

IFRS Update: Standards published in 2011

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Introduction

Chronology of Publications*

- **New standards on consolidation (May 2011)**
 - NEW : IFRS 10 Consolidated Financial Statements
 - NEW: IFRS 11 Joint Ventures
 - NEW: IFRS 12 Disclosure of Interests in Other Entities
 - REVISED: IAS 27 Separate Financial Statements
 - REVISED: IAS 28 Investments in Associates and Joint Ventures
- **IFRS 13 Fair Value Measurement (May 2011)**
- **Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 (June 2011)**
- **Amendments to IAS 19 Employee Benefits (June 2011)**

* Up to November 2011, but no other final standard expected to be issued until 2012



New standards on consolidation

A five-standard package for consolidation

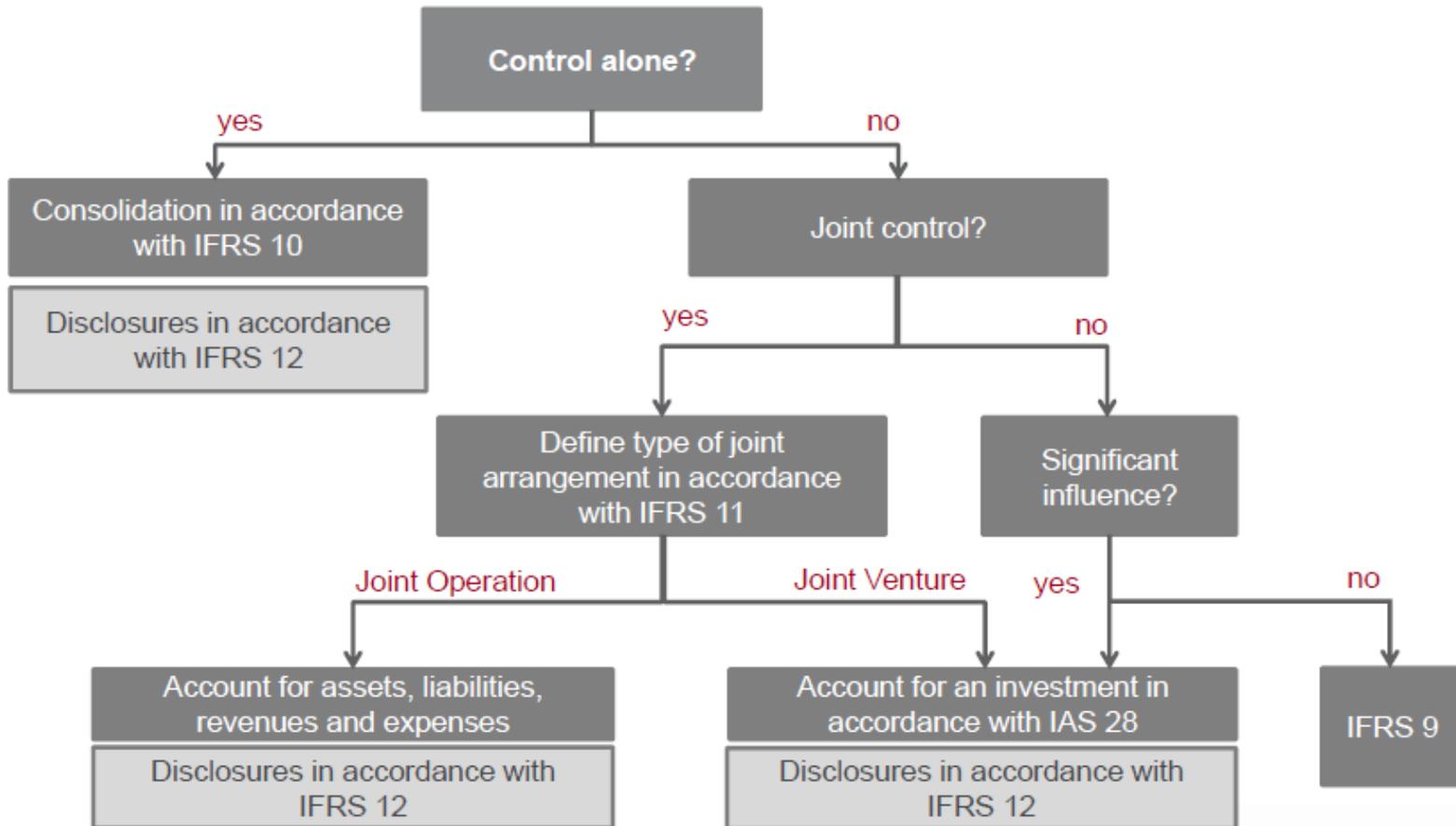
On 12 May 2011, the IASB issued 3 new standards and 2 revised ones:

- **IFRS 10 *Consolidated Financial Statements***
Replaces IAS 27 (for the part regarding consolidated statements) and the interpretation SIC-12 relating to special purpose entities
- **IFRS 11 *Joint Arrangements***
Supersedes IAS 31 *Interests in Joint Ventures* and its related interpretation SIC-13
- **IFRS 12 *Disclosure of Interests in Other Entities***
Combines, enhances and replaces the disclosure requirements previously included in IAS 27, IAS 28 and IAS 31
- **IAS 27 *Separate Financial Statements* (revised 2011)**
Now only focuses on separate financial statements
- **IAS 28 *Investments in Associates and Joint Ventures* (revised 2011)**
Revised mainly as a consequence of the other issuances

Effective for annual periods beginning on or after 1 January 2013; earlier application permitted (but simultaneously)

Interaction between IFRS 10, 11, 12 and IAS 28

Source: IASB *



* <http://www.ifrs.org/Home.htm>

IFRS 10 – Consolidated Financial Statements

Summary of the main changes from existing requirements

- A single approach regardless of the nature of the investee

IAS 27: Control is the power to govern the financial and operating policies

SIC-12: specific guidance for special purpose entities (SPE), with greater emphasis put on risks and rewards



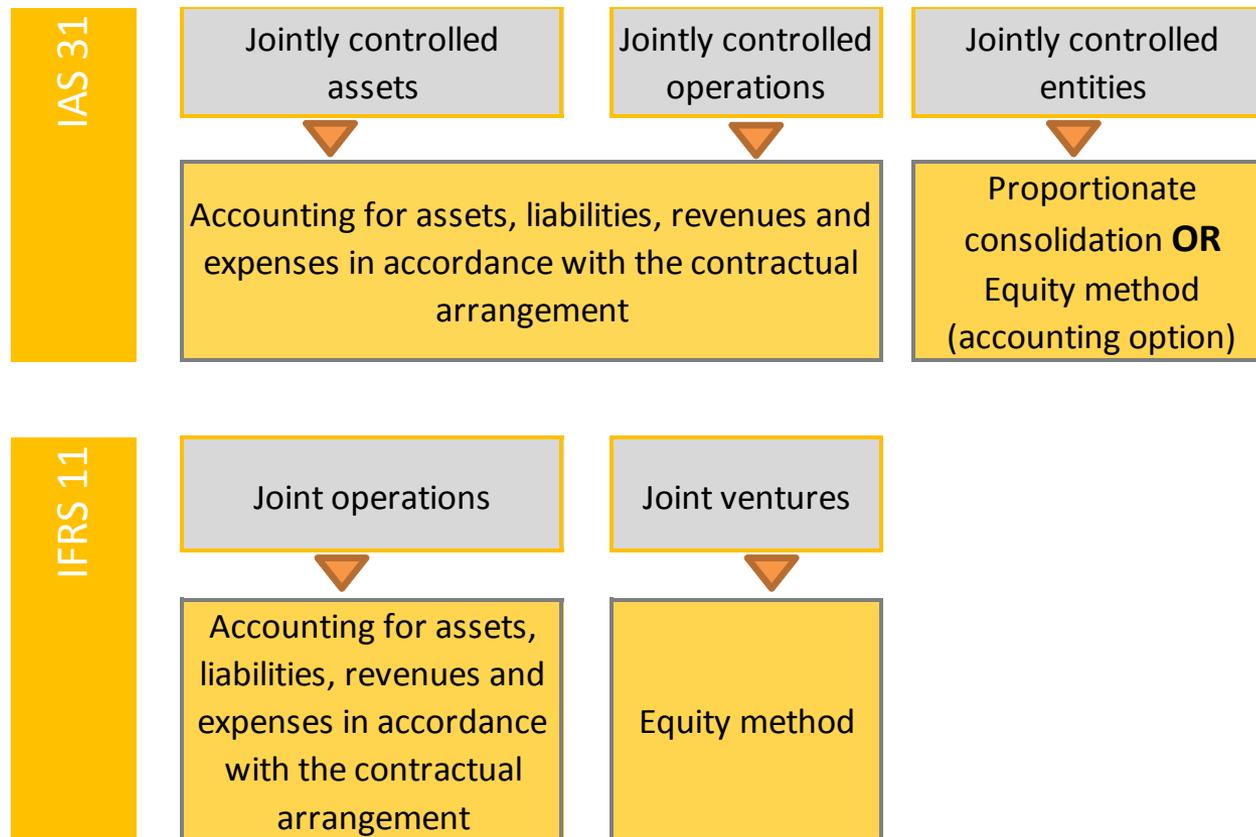
IFRS 10 : a single consolidation model that identifies control as the basis for all types of entities

- Detailed guidance on how to apply the control principle, e.g.:
 - ✓ only substantive rights (as opposed to protective rights) are considered in assessing control
 - ✓ an investor can control an investee with less than 50% of voting rights
 - ✓ potential voting rights have to be considered – even if not currently exercisable – if and only if they are substantive

IFRS 11 – Joint arrangements

Summary of the main changes from existing requirements

- 2 categories of joint arrangements vs 3 under IAS 31
- No more accounting option for joint-ventures



IFRS 12 – Disclosure of Interests in Other Entities

- A separate comprehensive disclosure standard that combines the disclosure requirements for interests in:
 - subsidiaries (previously in IAS 27),
 - joint-arrangements (IAS 31),
 - associates (IAS 28), and
 - unconsolidated structured entities (IAS 27 and SIC 12)
- Additional disclosures
 - especially as regards “off balance sheet” vehicles (as requested by the G20 and Financial Stability Board)



A deeper analysis of these new standards (IFRS 10, 11&12 and revised IAS 27&28) will be published later, along with their effect on the starter kits for IFRS (on top of SAP BusinessObjects Financial Consolidation and Planning and Consolidation)



Other publications

IFRS 13 – Fair Value Measurement – 1/2

- Issued in May 2011, effective for financial years beginning on or after 1 January 2013
 - application is prospective without restatement of comparatives
- Conclude a major convergence project with US GAAP
 - Update to Topic 820 issued by the FASB on the same date
 - An important element of the boards' response to the global financial crisis as it provides a same definition and meaning of fair value and the same disclosure requirements about fair value measurements in IFRS and US GAAP (even if some minor differences remain)
- Not an “accounting” standard but a guidance on how to apply properly other standards that require the use of fair value accounting
 - IFRS 13 applies when other IFRSs require or permit fair value measurements: it does not extend the use of fair value accounting or address how to present changes in fair value

IFRS 13 – Fair Value Measurement – 2/2

- IFRS 13:
 - defines fair value

“the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”
 - sets out in a single IFRS a framework for measuring fair value
 - methodology to determine fair value
 - description of the different valuation techniques an entity may use
 - a 3-level fair value hierarchy:
 - Level 1: quoted prices in active markets
 - Level 2: inputs other than quoted prices that are directly or indirectly observable (e.g. price per square in similar locations and for similar buildings)
 - Level 3: unobservable inputs (e.g. financial forecast used in a present value measurement)
 - requires disclosures about fair value measurements
 - In particular: information about the valuation techniques and inputs used to measure fair value (especially for level 3)
- Impact in the starter-kit
 - None as IFRS 13 only addresses measurement issues (and not accounting ones)

Presentation of Items of Other Comprehensive Income

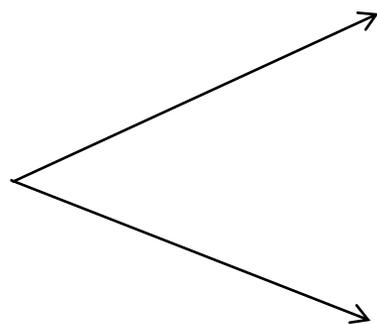
(Amendments to IAS 1) – 1/3

- Amendments issued in June 2011, effective for financial years beginning on or after 1 July 2012
- Aligns the presentation of other comprehensive income (OCI) with US GAAP
 - Update to Topic 220 *Presentation of comprehensive income* issued by the FASB on the same date
 - Originally part of a larger joint-project on Financial Statements Presentation, but other topics have been postponed
- Main changes
 - The amendments now require entities to group items presented in OCI on the basis of whether they would be reclassified to profit or loss at a later date

The option remains to present items of OCI either net of tax or gross of tax with one amount shown for the aggregate amount of income tax related to OCI. But if items of OCI are presented before tax then the tax related to each of the two groups of OCI items must be presented separately
 - The title used for the statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income'. However IAS 1 still permits entities to use other titles.

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) – 2/3

Example
(extract from IAS 1. IG5)



	20X7	20X6
Profit for the year	121,250	65,500
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Investments in equity instruments	(24,000)	26,667
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of gain (loss) on property revaluation of associates	400	(700)
Income tax relating to items that will not be reclassified	5,834	(7,667)
	<u>(17,500)</u>	<u>23,000</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	5,334	10,667
Cash flow hedges	(667)	(4,000)
Income tax relating to items that may be reclassified	(1,167)	(1,667)
	<u>3,500</u>	<u>5,000</u>
Other comprehensive income for the year, net of tax	<u>(14,000)</u>	<u>28,000</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>107,250</u></u>	<u><u>93,500</u></u>
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interests	21,450	18,700
	<u><u>107,250</u></u>	<u><u>93,500</u></u>

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) – 3/3

- What has not changed?
 - The amendments reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements
 - although the exposure draft had proposed to require a single statement
 - They do not change which items are presented in OCI or which items need to be reclassified
 - However the Board acknowledges that there are no clear underlying principles for the recognition and the reclassification of OCI items ⇒ this issue will probably be addressed in a future project
- What impacts ?
 - Rather limited as it does not change the accounting principles
 - However, some questions may arise:
 - Is it mandatory to display the subtotals for each group?
 - What to do with the share of OCI of associates (split or not)?
- In the starter kit for IFRS
 - The issue relating to share of OCI of associates is still to be analyzed
 - The statement of comprehensive income and the statement of other comprehensive income will be updated in the next release

Amendments to IAS 19 *Employee Benefits* – 1/2

- Amendments issued in June 2011, effective for financial years beginning on or after 1 January 2013
- Aligns IFRS with existing US GAAP
- Main changes
 - Removal of the “corridor” approach

This option allowed companies to defer some actuarial gains and losses that arise from defined benefit plans. Because of that, the corresponding liability on the balance sheet did not always reflect the total commitments resulting from defined benefit plans
 - No more options for the presentation of gains and losses relating to defined benefit plans:
 - Service and finance cost: P&L
 - Remeasurements (e.g. actuarial gains and losses): OCI (no further recycling)
 - Improvement of disclosure requirements
- What impacts ?
 - Potentially high for entities that currently use the removed options for actuarial gains and losses (corridor or P&L)

Amendments to IAS 19 *Employee Benefits* – 2/2

- In the starter kit for IFRS
 - A deeper analysis will be carried out but no major changes are expected
 - The statement of changes in equity might be updated as IAS 19 no longer requires actuarial gains and losses to be recognized immediately in retained earnings ; they could be now presented as a separate category within equity
 - In the statement of other comprehensive income, line items will be updated to include all remeasurements related to defined benefit plans and not only actuarial gains and losses



What's next?

IASB Workplan

- Many projects defined as priority ones in December 2010 by the IASB and the FASB are still under progress:

	Previous estim. publication date (Dec. 2010)	Latest update (October 2011)
Financial Crisis related projects		
Financial instruments	Q2 2011	No targeted completion date, latest ED expected in 2012
Consolidation	Q1 2011	IFRS10 & IFRS12 published in May 2011
Fair value measurement	Q1 2011	IFRS13 published in May 2011
Memorandum of Understanding projects		
Presentation of other comprehensive income	Q1 2011	Amendments to IAS 1 published in June 2011
Leases	Q2 2011	Re-exposure expected Q4 2011, final IFRS in 2012
Revenue recognition	Q2 2011	Re-exposure published on 14 November 2011, final IFRS in 2012
Joint-ventures	Q1 2011	IFRS11 published in May 2011
Post-employment benefits	Q1 2011	Amendments to IAS 19 published in June 2011
Other projects		
Insurance contracts	Q2 2011	Re-exposure expected Q4 2011 or 2012, no targeted date for final IFRS

➤ Major publications expected in 2012 / 2013

Starter Kits Roadmap

- Planned publications:
 - In-depth analysis on IFRS 10 & 11
 - Impact of new and revised standards on the starter kits
- Updated starter kits (FC and BPC) to be delivered in 2012



Contact information:

Patricia Meteil-Dutartre

patricia.meteil-dutartre@sap.com

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