

Convergence of International Accounting Standards

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Need for International Standards

- Global businesses
 - In the past they needed to integrate different country accounting standards from each foreign subsidiary into the home country reporting
 - One set of accounting rules would simplify consolidation of global subsidiaries
- Financial market going global

Available standards

- In the early 2000s US GAAP was increasingly being used by multinational corporations regardless of where located as the defacto international standard
- European Union wanted one standard for member countries but did not really want it to be determined by the USA
- The international accounting standards out of London provided a potential alternative (that was not one countries GAAP being forced on everyone else)

European Union Adopted IFRS

- In 2002 the European Union adopted IFRS for all public consolidated reports starting in 2005
 - Those using US GAAP had until 2007 to switch
- This snowballed and over 100 countries currently require or allow IFRS

Convergence

- In 2002 FASB and IASB issued a joint agreement on the intent to converge
- In 2006 they reinforced and expanded their agreement
- Major new projects are jointly coordinated (agenda links at the end of the presentation)

Recent SEC Action

- Allowed (2007) reporting under full IFRS for foreign issuers without a 20F reconciliation to US GAAP
- Considering voluntary use of IFRS for domestic issuers (choice of US GAAP or IFRS)
- Considering mandatory use of IFRS for all issuers
- Timetable to come some time this month for future actions
- Convergence or adoption of IFRS?

Major Accounting Firms Position

- The four major accounting firms have all come out in favor of adoption of IFRS for US registrants
- Time table estimates from the firms for mandatory use of IFRS run from 2011 to 2015
- Opinions seem to vary on when but not on if

Convergent activities by the IASB

Completed in 2007-2008

IFRS Agenda

Completed in 2007-2008

- IAS 23 Borrowing
 - Issue March 2007
 - Converged to FASB
 - Borrowing on long term projects to be capitalized expensing no longer allowed (expensing was the preferred option earlier) to conform with US GAAP
 - Effective 2009

IFRS Agenda

Completed in 2007-2008

- Segment Disclosure: IFRS 8 amended to match FAS 131 – disclosure required only when provided to chief operating decision maker

IFRS Agenda

Completed in 2007-2008

- Financial statement presentation Phase A
 - What constitutes a complete set of financial statements and the requirements to present comparative information
 - Final standard issued September 2007
- FASB including Phase A with Phase B so not yet issued
- FASB deliberations on Phase B included in later slides

Completed in 2007-2008

- Business combinations phase II
 - Two parts
 - Application of the purchase method (converge with FASB – still a few differences)
 - Non-financial liabilities
 - Liabilities (separated and planned for 2009 issuance)
 - Final standard January 2008
- This is the first major standard jointly completed – still not 100% the same

BusCom – Key Differences

	IFRS	US GAAP
Transition & effective date	Applied prospectively; acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. Early application permitted	Applied prospectively; acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application prohibited
Transactions with noncontrolling interests (“NCI”)	Acquirer permitted to choose either fair value or proportionate share of acquiree’s identifiable net assets.	NCI in an acquiree measured at fair value.
Different fair value definitions	Amount for which asset exchanged or liability settled between knowledgeable, willing parties in arm’s length transaction.	FAS 157 definition, price received to sell asset or paid to transfer liability.
Recognition of contingent assets and liabilities	Contingent assets are not recognized, however all contingent liabilities are recognized if they can be <i>reliably measured</i> .	A contingent asset may be recognized as a result of business combination. All contractual contingent liabilities are recognized; non-contractual contingent liabilities recognized if <i>more likely than not</i> .

Convergent activities

Currently being worked on

IASB's Agenda

- Conceptual framework
 - Phase A: Objective and qualitative characteristics
 - DP July 2006
 - ED expected second quarter 2008
 - Phase B: Elements and recognition
 - DP planned for 2009
 - Phase C: Measurement
 - DP planned for 4th quarter 2008
 - Phase D: Reporting Entity
 - DP planned for 2nd quarter 2008

IASB's Agenda

- Conceptual framework
 - E: Presentation and disclosure
 - F: Purpose and status of framework
 - G: Applicability to Not-for-profit entities
 - H: Other remaining issues
 - E through H timing not yet determined

IASB's Agenda

- IFRS for small and medium sized entities
 - ED February 2007
 - ED Spanish translation April 2007
 - Final standard expected 4th quarter 2008
- Big GAAP / Little GAAP?
- Public /Private?

IASB's Agenda

- Revenue recognition
 - FASB convergence project
 - DP expected 2nd quarter 2008
- Considering an asset/liability approach
 - Revenue no longer measured when earned
 - Two models being considered
 - Fair value
 - Allocated customer consideration

Fair Value Model

- At initial measurement,
 - All rights and obligations measured at fair value
 - If the fair value of the promised consideration from the customer is greater than sum of the fair values of remaining performance obligations, residual revenue is recognized at contract formation
- After initial measurement, outstanding obligations are remeasured at fair value on each reporting date.
 - In essence, benefits delivered to a customer are measured at their fair value on the day they are delivered, and reported as revenue
 - Changes in lay-off price result in contract gains and losses
 - When obligation is finally satisfied, revenue can be higher or lower than actual consideration received from customer

Customer Consideration Model

- At initial measurement, customer consideration is allocated to obligations
 - Obligations measured at selling price
 - Vendor's own selling price
 - Competitor's selling price for same item
 - Layoff price of obligation if measurable at Level 1 fair value
 - Vendor's own assumptions about costs, margins, risks
 - Difference between consideration and sum of selling prices is allocated based on selling prices to those items not measured at Level 1 fair value
 - No residual revenue at contract formation
- After initial measurement, outstanding obligations are **NOT** remeasured, unless the contract becomes onerous
 - When obligation is finally satisfied, revenue is equal to actual consideration received from customer
 - Obligations do not faithfully reflect the lay-off price on the measurement date
 - The accounting after initial measurement seems simpler

IASB's Agenda

- Post-employment benefits including pensions
 - Convergence project with FASB
 - ED planned for 2009

FASB considerations: Postretirement benefits project

- Phase 2: Comprehensive reconsideration of postretirement benefit accounting, including but not limited to
 - Measurement of obligations
 - Obligations are (very) long lived and measurement is based on complex assumptions
 - Should the long-lived nature of the obligations affect the accounting treatment?
 - Should financial reporting standards provide additional guidance on those assumptions?
 - Recognition and display of cost components
 - Earnings versus Other Comprehensive Income
 - Immediate recognition versus deferred recognition of certain gains and losses
 - Possible consolidation of postretirement benefit trusts by the plan sponsor

Observation: Phase 2 is expected to be a joint project with the International Accounting Standards Board

IASB's Agenda

- Leases
 - Convergence project with FASB
 - DP expected 2009
- Considering asset as the right to use the item

IASB's Agenda

- Income taxes – IAS 12
 - Convergence project with FASB
 - ED expected 2nd quarter 2008
 - Final standard planned for 2009
- FASB considering whether to replace fas109 with the revised IAS12 later this month (rather than continuing to pursue their changes in FAS109)

IASB's Agenda

- Fair value measurement guidance
 - IASB issued a DP wrap-around of FAS 157 November 2006
 - Public roundtables 2nd quarter 2008
 - ED timing not yet determined

IASB's Agenda

- Consolidation including special purpose entities
 - Convergence project with FASB
 - DP expected 3rd quarter 2008
 - ED timing not yet determined
 - IASB taking the lead FASB to follow

IASB's Agenda

- Financial statement presentation
 - Convergence project with FASB
 - Phase A: what constitutes a complete set of financial statements and requirements to present comparative information –completed
 - Phase B: Presentation of information on the face of the required financial statements
 - DP expected 2nd quarter 2008
 - ED timing not yet determined
- Considering Changing presentation to operations, investing and financing for all financial statements

FASB Phase B – Working Principles

Financial statements should present information in a manner that:

1. Portrays a cohesive financial picture of an entity
2. Separates an entity's financing activities from its business and other activities and further separates financing activities into transactions with owners in their capacity as owners and all other financing activities
3. Helps a user assess the liquidity of an entity's assets and liabilities (the Boards expressed interest in adding the concept of solvency to this working principle)
4. Helps a user understand:
 - a. The basis on which assets and liabilities are measured
 - b. The uncertainty in measurement of individual assets and liabilities
 - c. What causes a change in reported amounts of assets and liabilities

FASB Phase B – Working Principles

Financial statements should present information in a manner that:

5. Disaggregates line items if that disaggregation enhances the usefulness of that information in predicting future cash flows
6. Will help investors, creditors, and others to assess
 - a. An entity's ability to generate future cash inflows
 - b. An entity's ability to meet its obligations, its ability to pay dividends, and its need for external financing
 - c. The difference between cash transactions and accrual accounting
 - d. The effects of noncash activities during the period on an entity's financial position

FASB Tentative Views: Working Format

- Proposed Sections
 - *Business* further broken down into Operating and Investing categories
 - *Financing* further broken down into Financing Asset and Financing Liability categories
 - *Equity*
 - *Discontinued Operations*
 - *Income Taxes*
 - Note: No Extraordinary Items Section
- Primary perspective: Distinguishing between an entity's "value creating" (business) and "funding" (financing and equity) activities

FASB Tentative Views: Working Format

- Cohesiveness is the governing principle
- Classification of assets and liabilities drives classification of changes in those items in
 - The statement of comprehensive income
 - The statement of cash flows
- Classification based on how an entity manages its business
 - Explain, as a matter of accounting policy, basis for classifying assets and liabilities
- Benefit: Clarifies relationships among financial statements' line items; facilitating financial analysis

FASB Tentative Views: Working Format

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
<i>Business</i> •Operating assets and liabilities •Investing assets and liabilities	<i>Business</i> •Operating income •Investing income	<i>Business</i> •Operating cash flows •Investing cash flows
<i>Financing</i> •Financing assets •Financing liabilities	<i>Financing</i> •Financing income •Financing expenses	<i>Financing</i> •Financing asset cash flows •Financing liability cash flows
<i>Equity</i>		<i>Equity</i>
<i>Discontinued operations</i>	<i>Discontinued operations</i>	<i>Discontinued operations</i>
<i>Income taxes</i>	<i>Income taxes</i>	<i>Income taxes</i>
	Statement of Changes in Equity	

FASB Tentative Views: Business Section

- Includes assets and liabilities not related to financing an entity's business activities. Broken into two categories:
 - *Operating Category*: Includes business assets and liabilities that management views as integral to its main business activities (plus any asset or liability not otherwise classified)
 - *Investing Category*: Includes business assets and liabilities that management views as not integral to its main business activities

FASB Tentative Views: Financing Section

- Includes financial assets and liabilities that management views as part of the financing of the entity's business activities
- An entity should consider whether the item
 - Is interchangeable with other sources of financing
 - Can be characterized as independent of specific business activities

FASB Tentative Views: Equity Section

- Includes all equity items, such as:
 - Common stock
 - Preferred stock
 - Retained earnings
- Report transactions with equity owners in their capacity as owners:
 - Dividends
 - Treasury stock
 - Issue of shares

FASB Tentative Views: Diversified Entities

- Classification and presentation principles apply equally to financial institutions and non-financial entities
- Classification in business and financing section will be permitted to vary for entities with multiple reporting segments
 - Changes in classifications will be considered change in accounting policy

FASB Tentative Views: Income Tax Section

- Considers taxes a discrete managerial function often unrelated (or only arbitrarily related) to specific line items
- Consequences:
 - No more intraperiod tax allocation
 - Discontinued operations and OCI items shown on a pretax basis
 - Additional income tax disclosures to report differences in effective tax rates across asset classes and tax jurisdictions etc.

FASB Tentative Views: Discontinued Operations Section

- Effects of a discontinued *component of an entity* reported as a discontinued operation only if that component is an *operating segment* (as defined in SFAS 131 and IFRS 8)
- Report additional information in the notes for all discontinued *components of an entity* (as defined in SFAS 144 and IFRS 8)

FASB Tentative Views: Disaggregation

Statement of Comprehensive Income

- Present line items by function (primary activity)
 - Sales, Services, Cost of Sales, R&D, Marketing
- Further breakdown by nature of items important in understanding the business (possibly in notes)
 - Labor, Materials, Depreciation, Amortization, Pension costs
- Separately report any expense important in understanding operating results not related to a functional line item

FASB Tentative Views: Other Comprehensive Income

Long-term goal:

- Recognize all current period non-owner changes in assets and liabilities in one of the functional sections or categories
 - Consequence: Subset of income/expense items would not need to be categorized as other comprehensive income and the mechanism of recycling would not be necessary
- Accommodation permitting recycling to be granted in the interim
 - Boards will reconsider the standards that give rise to OCI items (and recycling) separately, not as part of this project

FASB Tentative Views: Other Comprehensive Income

Differing views on interim presentation:

- **FASB**

- OCI items *other than foreign currency translation adjustments* will be classified on the statement of comprehensive income consistent with the classification of the asset or liability that gives rise to those items
- OCI items should continue to be recycled, as required by other standards, within the functional category in which the OCI item was initially recognized

- **IASB**

- Has not reached a consensus on how to present OCI items in the statement of comprehensive income

FASB Tentative Views: Statement of Cash Flows

- The following information should be presented:
 - FASB: Require use of the direct method to present operating cash flows
 - IASB: Permit use of the indirect method to present operating cash flows
 - Disclose operating cash flows under the method not used in statement
 - Provide information about noncash activities

FASB Tentative Views: Statement of Cash Flows

- Eliminate the notion of cash equivalents
 - Decision also applies to statement of financial position
- Present information on changes in cash only
 - Currently exploring whether amounts of cash receipts and payments related to items previously classified as cash equivalents would be permitted to be presented net in the statement of cash flows

FASB Tentative Views: Statement of Changes in Equity

- Include details of the change in the beginning and ending balance of each component of equity
 - Accumulated other comprehensive income would be presented in the aggregate
 - The details for each other comprehensive income item would be presented in the notes
 - Proceeds from capital transactions should be presented in the aggregate

FASB Tentative Views: Liquidity Information

- Presentation on face of statement of financial position will vary by entity type
 - Non-financial institutions will be required to classify assets and liabilities into short- and long-term categories
 - Financial institutions will not be required to classify assets and liabilities into short- and long-term categories
- Financial institutions will be required to present detailed maturity information in the notes for contractual assets and liabilities with maturities < 12 months
- All entities would present details of maturities for contractual long-term assets and liabilities

FASB Tentative Views: Footnotes Relating to Financial Statements as a Whole

- Footnote describing measurement attributes used in each balance sheet line item
- Footnote reporting measurement uncertainties relating to each balance sheet line item
- Footnote to help distinguish between various changes in assets and liabilities
 - Will separately identify changes relating to cash, accruals, fair values and other remeasurements
 - Will help achieve line-item cohesiveness across statements
 - Boards will consider the characteristics of persistence and measurement subjectivity in determining what information should be presented separately in the reconciliation
- Footnote on segment disclosures
 - Reconciles to balances reported on face of financial statements

Online resources

- IASB: <http://www.iasb.org>
- IFRS summaries:
<http://www.iasb.org/IFRS+Summaries/IFRS+and+IAS+Summaries+English+2008/IFRS+and+IAS+Summaries+English.htm>
- FASB Codification: <http://asc.fasb.org/home>
- Status of the convergence (current agenda) plans:
 - IASB:
<http://www.iasb.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm>
 - FASB: <http://fasb.org/project/index.shtml>

Accounting Firm Guidance

- Deloitte:

- <http://www.iasplus.com/index.htm>

- Training modules:

- http://www.deloitte.com/dtt/section_node/0,1042,sid%253D49563,00.html

- Webcasts:

- <http://www.deloitte.com/dtt/article/0,1002,cid%253D184083,00.html>

Accounting Firm Guidance

- Ernst and Young newsletter:
[http://www.ey.com/global/content.nsf/International/Assurance - IAS -
Tools and Resources](http://www.ey.com/global/content.nsf/International/Assurance%20-%20IAS%20-%20Tools%20and%20Resources)
- PriceWaterhouseCooper:
[http://www.pwc.com/extweb/pwcpublicatio
ns.nsf/docid/D7ECA7B0D78F3C7E80256
99E0071ACBE](http://www.pwc.com/extweb/pwcpublications.nsf/docid/D7ECA7B0D78F3C7E8025699E0071ACBE)

Accounting Firm Guidance

- KPMG online library:
<http://www.kpmgifrg.com/pubs/index.cfm>
- KPMG webcasts:
<http://www.kpmgifrsinstitute.com/Events.aspx?CallFrom=ONDEMAND>

The End

- Thanks for listening, any questions?