



Aalto University
School of Economics

IFRS 5 YEARS

Pontus Troberg 05.05.2010

- Global regulatory differences have opened up financial loopholes
- Principle- vs. Rule-based:
 - reliance on professional judgement to apply principles in business context, BUT
 - if preparers and auditors do not assume the duty of exercising professional judgement and don't act with integrity

- **Goodwill: → Mandatory amortization?!!**
- **Unused tax losses → probable vs. assurance beyond any reasonable doubt of availability of tax profit**

Lehman file rocks Wall St

March 14, 2010

Damning picture of bosses ● Focus on 'Repo 105' ● Fallout spreads to UK

By Francesco Guerrera and Henny Sender in New York and Patrick Jenkins in London

The fall-out from the report into the collapse of Lehman Brothers shook Wall Street and London yesterday as US officials grilled banks about off-balance-sheet trades and questions were raised over the City's role in the company's attempts to cover up its problems.

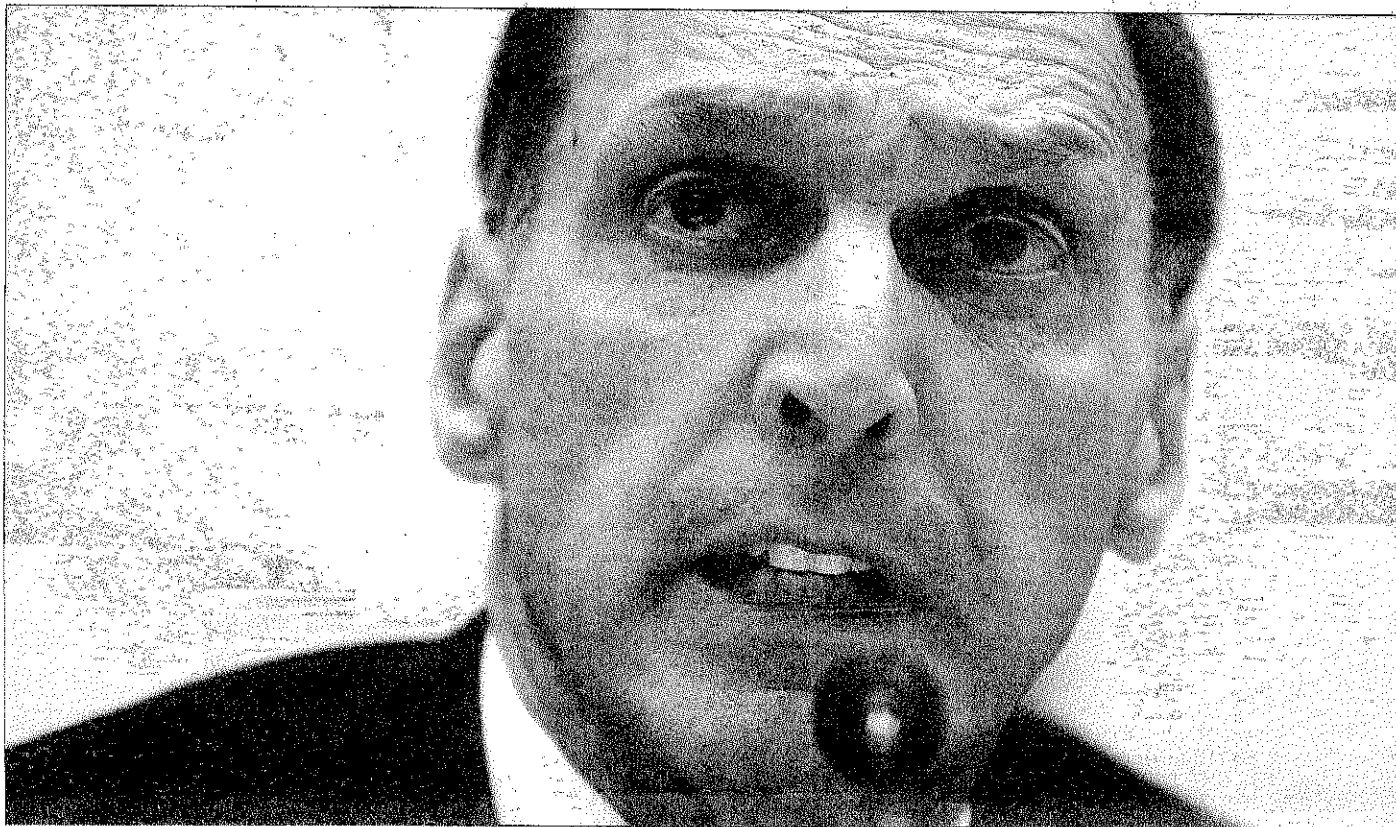
The 2,200-page report by Anton Valukas, appointed by a US court to examine Lehman's failure in September 2008, paints a damning picture of the bank's top management, including former chief executive Dick Fuld and three of its chief financial officers, and auditors Ernst & Young.

Its conclusions – that there is credible evidence against Mr Fuld and others for breach of their fiduciary duties and against E&Y for professional malpractice – are a further blow to the battered credibility of the entire banking industry.

"Give bankers of any ilk an inch and they will take a mile," said Simon Maughan, analyst at MF Global in London. "Lehman might just have taken a couple of miles." A senior Wall Street executive said: "I almost threw up when I read the report. It makes me sick of this industry."

Mr Fuld, Ian Lowitt, one of Lehman's CFOs mentioned in the report, and E&Y have denied wrongdoing. Erin Callan and Christopher O'Meara, the two other CFOs, could not be reached for comment.

The exhaustive report reveals how Lehman exploited a disparity between UK and US law to help keep \$50bn off its balance sheet, sparking fresh debate about whether global regulatory differences have opened up financial loopholes.



Ex-Lehman chief Dick Fuld testifying to the US Congress. The report says there is evidence he breached his fiduciary duties

Reuters

Inside

Door-stopping report sheds damning light on the inner workings of Wall Street
Page 2

Heavy criticism raises the spectre of Enron scandal
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Editorial Comment: the lessons from the collapse of Lehman
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Lex: the spirit of the rules has

its London-based subsidiary after it could not secure US legal approval for the deals.

Linklaters, the London-based law firm, signed off on the deals under English law, which Lehman used to flatter its financial health in the run-up to its collapse. The firm said that it had not been contacted by Mr Valukas prior to the publication of his report, emphasising there was no finding that its opinions were wrong or improper.

"We have reviewed the opinions and are not aware of any facts or circumstances which

they had had worried calls from regulators early yesterday about whether their companies had also used transactions similar to Repo 105.

The trades – which Lehman never disclosed to investors, rating agencies or regulators – are described as "an accounting gimmick" by Mr Valukas.

People close to the situation said the US regulators wanted to ensure that Repo 105-style deals were not widespread.

"The regulators want to nip this in the bud by making sure it was idiosyncratic to Lehman,"

sheet at the height of the crisis, avoiding potentially costly rating downgrades but misleading investors as to the true state of its finances, Mr Valukas claims.

Bankers said Repo 105 was an unusual transaction because it cost more than traditional repos – trades where a bank pledges collateral to another institution in exchange for cash and promises to return the funds later with interest.

Additional reporting by Megan Murphy, Michael Peel, Tom Braithwaite, Jeremy Lemer and Justin Baer

Sarkozy and Brown join to attack US

By George Parker in London

Nicolas Sarkozy and Gordon Brown joined forces yesterday to attack the US for alleged protectionism in its handling of a \$50bn military tender that looks likely to be awarded to Boeing.

The French president believes the rules of the tender to provide refuelling tankers to the US air force were skewed against EADS, the Franco-German aerospace and defence group. He said: "I did not appreciate this decision. This is not the right way to behave."

Speaking in Downing Street after talks with the British prime minister, Mr Sarkozy accused the US of double standards. "If they want to be heard in the fight against protectionism, they should not set the example of protectionism."

Mr Brown was also unusually forthright in his criticism of the US. "I, too, am disappointed by the American decision and we have made our views known."

EADS, parent company of Airbus, withdrew this week from the long-running competition. It was jointly bidding for the contract with Northrop Grumman, a US defence contractor.

The tensions come at a difficult time for transatlantic trade relations, with the US accusing the Europeans of erecting barriers to hedge funds – including those based in New York – operating in the European Union.

Tim Geithner, US Treasury secretary, aired his concerns in a letter this month to Michel Barnier, EU internal market commissioner. Mr Brown sympathises with Mr Geithner's concerns but said he was convinced that France – which favours tougher regulation – and Britain could reach a deal that avoids

...ultimately how they contributed to plosion. le, the firm, like its peers, to stress-test its trading d investments. But Leh- ed its principal invest- estate, its private equity and its leveraged loans ut deals, thereby leaving st risky assets from

bete noire, taking flak for everything from excessive pay to excessive hubris

Erin Callan

Joined Lehman Brothers in 1995. In December 2007 she became chief financial officer but was removed after only a few months following the bank's \$2.8bn loss in the second quarter of 2008

scrutiny in the wake of Lehman's disastrous investments and its bankruptcy filing

Ian Lowitt

Joined Lehman from McKinsey in 1994 and in June 2008 replaced Erin Callan as chief financial officer, just in time for the company's bankruptcy filing on 15 September 2008

the Repo 105 for your stuff." A few managers were not so sure. Bart McDade, a Lehman executive who was worried about Repo 105, described it as "a drug". Another executive ordered traders to "wean themselves off" Repo 105. One even pointed to the risks of covering up the practice, warning: "The more people that know the truth, the more dodgy it can be."

Additional reporting by Nicole Bullock

Editorial Comment, Page 8
Lex, Page 18

Questions over whether Fuld knew of 'accounting gimmick'

Evidence

By Francesco Guerrera
in New York

Did Dick Fuld, the former chief executive of Lehman Brothers, know about the "accounting gimmick" that enabled the firm to shift billions of dollars secretly off its balance sheet quarter after quarter?

Anton Valukas, the court-appointed examiner, concluded that there was sufficient evidence to support a claim that Mr Fuld and other executives breached their fiduciary duties by "allowing and certifying the filing of financial statements that omitted or misrepresented material information".

He also said there was "credible evidence" to support a claim that Mr Fuld's failure to decide to disclose the transactions was "grossly negligent or demonstrated a conscious disregard of his duties".

Mr Fuld's lawyer said the Lehman chief had no

knowledge of "Repo 105", a device that allowed Lehman to move assets off balance sheet to flatter its results at the end of the quarter. The lawyer added: "Nor did Lehman's senior finance officers, legal counsel or Ernst & Young raise any concerns about the use of Repo 105 with Mr Fuld."

Mr Valukas's report, however, focuses on two instances during which Repo 105 was discussed by Lehman's top executives.

First, on March 27 2008, Bart McDade, then Lehman's "balance sheet" tsar, e-mailed materials to Mr Fuld and others for a meeting the following day. The attachments included an agenda with topics such as "Repo 105/108" [Repo 108 was a similar device] and a presentation detailing that Lehman had used Repo 105 to move \$49bn (£35.6bn, £32.3bn) off its balance sheet in the first quarter of 2008. The examiner said that Mr Fuld's lawyer told him that Mr Fuld did not use a computer and did

not "have the ability to open attachments" on his BlackBerry. Mr Fuld did not attend the March 28 meeting because he had other calls to make.

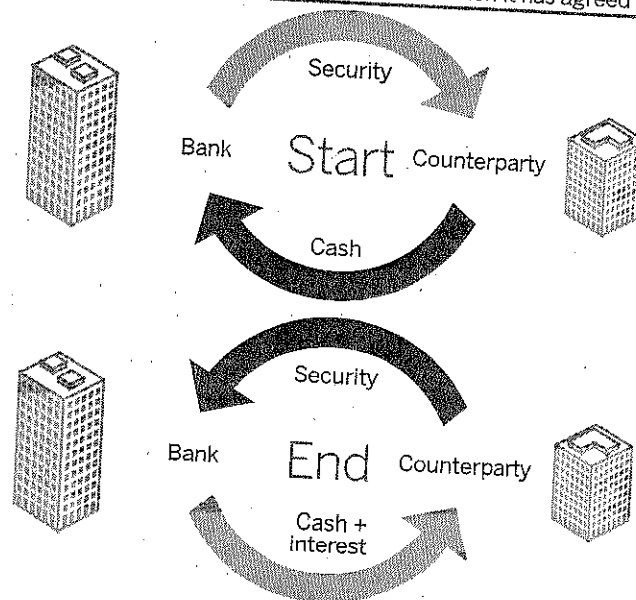
The second meeting took place in June 2008 between Mr McDade, who had been promoted to the roles of president and chief operating officer, and Mr Fuld. Mr McDade told the examiner he had walked Mr Fuld through a presentation that showed Lehman had been using Repo 105 to the tune of billions of dollars in the previous three quarters. Mr McDade also recalled that he had recommended to Mr Fuld that the use of Repo 105 be curbed.

The executive said that Mr Fuld asked him: "Is it doable? Is it necessary? If so... go do it," according to the report.

Mr McDade's conclusion was that Mr Fuld "was familiar with the term 'Repo 105' and 'knew about the accounting of Repo 105', Mr Valukas writes.

How a normal repo transaction works...

A bank transfers assets to a counterparty as collateral in exchange for cash. At the same time, the bank agrees to repay the cash plus interest and take collateral back after a specified period. The assets which have been transferred as collateral remain on the bank's balance sheet and it incurs a liability for the cash it has agreed to pay back.



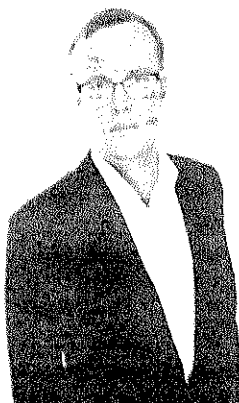
...and how a Repo 105 can be used to reduce leverage

A 'Repo 105' occurs in much the same way as a normal repo but instead the bank pledges assets worth 105 per cent of the cash received from the counterparty. The transaction is then described as a 'sale' rather than a financing arrangement. As such, the assets can then be removed from the balance sheet while the cash received is used to pay off liabilities, reducing apparent leverage at critical moments

Source: Valukas Report

revisorerna?

March 21, 2010



ANDREAS CERVENKA

Minsta avvikelse från mallen är i de här sammanhangen lika sensationell som om Stefan Ingves skulle dansa nakensamba framför finansutskottet.

Vi tillstyrker att årsstämman fastställer resultaträkningen och balansräkningen.....bla bla bla.

Så avslutas den sista och mest förutsägbara delen av bolagens årsredovisningar som just nu dimper ned. Det är det avsnitt där bolagens revisorer skriver under på att årsredovisningen inte innehåller några fel och att ledningen hållit sig till lagar och regler.

Att säga att varje ord vägs på guldväg vore en stark underdrift. Minsta avvikelse från mallen är i de här sammanhangen lika sensationell som om Stefan Ingves skulle dansa nakensamba framför finansutskottet. Inte desto mindre är det viktiga rader. Tanken är att aktieägare och andra ska kunna lita på att de fina ord och siffror som företagsledningen fyller de påkostade fyrfärgsskrifterna med ger en rättvisande bild av företaget.

I veckan avslöjade en rapport av utredaren Anton Valukas att Lehman Brothers i sin bokföring ägnat sig åt illusionsnummer i den högre skolan.

En manöver med beteckningen Repo 105 innebar att banken i slutet av varje kvartal sålde tillgångar för 50 miljarder dollar, vilket fick skuldsättningen att se mindre besvärande ut i delårsrapporten. Några dagar senare köptes tillgångarna tillbaka igen.

I själva verket var det en skenaffär vars enda syfte var att för-

sköna verkligheten, enligt både utredaren och flera Lehman-chef. Lite grann som att byta sin rostade Fiat Punto mot en hyrd Lexus varje gång det är dags att besöka svärmor.

Åtgärden ansågs så tveksam att ingen amerikansk advokatfirma ville skriva under på den, Lehman var tvungen att använda sig av sitt London-kontor och advokatfirman Linklaters.

Revisorerna, jättebyrån Ernst & Young, godkände tricksandet och står i efterhand fast vid att den numera kollapsade banken rörde sig inom lagens ramar. Även om den saken kommer utredas, är det kanske det mest intressanta. Alla inblandade inklusive revisorna tycks alltså ha varit medvetna om att här sminkar vi ett lik, men det är tillåtet enligt reglerna, så det är okej.

Även i Sverige tycks revisorer vara villiga att använda lagparagraferna som gummisnoddar. Swedbank är det senaste exemplet. Det handlar om de 12,6 miljarder kronor i övervärden, eller goodwill, som banken anser fortfarande finns i den baltiska verksamheten som ifjol gick back nära 11 miljarder.

Att revisorn Deloitte godkände detta är ett hån mot allt vad redovisningsregler heter och hotar att dödskallemärka Sverige som börsnation, dundrade exempel-

vis finansanalytikern Peter Malmqvist. Swedbank å sin sida säger att man bara följt reglerna.

En titt på hur Swedbank räknat för att försvara denna glädjekalkyl visar att ledningen medger att de närmaste tre åren blir knackiga men därefter, under de kommande 30 (!) åren kommer Baltikum att växa med hela 7 procent om året.

Att bolaget följt redovisningsreglerna är en klen tröst när liken flyter upp till ytan.

Denna fjärrsyn är imponerande. Det är lite som att festa upp en årslön på en helg på grundval av de kommande månadernas säkra vinnare på V75. Som jämförelse har SEB, som valde att skriva ned sin goodwill i Baltikum, nöjt sig med betydligt mer modesta fem års prognoshorisonter.

Man måste fråga sig om Swedbanks revisor, Jan Palmqvist på Deloitte, bestämde sig för vad han skulle komma fram till innan han började räkna. Samme man var också revisor i Carnegie och skrev under en delårsrapport i oktober

2008 där inte ett ord skyntade om problem med likviditeten trots att banken var hårt pressad och kort därefter kollapsade.

Vilka obehagligheter döljer sig i Swedbanks siffror? Av bankens årsredovisning framgår att Deloitte kvitterat ut 40 miljoner kronor från Swedbank för revisorstjänster under 2009 samt ytterligare 19 miljoner i konsultarvoden.

Där ligger en del av problemet. Att bita den hand som föder en är aldrig lätt. Frågan är om revisorerna i praktiken fungerar som aktieägarnas förlängda öron och ögon eller som ledningens inhyrda konsulter på jakt efter kryphål där misstag kan gömmas?

För den som läser vårens flod av årsredovisningar kan det vara värt att hålla i minnet. Att bolaget följt redovisningsreglerna är en klen tröst när liken flyter upp till ytan.

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 svd.se/naringsliv

Revisionsjätte bär tung skuld
Läs om rapporten som kommer med svidande kritik mot aktörer efter Lehman Brothers fall (13/3).
» svd.se/naringsliv



Short-term Business Risks and Factors of Uncertainty

The financial crisis and the resulting stagnation in economic activity will influence the decisions made by the company's customers and thereby affect the financial position of Trainers' House Plc. In the current market situation, the length of sales projects is expected to increase, and more projects are expected to be cancelled than before. Price competition has also intensified. Customers are having more and more difficulty in keeping faith in the future.

Risks in the company's operating environment have increased, business operations have become more challenging, and it has become more difficult to estimate future developments. The operations of Trainers' House are hindered by the unequivocal cost cuts made by some customers.

The Group's goodwill and deferred tax assets recognized in the balance sheet were retested for impairment at the end of the financial year.

In the first quarter, the Group's goodwill was written down in the amount of EUR 0.8 million, which corresponds to the value of the Group's divested German operations. The impairment testing carried out at the end of 2009 indicates no need for other goodwill write-downs. If the company's profitability should fail to develop as predicted, or if interest rates or other external factors beyond the company's control should change significantly, there is a risk that some of the Group's goodwill may have to be written down.

The consolidated balance sheet of Trainers' House contained deferred tax assets from losses carried forward in the amount of EUR 7.1 million. At its meeting on 11 January 2010, the company's Board of Directors reviewed the principles used in recognizing deferred tax assets, and decided to make a non-recurring write-down of EUR 3.7 million in deferred tax assets in the financial statements for 2009. The write-down is based on a revised estimate of the company's taxable income in 2010–2012.

If the company's taxable income does not reach approximately EUR 13 million in 2010–2012, there is a risk that some of the EUR 3.4 million in deferred tax assets from losses carried forward recognized in the balance sheet of Trainers' House Plc cannot be utilized and may have to be written down.

In connection with the merger of Trainers' House and Satama Interactive on 31 December 2007, the company concluded a loan agreement in the amount of EUR 40 million. At the balance sheet date, the company had loans related to this loan agreement in the amount of EUR 16.5 million. The loan agreement contains standard covenants, including one concerning the ratio of net debt to EBITDA.

In order to ensure that it will fulfil the financial covenant in the loan agreement concerning the ratio of net debt to EBITDA, the company issued a hybrid capital bond in the amount of EUR 5.0 million on 15 January 2010.

About Risks

The Trainers' House Group is an expert organization. Market and business risks are part of regular business operations, and their extent is difficult to define. Typical risks in this field are associated with, for example, general economic development, distribution of the clientele, technology choices and development of the competitive situation and personnel expenses. Risks are managed through the efficient planning and regular monitoring of sales, human resources and business costs, enabling a quick response to changes in the operating environment.

Furthermore, Trainers' House aims to improve its risk tolerance by designing services that are not easily affected by economic fluctuations.

The success of the Group as an expert organization also depends on its ability to attract and retain skilled employees. Personnel risks are managed with competitive salaries and incentive schemes as well as investments in employee training, career opportunities and general job satisfaction.

Risks are discussed in more detail on the company's website at: www.trainershouse.fi > Investors.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

EUR	Note	1.1. - 31.12.2009	1.1. - 31.12.2008
NET SALES	1.	27,647,240.92	44,237,260.99
Other Operating Income	4.	101,089.56	214,261.97
Costs:			
Materials and services	5.	-3,726,372.58	-5,434,104.34
Salaries and other employee benefits	6.	-16,021,832.99	-22,041,729.54
Depreciation	7.	-2,817,991.07	-4,060,633.92
Goodwill impairment	7.	-804,122.63	
Other operating expenses	8.	-7,072,851.99	-8,617,124.46
Total Costs		-30,443,171.26	-40,153,592.26
OPERATING PROFIT/LOSS		-2,694,840.78	4,297,930.70
Financial income	10.	118,302.45	350,597.57
Financial expenses	11.	-1,273,223.19	-2,041,054.06
PROFIT/LOSS BEFORE TAX		-3,849,761.52	2,607,474.21
Taxes	12.	-3,166,521.23	-1,252,347.35
PROFIT/LOSS FOR THE PERIOD		-7,016,282.75	1,355,126.86
Other comprehensive income:			
Cash flow hedges	11.	-120,809.32	-231,124.22
Translation differences related to international operations		10,542.73	-8,363.53
Income tax related to items of other comprehensive income	12.	31,410.42	60,092.30
Other comprehensive income in the period after taxes		-78,856.17	-179,395.45
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		-7,095,138.92	1,175,731.41
Profit/loss attributable to:			
Shareholders of the parent company		-7,016,282.75	1,355,126.86
Comprehensive profit/loss attributable to:			
Shareholders of the parent company		- 7,095,138.92	1,175,731.41
Earnings per share as calculated from the profit attributable to shareholders of the parent company:			
Undiluted earnings/share (EUR)	13.	-0.10	0.02
Diluted earnings/share (EUR/share)	13.	-0.10	0.02

The notes comprise a significant component of the financial statements.

CONSOLIDATED BALANCE SHEET, IFRS

EUR	Note	31.12.2009	31.12.2008
ASSETS			
Non-current assets			
Property, plant and equipment	14.	506,419.48	780,813.46
Goodwill	15.	50,968,235.34	51,772,357.97
Other intangible assets	15.	15,027,936.80	17,245,753.99
Financial assets	17.	3,193.99	2,721.85
Receivables	19.	513,170.80	25,717.93
Deferred tax receivables	18.	3,457,986.72	7,119,646.34
Total non-current assets		70,476,943.13	76,947,011.54
Current assets			
Inventories	20.	12,296.90	14,227.51
Trade and other receivables	21.	4,862,178.71	10,708,098.30
Cash and cash equivalents	22.	1,858,058.88	7,663,977.77
Total current assets		6,732,534.49	18,386,303.58
TOTAL ASSETS		77,209,477.62	95,333,315.12
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company			
	23.		
Share capital		880,743.59	880,743.59
Premium fund		13,942,679.30	13,942,679.30
Translation difference			-10,542.73
Hedging reserve		-260,430.82	-171,031.92
Distributable non-restricted equity fund		31,872,147.15	31,872,147.15
Retained earnings		11,937,725.43	13,983,433.77
Profit/loss for the period		-7,016,282.75	1,355,126.86
Total shareholders' equity		51,356,581.90	61,852,556.02
Long-term liabilities			
Deferred tax liabilities	18.	3,799,751.49	4,328,458.33
Financial liabilities	26.	15,335,916.91	16,638,767.96
Total non-current liabilities		19,135,668.40	20,967,226.29
Current liabilities			
Provisions	25.	346,361.15	
Financial liabilities	26.	1,370,996.00	5,187,677.00
Trade and other payables	27.	4,999,870.17	7,325,855.81
Total current liabilities		6,717,227.32	12,513,532.81
Total liabilities		25,852,895.72	33,480,759.10
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		77,209,477.62	95,333,315.12

The notes comprise a significant component of the financial statements.



Gilbert Gélard, IASB member

The views expressed in this presentation are those of the presenters,
not necessarily those of the IASB or the IASC Foundation



- Why global standards?
- Principle-based standards
- IASB's active agenda



Why global standards?

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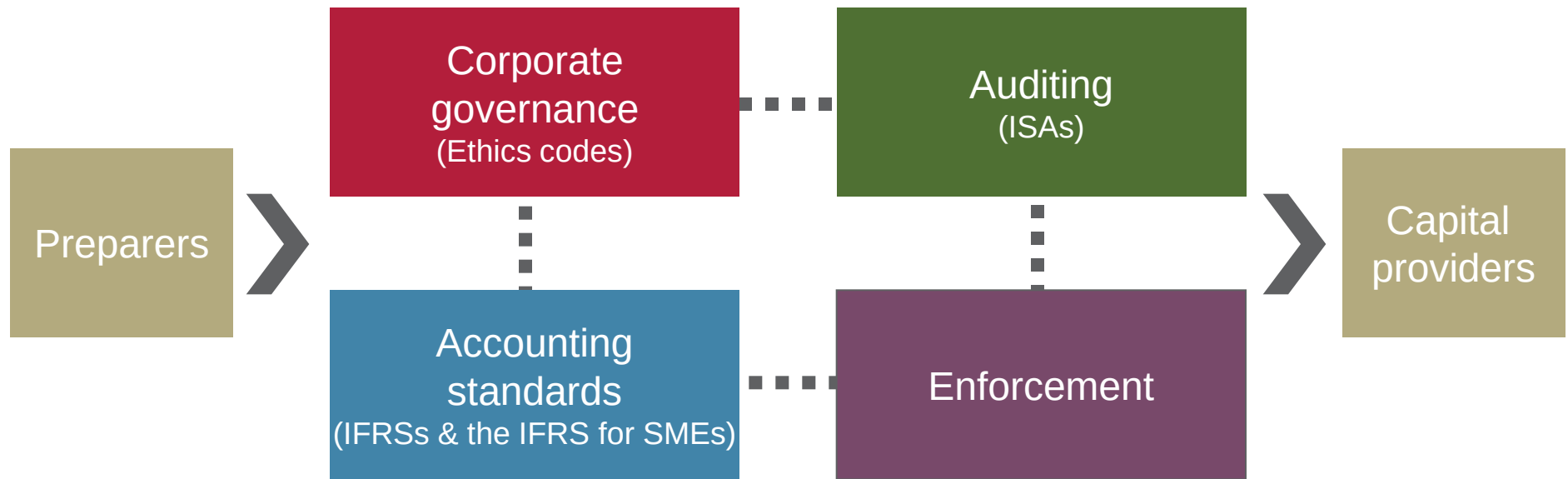


- Capital markets are global
 - New York, London, Luxemburg, Hong Kong, Singapore
- World's economies are interdependent
 - the financial crisis
 - SMEs integrated into the global economy
- Accounting and auditing needs strengthening
 - World Bank ROSCs
 - corporate failures
 - standard setters work programmes



Information supply chain

5



Benefits of global standards

6

- Efficient allocation of capital globally
 - attracting investment through transparency
 - reducing the cost of capital
 - increasing world-wide investment
- Reducing costs and increased efficiency
 - facilitates standardising information systems
 - eliminates wasteful reconciliations
 - audit efficiencies
 - education and training



Fortune Global 500 (July 2009)

7

Fortune G500		Based on announced plans	
Which GAAP?	2009	2013	Japan 2015?
IFRSs and word-for-word IFRS equivalents	190	245	310
US GAAP	155	155	140
National GAAPs	155	100	50
Total	500	500	500



Principle-based standards

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Why principle-based standards?

- Function well across the world's jurisdictions
 - accommodates different legal frameworks
- Reduces financial structuring opportunities
 - rules are the tools of a financial engineer
- Faithfully represents the underlying economic transactions and events
 - no bright lines to exploit
 - different entities record similar, but not necessarily identical, answers for identical transactions and events



So what will the future look like?

10



Principles

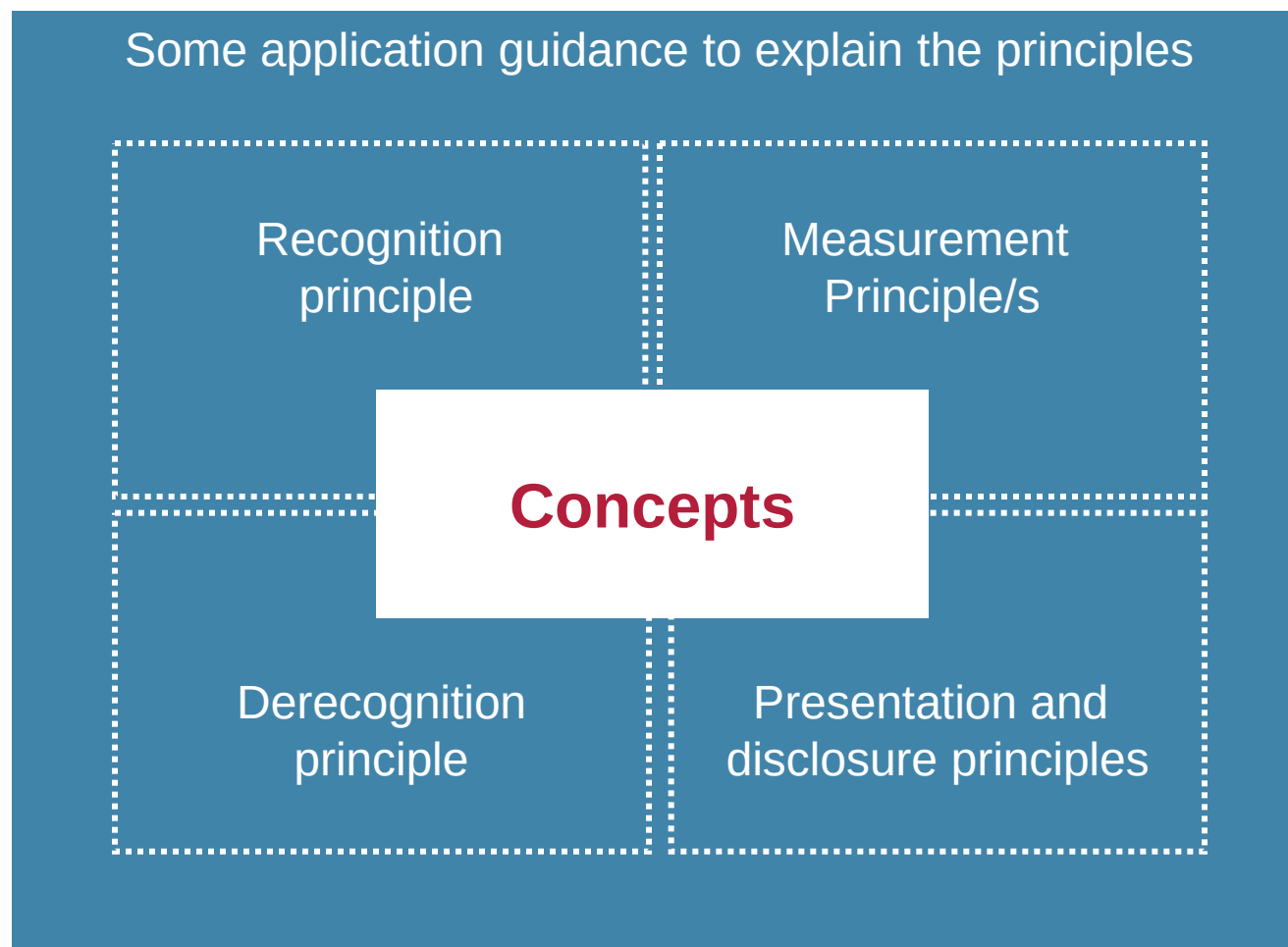


Rules



Ideal structure of a principle-based standard

11



The ideal principle-based standard

12

- Scope
 - no exceptions
- Principles
 - **derived from conceptual framework**
 - reliance on professional judgement to apply principles in business context
- Some application guidance
 - explains application of principles



Get rule-based standards if

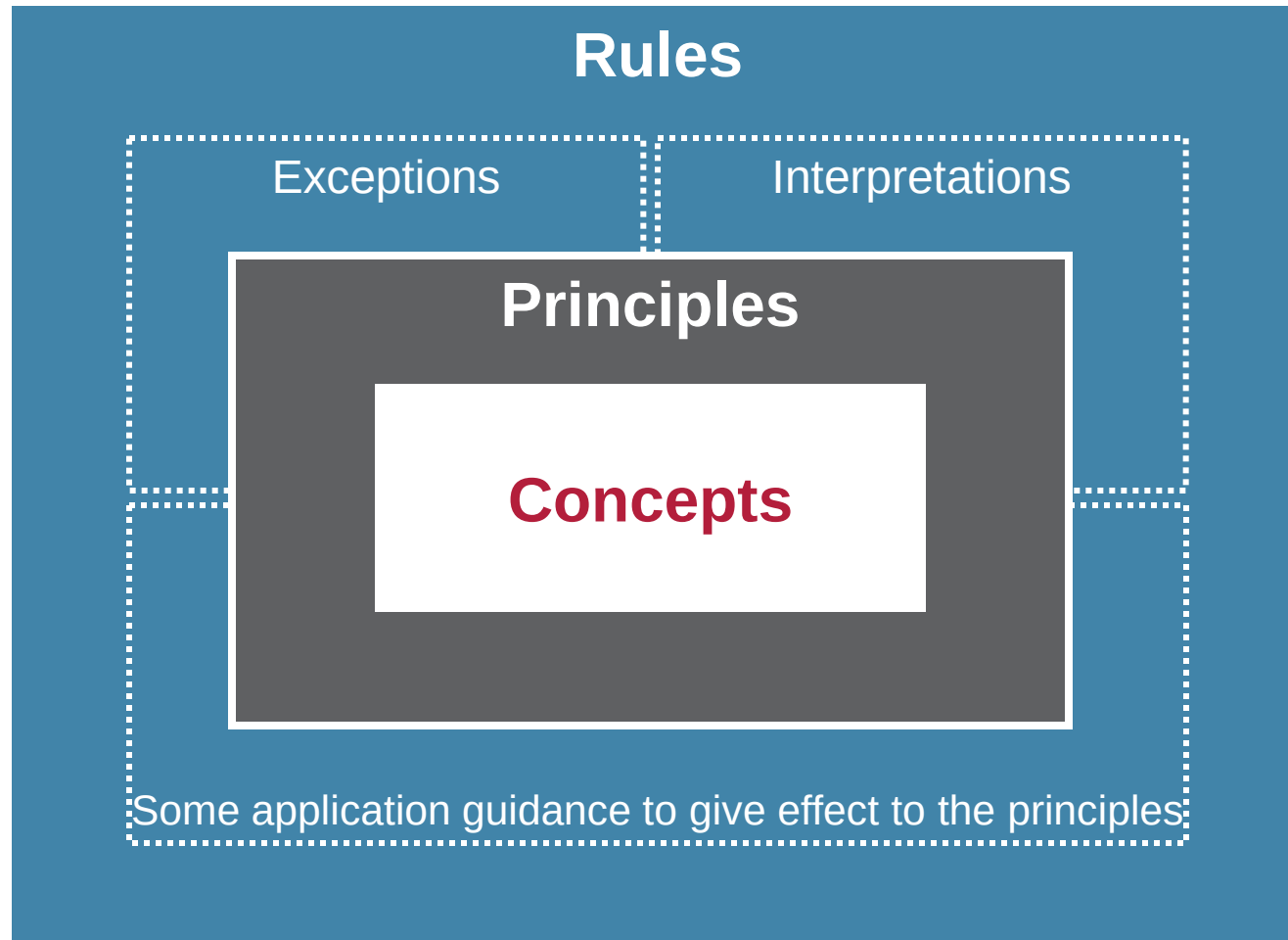
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- Preparers and auditors
 - refuse to exercise professional judgement
 - don't act with integrity
 - ask for detailed interpretations
 - refuse to accept raw economic facts
- Regulators
 - want one answer in spite of different economic facts
- Courts
 - lawyers fail to defend reasonable judgements



Structure of *some* IFRSs

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Example 1:

Business combinations

15

- Core principle
 - an acquirer of a business (scope)
 - recognises the assets acquired and liabilities assumed (recognition)
 - at their acquisition-date fair values (measurement)
 - discloses information that enables users to evaluate the nature and financial effects of the acquisition (disclosure)



Example 1:

Business combinations continued

16

- But still has rules
 - exceptions to the recognition principle
 - exceptions to the measurement principle
 - specified disclosures

See basis for conclusions on IFRS 3 for reasons for rules deviations from core principle



Example 2:

Correcting material prior period error

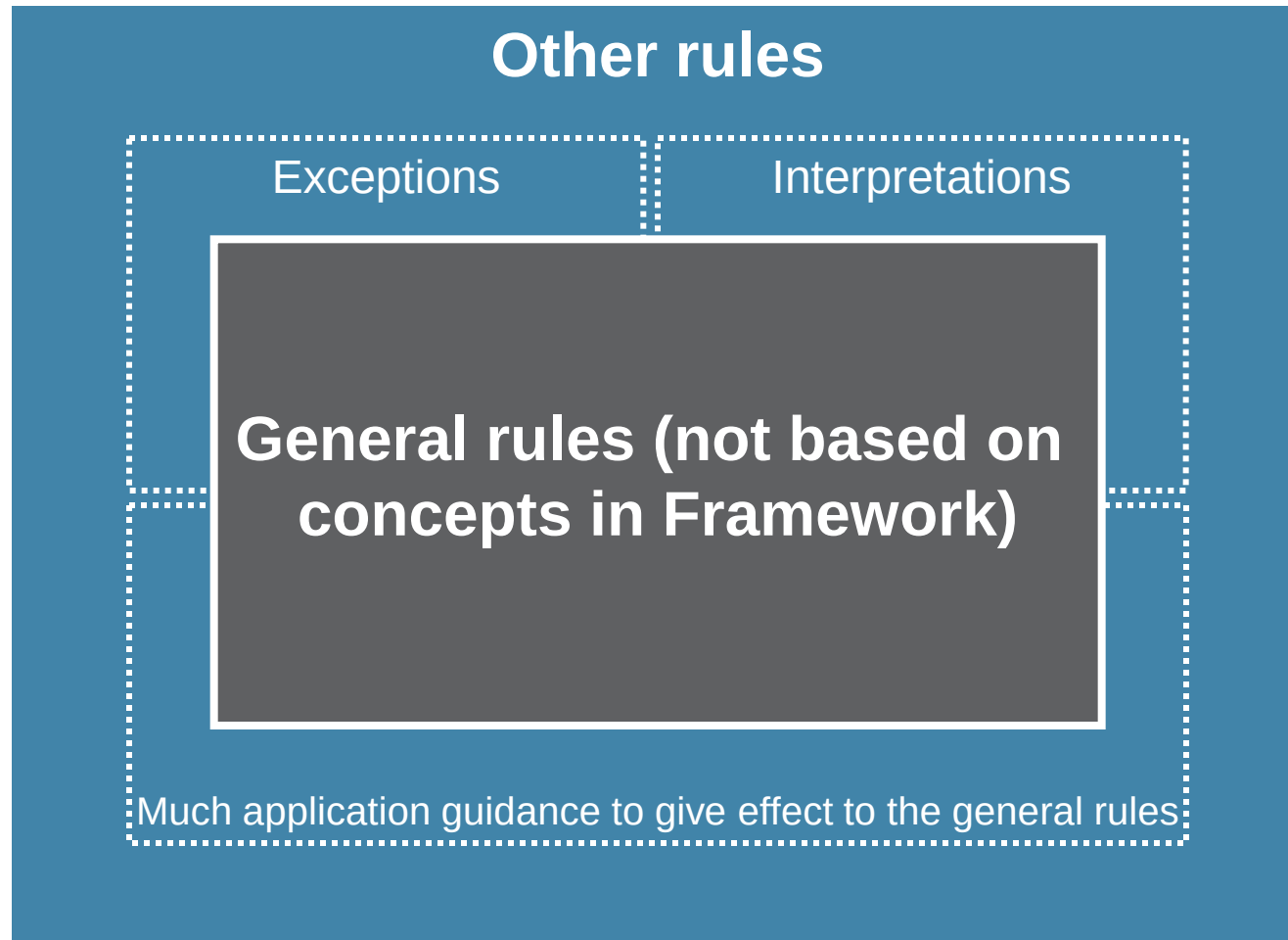
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- Objective
- Concepts
 - faithful representation
 - comparability
- Principle
 - **retrospective restatement**, ie restate financial statements in order that present financial information as if error had not occurred
- Rules
 - impracticable exception
 - specified disclosures



Structure of *other* IFRSs

18



Example 3:

Lease classification

19

- General rule (not a principle)
 - capitalise in-substance purchases (finance leases)
 - other leases = executory contracts (operating leases)



Example 3: Lease classification continued

20

General rule is weak/inconsistent with the framework

- Many leases structured to be off balance sheet
- US wrote more application rules. These rules arguably help structure leases off balance sheet

Help us set a better classification principle (see DP Lease)



Concepts that underlie IFRSs

21

- Objectives of **general purpose financial statements**
- Qualitative characteristics
- Elements
- Recognition and measurement
- Presentation and disclosure



Objective of IFRS financial statements

- to provide information about the:
 - financial position
 - performance; and
 - changes in financial position
- of an entity that is useful to ... in making capital allocation decisions.



Debunk myths:

- Myth 1: objective = record of historical costs
- Myth 2: objective = support tax return
- Myth 3: financial statements are designed to meet all the needs of all users



Qualitative characteristics

24

Current framework

- understandability
- relevance
 - materiality
- reliability
 - faithful representation
 - substance over form
 - neutrality (prudence)
 - completeness
- comparability

Proposed framework

- fundamental QCs
 - relevance
 - faithful representation
 - complete
 - neutrality
 - free from material error
- enhancing QCs
 - comparability
 - verifiability
 - timeliness
 - understandability



Myth 1: Reliability = precise

- Debunk:
 - reliability = faithful representation, substance over form, neutrality, completeness... (FW.31–38)

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 - accrual basis = recognise elements when they satisfy definition and recognition criteria (IAS 1.28)
 - other elements defined with reference to assets and liabilities (FW.49 and 70)



Current framework

- Asset
 - resource controlled by the entity
 - result of past event
 - expected inflow of economic benefits
- Liability
 - present obligation
 - arising from past event
 - expected outflow of economic benefits

Framework project

- Asset
 - a present
 - economic resource
 - to which the entity has a right or other access that others do not have
- Liability
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 - economic obligation
 - for which the entity is the obligor



Current framework

- $\text{Equity} = \text{Assets} - \text{Liabilities}$ (ie a residual)
- Income and expenses = changes in assets and liabilities...

Defining income and expenses with reference to assets & liabilities = robust framework for measuring performance



Myth: The measurement part of the IASB's framework is robust

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Help us develop a better framework for measurement



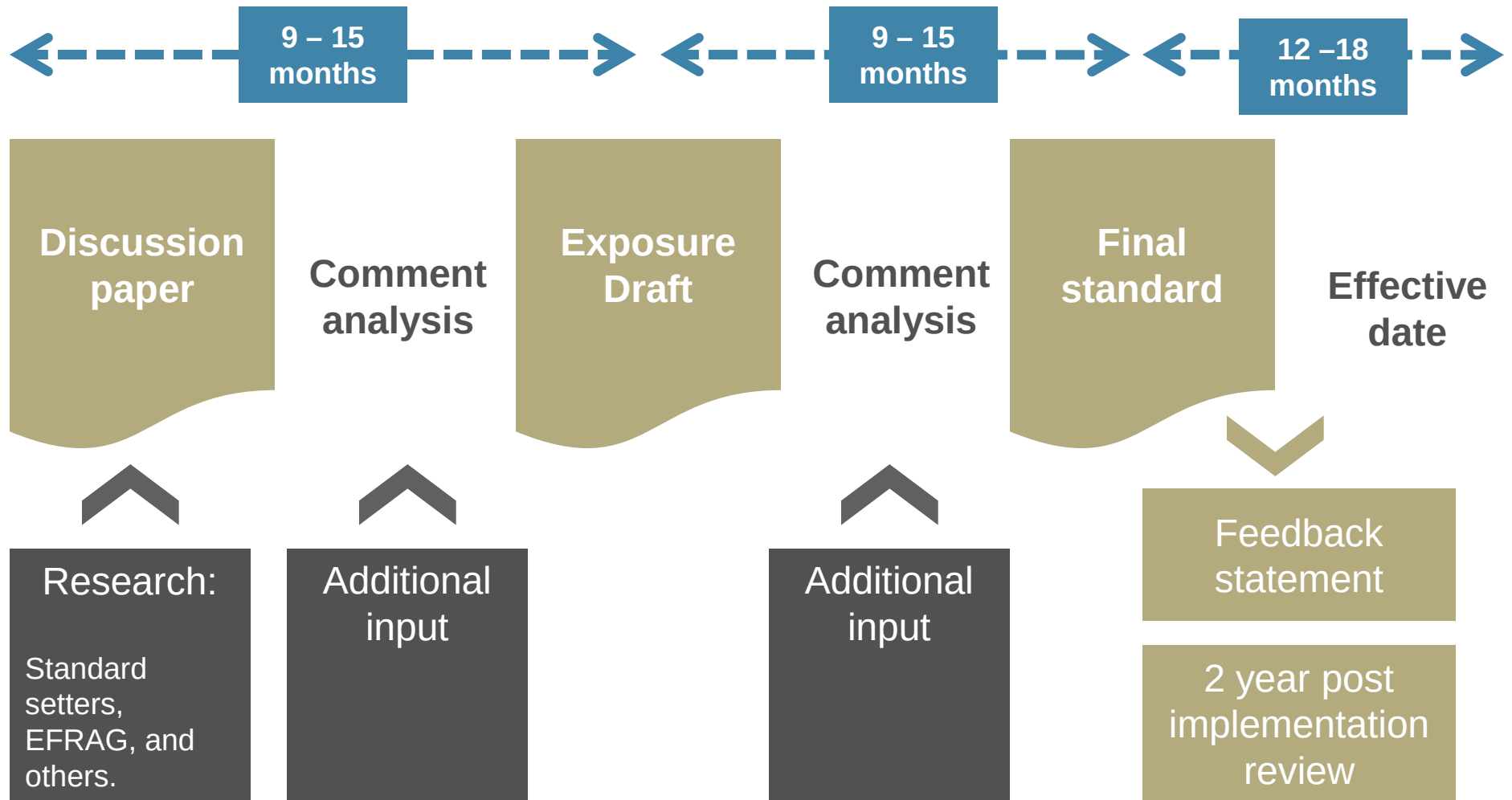
IASB's active agenda

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Consultation process

30



Conceptual framework work plan

31

Phases		Next step / current status	Timing estimate
A	Objectives and qualitative characteristics	Final chapters	Q2 2010
B	Elements and recognition	DPs	Q4 2010
C	Measurement	DPs	Q4 2010
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F	Purpose and status		
G	Not-for-profit entities		
H	Remaining issues		



Major MoU projects—financial crisis

32

Project	Progress towards milestones	
Financial instruments: recognition and measurement	Milestone 2010	converged requirements
	Work done	PVD/DP on complexity issued FASB ED on hedging issued IFRS 9 <i>Financial Instruments</i> issued IASB ED on impairment issued [comments by 30 June] DP on credit risk in liability measurement issued FCAG issued report issued FASB-IASB joint round tables in Tokyo, London and Norwalk



Major MoU projects—financial crisis continued

33

Project	Progress towards milestones	
Financial instruments: recognition and measurement continued	Expect	IASB ED classification and measurement of financial liabilities in Q2 2010 IASB ED hedge accounting in mid 2010 FASB to issue comprehensive ED on financial instruments in Q2 2010



Major MoU projects—financial crisis continued

34

Project	Progress towards milestones	
Fair value measurement guidance	Milestone 2010	converged guidance
	Work done	SFAS 157 and IASB ED issued and round table discussions in Q4 2009
	Expect	IFRS in Q3 2010



Major MoU projects—financial crisis continued

35

Project	Progress towards milestones	
Consolidation and SPEs	Milestone 2009	converged requirements
	Work done	Revised FIN46R & FAS 140 and IASB ED
	Expect	IFRS on disclosures in Q2 2010 IFRS (replace IAS 27) in Q4 2010 US ED in H1 2010
Derecognition	Milestone 2010	converged requirements
	Work done	Revised FAS 140 and IASB ED issued
	Expect	IASB ED Q2/Q3 2010 IFRS in Q2 2011



Other major joint projects (MoU)

36

Project	Progress towards milestones	
FI with characteristics of equity	Milestone 2011	converged requirements
	Work done	PVD and DP issued
	Expect	EDs in Q2 2010
Revenue recognition	Milestone 2011	converged requirements
	Work done	DPs issued
	Expect	EDs in Q2 2010
Financial statement presentation	Milestone 2011	converged requirements
	Work done	DPs issued
	Expect	3 IASB EDs in Q2 2010 (i) discontinuing operations (ii) presentation of OCI (iii) replacing IASs 1 & 7



Other major joint projects (MoU) continued

37

Project	Progress towards milestones	
Leases	Milestone 2011	converged requirements
	Work done	DPs issued
	Expect	EDs in Q2 2010
Post employment benefits	Milestone 2011	converged requirements
	Work done	SFAS 158 and IASB DP issued IASB ED <i>Discount Rate for Employee Benefits</i> issued
	Expect	IASB ED on defined benefit plans in Q2 2010



Other major joint projects (not in MoU)

38

Joint project (outside MoU)	Next step / current status	Timing estimate
Insurance contracts	EDs	Q2 2010
Emissions trading schemes	EDs	Q4 2010



IASB project	Next step / current status	Timing estimate
Liabilities	ED comments due IFRS	19 May 2010 Q2 2010
Common control transactions	Suspended	
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International Financial Reporting Standards



Gilbert Gélard, IASB member

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- Why global standards?
- Principle-based standards
- IASB's active agenda



Why global standards?

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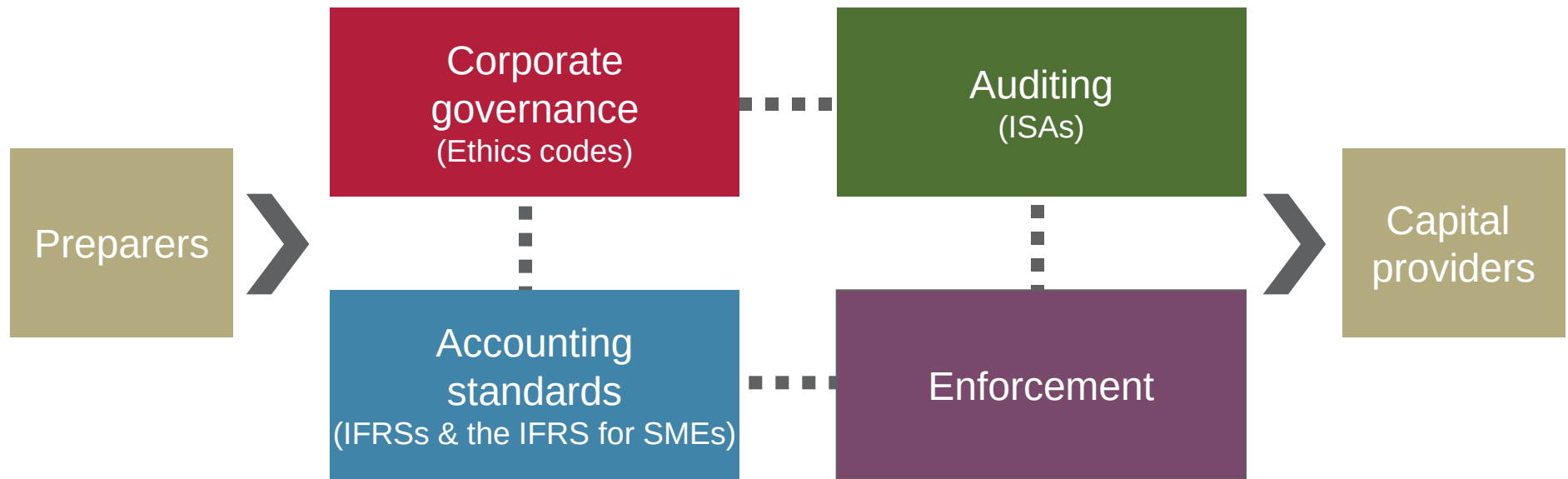


- Capital markets are global
 - New York, London, Luxemburg, Hong Kong, Singapore
- World's economies are interdependent
 - the financial crisis
 - SMEs integrated into the global economy
- Accounting and auditing needs strengthening
 - World Bank ROSCs
 - corporate failures
 - standard setters work programmes



Information supply chain

5



Benefits of global standards

6

- Efficient allocation of capital globally
 - attracting investment through transparency
 - reducing the cost of capital
 - increasing world-wide investment
- Reducing costs and increased efficiency
 - facilitates standardising information systems
 - eliminates wasteful reconciliations
 - audit efficiencies
 - education and training



Fortune Global 500 (July 2009)

7

Fortune G500		Based on announced plans	
Which GAAP?	2009	2013	Japan 2015?
IFRSs and word-for-word IFRS equivalents	190	245	310
US GAAP	155	155	140
National GAAPs	155	100	50
Total	500	500	500



Principle-based standards

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Why principle-based standards?

- Function well across the world's jurisdictions
 - accommodates different legal frameworks
- Reduces financial structuring opportunities
 - rules are the tools of a financial engineer
- Faithfully represents the underlying economic transactions and events
 - no bright lines to exploit
 - different entities record similar, but not necessarily identical, answers for identical transactions and events



So what will the future look like?

10



Principles

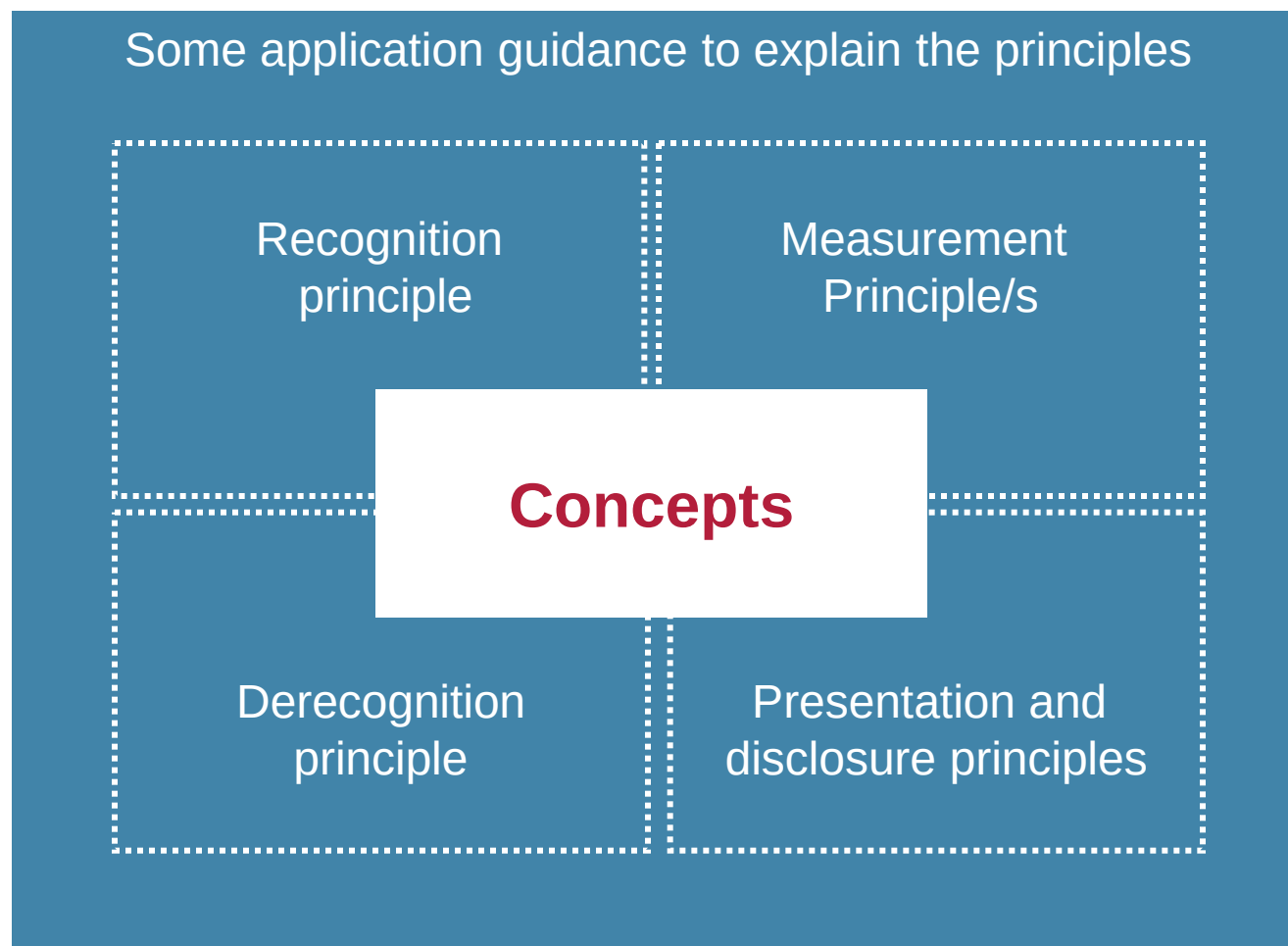


Rules



Ideal structure of a principle-based standard

11



The ideal principle-based standard

12

- Scope
 - no exceptions
- Principles
 - **derived from conceptual framework**
 - reliance on professional judgement to apply principles in business context
- Some application guidance
 - explains application of principles



Get rule-based standards if

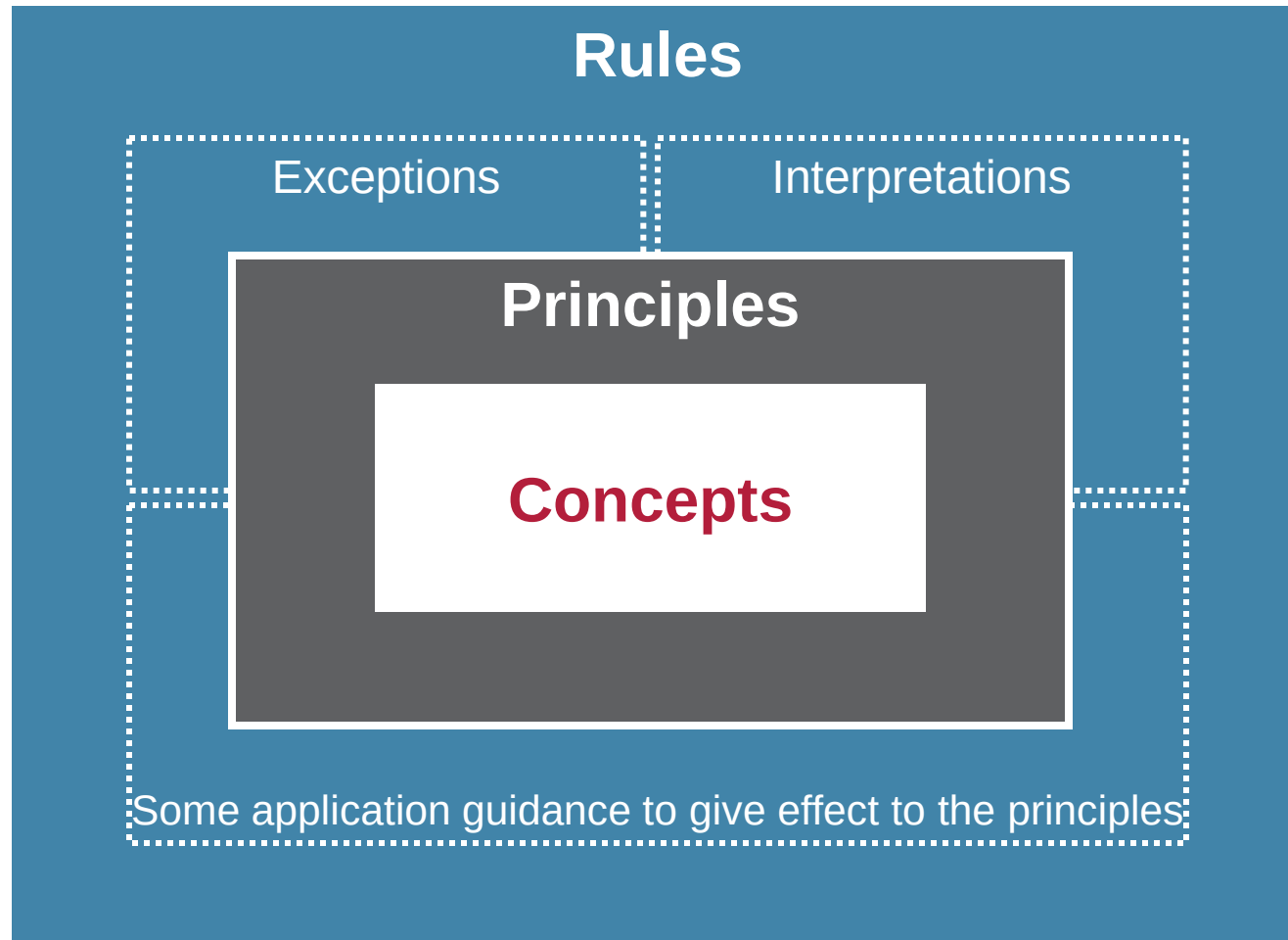
13

- Preparers and auditors
 - refuse to exercise professional judgement
 - don't act with integrity
 - ask for detailed interpretations
 - refuse to accept raw economic facts
- Regulators
 - want one answer in spite of different economic facts
- Courts
 - lawyers fail to defend reasonable judgements



Structure of *some* IFRSs

14



Example 1:

Business combinations

15

- Core principle
 - an acquirer of a business (scope)
 - recognises the assets acquired and liabilities assumed (recognition)
 - at their acquisition-date fair values (measurement)
 - discloses information that enables users to evaluate the nature and financial effects of the acquisition (disclosure)



Example 1:

Business combinations continued

16

- But still has rules
 - exceptions to the recognition principle
 - exceptions to the measurement principle
 - specified disclosures

See basis for conclusions on IFRS 3 for reasons for rules deviations from core principle



Example 2:

Correcting material prior period error

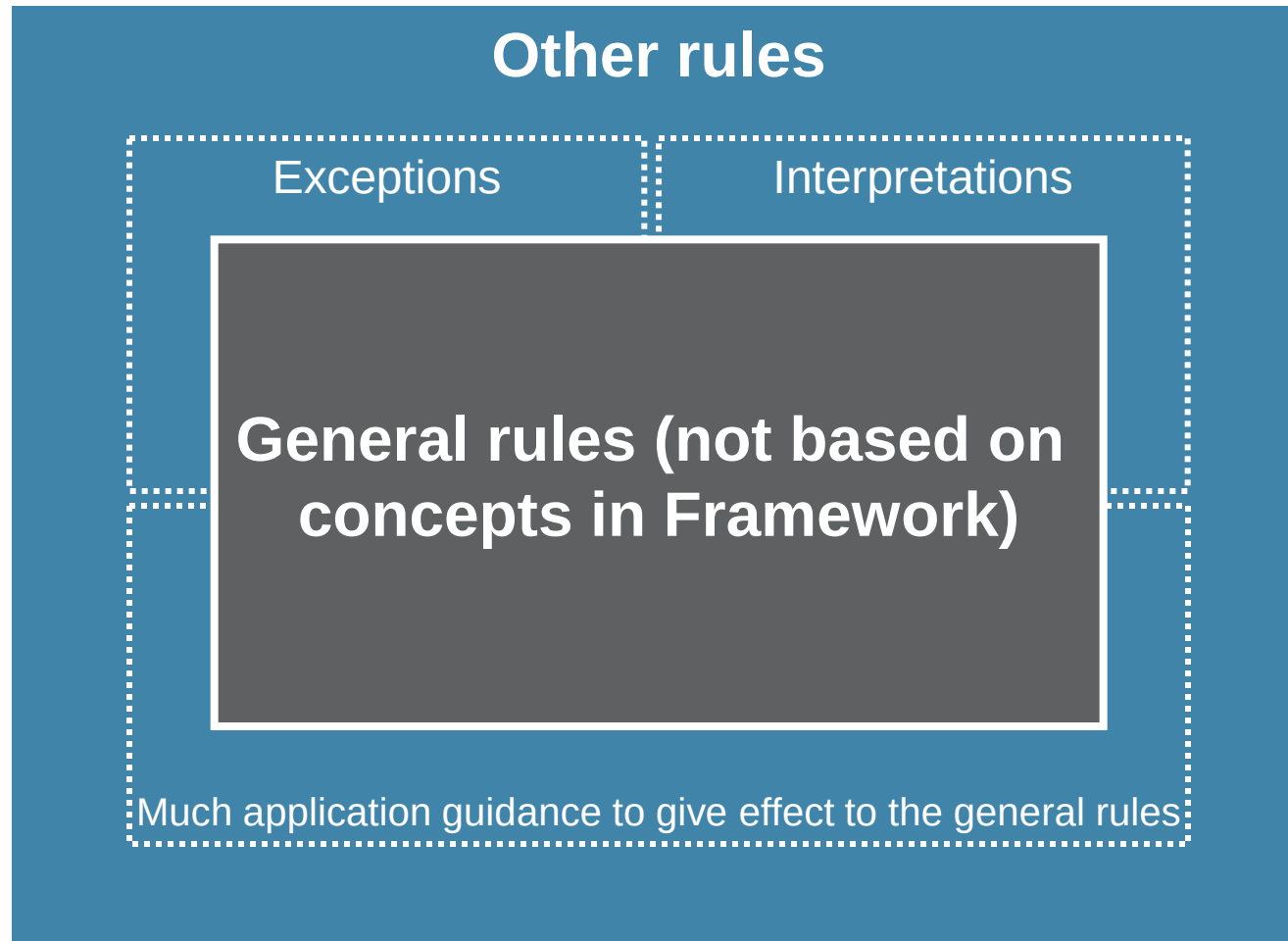
17

- Objective
- Concepts
 - faithful representation
 - comparability
- Principle
 - **retrospective restatement**, ie restate financial statements in order that present financial information as if error had not occurred
- Rules
 - impracticable exception
 - specified disclosures



Structure of *other* IFRSs

18



Example 3:

Lease classification

- General rule (not a principle)
 - capitalise in-substance purchases (finance leases)
 - other leases = executory contracts (operating leases)



Example 3: Lease classification continued

20

General rule is weak/inconsistent with the framework

- Many leases structured to be off balance sheet
- US wrote more application rules. These rules arguably help structure leases off balance sheet

Help us set a better classification principle (see DP Lease)



Concepts that underlie IFRSs

21

- Objectives of **general purpose financial statements**
- Qualitative characteristics
- Elements
- Recognition and measurement
- Presentation and disclosure



Objective of IFRS financial statements

- to provide information about the:
 - financial position
 - performance; and
 - changes in financial position
- of an entity that is useful to ... in making capital allocation decisions.



Debunk myths:

- Myth 1: objective = record of historical costs
- Myth 2: objective = support tax return
- Myth 3: financial statements are designed to meet all the needs of all users



Qualitative characteristics

24

Current framework

- understandability
- relevance
 - materiality
- reliability
 - faithful representation
 - substance over form
 - neutrality (prudence)
 - completeness
- comparability

Proposed framework

- fundamental QCs
 - relevance
 - faithful representation
 - complete
 - neutrality
 - free from material error
- enhancing QCs
 - comparability
 - verifiability
 - timeliness
 - understandability



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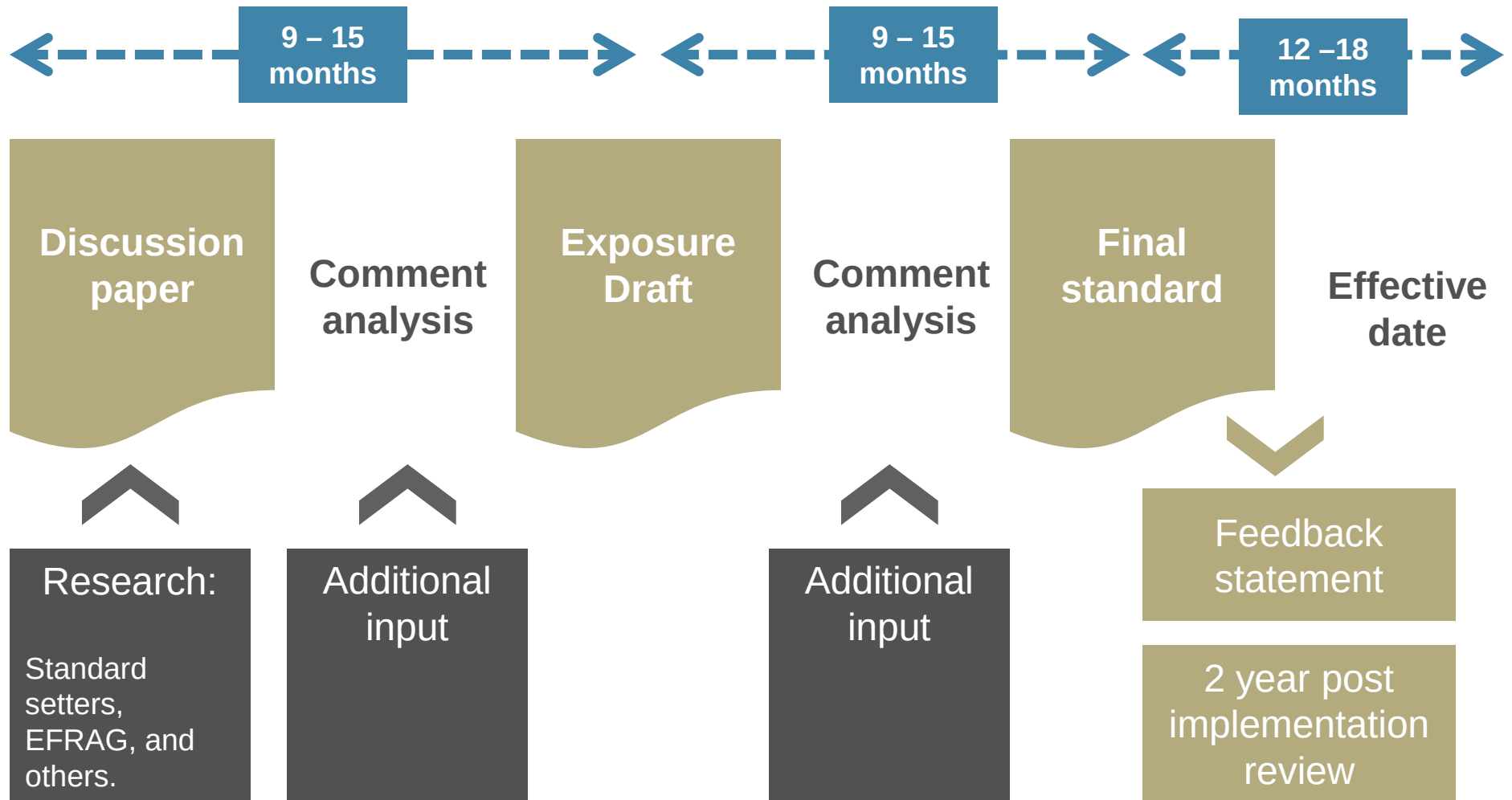
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Major MoU projects—financial crisis

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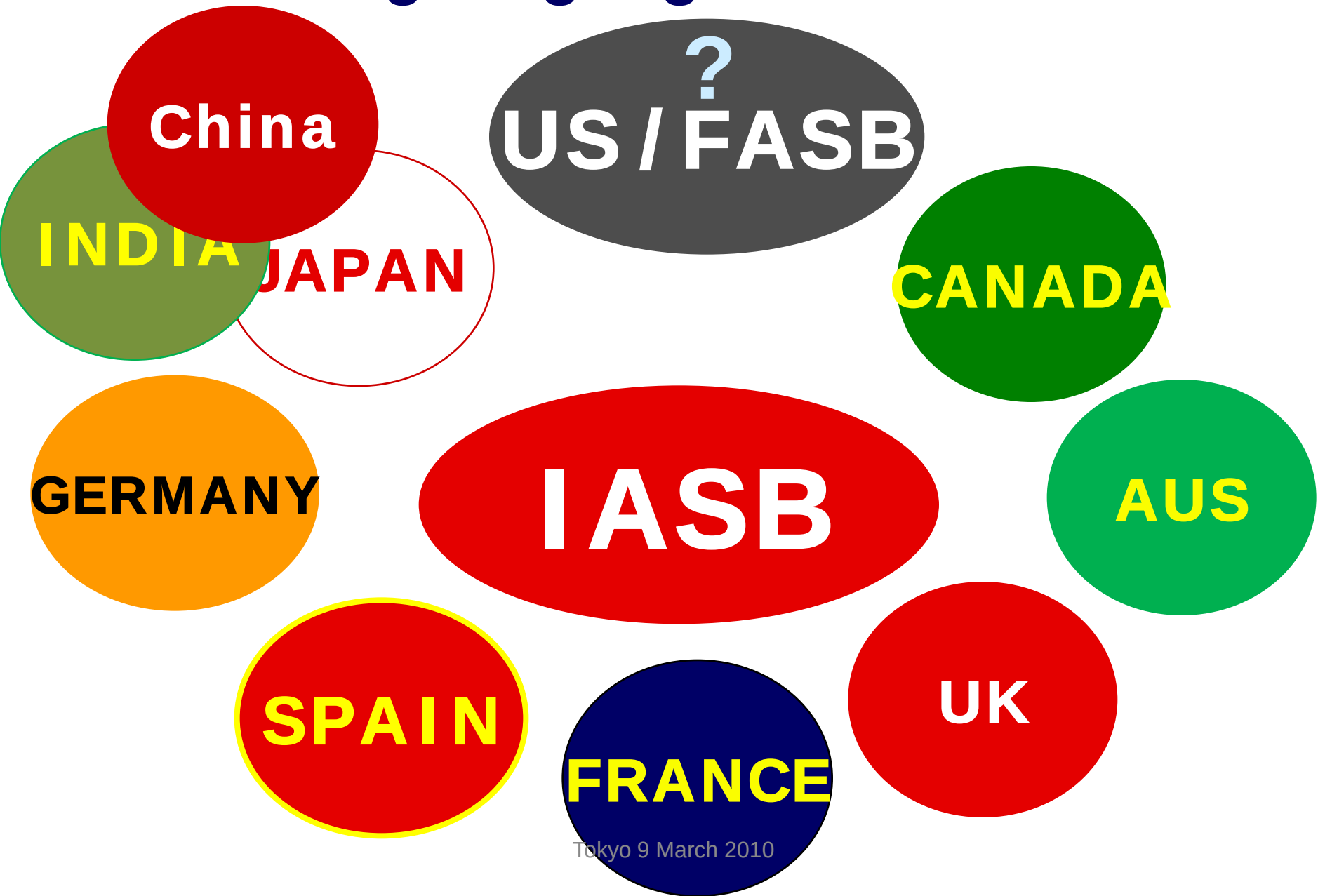
FINANCIAL REPORTING

Stig Enevoldsen

Former chairman of EFRAG

Helsinki – 5 May 2010

Accounting languages



IFRS – USA and JAPAN

Roadmaps issued by **Japanese FSA** and **US SEC** on whether to allow or require US and Japanese companies to use IFRS

IFRS – JAPAN

Japanese roadmap

- Is now approved by the Japanese FSA and allowing use as per 31 March 2010s
- Decision in 2012 whether to require Japanese companies to use IFRS
- US GAAP not allowed from 2016

December 11, 2009
Financial Services Agency

Publication of the Revised Cabinet Office Ordinances, etc. for the Voluntary Application of International Financial Reporting Standards in Japan

On December 11, 2009, the Financial Services Agency (FSA) published a set of revised Cabinet Office Ordinances, including “Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements” and “Cabinet Office Ordinance on Disclosure of Corporate Information,” etc.

With these revisions, Japanese listed companies which meet certain requirements (“Specified Companies”) will be given the option to prepare their consolidated financial statements, starting from the consolidated fiscal years ending on or after March 31, 2010, by applying IFRSs designated by the Commissioner of the FSA through public notice. Please refer to the attached document for the summary of the revised Cabinet Office Ordinance, etc.

The publication of these revised Cabinet Office Ordinances, etc. officially provides an operational framework for the voluntary application of IFRSs, starting from the fiscal years ending on or after March 31, 2010, as the first step toward the application of IFRSs in Japan, following the roadmap, “Application of International Financial Reporting Standards (IFRS) in Japan (Interim Report)” released by the Business Accounting Council on June 30, 2009. On the second step, the decision regarding the mandatory use of IFRSs is to be made around 2012, while giving due consideration to various factors, including whether: 1) financial statements preparers, auditors, investors and other stakeholders are well prepared for practical application of IFRSs through sufficient training and education on IFRSs; 2) due process for setting of IFRSs is ensured and governance of the IASCF strengthened; and 3) process of setting IFRSs gives proper consideration to the economic reality of business and trade practices in various countries.

The revision also includes discontinuing the current treatment where certain Japanese listed companies are allowed domestically to submit their consolidated financial statements prepared under U.S. Generally Accepted Accounting Principles; the treatment will no longer be valid for consolidated fiscal years ending after March 31, 2016.

for.

- [Global Leadership Survey Report](#) (PDF 679k)
- [IFAC Press Release](#) (PDF 26k)
- [IFAC Web Page with Policy Position Papers and Reports](#)

4 March 2010: Japan 'designates' additional IFRSs



In our [News Story of 31 Jan 2010](#), we reported that the Financial Services Agency (FSA) of Japan proposed to update the list of IFRSs designated for use by companies voluntarily applying IFRSs in Japan to include the following IFRSs:

- IFRS 1 First-time Adoption of International Financial Reporting Standards (amendment)
- IAS 32 Financial Instruments: Presentation (amendment)
- IAS 24 Related Party Disclosures (amendment)
- IFRS 9 Financial Instruments
- IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The FSA has now finalised that proposal. Click to download the [FSA Press Release \(English version\)](#) (PDF 27k). Ordinances that FSA adopted on 11 December 2009 (see [IAS Plus News Story](#)) allow Japanese listed companies that meet certain requirements to apply voluntarily, starting in financial years ending on or after 31 March 2010, IFRSs designated by the Commissioner of the FSA through public notice.

4 March 2010: Notes from Special 3 March 2010 IASB-FASB meeting



The IASB and FASB held a special joint meeting at the IASB's offices in London on Wednesday 3 March 2010. Click [here](#) to go to the preliminary and unofficial [Notes Taken by Deloitte Observers](#) at the meeting. Another special joint meeting will be held on 11 March 2010. The IASB's regular March Board meeting will be held on 15-19 March 2010.

**Designation =
endorsement**

March 3, 2010

Financial Services Agency

Publication of the Revision on the Designation of the International Financial Reporting Standards for their Voluntary Application in Japan

The Financial Services Agency (FSA) completed the public consultation and updated the list of Designated International Financial Reporting Standards (IFRSs), allowing all IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations approved and issued by the International Accounting Standards Board (IASB) on or before December 31, 2009, to be used in the voluntary application of IFRS in Japan by certain Japanese listed companies ("Specified Companies") starting from the consolidated fiscal years ending on or after March 31, 2010. During the public consultation period, the FSA received 6 sets of comments, which did not oppose to the proposed list of Designated IFRSs, and the FSA has decided to update the list of Designated IFRSs as proposed.

SECURITIES AND EXCHANGE COMMISSION

RELEASE NOS. 33-9109; 34-61578

U.S. SEC

Commission Statement in Support of Convergence and Global Accounting Standards

AGENCY: Securities and Exchange Commission.

ACTION: Commission statement.

SUMMARY: The Securities and Exchange Commission (the “Commission”) is publishing this statement to provide an update regarding its consideration of global accounting standards, including its continued support for the convergence of U.S. Generally Accepted Accounting Principles (“U.S. GAAP”) and International Financial Reporting Standards (“IFRS”) and the implications of convergence with respect to the

IFRS – Other countries

Other major economies committed

- Canada, Brazil and South Korea
- China, India, Mexico and Argentina

Leaving USA on its own

EUROPE AND ACCOUNTING

Helsinki 5 May 2010

European Regulation

EU has opted for IAS/IFRS and

Same accounting in Europe

EU and IFRS

We have a global standard setter

IFRS has improved the quality and the credibility of European financial reporting

EU and IFRS

EU companies, auditors and regulators have spent the money to implement IFRS

EU has a competitive advantage!!

EU and IFRS

Monitoring Board

Signed by

Commissioner Charlie McCreevy

(surprise)

EU and IFRS

European Commissioner Barnier?

Committed to IFRS(?!) and has
promised not to be puppet of
Sarkozy and French views

But he is an unknown feature as yet

EU and IFRS

EU has adopted IFRS

Might be blocking minority for endorsing new standards on F.I.

But most likely also blocking minority for any other solution

No other infrastructure

G20 and accounting

G20 and accounting – April

One set of global standards

**Consistency of measurement for
standards and regulators**

Leaders' Statement: The Pittsburgh Summit

September 24 – 25, 2009

PREAMBLE

1. We meet in the midst of a critical transition from crisis to recovery to turn the page on an era of irresponsibility and to adopt a set of policies, regulations and reforms to meet the needs of the 21st century global economy.
2. When we last gathered in April, we confronted the greatest challenge to the world economy in our generation.
3. Global output was contracting at pace not seen since the 1930s. Trade was plummeting. Jobs were disappearing rapidly. Our people worried that the world was on the edge of a depression.
4. At that time, our countries agreed to do everything necessary to ensure recovery, to repair our financial systems and to maintain the global flow of capital.
5. It worked.
6. Our forceful response helped stop the dangerous, sharp decline in global activity and stabilize financial markets.

important financial firms should develop internationally-consistent firm-specific contingency and resolution plans. Our authorities should establish crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as improve information sharing in times of stress. We should develop resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future. Our prudential standards for systemically important institutions should be commensurate with the costs of their failure. The FSB should propose by the end of October 2010 possible measures including more intensive supervision and specific additional capital, liquidity, and other prudential requirements.

14. We call on our international accounting bodies to redouble their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard setting process, and complete their convergence project by June 2011. The International Accounting Standards Board's (IASB) institutional framework should further enhance the involvement of various stakeholders.

15. Our commitment to fight non-cooperative jurisdictions (NCJs) has produced impressive results. We are committed to maintain the momentum in dealing with tax havens, money laundering, proceeds of corruption, terrorist financing, and prudential standards. We welcome the expansion of the Global Forum on Transparency and Exchange of Information, including the participation of developing countries, and welcome the agreement to deliver an effective program of peer review. The main focus of the Forum's work will be to improve tax transparency and exchange of information so that countries can fully enforce their tax laws to protect their tax base. We stand ready to use countermeasures against tax havens from March 2010. We welcome the progress made by the Financial Action Task Force (FATF) in the fight against money laundering and terrorist financing and call upon the FATF to issue a public list of high risk jurisdictions by

1 April 2010: G20 leaders urge 'international standards'

¥ £ \$ € The leaders of Canada, France, Korea, United Kingdom, and United States have sent a [Joint Letter](#) (PDF 138k) to the other leaders of the G20 countries highlighting the need for continued cooperation on the regulatory reform agenda to strengthen the international financial system that they agreed to at their summit meeting in Pittsburgh in September 2009. The [Statement](#) (PDF 102k) that was issued following the Pittsburgh summit set out, as one of many goals, complete convergence of accounting standards across the G20 member nations by June 2011. In their new letter, the five leaders reiterate their call for adoption of international standards and for peer reviews to evaluate compliance. An excerpt:

Collectively we have been making steady progress toward stabilizing and strengthening the global financial system by fortifying prudential oversight, improving risk management, promoting transparency, and reinforcing international cooperation. While confidence in the financial system has improved, more work is required to restore the soundness of some global banks' balance sheets, to avoid leaving the global financial system vulnerable and restricting its ability to provide the credit needed to fuel sustainable economic growth....

There can be no let up in our commitment to... implementing international standards and agreeing to undergo periodic peer reviews to evaluate our adherence to these standards.

IAS Plus has comprehensive accounting-related resources on the global 'credit crunch' [Here](#).

1 April 2010: Argentina proposes to adopt *IFRS for SMEs*



As [Previously Reported](#) on IAS Plus, Argentina will require all companies that publicly offer equity or debt securities to switch to IFRSs starting in 2012, with an option to use IFRSs in 2011 or, in some cases, 2010. On 19 March 2010, the Federación Argentina de Consejos Profesionales de Ciencias Económicas (the national professional accounting body in Argentina) issued an exposure draft proposing to adopt the *IFRS for SMEs* as an option for all entities not required

The crisis

What is the impression of G20 views?

Accounting back to its relative importance

But.....

28 April 2010: ECB concerns about fair value, convergence



Gertrude Tumpel-Gugerell, member of the Executive Board of the European Central Bank (ECB), spoke on **Elements for intervention on accounting issues** at a conference in Paris on 27 April 2010. Click to [Download Ms Tumpel-Gugerell's Remarks](#) (PDF 56k). Here are several excerpts in which she presents the views of the ECB on fair value measurement, impairment, and convergence:

Fair value measurements

First, in our view fair value accounting does not provide decision-useful information to investors if the intention of an entity is to hold the assets until maturity or to settle the liabilities at their nominal amount at maturity. In these cases, recognising interim fair value changes simply heightens the volatility of the financial accounts, without providing actual 'information content'. This is typically the case for the loan book of commercial banks.

Moreover, the ECB does not agree that an entity is required to record a gain when the fair value of its own debt falls due to a decrease in its creditworthiness. The rationale being that the entity could buy back the debt and realise the profit. However, in reality and especially in times of distress, an entity does not have readily available the extra cash to buy back their debt....

Second, with regard to its application, fair value accounting poses certain operational challenges, namely when markets become illiquid and reliable market prices are no longer available. What is the use of marking-to-market when there is no market? The relevance and reliability of fair values based on market prices require a functioning market where prices adequately reflect the underlying fundamentals of the financial instrument. When the market is significantly disrupted, the use of market values may be utterly meaningless....

Hence the ECB is of the opinion that fair value measurement should only be required if it is consistent with the institution's business model and the characteristics of the particular underlying asset or liability.

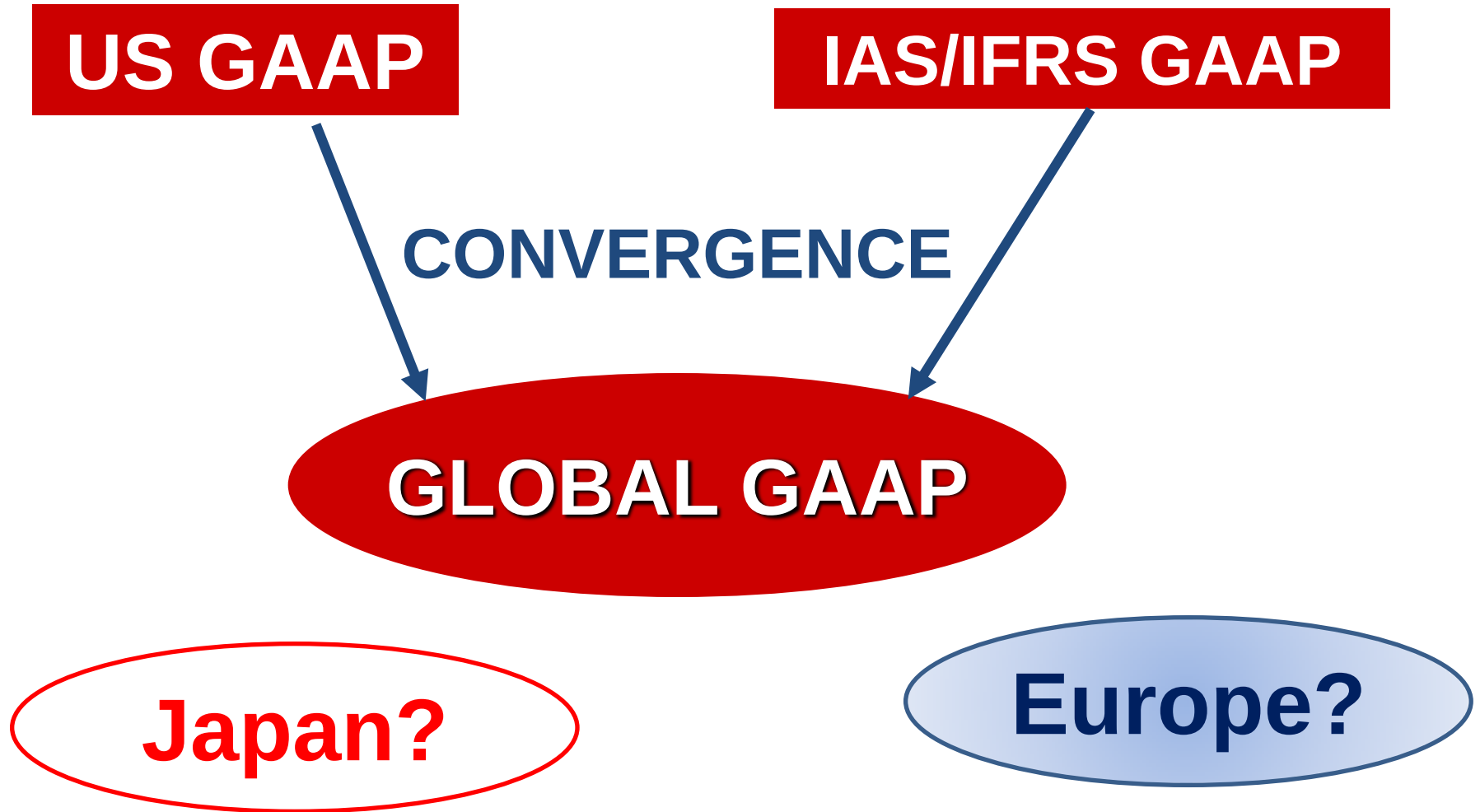
Impairment of financial assets

Pre-crisis provisioning practices delayed the recognition of credit losses inherent in loans. Accounting rules require a specific trigger event, such as a default in payment to take place before allowing an entity to create provisions for credit losses. As a result, major write-offs usually accumulate during severe downturns when the inherent credit losses actually materialise, adding further stress to the financial system.

Hence, a more forward looking provisioning methodology should be developed. This has also been a recommendation

Convergence

Convergence



Convergence

New MoU issued 11 September 2008

- **Focused agenda linked to the possible US implementation of IFRS**
 - **Common, principles-based standards, subject to the required due process**
- **Is that the right focus?**

Press releases and announcements

and announcements ▶ IASB and FASB Reaffirm Commitment to Memorandum of Understanding

IASB and FASB Reaffirm Commitment to Memorandum of Understanding

05 November 2009

At their joint meeting last week, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) reaffirmed their commitment to improve International Financial Reporting Standards (IFRS) and U.S. generally accepted accounting principles (U.S. GAAP) and to bring about their convergence. The Boards also agreed to intensify their efforts to complete the major joint projects described in their 2006 Memorandum of Understanding (MoU), as updated in 2008.

Today, as a further affirmation of that commitment, the IASB and FASB issued a joint statement describing their plans and milestone targets for completing the major MoU projects in 2011. The statement, which is available by [clicking here](#) [PDF] also describes the values and principles underpinning the Boards' collaboration and significant successes achieved thus far.

In affirming their commitment to developing a common set of high quality standards, the

Further information

- [Joint statement: FASB and IASB Reaffirm Commitment to Memorandum of Understanding](#) [PDF]
- [Joint Statement of the International Accounting Standards Committee Foundation and the Financial Accounting Foundation](#) [PDF]
- [View a print-friendly PDF version of this press release](#)

project we improve financial reporting and we eliminate differences between IFRSs and US GAAP and make it easier for US entities to move to IFRS if the SEC decides that such a step is appropriate.

7. The MoU is equally important to our efforts to develop one set of global standards because it is the catalyst for making significant improvements to financial reporting. Unfortunately our goal of improving financial reporting is sometimes forgotten by outsiders when we discuss convergence. The FASB and the IASB are both committed to delivering the greatest possible improvements to financial reporting. By combining our resources and having the boards challenge each other we strive to create more robust and sustainable solutions.

Convergence

IASB – FASB fast track:

- All MOU projects to be finalised before June 2010 (not really possible and not important)
- Meet every month (or really every two weeks)
- Staffs almost integrated
- Does it have implications for the future?

Convergence

EFRAG comments:

- Supports convergence but not at all costs
- Keep focus on the agenda important to those regions (EU) already using IFRS, i.e insurance
- Not only focus on the needs of the US

The IASB

Work programme

IASB work programme

Crisis projects:

- Consolidation (new IAS 27) ED
- Consolidation – disclosures IFRS
- Derecognition ED IFRS
- Fair Value measurement - IFRS
- Fin Instr–Class&Meas/Liability ED
- F.I. Impairment ED
- F.I. Hedging ED

IASB work programme

MOU projects:

- FSP Discontinued Operations **ED**
- FSP – OCI – page break **ED**
- FSP – new IAS 1 and IAS 7 **ED**
- Equity/liability Split **ED**
- Income tax **ED**
- Leases **ED**
- Revenue recognition **ED**

IASB work programme

MOU projects:

- Pension - Corridor removal
- Termination benefits
- Joint ventures

ED

IFRS

IFRS

IASB work programme

Other projects:

- AIP
- Insurance
- IAS 37 Measurement
- Extractive industries

IFRS

ED

ED

DP

16

Framework ?????

IASB work programme

Many observers do no longer believe that IASB will meet its own timetable for the massive work programme

'Achieving
consensus on
some issues is
proving increasingly
difficult'

FINANCIAL TIMES THURSDAY APRIL 15 2010

Accounting rules deadline under threat

**By Rachel Sanderson
in London**

Accounting standard setters have said they could fail to meet a timetable for the creation of a single global set of accounting rules because they are so far unable to agree on how to value financial instruments, one of the most controversial issues of the crisis.

on five main issues, they had failed to come to the same conclusion on the issues of insurance contracts and the valuation of financial instruments.

In the case of financial instruments, the impasse was due to FASB showing support for a more widespread use of fair value accounting than the IASB, according to several people familiar with the matter. The FASB is due to release its response on how to value

IASB work programme

EFRAG comments



IASB must prioritise!

Financial instruments

November 2009

International Financial Reporting Standard®

IFRS 9 Financial Instruments



IFRS 9 C & M

Will the standard be endorsed?

Situation right now:

- Fast-track procedure stopped**
- Time for reflection**
- Next steps to be considered**
- Timing to be considered**

FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS:

- The most controversial issue in Europe**

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Financial instruments:

- Impairment
- Derecognition
- Financial liabilities (ocr)
- Hedging (limitations and portfolio)
- Derecognition



THE EUROPEAN VOICE

www.EFRAG.org

EFRAG

- **We must have a strong and credible European voice on accounting issues**
- **To match US and Japan**



www.EFRAG.org

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Main objectives:

- **Proactive contribution to the IASB and IFRIC**
- **Endorsement advice - EU Commission**
- **Co-ordinate proactive EU activities**
- **Stimulate thought leadership**

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Working Arrangement:

EFRAG advisor to the EU Commission on all issues on application of IFRS in EU

Specifically on

- **Endorsement advice**
- **Proactive input to IASB/IFRIC**

www.EFRAG.org

Helsinki 5 May 2010

EFRAG

Co-Funded by the EU Commission

From 2010 EC will fund 50% of EFRAG expenses up to a maximum

Supported by

- EU Parliament
- Council of Ministers

WWW.EFRAG.ORG

Helsinki 5 May 2010

EU Structure

**Performs
scrutiny**

**ACCOUNTING
REGULATORY
COMMITTEE -ARC**

Vote / Approval

EU COMMISSION

**EU
PARLIAMENT**

**COUNCIL OF
MINISTERS**

SARG

Advice



IFRS/IFRIC

EFRAG – has open due process

DRAFTS FOR COMMENT NOW:

Draft endorsement advice

None

Draft Comment Letter

ED Impairment

ED IAS 37

DP Extractive industries

ED Reporting Entity



European Financial Reporting Advisory Group

DRAFT COMMENT LETTERS

**Read all over the world
as basis for input to IASB**

www.EFRAG.org



European Financial Reporting Advisory Group ■

XX September 2009

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Draft Comment Letter

DRAFT COMMENT LETTER

Comments should be sent to Commentletter@efrag.org by 29 September 2009

Dear Madam/Sir

News

26-4-2010 | TEG meeting 5,

EFRAG announces that it will hold Technical Experts Group (TEG) meeting on 5, 6 and 7 May 2010.

23-4-2010 | EFRAGs Draft Comment Letter on the IASBs DP Extractive Activities

EFRAG has issued its draft comment letter on the IASB DP Extractive Activities. The letter can be downloaded here. Comments are invited on the draft letter by 2 July 2010.

16-4-2010 | EFRAG and European national standard-setters publish "Performance Reporting – summary of comments in response to the European Discussion Paper"

EFRAG and European national standard-setters publish "Performance Reporting – summary of comments in response to the European Discussion Paper". The Discussion Paper was published in March 2009 as part of the European pro-active work and addresses fundamental issues about the presentation of financial performance. The summary of comments can be downloaded here.

13-4-2010 | EFRAG's AMENDED draft comment letter on IASB's ED Measurement of Liabilities in IAS 37

EFRAG has supplemented its draft comment letter on the IAS ED Measurement of Liabilities in IAS 37, subsequent to the posting of the working draft of the new IFRS to replace IAS 37. Comments are invited until 7 May 2010. Constituents that have already submitted their replies are welcomed to comment only on the additions.

13-4-2010 | EFRAG's draft comment letter on the IASB's ED Conceptual Framework for Financial Reporting: The Reporting Entity

Draft Comment Letter Extractive Industries

Draft Comment Letter IAS 37

Invitation to comment

Projects: Invitation to Comment

ED on Measurement of Liabilities in IAS 37 | Draft Comment Letter
Comments no later than : 7-5-2010

IAS 39 Replacement: Amortised Cost and Impairment | Draft Comment Letter
Comments no later than : 1-6-2010

Conceptual Framework for Financial Reporting: The Reporting Entity ED | Draft Comment Letter
Comments no later than : 25-6-2010

Extractive Activities | Draft Comment Letter
Comments no later than : 2-7-2010

The EU endorsement status report

Position as at 25 March 2010

[Revisions to previous version of this schedule are marked in bold]

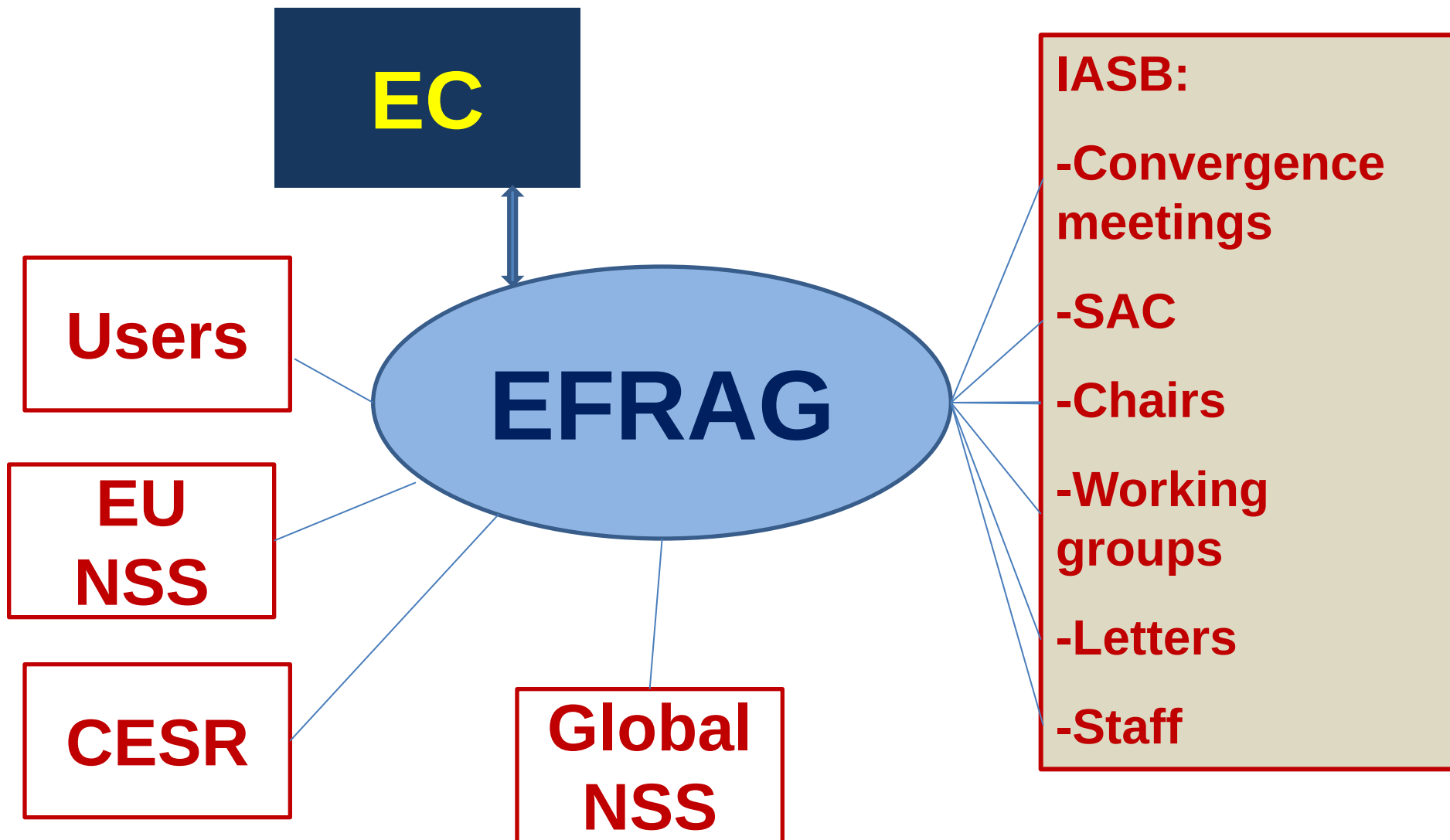
IASB/IFRIC documents not yet endorsed

	EFRAG draft endorsement advice	EFRAG endorsement advice	ARC vote	When might endorsement be expected	IASB Effective Date	Expected to be endorsed before the effective date?
STANDARDS						
IFRS 9 Financial Instruments (<i>Issued 12 November 2009</i>)	✓ 02/11/2009	*Postponed	* Postponed	* Postponed	01/01/2013	
INTERPRETATIONS						
Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement (<i>Issued 26 November 2009</i>)	✓ 14/12/2009	✓ 29/01/2010	✓ 04/03/2010	*Q2 2010	01/01/2011	▲
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (<i>Issued 26 November 2009</i>)	✓ 14/12/2009	✓ 29/01/2010	✓ 04/03/2010	*Q2 2010	01/07/2010	▲
AMENDMENTS						
Amendments to IFRS 1 Additional Exemptions for First-time Adopters (<i>Issued 23 July 2009</i>)	✓ 07/09/2009	✓ 09/10/2009	✓ 14/12/2009	*Q2 2010	01/01/2010	▼
Revised IAS 24 Related Party Disclosures (<i>Issued 4 November 2009</i>)	✓ 20/11/2009	✓ 29/01/2010	✓ 04/03/2010	*Q2 2010	01/01/2011	▲
Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (<i>Issued 28 January 2010</i>)	✓ 29/01/2010	✓ 19/02/2010	✓ 04/03/2010	*Q2 2010	1/07/2010	▲

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Proactive Accounting Activities in Europe

Proactive activities

OBJECTIVES:

- Partnership with National standard setters
- High quality proactive input to IASB(+FASB)
- Create debates in Europe
- Thought leadership

EFRAG

Proactive agenda:

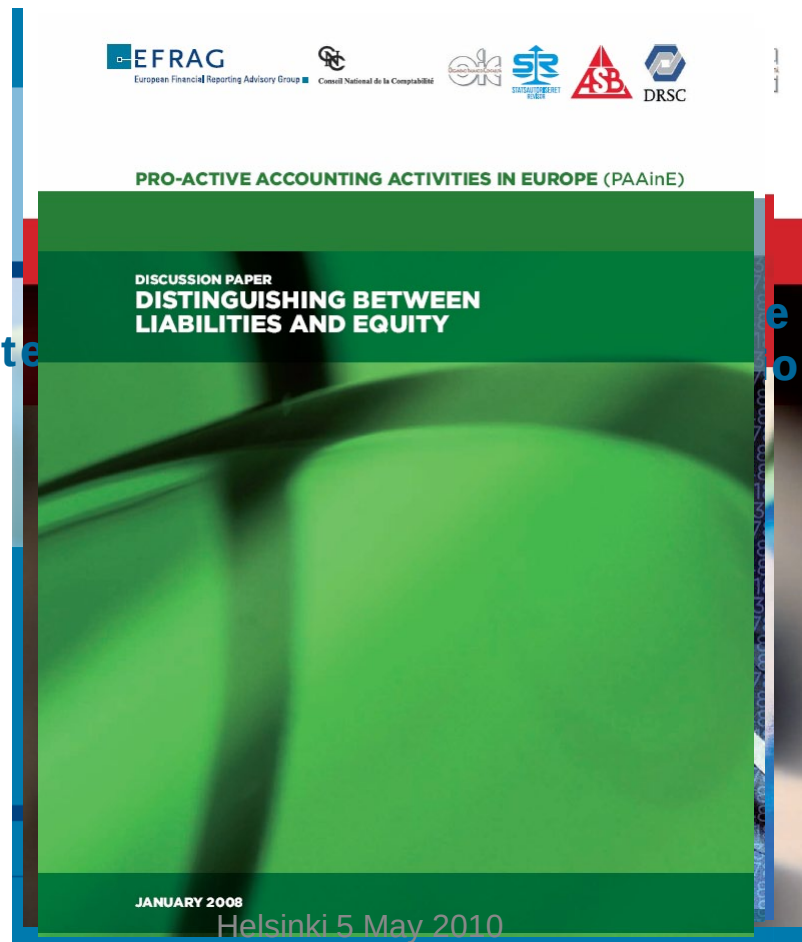
- **Disclosure framework - EFRAG**
- **Common control – OIC/EFRA**
- **Income tax – GASB/ASB/EFRA**
- **Cost benefit – ASB/ EFRA**
- **Business model**
- **EFRA Proactive strategy**

Proactive publications

Conceptual
Framework

Step

Financial Reporting
of Pensions



Section

Performance
Reporting

Equity - Liability



PRO-ACTIVE ACCOUNTING ACTIVITIES IN EUROPE (PAAinE)

PERFORMANCE REPORTING A EUROPEAN DISCUSSION PAPER

PRO-ACTIVE ACCOUNTING ACTIVITIES IN EUROPE (PAAinE)

PERFORMANCE REPORTING A EUROPEAN DISCUSSION PAPER



European Financial Reporting Advisory Group ■



Conseil National de la Comptabilité



DRSC



PRO-ACTIVE ACCOUNTING ACTIVITIES IN EUROPE (PAAinE)

THE FINANCIAL REPORTING OF PENSIONS

FEEDBACK AND REDELIBERATIONS





European Financial Reporting Advisory Group ■



icac Instituto de Contabilidad y Auditoría de Cuentas



DRSC

Rådet för
finansiell rapportering



KSR



PRO-ACTIVE ACCOUNTING ACTIVITIES IN EUROPE (PAAinE)

PERFORMANCE REPORTING

A SUMMARY OF COMMENTS IN RESPONSE
TO THE EUROPEAN DISCUSSION PAPER

www.IASPLUS.com

Monday, 3 May 2010

The #1 Website for Global Accounting News

Beyond the Standard.

IASB Structure

[What Is the IASB?](#)
[Structure Diagram](#)
[Monitoring Board](#)
[IFRS Foundation](#)
[2008-10 Constitution Review](#)
[IASB Members](#)
[IASB Photos](#)
[IASB Due Process](#)
[IASB Contact Details](#)
[Advisory Council](#)
[Interpretations Committee](#)
[Constitution](#)
[IASB Chronology](#)

IASB Projects and Meetings

[Projects and Timetable](#)
[Meeting Notes](#)
[Effective Dates](#)
[Next Meeting Agenda](#)
[Future Meeting Dates](#)
[Comment Deadlines](#)



Search

Deloitte Publications

[IFRS Publications](#)
[Non-IFRS Publications](#)
[IFRSs in your Pocket 2009](#)
[Model IFRS Statements and Disclosure/Compliance Checklists](#)
[Deloitte Comment Letters](#)
[Compare IFRSs-Local GAAP](#)

3 May 2010: Tanzania prescribes applicability of IFRS for SMEs



IFRS
for SMEs

Since 2004, all business entities in Tanzania have been required to use IFRSs except for government business entities, which have been required to use International Public Sector Accounting Standards (IPSASs). The National Board of Accountants and Auditors of Tanzania has clarified which of those entities are now permitted to use the IFRSs for SMEs, as follows:

- **Publicly accountable entities are required to use full IFRSs.** These include:
 - entities that offer shares to the public;
 - financial institutions such as banks, insurance, pension funds, mutual funds, securities brokers/dealers;
 - entities that have essential public responsibility or provide essential public service such as utilities; and
 - all entities including government business entities with 100 or more employees or with capital investment in non-current assets above TShs.800,000,000 (approximately US\$600,000).
- **Non-publicly accountable entities are permitted to use the IFRS for SMEs.** These include private business entities and government business entities with less than 100 employees and capital investment of less than TShs.800,000,000 (approximately US\$600,000). Such entities may, alternatively, use full IFRSs.
- **Public sector entities may use IPSASs** provided that they do not qualify as publicly accountable (see above).

Entities using IFRSs for the IFRS for SMEs must apply those provisions unless stated by the IASB in full and without modification. Click for [Resolution of Tanzania National Board of Accountants and Auditors \(NBAF 68k\)](#).

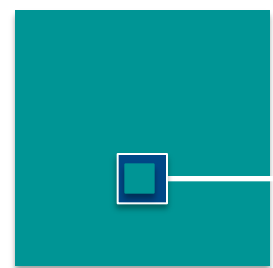


Resources

[Past News by Month](#)
[Reference Materials](#)

3 May 2010: 2010 Strategy matrix for global transfer pricing

www.IASPLUS.com



EFRA

European Financial Reporting Advisory Group

EFRAG

**35 Square de Meeus
1000 Brussels
Belgium**

www.EFRAG.ORG



Five years IFRS reporting - how does the future look like?

Effectiveness of enforcement - today and tomorrow



The remarks today represent my own views,
and not necessarily those of the FIN-FSA,
my colleagues or members of our staff



- News clips
- Financial reporting structure
- Enforcement mechanism
 - Effectiveness of IFRS enforcement in the EU
 - Public oversight for PIE auditors and audit firms
- European Enforcers Coordination Sessions (EECS)
 - EU enforcement during its first five years
- IFRS enforcement in Finland
 - Company selection in 2010 and 2009
 - Scope of enforcement over the years
 - Enforcement actions over the years
 - Enforcement in 2010 by company auditors, by IFRS area and actions
- Examples of our methods to approach certain IFRS areas
 - Challenges with IFRS 8
 - Challenges with IAS 36
- Few words about materiality
- Who we are



Ny börsövervakning bör bygga på självreglering

► Fokus måste ligga på väsentligheter. En sifferuppgift eller information är väsentlig om den påverkar de beslut som användaren av finansiell rapportering fattar. Kritik för felaktig eller utelämnad information bör endast ta sikte på sådant som är väsentligt för marknaden.

Allt detta förutsätter att övervakningen sker av personer med uppdaterad kompetens om IFRS och andra relevanta regelsystem.

J.P.Morgan Lowering Standards

IASB decision on fair value

Why should investors be concerned?

There is no consistent enforcement of accounting standards in Europe, so any proposal permitting certain exceptions in "rare" circumstances is open to abuse. There is no SEC equivalent body in Europe.

Regnskapstilsynets kompetanse til tolkning og skjønnsutøvelse

Det har vært hevdet at tilsynet gjør tolkninger og skjønnsutøvelse i strid med sin kompetanse. Artikkelen drøfter enkelte avgrensningsspørsmål i denne sammenhengen. Dette reiser to problemstillinger: 1) Er avgrensningen av tilsynets tolkningskompetanse og kompetanse til å overprøve skjønn formålstjenlig? 2) Holder tilsynet seg i praksis innenfor sine kompetanserammer?

DPR + FREP

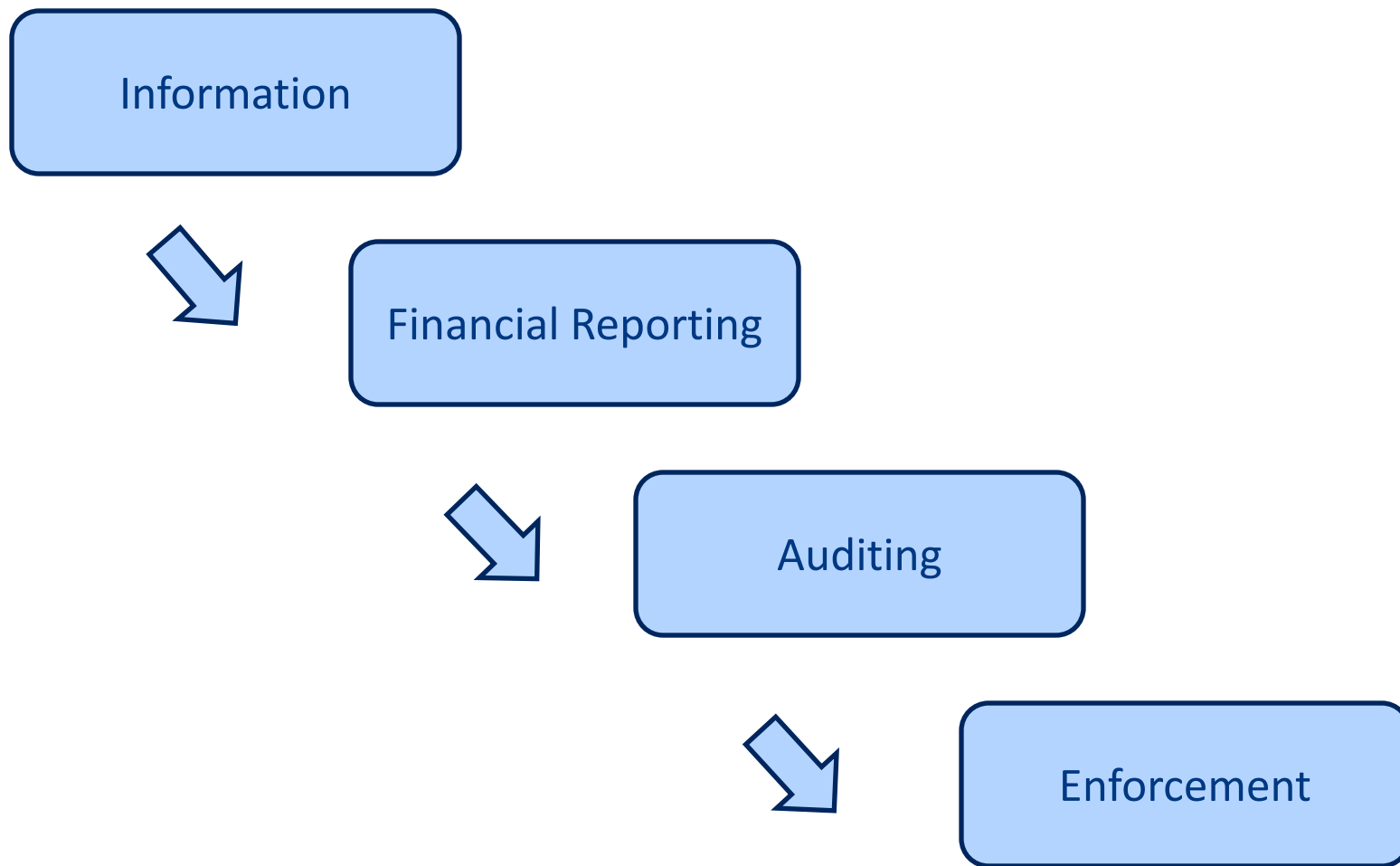
DEUTSCHE PRÜFSTELLE FÜR RECHNUNGSLEGUNG
FINANCIAL REPORTING ENFORCEMENT PANEL

International cooperation

All enforcement bodies are currently structured on a national basis. However, global capital markets and global companies demand globally structured and coordinated enforcement bodies. We still have a long way to go here, including at a European level.

10

Financial reporting structure



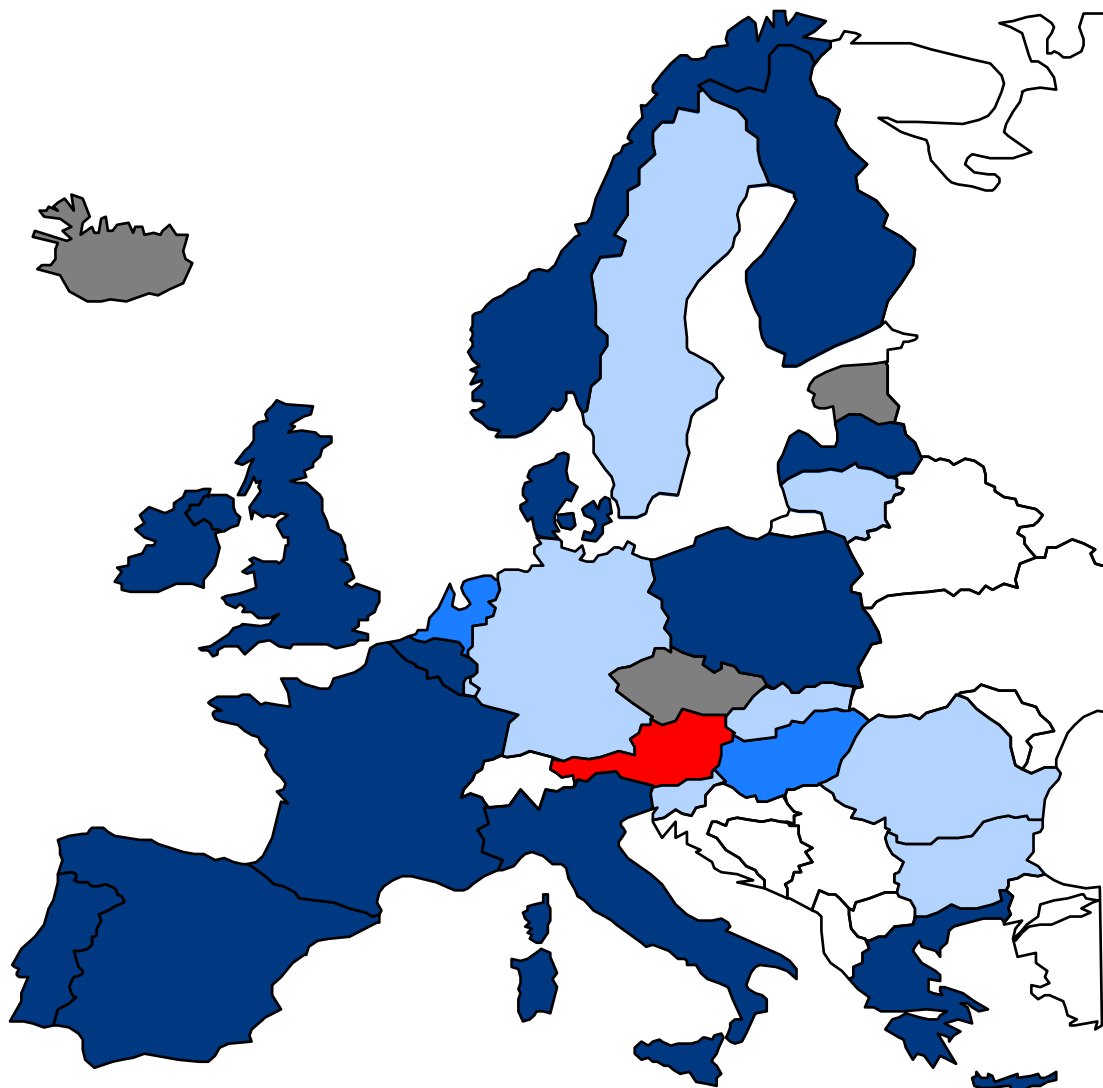


- Committee of European Securities Regulators
- CESR-Fin/Corporate Reporting
- CESR has published two standards
 - Standard No 1: Enforcement of Standards on Financial Information in Europe
 - Standard No 2: Coordination of Enforcement Activities⇒ EECS
- Self assessment and peer review of CESR Standards
 - Standard No 1: Compliance with 21 principles as of September 30, 2008
 - Principles cover e.g. the independency of the enforcer, powers, enforcement techniques, cooperation, public reporting⇒ One way to assess effectiveness of the European enforcement system

Effectiveness of IFRS enforcement in the EU



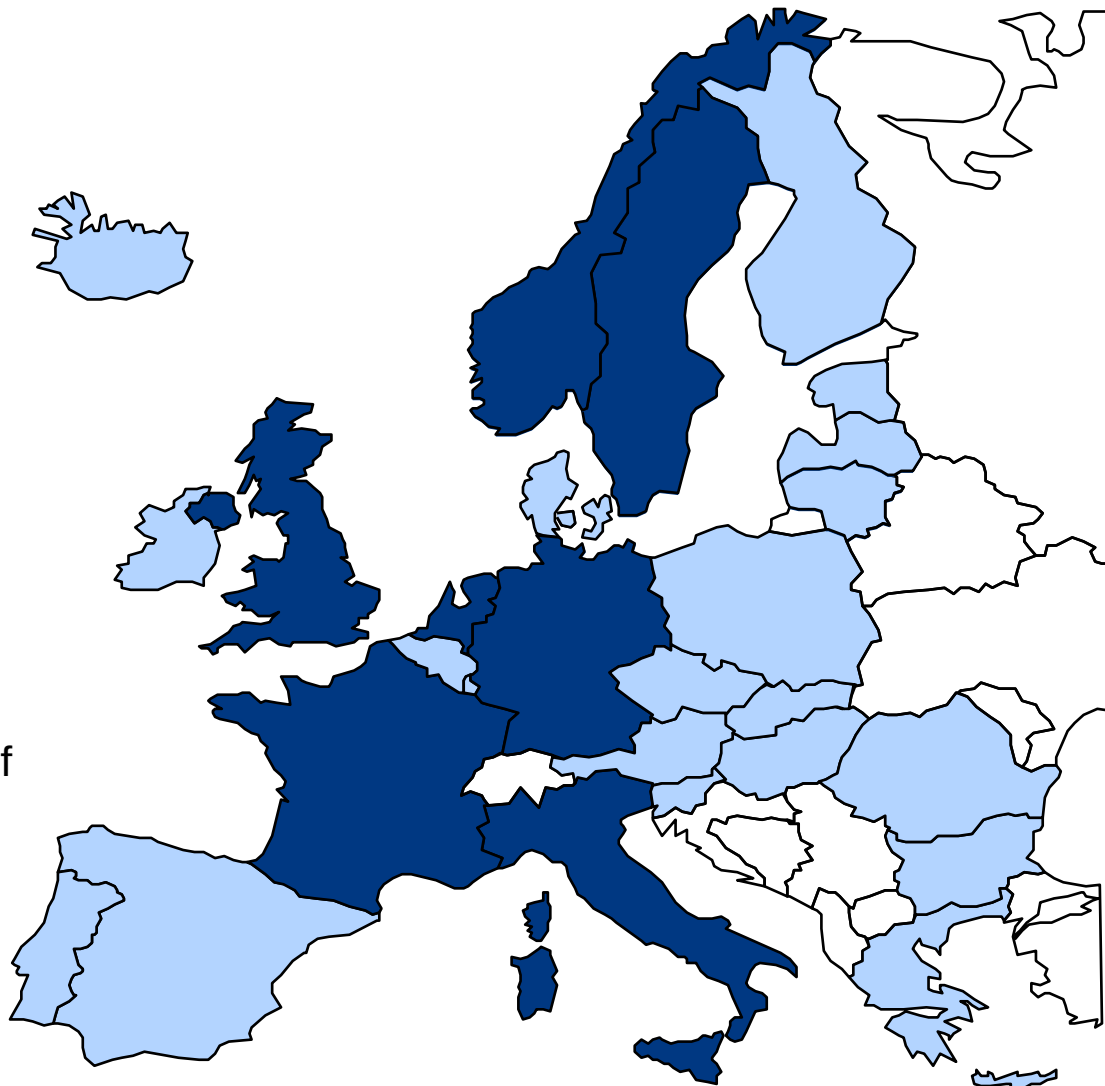
■ Fully applied	13
■ Partially but significantly applied	4
■ Partially applied	8
■ Not applied	1
■ <u>No contribution</u>	3
Number of countries	29



Public oversight for PIE auditors and audit firms



- External quality assurance activities are visible and credible
- External quality assurance activities are at early stage or there are no activities yet



Note: No framework for assessing the effectiveness of enforcement

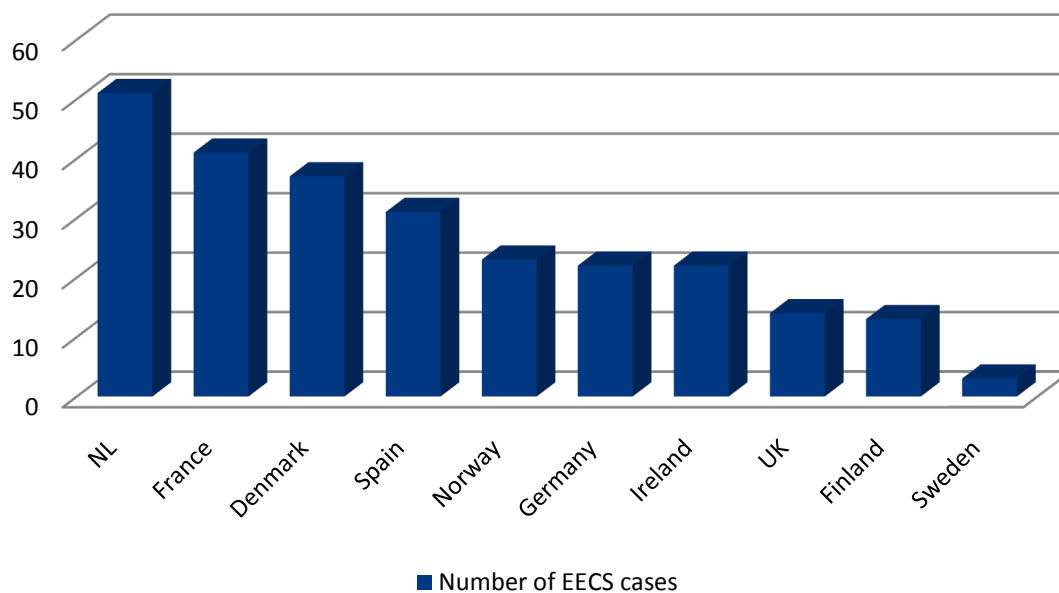


- Meet 7-9 times a year for two day sessions at a time
- Discusses emerging issues
- Analyses decisions from national enforcement activities
- Liaison with IFRIC by forwarding and identifying unclear application of IFRSs
- Global cooperation
- Publishes thru its database case summaries

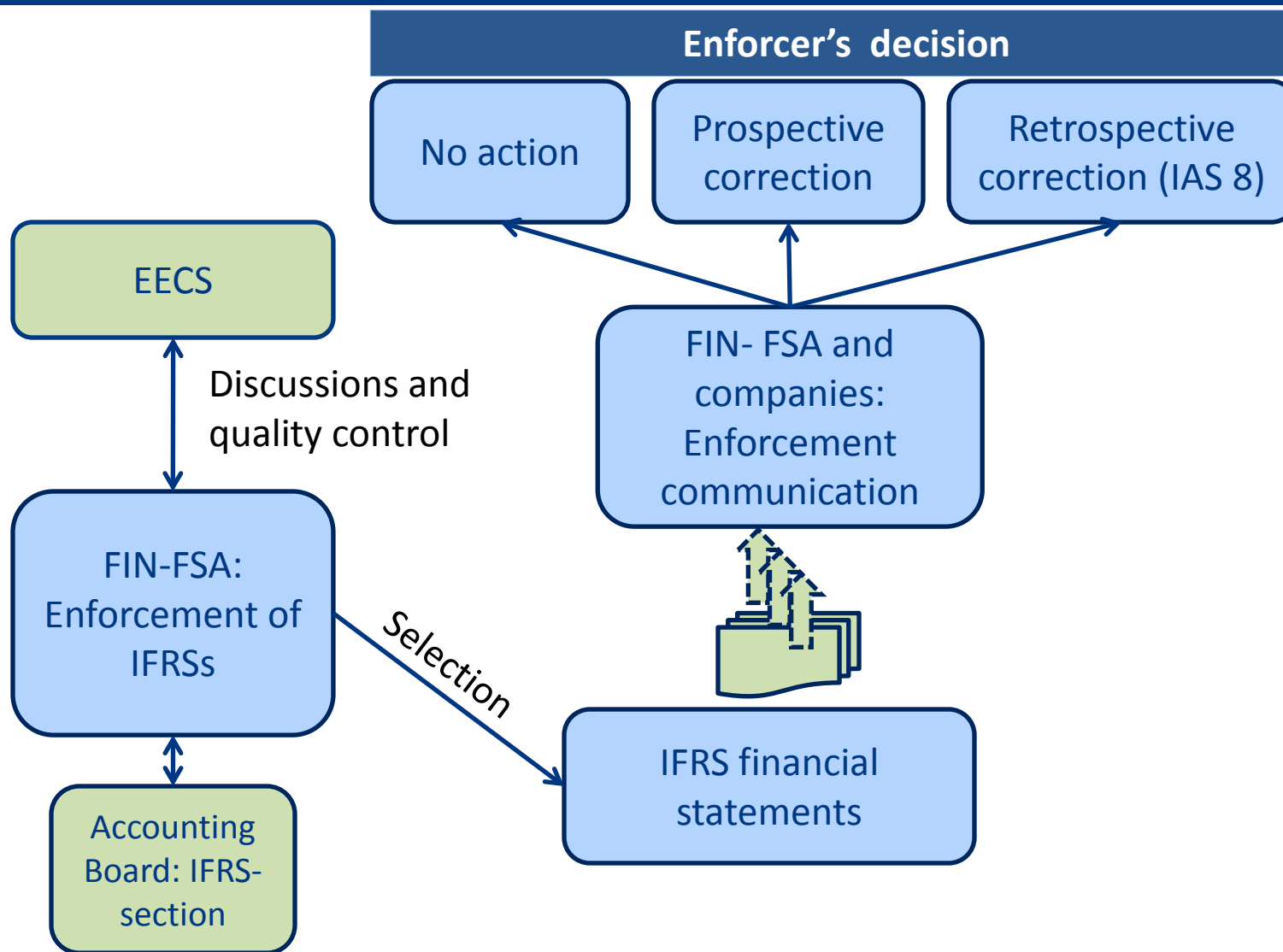
EU enforcement during its first five years



- 88 decisions have been published in 7 extracts from database
- 333 IFRS-enforcement decisions in database
 - 120 started as emerging issues



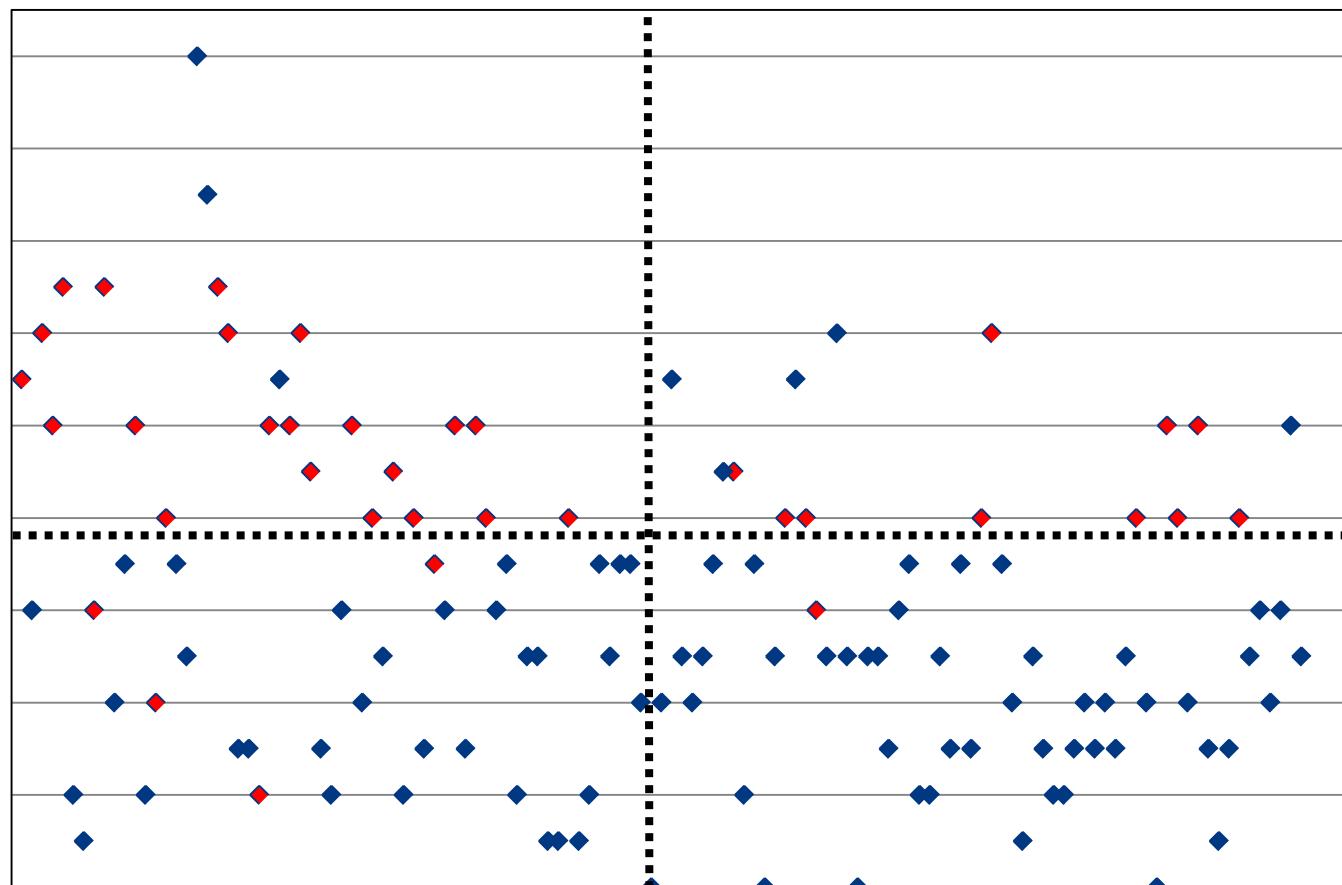
Process of IFRS enforcement in Finland



Company selection in 2010



Probability of
misstatement

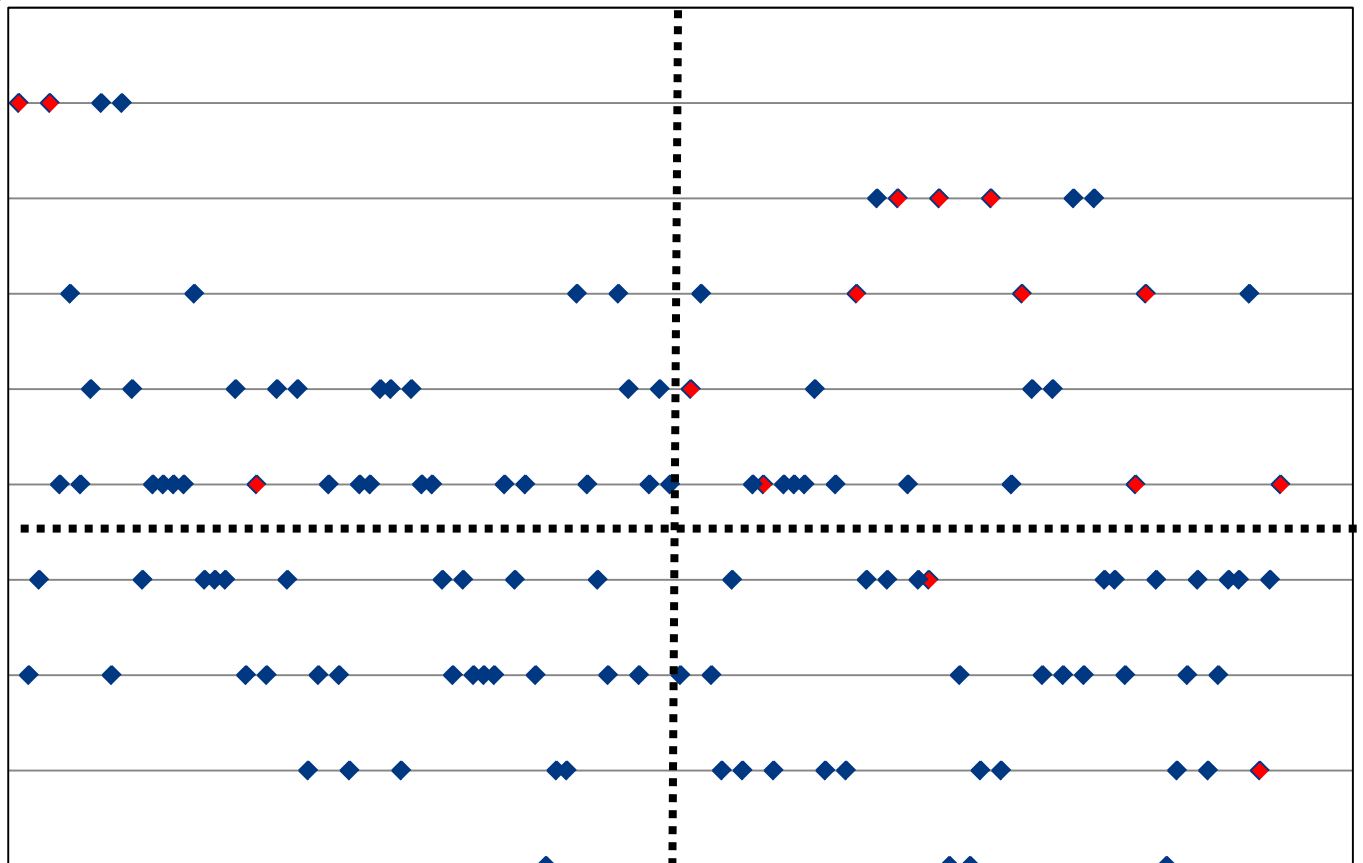


Impact

Company selection in 2009



Probability of
misstatement



Impact

Scope of enforcement over the years



■ Enforcement

Year	Full reviews	Prospectuses
2010	36 (target)	3 (so far)
2009	15	17
2008	23	23
2007	20	29
2006	2 + all quick scanned	15
2005	all (transition reports)	14

■ Standard-specific surveys

Year	IAS 36	IFRS 3	IFRS 7	IAS 39	IAS 1	IAS 14	IFRS 5	IAS 37	IAS 34	IFRS 2	IAS 40	IFRS 8
2010	x	x	x		x				x			?
2009	x	x	x		x		x	x	x			
2008	x	x	x			x			x			
2007	x	x				x				x		
2006	x	x		x		x				x	x	

Enforcement actions over the years

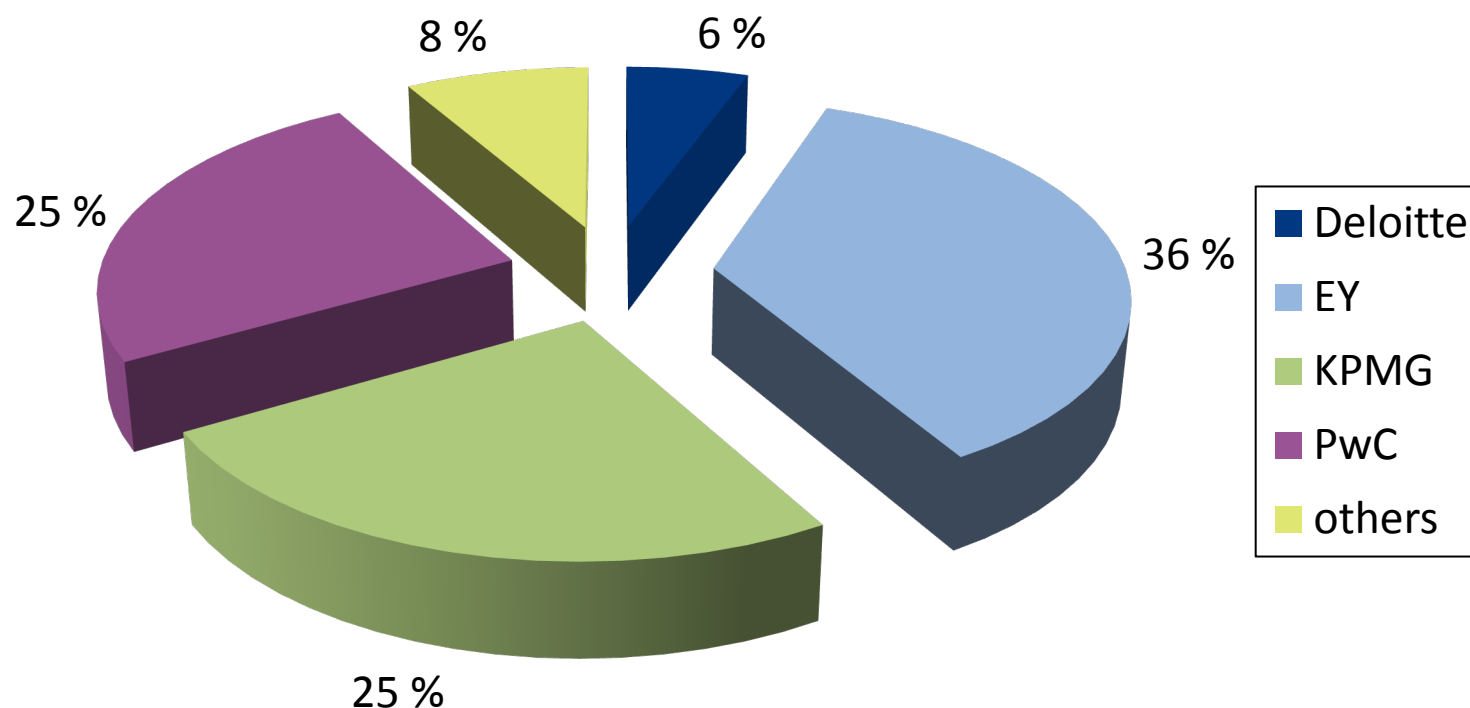


- Reports on IFRS enforcement for financial years of 2005–2008
- Articles in FIN-FSA's "Markkinat" publication
- 2 public enforcement cases
- Enforcement letters sent:

Year	Number of letters
2010	23 (so far)
2009	46
2008	56
2007	65
2006	66
2005	127 (IFRS transition)



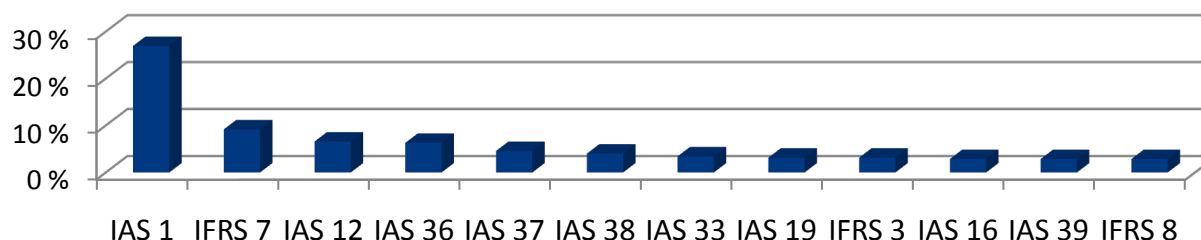
■ Distribution of full review companies by their auditors



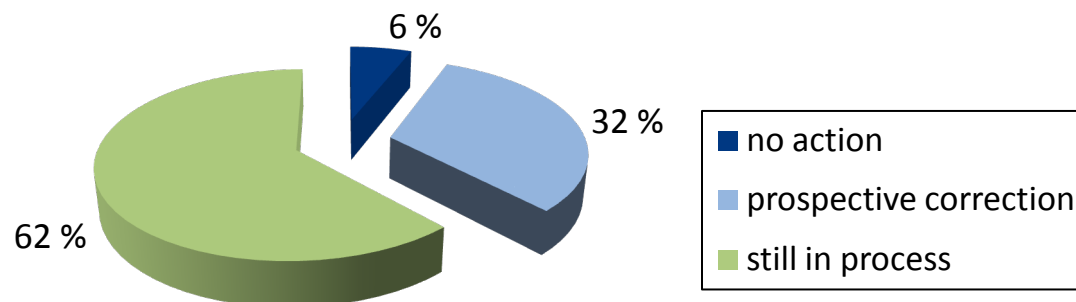
Enforcement in 2010 (2/2)



- Enforcement in the beginning of 2010
 - companies enforced: 14
 - observations: 380
 - distribution of observations on IFRSs:



- enforcement actions:



Challenges with IFRS 8 *Operating Segments*



- We have observed companies where:
 - Only one segment is reported, but the group appears to be diverse with different businesses or significant operations in different countries;
 - The operating analysis in the narrative report differs from the operating segments in the financial statement.

- The issuers have been/will be asked to consider the following questions:
 1. What are the key operating decisions made in running the business?
 2. Who makes the key operating decisions?
 3. Who are the segment managers and who do they report to?
 4. How are the group's activities reported in the information used by management to review performance and make resource allocation decisions between segments?
 5. Is any proposed aggregation of segments into one reportable segment supported by the aggregation criteria in the standard?
 6. Are the reported segments consistent with the internal reporting? If not, why not?

Challenges with IAS 36 *Impairment of Assets*



- Challenges with goodwill impairment testing
- Level of testing
- Cash flows to be included in VIU
- Significant portion of terminal value in VIU
- Determination of discount rate – different approaches
- Need to present sensitivity analysis
- Use of FVLCTS
- Change in assumptions – disclosures
- Indications about impairment

Few words about materiality



- Examples of items or matters to be considered:
 - related party transactions
 - a transaction or adjustment that changes a profit to a loss, and vice versa
 - a transaction or adjustment that affects an entity's ability to meet analysts' consensus expectations
 - a transaction or adjustment that masks a change in earnings or other trends
 - a transaction or adjustment that affects an entity's compliance with loan covenants or other contractual requirements
 - a transaction or adjustment that has the effect of increasing management's compensation, for example by satisfying requirements for the award of bonuses
 - changes in laws and regulations
 - non-compliance with laws and regulations
 - fines against the entity
 - legal cases
 - deterioration in relationships with individual or groups of key suppliers, customers or employees
 - dependency on a particular supplier, customer or employee

Who we are - IFRS enforcement team



Tomi
Seppälä



Virpi
Haaramo



Riikka
Kantola



Nina
Lindeman



Pekka
Nurmo



Elina Peill



Riitta
Pelkonen



Milla
Ruustamo



Tiina
Visakorpi

A day as an enforcer

