Topics

• **Big 4 projects**
  – revenue
  – leasing
  – financial instruments
  – insurance

• **New projects based on agenda consultation**
  – conceptual framework
  – bearer plants
  – regulatory deferral accounts

• **Implementation guidance**
Response from agenda consultation
Response we have received

- complete the Big 4 projects
- Conceptual Framework as the priority
- period of calm, and tackle narrow scope, country specific issues
- focus on maintenance over development of IFRSs in the near future
- utilise research from national-standard setters and academics
Big 4 projects

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

April 2013 Project update and the future work plan
Revenue

• **Objective**
  – to develop a single, principle-based revenue standard for IFRSs and US GAAP

• **Timing**
  – completed substantive redeliberations of revised Exposure Draft (published November 2011) during February 2013
  – expected publication of IFRS in June/July 2013
  – effective date 1 January 2017 with early application permitted
Revenue

• **Ongoing debates**
  – License: to what extent, should related revenue be recognised continuously?
  – Telecommunication: is it necessary to unbundle service from handset, and if so, how to unbundle?

• **Future challenges**
  – Does the Standard provide enough guidance? If not, on what aspect, further guidance is required?
  – Who should provide such guidance?
Leases

• **Objective**
  – make leases on the statement of financial position (i.e. the right-of-use model)
  – reduce complexity for financial reporting purposes and minimise structuring opportunities

• **Latest development**
  – The FASB and IASB have developed a common model.
  – Revised ED was issued on May 16, 2013.
Leases

• Lessee accounting
  – All leases with lease term of more than 12 months would be recognised on the statement of financial position.
  – Include a practical expedient:
    – Most land and buildings leases: recognise as a single lease expense in P&L on a straight-line basis
    – Most leases other than land and buildings leases (e.g. equipment leases): recognise amortisation and interest expense in P&L separately
Leases

• Lessor accounting
  – Most land and building leases: as current operating lease, the property being leased would continue to be recognised in the statement of financial position, and recognise rental income, and depreciation of leased property in P&L.
  – Most leases other than land and buildings leases: recognise lease receivable and residual asset in the statement of financial position, and recognise revenue and interest income in P&L, similar to current finance leases.
Leases

• Ongoing debates
  – Will the proposed standards as a whole better than the current standards?
  – Will the new proposals meet the major objectives of the projects: reflect economics, keep logical consistency, and reduce complexity and structuring opportunity?

• Future challenges
  – Would lessees and lessors make rational and consistent judgments between two-type leases?
  – Would lessees and lessors make rational and consistent judgments on significant economic incentives when recognising and measuring variable lease payments and options to renew and purchase?
FI: Classification and measurement

• Objective
  – limited amendments to IFRS 9 regarding classification and measurement of financial assets
  – converge with FASB proposal
  – more in line with insurance contract proposal

• Proposals
  – clarification of ‘hold to collect’ business model
  – introduction of FVOCI category for certain debt investments
  – clarification of how to apply principal and interest criteria (the cash flow characteristic criterion)
  – ‘own credit’ changes can be early applied in isolation
FI: Classification and measurement

• **Timing**
  – exposure draft published November 2012
  – comment period ended
  – joint re-deliberations commence mid 2013

• **Ongoing debates**
  – Should more instruments be measured at cost or not?
  – To what extent, should IASB take into consideration of business model in setting its standards?

• **Future challenges**
  – Would OCI category become a means to manipulate financial statements and result in inconsistent practice?
FI: Impairment

• Objective: improve
  – timeliness of recognition of expected credit losses
  – information about credit quality

• New ED (published in March 2013) proposals
  – single impairment model
  – expected credit losses always recognised
  – full lifetime expected credit losses recognised when credit quality deteriorates significantly

• Timing
  – Comment period will end on 5 July 2013.
  – FASB and IASB will consider opportunities to further align based on feedback.
FI: Impairment

• Ongoing debates
  – Should life time credit loss be recognised on day one?
  – To what extent, should accounting standards setters coordinate with prudential regulators on impairment of FI?

• Future challenges
  – Would entities make rational and consistent assessment on expected credit loss?
  – How to ensure such rational and consistent assessment?
Hedges

- **General model**
  - more closely aligned to risk management
  - Review Draft published September 2012
  - final discussion of comments from Review Draft April 2013
  - final IFRS mid 2013

- **Macro hedges**
  - risk management practices for open portfolios not covered by 2010 ED
  - DP planned for 2013
  - In April 2013 meeting, IASB tentatively decided to give entities choice between the two hedge accounting models in IAS 39 and IFRS 9.
Insurance contracts

• **Current situation**
  – IFRSs today has no comprehensive standard for insurance contracts – creates diversity of accounting practices.

• **Objective**
  – to increase comparability and transparency

• **Cooperation with FASB**
  – FASB jointed the project at late stage
  – proposals aligned on the core approach, but different conclusions on some important details
  – IASB and FASB due process steps not aligned (IASB has issued an Exposure Draft, FASB has not)
Insurance contracts

• **Timing**
  – IASB completed deliberations in February 2013
  – IASB will issue revised ED with targeted issue date - June/July 2013

• **Targeted exposure**
  – IASB’s new ED will seek views on key revised proposals:
    – un-lock residual margin or service margin
    – measure insurance contract based on carrying value of underlying items if the contract specifies a link to the return on the underlying items
    – present in OCI the effects of discount rate changes
    – present revenue and expense information in P&L, excluding deposit component
Insurance contracts

• **Targeted exposure: continue**
  – These proposals reflect IASB’s response to the concern on volatility in P&L based the original ED.
  – IASB will clearly inform constituents that these proposals would significantly increase complexity of the standard.

• **Ongoing debates**
  – Has IASB made right balance between transparency and volatility in P&L?
  – To what extent, should the proposed insurance standard be in line with proposed FI and revenue standards?
  – To what extent, should the two boards’ proposals be converged?
New projects based on agenda consultation
Conceptual Framework

• Original project
  – was a joint project with FASB
  – finalized revised chapters on objectives and qualitative characteristics
  – published ED on reporting entity
  – had early discussion on elements and measurement
  – suspended because of the needs to focus on big 4 projects and issues emerged from recent financial crisis
Conceptual Framework

• New project
  – restarted in Sept. 2012 based on agenda consultation
  – will be the IASB only project
  – continues on work previously done before 2010
  – will address: reporting entity, elements, recognition and de-recognition, measurement, presentation and disclosure
  – will not progress by phases

• Timing
  – DP in July 2013
  – ED in Aug. 2014
  – Revised CF in Sept. 2015
Conceptual Framework

- **Ongoing debates**
  - Should accounting be more balance sheet or income statement based?
  - How should financial performance be better presented or be presented in a more informative way?
  - How to balance between transparency and volatility?
  - How to improve definition, recognition, measurement and presentation principles of liability and equity at conceptual level?
  - Is there any difference between faithful representation and reliability? Should we keep ‘reliability’ concept both at conceptual and standard level?
Bearer Plants

• **Objective**
  – limited-scope amendment of IAS 41 *Agriculture and IAS 16 Property, Plant and Equipment*

• **Proposal**
  – apply fixed asset accounting to bearer biological assets
  – limited to bearer plants (not livestock)
  – both before and after premature period
  – maintain revaluation option
  – produce on bearer plants still FVTPL

• **Ongoing debates**
  – Is fair value measurement more useful and cost-effective?
  – Should fair value information be disclosed?
Rate regulated activities

• **Current practice**
  – IFRSs today has no comprehensive standard for rate regulated activities.
  – Nearly all of IFRS adopters do not recognise assets and liabilities based on rate regulations.

• **Request for special treatments**
  – A few jurisdictions asked IASB to allow such recognition practice based on their local GAAP, and cited this as a major obstacle for full adoption.
  – IASB issued an ED in 2009, but suspended the project because of conflicting views from different regions, and of the need to focus on major convergence projects.
Rate regulated activities

– IASB restarted the project based on agenda consultation

• **Interim standard**
  – permit grandfathering of current accounting practices for recognition, measurement and impairment based on local GAAP
  – enhanced presentation and disclosure
  – issued ED in April 2013

• **Major project**
  – will consider whether rate regulation creates assets and liabilities and measurement of such assets and liabilities
  – Request for Information (issued end of March 2013)
  – Discussion Paper Q4 2013
Implementation
Call for more implementation guidance

• In the first 10 years, IASB’s interpretation activities were rather constrained to prevent rule-based standards.

• During the agenda consultation process, there are obvious call for more active interpretation efforts (more useful) to meet the special requests from worldwide constituents.
More active IC Work plan

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<thead>
<tr>
<th>Narrow-scope amendments</th>
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<tr>
<td><strong>Acquisition of an Interest in a Joint Operation</strong> (proposed amendments to IFRS 11)</td>
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<td><strong>Actuarial Assumptions: Discount Rate</strong> (proposed amendments to IAS 19)</td>
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More active IC Work plan (continue)

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<td>Equity Method: Share of Other Net Asset Changes (proposed amendments to IAS 28)</td>
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<td>Novation of Derivatives and Continuation of Hedge Accounting (proposed amendments to IAS 39 and IFRS 9)</td>
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<td>Put Options Written on Non-controlling Interests (proposed amendments to IAS 32)</td>
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<td>Recoverable Amount Disclosures for Non-Financial Assets (proposed amendments to IAS 36)</td>
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<tr>
<td>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (proposed amendments to IFRS 10 and IAS 28) [comment period ends 23 April 2013]</td>
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<td>Separate Financial Statements (Equity Method) (proposed amendments to IAS 27)</td>
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### More active IC Work plan (continue)

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April 2013 Project update and the future work plan

**Interpretations**

- **2013 Q1**:  
- **2013 Q2**:  
- **2013 Q3**: Target Interpretation  
- **2013 Q4**:  

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**Levies Charged by Public Authorities on Entities that Operate in a Specific Market**

- **2013 Q1**:  
- **2013 Q2**:  
- **2013 Q3**: Target Interpretation  
- **2013 Q4**:  

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**April 2013 Project update and the future work plan**

**IFRS®**
Ongoing debates

• To what extent, should IASB’s interpretation efforts be active enough to make right balance between principles and rules based?

• Should IASB solve issues related to limited jurisdictions?
  – deferred tax issue from Hong Kong

• Should IASB’s conclusion be partially based on forthcoming CF and standards?
  – IFRIC 15
Ongoing debates

• How should IASB deal with the issues, which people may give different answers based on different standards?
  – Equity method: share of other net asset changes

• How should IASB provide answers to the issues based on current CF and standards, which someone may feel inappropriate or count-intuitive?
  – Levies charged by public authorities on entities that operate in a specific market
  – NCI puts
Concluding remarks
Concluding remarks

• When IASB was formed in 2001, nearly no jurisdiction used IASs as mandatory requirements for financial reporting.

• Today, more than 100 jurisdictions are using IFRSs, including 2/3 G20 countries.

• IFRSs is now the only choice when jurisdictions are considering moving towards international accounting standards.

• With more wide use of IFRSs, IASB are facing ongoing debates and challenges, some at standard level, others at conceptual level.
Concluding remarks

- From the most recent economic crisis, IASB has been feeling another obvious challenge: some constituents become more sensitive to economic consequence in a general term, or volatility in a more specific term.
- With the support from global stakeholders, particularly the recently established Accounting Standard Setters Forum (ASAF), IASB is determined to further improve IFRSs to better serve the global financial market.
Thank you