

Session 2
**IFRS Standards Changes:
Differences and Impacts**

Customer Conference – IFRS and NI 52-109
August 31, 2011

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Agenda

- Introduction
- Update on new standards and amendments issued during 2011
- Standards development plan
- Closing

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Our Presenters for Session 2

- Cathy Connally
- Donnacha Rahill

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Presenter – Catherine Connally



Catherine Connally
CIA
President of Issues Central

Catherine Connally has over twenty-five years experience in financial management and compliance, internal audit and executive management. She began her career in the extractive sector with internal audit responsibilities in both the mining and oil & gas sectors with Atlantic Richfield and British Petroleum. She is a well known technology and compliance sector entrepreneur. She has worked with, and provided seminars, to over eleven hundred organizations around the world on SOX 404/NI 52-109, IFRS transition and financial compliance. Catherine is a co-author and primary architect of the industry-leading solution for local GAAP-to-IFRS transition and reporting, IFRS PARTNER, as well as CFO PARTNER for financial compliance and internal audit in conjunction with the Sarbanes-Oxley Act. She graduated in finance from the University of Colorado at Boulder in the United States and is a Certified Internal Auditor.

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Presenter – Donnacha Rahill



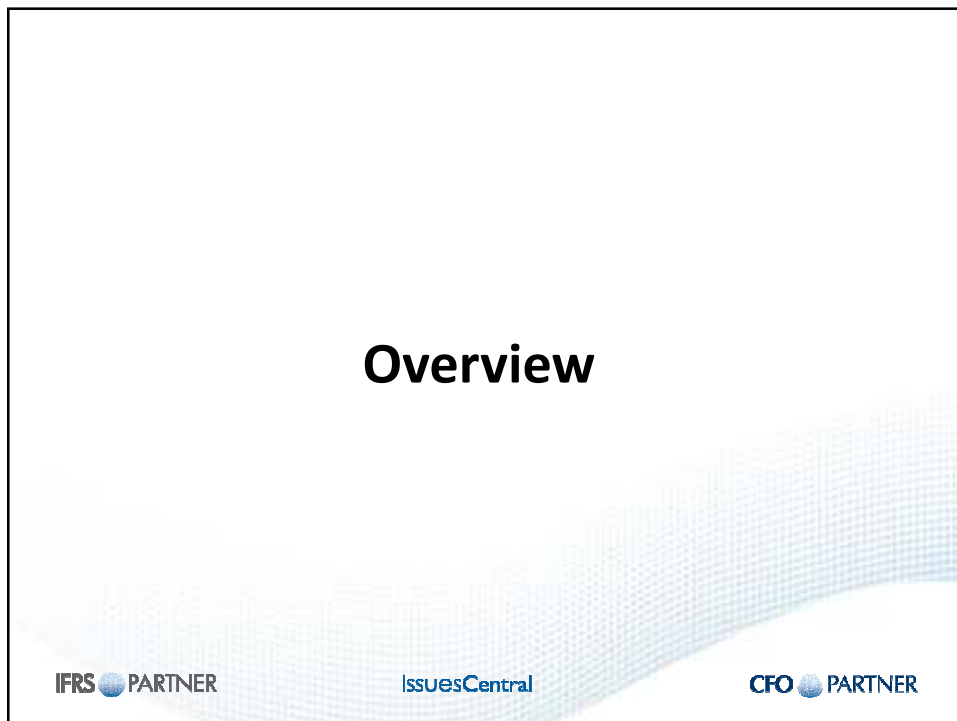
Donnacha Rahill
FCA
Senior IFRS Consultant
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Donnacha Rahill is an IFRS authority with over twenty years of financial accounting and executive management experience in areas such as external audit practice, treasurer and controllership duties, leading to CFO duties with executive responsibilities at a major financial institution with over € 20 billion under management. He has been working with IFRS since 2005 in both an operating capacity, including at the CFO level, as well as an IFRS transition consulting expert. His experience covers insurance, banking, management consulting, manufacturing and food processing. Donnacha brings a depth of international experience including Ireland, Singapore, Canada and the United States. He began his auditing career with Price Waterhouse Coopers in Dublin where he became a manager prior to entering industry. He is a Fellow of the Institute of Chartered Accountants of Ireland and has been a member of the Institute since 1987.

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New IFRS Standards and Updates in 2011

- IFRS 10 - Consolidated Financial Statements
 - Replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities*
 - Effective date Jan 1, 2013 and retrospective application if practical
 - Early adoption allowed
- IFRS 11 - Joint Arrangements
 - Supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*
 - Effective date Jan 1, 2013
 - Early adoption allowed

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New IFRS Standards and Updates (cont'd)

- IFRS 12 Disclosure of Interests in Other Entities
 - *Disclosure of Interests in Other Entities* applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.
 - Effective date Jan 1, 2013
 - Early adoption allowed

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New IFRS Standards and Updates (cont'd)

- IFRS 13 Fair Value
 - a) defines fair value;
 - (b) sets out in a single IFRS a framework for measuring fair value; and
 - (c) requires disclosures about fair value measurements.
 - The IFRS applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances.
 - The IFRS explains how to measure fair value for financial reporting.

New IFRS Standards and Amendments (cont'd)

- IAS 19 now amended
 - All actuarial gains or losses on defined benefit schemes must be recognized as part of other comprehensive income and cannot be deferred i.e. replaces corridor method
 - Expense separately shown in profit or loss is the service cost and net interest income/expense
 - Increased disclosures around risks arising from defined benefit plans
 - Effective date is January 2013 and retrospective application



Details and Impacts of New Standards

- **IFRS 10 - Consolidated Financial Statements**
- **Reasons for issuing the IFRS**
 - Deals with divergence in practice in applying [IAS 27](#) and SIC-12.
 - o Share of risks and rewards is now part of control concept
 - o Control where entity holds less than a majority of the voting rights of the entity
 - o agency relationships

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Details and Impacts of New Standards

- **IFRS 10 Consolidated Financial Statements**

- **General requirements**

- Control remains key principle for consolidating subsidiaries
- Control exists when there is
 - o power over the investee i.e. can direct the relevant activities;
 - o exposure or rights to variable returns from its involvement with the investee; and
 - o the ability to affect those returns through its power over the investee e.g. substantive voting rights

Details and Impacts of New Standards

- **IFRS 10 Consolidated Financial Statements**

- **Power and returns**

- Power comes from rights either through voting interests or contractual arrangements
 - o Restrictive rights does not constitute power;
 - o Acting as agent is not control
- Returns can vary based upon the performance of the investee
 - o For control there must be a return either positive or negative;
 - o Returns can be shared with other parties

Details and Impacts of New Standards

- **IFRS 10 Consolidated Financial Statements**

- **Indicators of power over an investee**

- Rights to appoint key management personnel or parties who direct relevant activities or are current or past employees of the investor
- Rights to direct the investee to enter or not enter transactions for the benefit of the investor
- Nomination process for appointing the management is dominated by the investor
- Key management personnel are related parties to the investor
- Majority of the board member are related parties to the investor
- Investee's operations are dependent on the investor
- Significant portion of activities are carried out on behalf of the investor
- Investors return is disproportionately greater than the shareholding

Details and Impacts of New Standards

- **IFRS 10 Consolidated Financial Statements**

- **Indicators for determining agent and principal relationship**

- the scope of its decision-making authority over the investee
e.g. what discretion is there to make decisions
- the rights held by other parties i.e. is there another party who holds removal rights
- the remuneration to which it is entitled in accordance with the remuneration agreement i.e. standard remuneration agreement with remuneration based on services provided and is negotiated on an arms length basis
- the decision maker's exposure to variability of returns from other interests that it holds in the investee

Details and Impacts of New Standards

- **IFRS 10 Consolidated Financial Statements**
- **No change in accounting requirements**
 - Intragroup transactions and balances are eliminated
 - Uniform reporting dates and accounting policies
 - Non-controlling interests in comprehensive income must be allocated
 - Change in ownership without loss of control is a movement in equity
 - Profit or loss must be recognized when there is a change in control

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New exposure draft for IFRS 10 (August 2011)

- **IFRS 10 Consolidated Financial Statements**
- **Proposed changes to IFRS 10**
 - Investment entities are outside of the scope of IFRS 10 and instead investments must be measured at fair value through profit or loss
 - **Criteria for investment entities**
 - o Substantive activities are investing in multiple entities
 - o Business objective is to invest to earn income and capital appreciation
 - o Investment company owned by investors
 - o Investment management services are provided
 - o Investments are evaluated on a fair value basis
 - o financial information about investments is provided to it's investors

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Details and Impacts of New Standards

- **IFRS 11 - Joint Arrangements**
- **Reasons for issuing the IFRS**
 - The IFRS is concerned principally with addressing two aspects of [IAS 31](#):
 - **first**, that the structure of the arrangement was the only determinant of the accounting and,
 - **second**, that an entity had a choice of accounting treatment for interests in jointly controlled entities.
 - [IFRS 11](#) improves on [IAS 31](#) by establishing principles that are applicable to the accounting for all joint arrangements.

Details and Impacts of New Standards

- **IFRS 11 - Joint Arrangements**
- **Scope**
 - The IFRS is to be applied by all entities that are a party to a joint arrangement.
 - A joint arrangement is an arrangement of which two or more parties have joint control.
 - The IFRS defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e. activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

Details and Impacts of New Standards

- **IFRS 11 - Joint Arrangements**

- **Types**

- The IFRS classifies joint arrangements into two types—joint operations and joint ventures.

- A **joint operation** is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- A **joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement.

Details and Impacts of New Standards

- **IFRS 11 - Joint Arrangements**

- **How to classify**

- An entity determines the type of joint arrangement in which it is involved by considering its rights and obligations.
- An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the contractual terms agreed to by the parties to the arrangement and, when relevant, other facts and circumstances.

Details and Impacts of New Standards

- **IFRS 11 - Joint Arrangements**
- **Recognition**
 - The IFRS requires a joint operator to recognize and measure the assets, liabilities, revenues and expenses in relation to its interest in the arrangement (and in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses).
 - The IFRS requires a joint venturer to recognize an investment and to account for that investment using the equity method in accordance with [IAS 28](#)

Impacts of IFRS 10/IFRS 11

- **These new standards may have significant impacts:**
 - new definition of control (power over relevant activities and rights/exposure to variable returns) may require other investments (less than 50% of the voting interests) or “agency” relationships (special purposes vehicles) to be consolidated which were not previously done
 - Removal of proportionate consolidation for accounting for joint ventures (only share of profit or loss and share of net assets will be shown rather than the components (assets, liabilities, income and expenses) making up this amount

Details of Impacts of New Standards

- **IFRS 12 Disclosure of Interests in Other Entities**
- **Main features of the IFRS**
- The IFRS requires an entity to disclose information that enables users of financial statements to evaluate:
 - (a) the nature of, and risks associated with, its interests in other entities; and
 - (b) the effects of those interests on its financial position, financial performance and cash flows.

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Details and Impacts of New Standards

- **IFRS 12 Disclosure of Interests in Other Entities**
- **Main features**
- The IFRS establishes disclosure objectives according to which an entity discloses information that enables users of its financial statements
- (a) to understand:
 - (i) the significant judgments and assumptions (and changes to those judgments and assumptions) made in determining the nature of its interest in another entity or arrangement (i.e. control, joint control or significant influence), and in determining the type of joint arrangement in which it has an interest; and
 - (ii) the interest that non-controlling interests have in the group's activities and cash flows; and

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New IFRS Standards and Updates

- **IFRS 12 Disclosure of Interests in Other Entities**
- **Main Features**
- The IFRS establishes disclosure objectives according to which an entity discloses information that enables users of its financial statements
- (b) to evaluate:
 - (i) the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group;
 - (ii) the nature of (example financial support), and changes in, the risks associated with its interests in consolidated structured entities;
 - (iii) the nature and extent of its interests in unconsolidated structured entities, and the nature of, and changes in, the risks associated with those interests;
 - (iv) the nature, extent and financial effects of its interests in joint arrangements and associates, and the nature of the risks associated with those interests;
 - (v) the consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control; and
 - (vi) the consequences of losing control of a subsidiary during the reporting period.

New IFRS Standards and Updates

- **IFRS 12 Disclosure of Interests in Other Entities**
- **Unconsolidated structured entities**
- Defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.
- Examples are investment funds and securitization vehicles
- A structured entity has some or all of the following features:
 - restricted activities.
 - a narrow and well-defined objective
 - insufficient equity to permit the structured entity to finance its activities without subordinated financial support.
 - financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

Net Impacts of IFRS 12

- Increased disclosures around the nature and risks associated with investments in subsidiaries, associates, joint ventures and unconsolidated structured entities

New IFRS Standards and Updates

- **IFRS 13 Fair value**
- **Some key points**
- Main guideline for determining fair value
 - Price associated with principal or most advantageous market
 - Assumptions used by market participants
- Other methods other than quoted prices in an active market
 - Income approach (discounting future cash flows)
 - Market approach (value and inputs of similar assets and liabilities)
- Fair value of liabilities should include an adjustment for own credit risk (the likelihood that the obligation will be fulfilled)
- Disclosures
 - details of valuation techniques used and inputs
 - For unobservable inputs (level 3) the profit or loss effect, sensitivity analysis and disclosure of the significant inputs that impact the fair value

IASB Standards Development Plan

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Standards Development Plan

- **Financial crisis related projects**
- **IFRS 9**
- ***Phase 2 Impairment of financial assets at amortized cost***
 - Expected loss model rather than incurred loss model
 - Draft of chapter in IFRS 9 expected by Q4 2011
- ***Phase 3 Hedge accounting***
 - Accounting will reflect risk management strategy rather than financial derivatives in place
 - Draft of chapter in IFRS 9 expected by Q4 2011
- ***Offset of assets and liabilities***
 - Disclosure details around reconciliations explaining differences between different models for US GAAP and IFRS
- ***Change of mandatory effective date***
 - Effective date moved from January 2013 to January 2015

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Standards Development Plan

- **Significant projects**
- **Leases**
 - All leases (whether finance or operating) must be recognized
 - ED reissued in Q4 2011; new standard issued in H1 2012
- **Revenue recognition**
 - Revenue driven by performance obligation and components should be separately identified if distinct
 - Expected loss model must be reflected when revenue recognized
 - Cost of acquiring contracts can be deferred
 - ED reissued in Q3 2011; new standard issued in 2012
- **IFRS 4; Phase II of Insurance contracts**
 - Significant changes in accounting for long term insurance contracts
 - ED reissued in Q4 2011; issue date of new standard to be confirmed

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Standards Development Plan

- **Other projects (11 items)**
- **Common control transactions**
 - Common control transactions are not under the scope of IFRS 3
 - The project is paused until further notice
- **Extractive activities**
 - Project to replace existing IFRS 6
 - A decision is due in H2 2011 whether to add this topic to the agenda
- **IAS 37 Provisions**
 - Project to replace IAS 37 with a new standard
 - ED was expected in H2 2011; discussions on hold until after June 2011
- **Financial statement presentation**
 - Project to replace IAS 1 and IAS 7 so ensuring convergence between IFRS and US GAAP
 - ED was expected in H1 2011; discussions on hold until after June 2011

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Standards Development Plan

- **Other projects (cont'd)**
- **Equity transactions**
 - Achieve convergence with US GAAP
 - IASB will return to this project in H2 2011
- **Discontinued operations**
 - Objective is to achieve convergence between IFRS and US GAAP
 - No dates are set for issuing ED
- **IAS 33 Earnings per share**
 - Simplify the calculation of EPS and converge with US GAAP
 - ED was issued in 2007 but project is on hold until further notice
- **Emission Trading Schemes**
 - Accounting for rights and obligations under such schemes
 - Paused in September 2010 and a decision is due whether to leave on the agenda

Standards Development Plan

- **Other projects (cont'd)**
- **Government grants**
 - Improvements to IAS 20
 - Further work on this project has been deferred
- **Rate regulated activities**
 - Recognition of assets and liabilities for the effects of price regulation
 - Decision is due whether this item should be added to the active agenda
- **Intangible assets**
 - Project jointly with FASB to deal with inconsistencies for the accounting of intangible assets
 - Was decided in 2007 not to add this item to the agenda

Getting Ready for Change

- So, who here is ready for change?
- Well if you're ready ... So are we
- Thanks for your time today.

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Q&A

- Your questions
- Our answers

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Next Session and Contact Information

- Our next session, “Session 3 – Updating your NI 52-109 controls and tests to deal with IFRS” will start in a few minutes
- For questions or more information on upcoming IFRS standards changes, our IFRS consulting services, and the related impact on your IFRS PARTNER software please contact:
 - Charley Best at:
 - 1.800.410.6681 ext 112
 - E-mail: charleybest@issuescentral.com