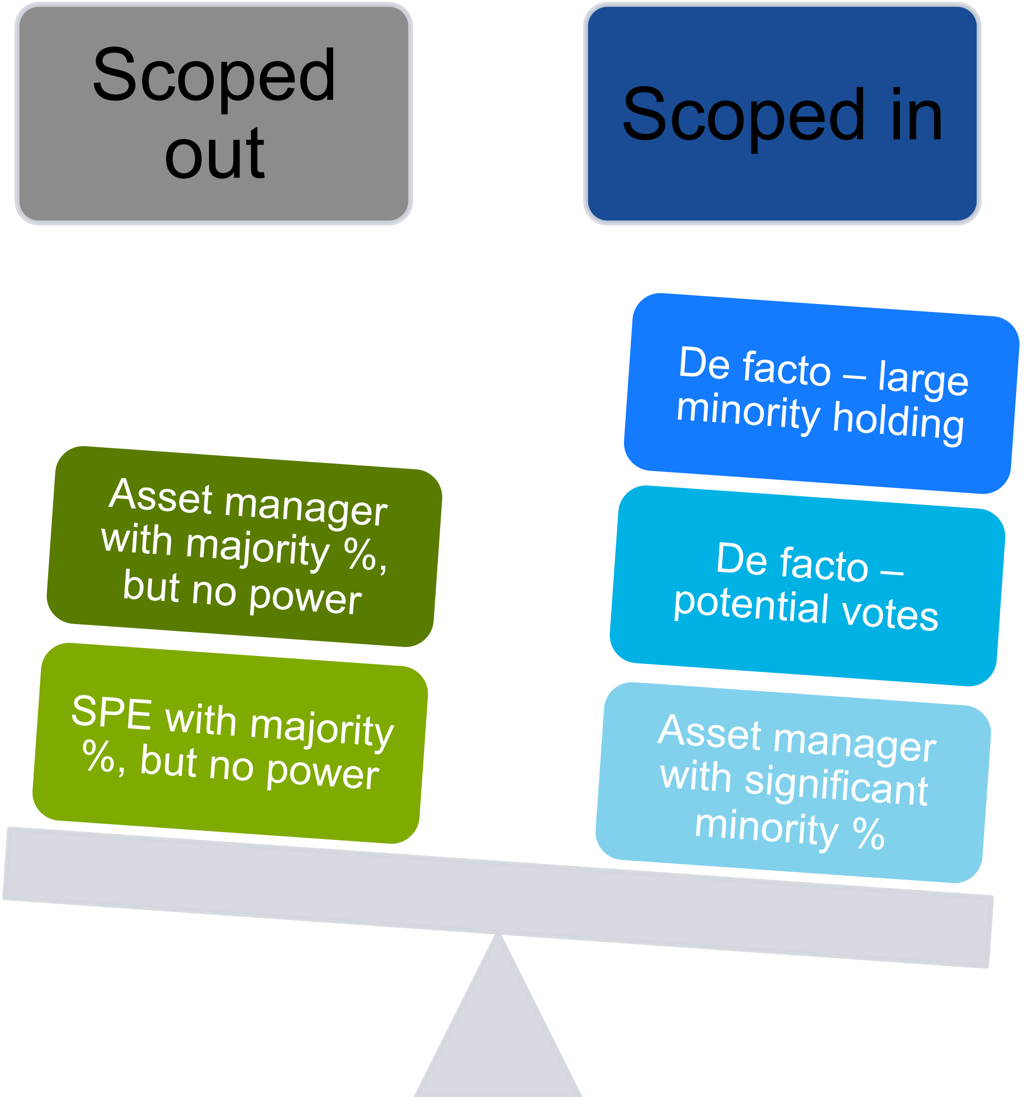
Consolidation – Package of five
In summary



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IFRS 11 - Joint Arrangements

Consolidation – Package of five
IAS 31

Structure of the joint arrangements

Not structured through an entity

Jointly controlled operations

Jointly controlled assets

Accounting for assets, liabilities, revenues and expenses in accordance with the contractual arrangement

Issue 1: ‘entity’ form driven

Structured through an entity

Jointly controlled entities

Option

Proportionate consolidation

Equity method

Issue 2: option = divergence

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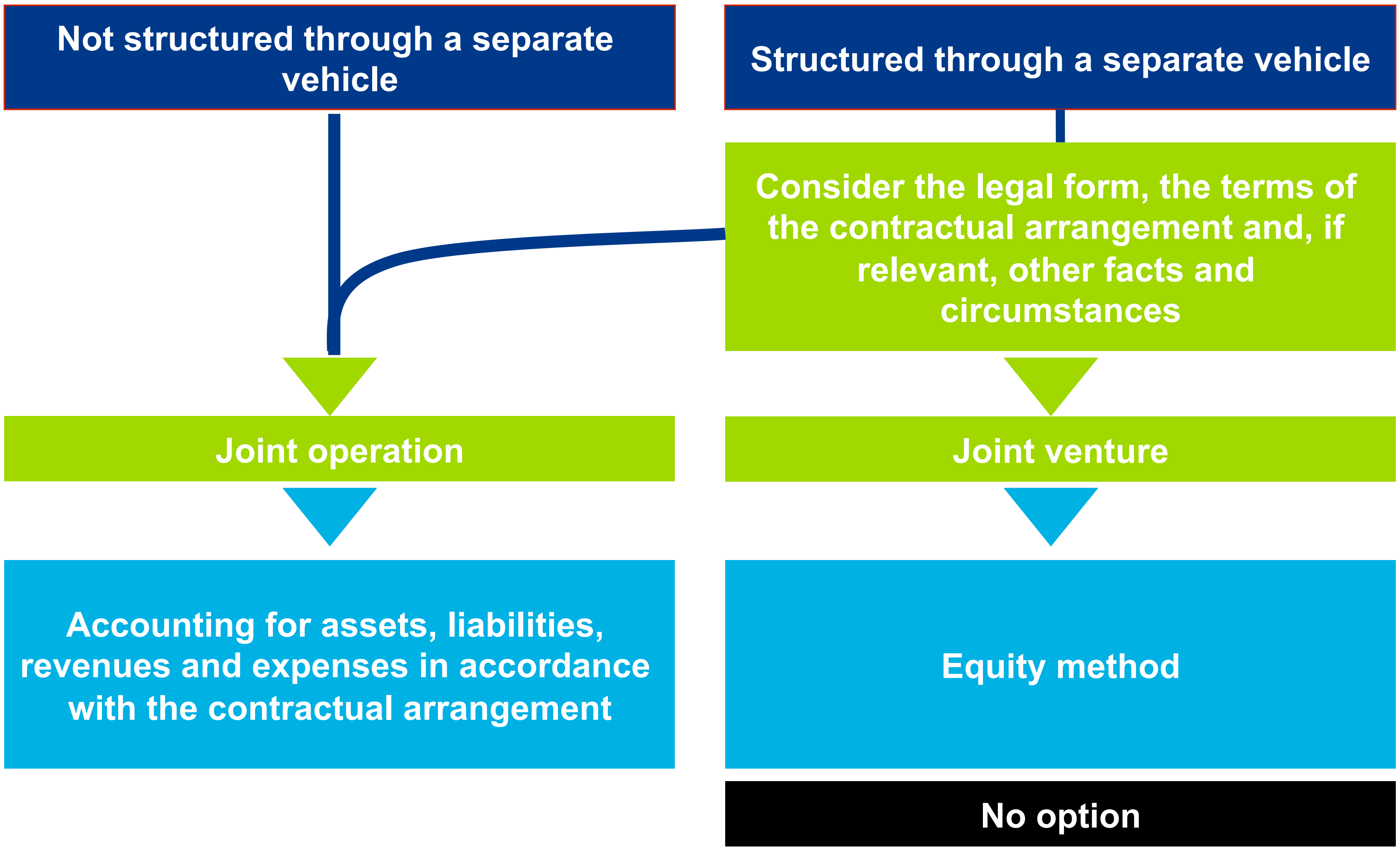
Consolidation – Package of five
IFRS 11 Joint Arrangements



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Disclosures

Consolidation – Package of five

Disclosure - IFRS 12

Scope

- Subsidiaries
- Joint arrangements
- Associates
- Unconsolidated structured entities

More explanation of judgements

- How is “control” decision based on evidence?
- Consolidated, but interest < 50%
- Not consolidated, but interest > 50%

Unconsolidated structured entities

- Include if “sponsored”
- Extensive qualitative and quantitative disclosures

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IFRS Update: stay tuned

Revenue project update

Exposure draft overview

- The IASB, together with the US FASB, has published *ED/2011/6 Revenue from Contracts with Customers* (the ED).
- Benefits:
  - Provides a more robust framework
  - Remove inconsistencies in existing standards
  - Improve comparability across companies, industries and capital markets
- Apply to all contracts with customers except leases, insurance, financial instruments and certain nonmonetary exchanges.
- Applied retrospectively, although some practical relief from full retrospective application would be permitted
- Timeline for completion:
  - Final standard expected in H2 2013
  - Effective date 2017?

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Revenue Recognition
Overall approach

Step 1 Identify contract(s)	Step 2 Identify separate performance obligations	Step 3 Determine transaction price / Step 4 Allocate transaction price	Step 5 Recognise revenue on transfer to customer
Contract with X	Deliver equipment	CU 60	When delivered
	Provide training services	CU 30	When performed
	Deliver accessories	CU 5	When delivered
	Provide ongoing support	CU 3	When provided
	Provide warranty	CU 2	When provided

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Watch out for the following …

New or more detailed rules/guidance on the following areas:

- Contract modifications
- Combining contracts
- Treatment of credit risk
- Allocating revenue between elements
- Recognising revenue at a point in time (goods) or over time (services)
- Uncertain revenue/contingent consideration
- Capitalising costs of obtaining a contract
- Detailed implementation guidance

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Key Impacts – Bottom line

- Timing of revenue recognition may change
- Extensive disclosure required
- Full retrospective application

Who might be particularly interested / affected ?

- **Telco**
- **Software**
- **Real estate**

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IFRS Update: stay tuned

Leases project update

Leases project update
What do you need to know?

- Recognition of assets and liabilities by lessees for all leases
- Income statement impact will depend on the classification of the leased asset (based on the extent of consumption/nature)
- Impact on financial ratios and debt covenants
- Timeline for completion:
  – Final standard in 2014?
  – Effective date 2017?

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Lessee accounting
« Right-of-Use » (RoU) model

Lessee has acquired the right to use an underlying asset
&
is obligated to pay for that right with its lease payments

- Short-term lease relief
  - Maximum possible lease term, including renewal options, of 12 months

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Lessee accounting
Expense recognition

- 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"***

Lease term a major portion of asset economic life

OR

PV of fixed lease payments accounts for substantially all of the FV?

Yes

Non Property

Lessee consumes more than insignificant portion of leased asset

I&A approach

(Amortisation expense / Interest expense)

No

Property

Lessee does not consume more than insignificant portion of leased asset

SLE approach

(Lease expense)

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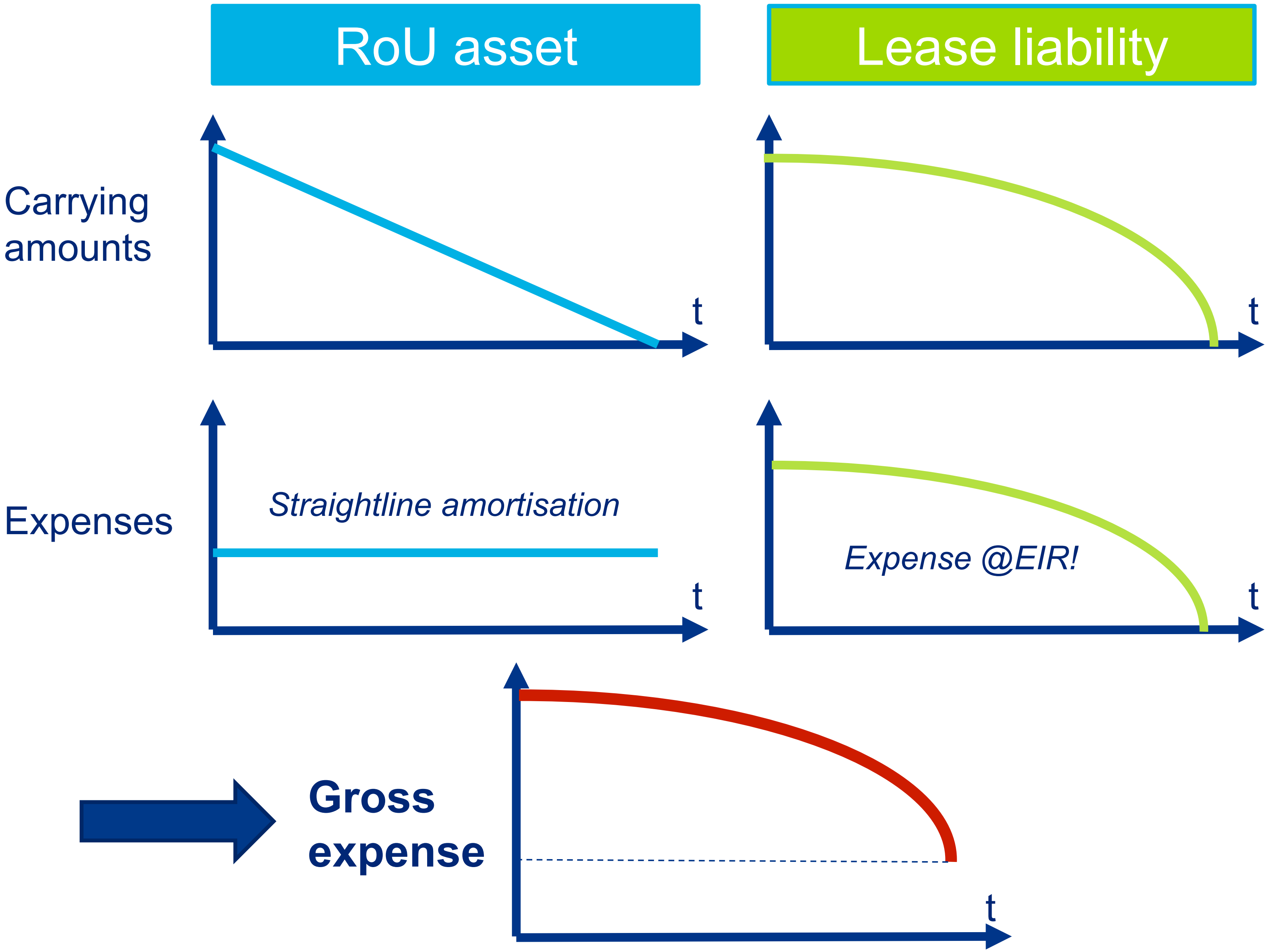
Lessee accounting
Interest & Amortisation (I&A) Approach



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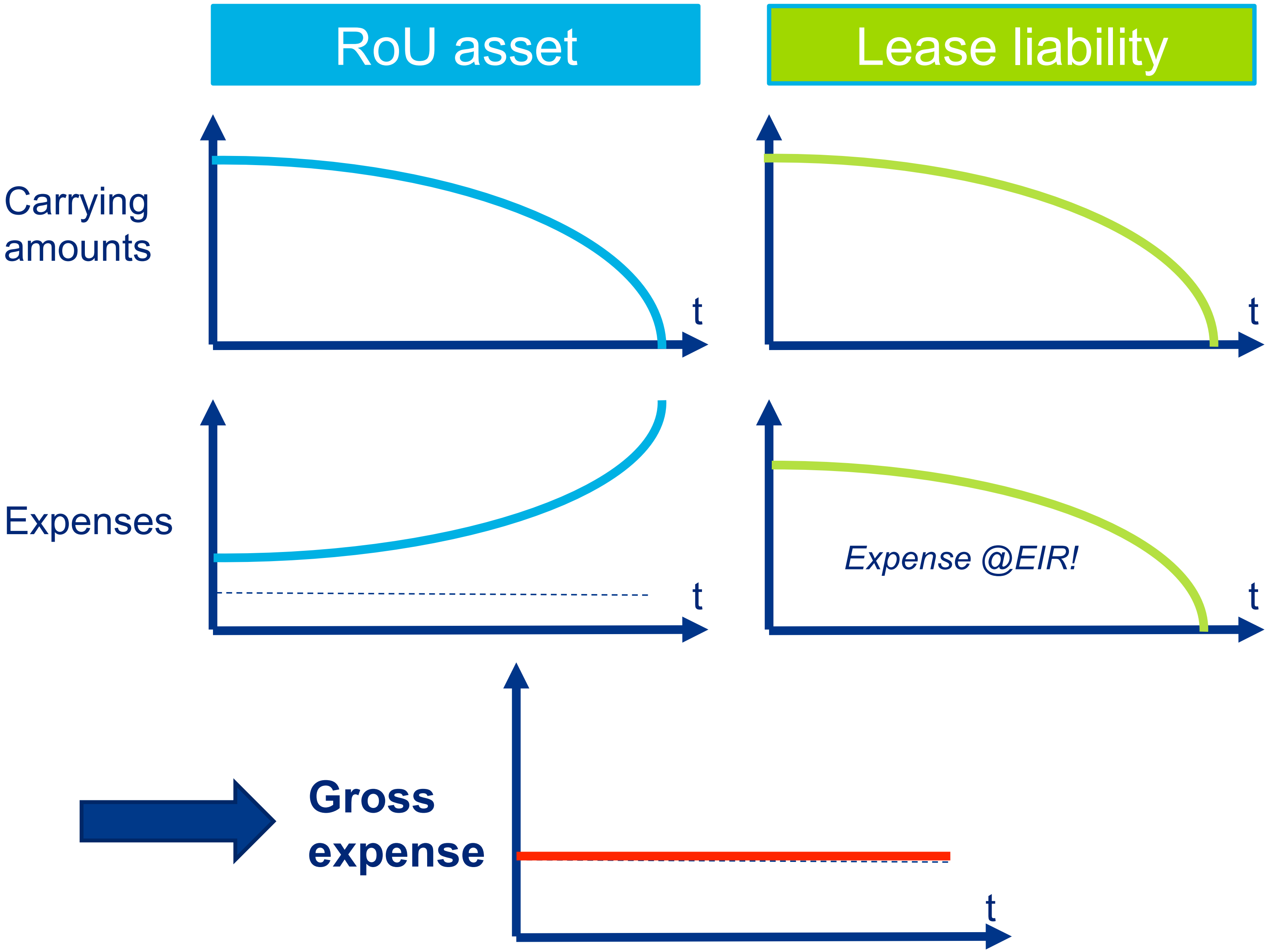
Lessee accounting
Single lease expense (SLE) Approach



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How you will be affected?
Watch out for the following …

Contract Modifications	Sale & leaseback agreement
Renewal options	Incentives / Variable payments
Challenges to capture all data	Purchase vs Lease

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IFRS Update: stay tuned

Financial instruments project update

The timeline
Are we there yet?

		2007 to Q3 2010	Q4 2010	H1 2011	H2 2011	H1 2012	H2 2012	H1 2013	H2 2013	2014	2015
IFRS 9	Phase I: Classification & Measurement of Financial Assets	Final Standard Phase 1 financial assets					Exposure draft for modifications				Effective Date 1 January 2015?
	Phase I: Classification & Measurement of Financial Liabilities	Exposure Draft	Final Standard Phase 1 financial liabilities								
	Phase II: Impairment	Exposure Draft		Sup Document				Exposure draft			
	Phase III: General Hedge Accounting		Exposure Draft				Staff draft of forthcoming standard	Expected final standard			
	Phase III: Macro Hedge Accounting								Expected discussion paper		

Today

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General hedge accounting model
Closer alignment with risk management

Key areas of change:

- Increased eligibility of **hedged items**
- Less P/L volatility from **hedging instruments**
- New qualification **effectiveness** requirements
- Increased **disclosures**

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Q&A

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