



Australian Government

**Australian Accounting
Standards Board**

“IFRS 2 – the Next Wave of Financial Reporting Requirements: Opportunities for Pre and Post Change Research”

University of Melbourne 10 August 2010

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Australian Accounting Standards Board**

Overview

Sources of revolution

- **GFC**
- **Convergence**
- **Corporate collapses**
- **Debt stress on governments**
- **History**
 - some major projects maturing
 - IASB turnover
- **Public sector reform**
- **Not-for-profit in private sector coming into focus**

Responding to the GFC

FCAG's Main Accounting Recommendations:

- Simplify and improve standards, especially on financial instruments
- Converge US GAAP and IFRSs
- Extend IFRS to other countries
- Explore expected loss model

Responding to the GFC

FCAG's Main Accounting Recommendations:

- Reconsider impact on debt of changes in own creditworthiness
- Document limitations of financial reports in conceptual framework

Responding to the GFC

**Financial instruments:
IAS 39 replacement
project**

**Phase 1: Classification
and measurement**

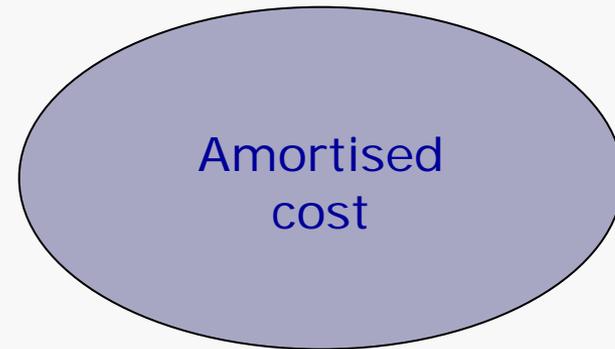
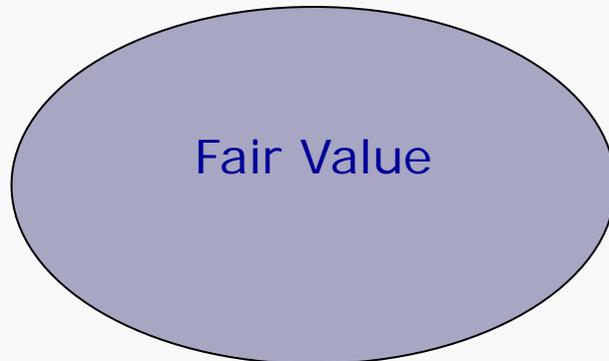
Phase 2: Impairment

Phase 3: Hedging

Responding to the GFC

Phase 1: AASB 9 Classification and Measurement of Financial Assets

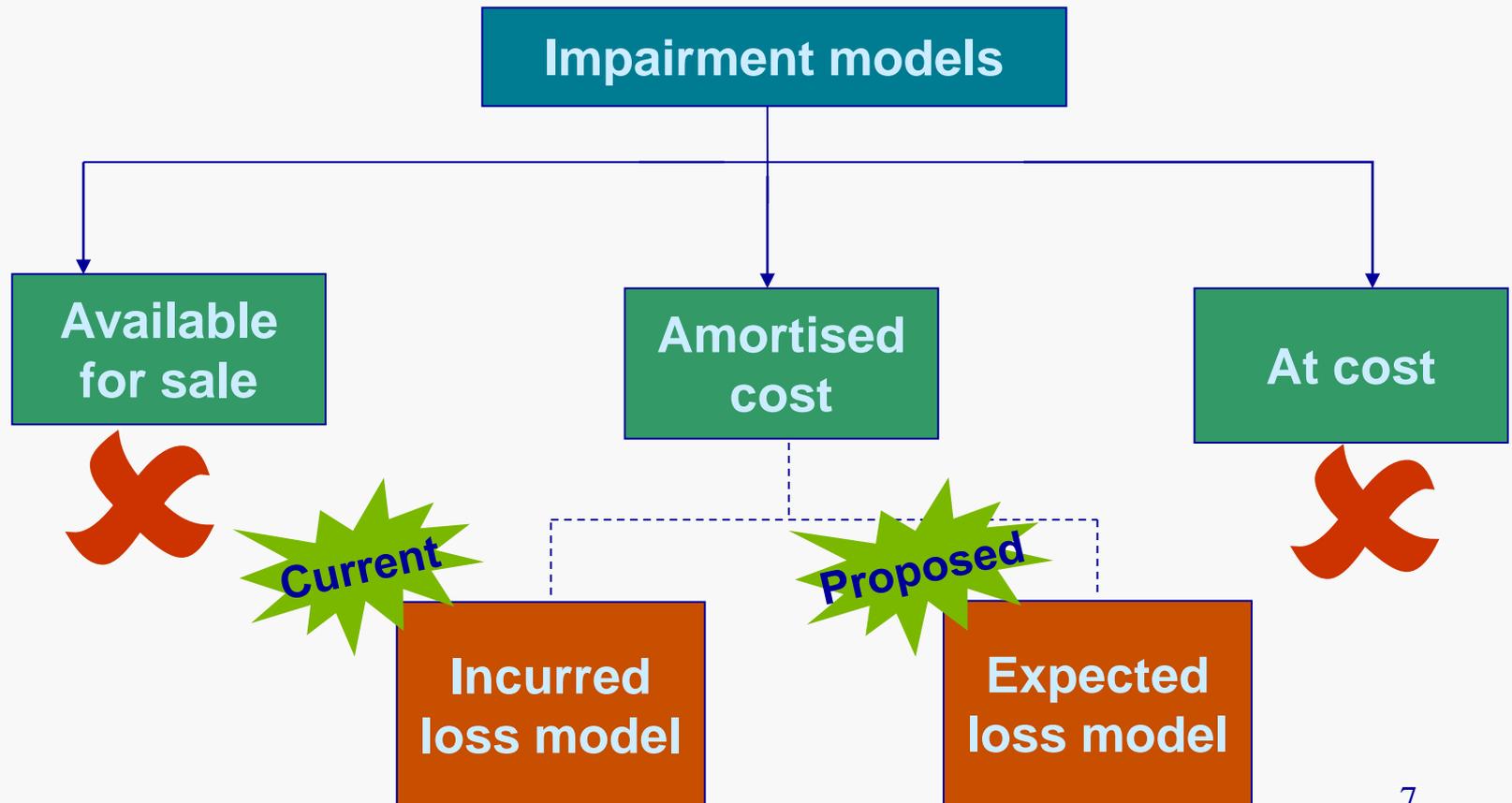
- Managed on a contractual yield basis
- Basic loan features
- No tainting and no need to consider intention and ability to hold to maturity



- All other instruments
- Irrevocable option to present changes in fair value in OCI for equity investments not held for trading
- Fair value option for accounting mismatches

Responding to the GFC

Phase 2: Impairment Framework



Responding to GFC Issues

Phase 2: IASB ED

Objective of Impairment Model

Expected loss model

- effective return on a financial asset
- current cash flow information + cash flows on initial recognition

Incurred loss model

- actual return on a financial asset (objective evidence of a loss event)
- actual cash flow information

Responding to GFC Issues

Phase 1 (part B): Financial Liabilities - Proposals

<u>Types of Instruments</u>	<u>Tentative treatment</u>
If not held for trading and no embedded derivative features that require bifurcation	Keep IAS 39 amortised cost measurement
Held for contractual cash flows ('non-vanilla')	Keep IAS 39 bifurcation
Held for trading	Keep IAS 39 Fair value through P&L
Fair value option	All FV change in PL – own credit risk portion in OCI (offset entry via P&L)

Responding to GFC Issues

Phase 3: Hedge accounting

- Fundamentally reconsider existing hedge accounting model, which is rules-based:
 - Effectiveness test requirement (80%-125%) is too rigid
 - Restrictions regarding non-financial hedged items, net positions and derivatives as hedged items
- IASB Approach:
 - Extensive outreach activities: preparers and users
 - Understand how users view hedging and how an entity's hedging activities affect their analysis and decisions
 - Develop an objective for hedge accounting

Responding to the GFC

Liabilities/Equity

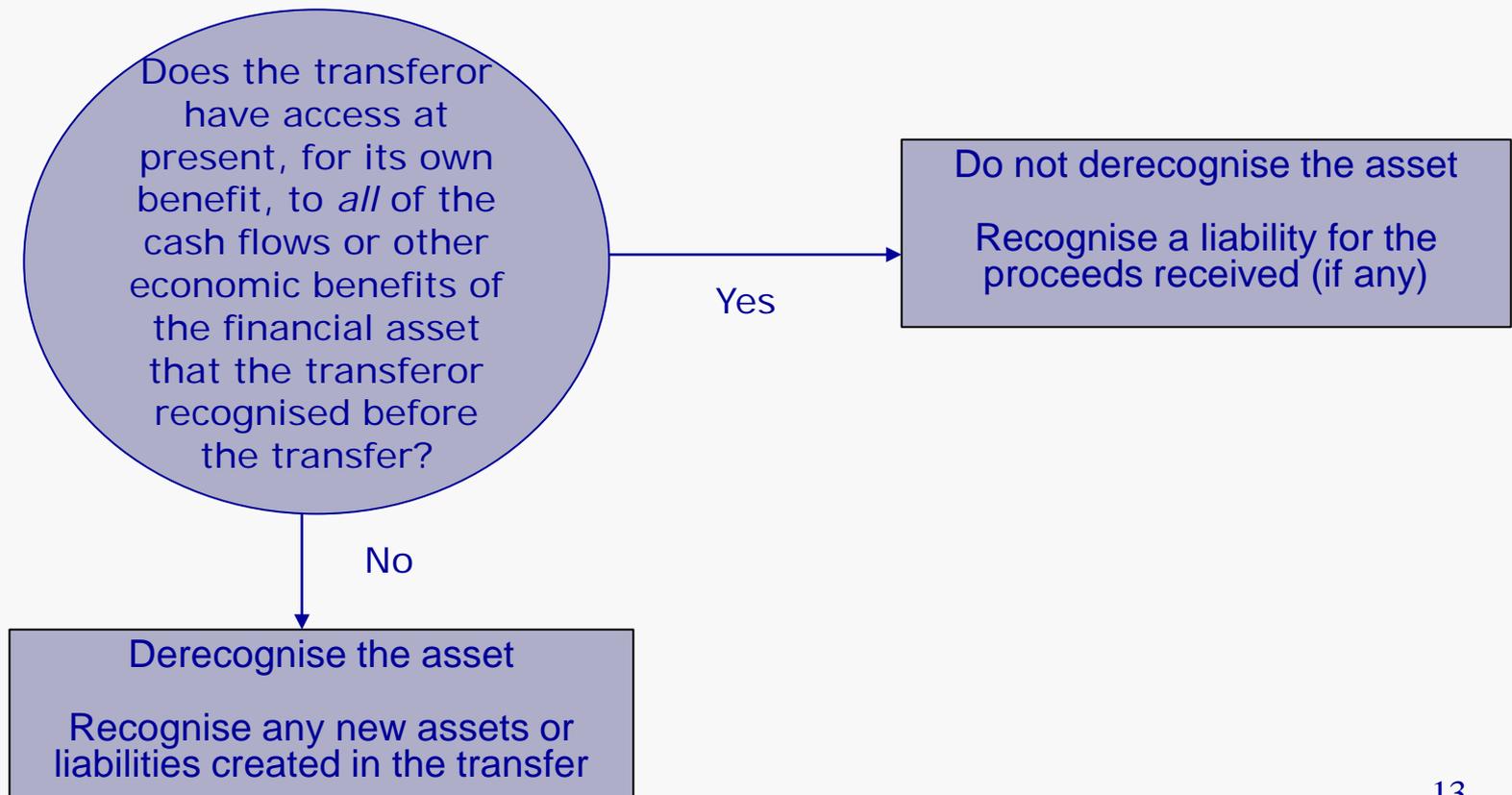
- Objectives:
 - Develop an improved distinction between equity and non-equity instruments
 - Converge IFRS and US GAAP in this area

Responding to the GFC

- Derecognition proposals from IASB in 2009 not well received
- Perceived as too complex

Responding to the GFC

Derecognition: An Alternative Approach



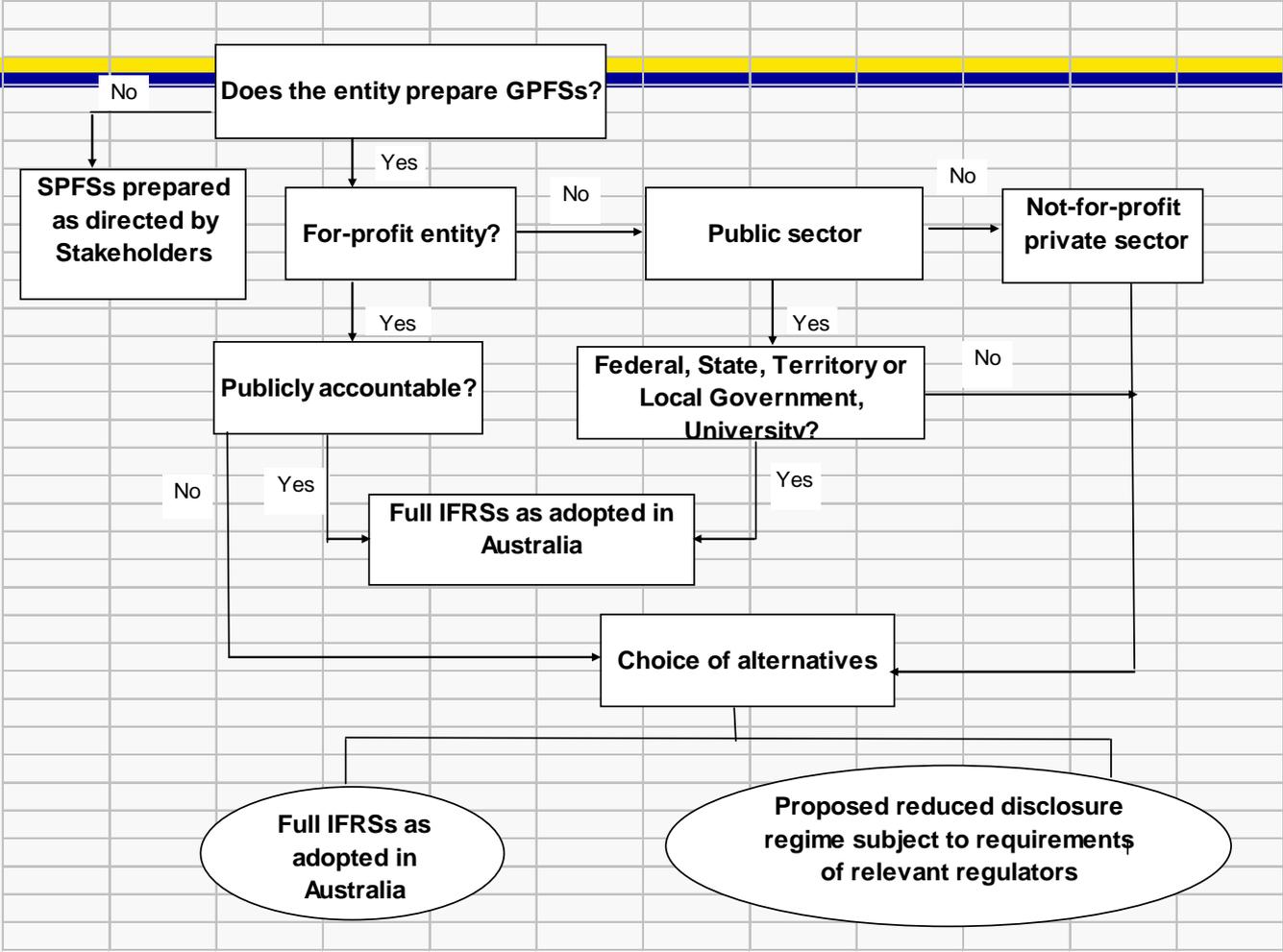
A Differential Reporting Regime

Differential Reporting

Two tiers of GPFS requirements:

- Full IFRSs as adopted in Australia (NFP-specific and domestic standards included)
- Reduced Disclosure Regime (RDR) – recognition and measurement the same as for full IFRSs as adopted in Australia

Differential Reporting –New Framework



Other Major Projects

- Leases
- Consolidation
- Revenue Recognition
- Fair Value Measurement
- Insurance
- Liability (Provisions) Measurement
- Presentation of Financial Statements
- Conceptual Framework

Leases

Key Features of IASB/FASB Coming ED

- Operating lease classification eliminated; all leases to be recognised on balance sheet
- Lease term for leases with options to continue or purchase are determined by the ‘most likely lease term’ based on contractual, non-contractual and business factors
- Reflect the obligation to pay contingent rentals and residual value guarantee in measuring the liability

Consolidations

IASB Proposals Coming

- Revises existing standards on consolidation and special purpose entities (IAS 27 and SIC 12)
- Revises definition of ‘control’
- More guidance on control
- Enhanced disclosures, especially about ‘structured entities’
- Treatment of investment companies – exception to be controversial

Revenue Recognition

Key Features of IASB/FASB ED 2010

- One approach for all contracts with customers
- Performance obligations identified
- Revenue is recognised when performance obligations are satisfied
- Amount of revenue based on an allocation of the customer's consideration
- Remeasurement of performance obligation should occur when it is deemed 'onerous'

Fair Value Measurement

Objective of IASB/FASB ED (2009)

- Establish a single source of guidance for all fair value measurements
- Clarify the definition of fair value and related guidance
- Enhance disclosures about fair value
- Increase convergence between IFRS and US GAAP
- NOT a standard requiring fair value

Liability Measurement

- IASB proposals to revise IAS 37 on provisions
- “An entity shall measure a liability at the amount that it would rationally pay at the end of the reporting period to be relieved of the present obligation”
- The lowest of:
 - PV of the resources required to fulfil obligation
 - amount entity would have to pay to cancel obligation
 - amount entity would have to pay to transfer obligation to 3rd party

Liability Measurement

PV is estimated taking into account:

- Expected outflows of resources
- Time value of money
- Risk actual outflows might ultimately differ from those expected

Hierarchy:

- If there is a market for a service = Contractor price
- If not = amount entity would charge another at the future date to undertake service = costs expected + profit margin

Liability Measurement

PV is probability-weighted average of PVs of outflows for possible outcomes:

- probability no longer needed for recognition
- ‘contingent’ liabilities made redundant

Conceptual Framework

- IASB/FASB revising their Frameworks with the aim of having an improved common Framework that provides a sound foundation for developing future accounting standards
- In the public sector, IPSASB is also developing a Framework, using some IASB/FASB work, but are ahead of IASB/FASB on some topics, e.g. measurement
- Two frameworks when we have a transaction neutral policy in Australia?

Conceptual Framework

IASB/FASB eight phases to be finalised individually:

- **Phase A** – Objectives and Qualitative Characteristics – DP July 2006 – ED May 2008 – final pronouncement soon
- **Phase B** – Definitions of Elements, Recognition and Derecognition – 2011
- **Phase C** – Measurement –DP Q4 2010 – ED H2 2011

Conceptual Framework

- **Phase D** – Reporting Entity Concept – DP
May 2008 – ED issued – final chapter Q4
2010
- **Phase E** – Boundaries of Financial Reporting,
and Presentation & Disclosure – inactive
- **Phase F** – Status of Framework – inactive
- **Phase G** – Application to not-for-profit
entities – inactive
- **Phase H** – Remaining issues – inactive

Conceptual Framework

IPSASB four phases to be finalised as one:

- **Phase 1** – Objective, Qualitative Characteristics, Reporting Entity and Scope
- **Phase 2** – Elements
- **Phase 3** – Measurement
- **Phase 4** – Display

Interim EDs plus one overall ED covering all phases - 2012 finish

Conceptual Framework

- IASB and IPSASB may issue different Frameworks
- Dilemma for the AASB and NZ FRSB in light of ‘transaction neutrality’

Other Changes Coming

- Tax effect accounting (revision only)
- Pensions and pension plans (2011?)
- Foreign currency translation (working group looking at – longer term)
- Intangibles (survey under way re bus combs)
- Share-based payments (review underway)
- Extractive activities (DP current)
- Joint ventures (new std soon)
- Rate regulated industries (?? 2011)
- Emissions trading (ED 2011)
- Management commentary (non-mandatory) (2011?)



Keep up to date – www.aasb.gov.au



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