



International Financial Reporting Standards: Realities in Practice

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Ghosts of Practice Past, Present, Future

- Ghost of practice past
 - How to apply general principles?
 - General focus on minimizing differences from local GAAP
 - Applicability of U.S. GAAP?
- Ghost of practice present
 - Increasing global perspective
 - Convergence of practices, particularly within industries
 - Greater transparency in financial statements
- Ghost of practice future
 - New stable platform based on “converged” standards
 - Greater incorporation of fair value information
 - Increasing use of forward looking information

Overall Practice Issues and Effects

Macro Issues

- More general standards
- Global versus local perspective
- Public versus private reporting
- Regulatory reform efforts

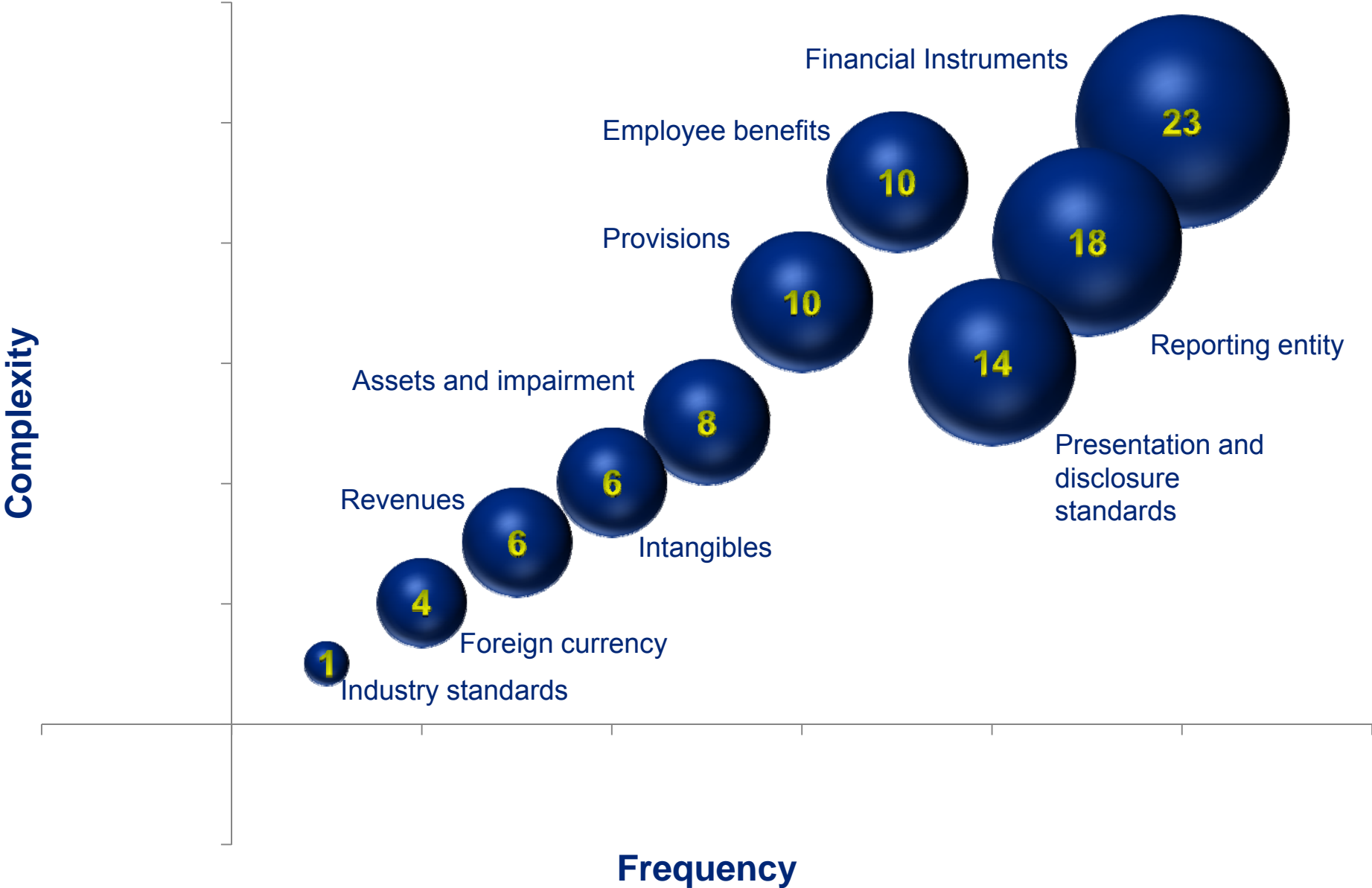
Micro Issues

- First-time adoption
- Recognition
- Measurement
- Presentation
- Disclosure

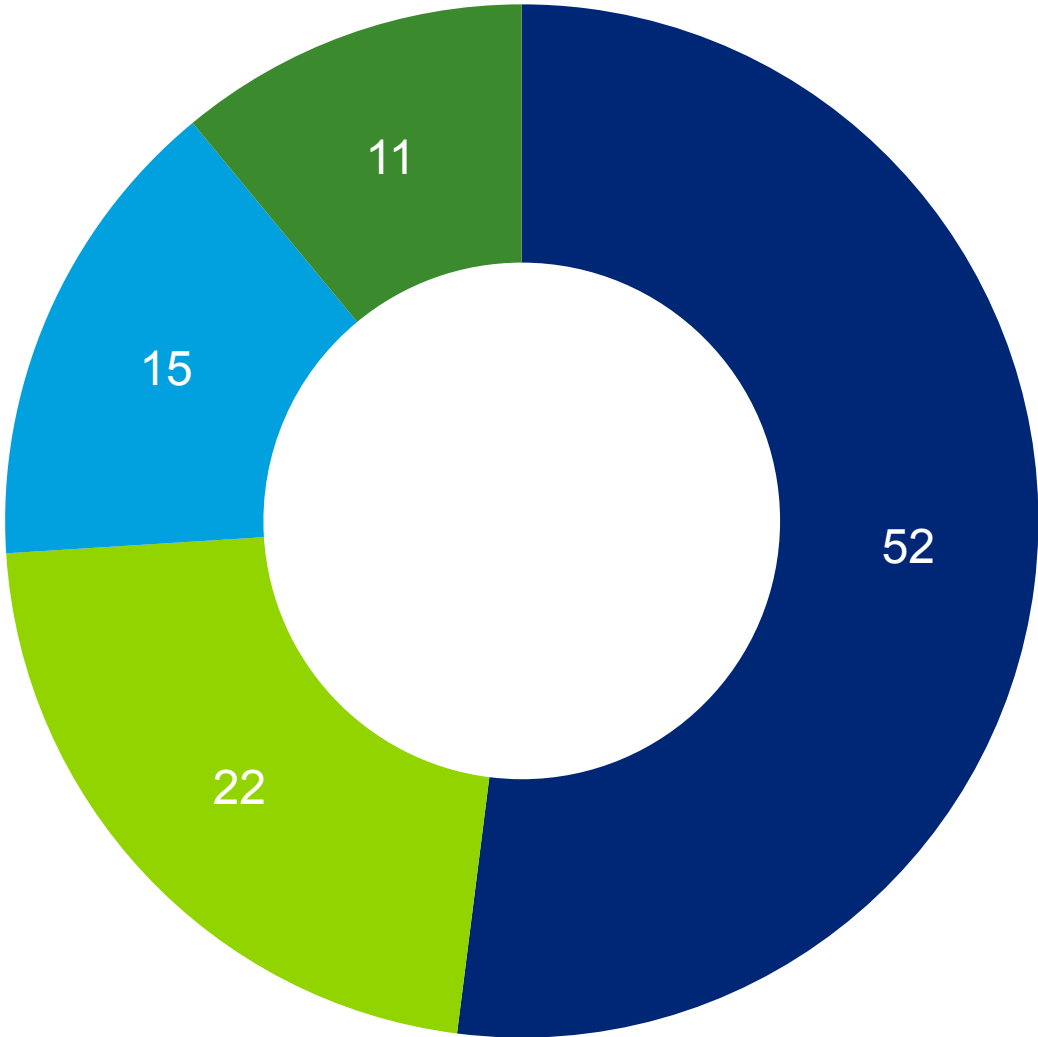
Effects

- Increased use of judgment
- More of a focus on “process”
- Overall transparency of financial statements

IFRS Questions – Summary By Standards Topic



IFRS Questions – Impact of Convergence



- Questions involving a convergence project
- Questions involving a mostly converged standard
- Questions involving standards with some convergence
- Questions involving standards with little convergence

IFRS Case Study

- Consists of excerpts from actual IFRS financial statements
- Objective of the cases
 - Summarize the company's accounting policy
 - Identify relevant differences from U.S. GAAP

Common Practice Themes

First-time Adoption Themes

- Retrospective application
- Use of IFRS 1 exemptions
- Interim information and reporting

Examples

- Retrospective application of certain standards
 - e.g., leases, intangibles
- Common IFRS 1 exemptions used include business combinations; use of a “deemed cost” for property, plant and equipment; pensions; and foreign currency
- Understanding post-IFRS adoption impact of first-time adoption and use of exemptions
- Reporting challenges on information pre-adoption (i.e., in the year of adoption)

Common Practice Themes

Recognition Themes

- Different (often “lower”) unit of account
- More items recognized in financial statements

Examples

- Componentization of property, plant and equipment
- Bifurcation of land and building leases
- Multiple elements in revenue arrangements
- “Split accounting” for compound financial instruments
- Accounting for contingencies
- Capitalization of development costs
- Attribution of share-based payment expense

Common Practice Themes

Measurement Themes

- Conformity of methods in consolidated financial statements
- Greater incorporation of fair value
- Use of “expected values”

Examples

- Conformity of methods
 - e.g., inventory valuation methods, measurement of long-term assets (property, plant, and equipment, investment property)
- Most assets may be fair valued
 - e.g., property, plant and equipment, investment property, intangibles, financial instruments, non-controlling interests
- Use of fair value for agricultural assets, share-based payments, assets acquired/liabilities assumed in a business combination

Common Practice Themes

Presentation and Disclosure Themes

- Look through managements eyes
- More quantitative and rollforward disclosures
- Qualitative disclosures focused on judgments made and assumption used
- Financial statement versus non-financial statement

Examples

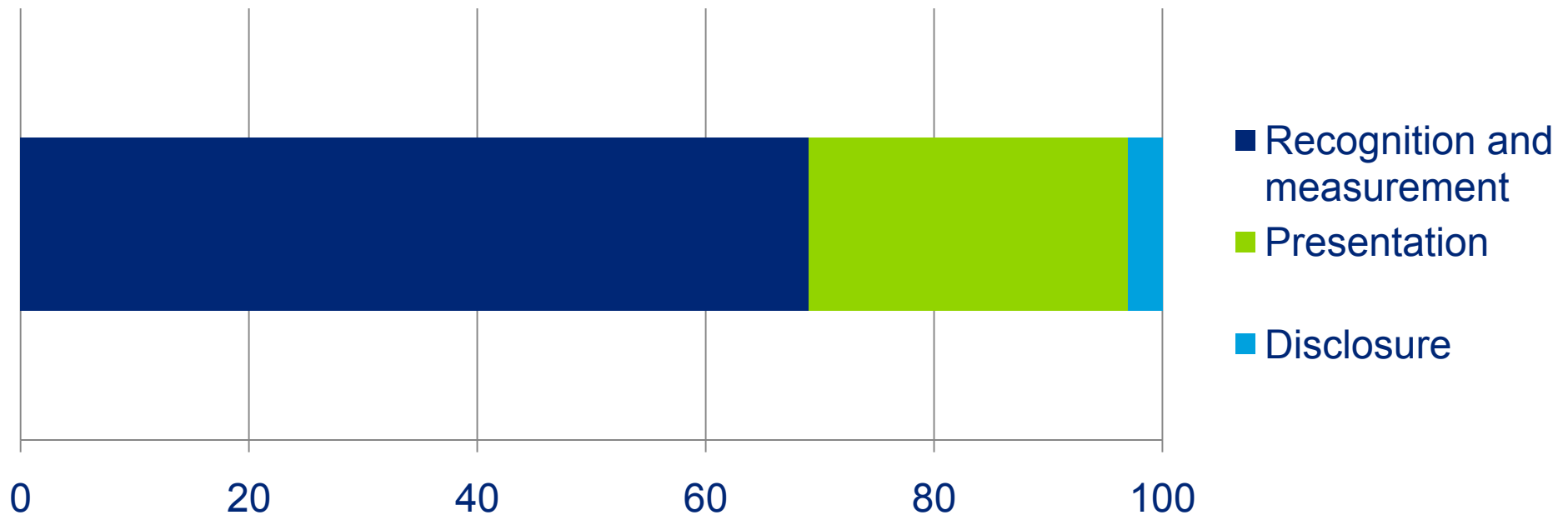
- Presentation shaped by management's approach
 - e.g., financial statement line items and performance measures
- Greater quantitative disclosures for property, plant and equipment, intangibles, provisions, related parties
- Focus on qualitative disclosures in areas such as revenues, consolidation policy, use of fair value
- More disclosures in financial statements
 - e.g., critical accounting policies, market risk disclosures

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Appendix:

IFRS Questions – Key Areas By Standards Topic

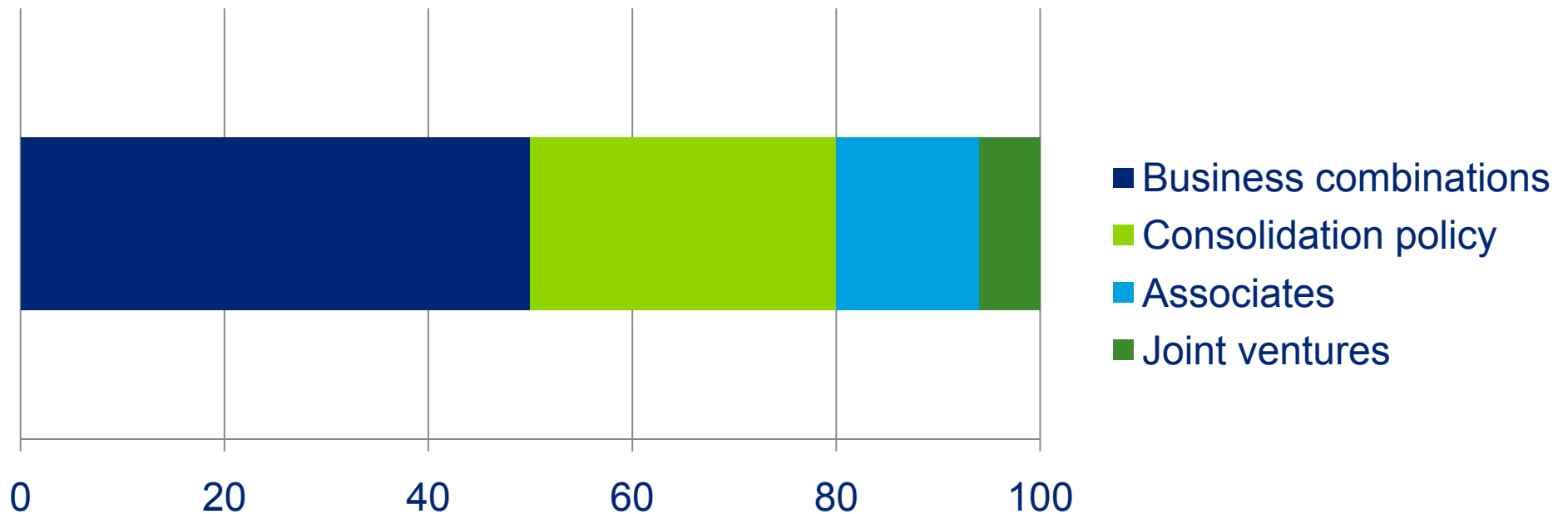
Financial Instruments



Key Areas:

- Recognition and measurement questions focused on scoping issues, embedded derivatives, hedging
- Presentation questions focused on determining liability and equity classification
- SEC staff comments on disclosures of hedging policy, relationships and effectiveness; impairment losses; debt/equity classification; and securitization and factoring transactions

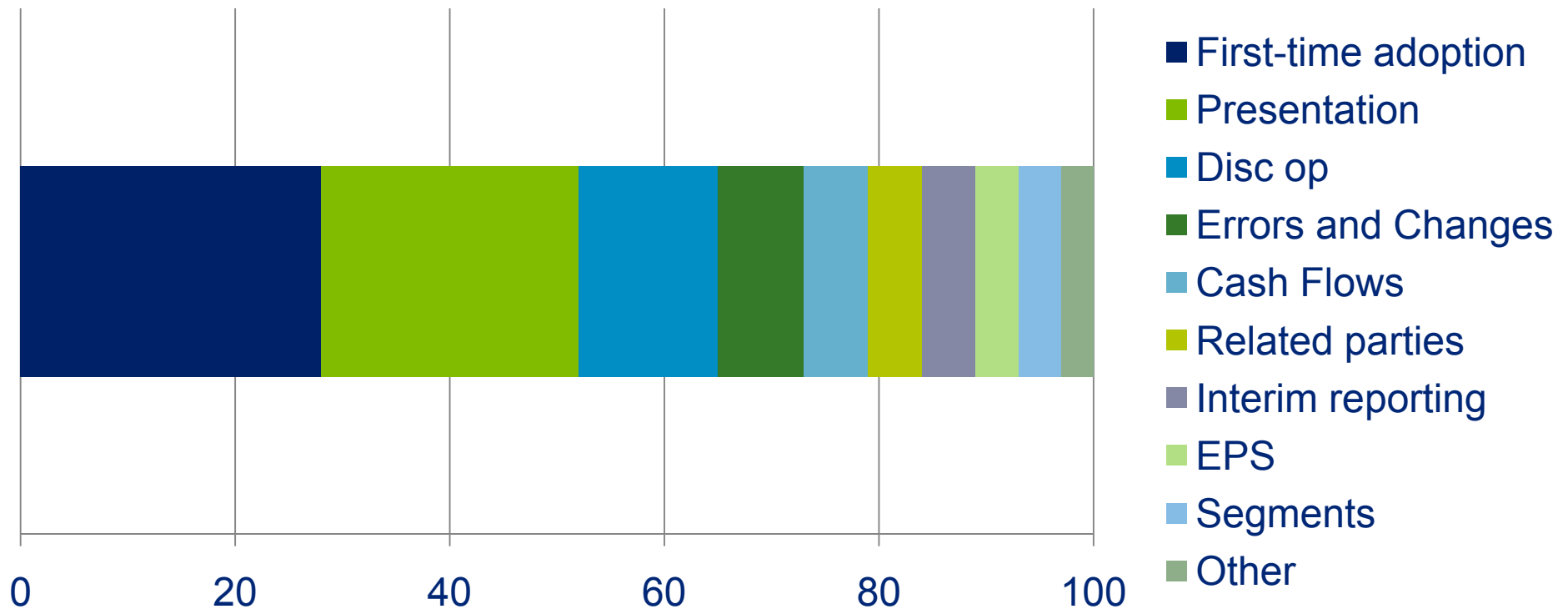
Reporting Entity



Key Areas:

- Business combination questions focused on contingent consideration, valuation issues
- Consolidation questions focused on the application of control
- Associates questions focused on significant influence, impairment
- SEC staff comments on disclosures related to the assertions of control and significant influence

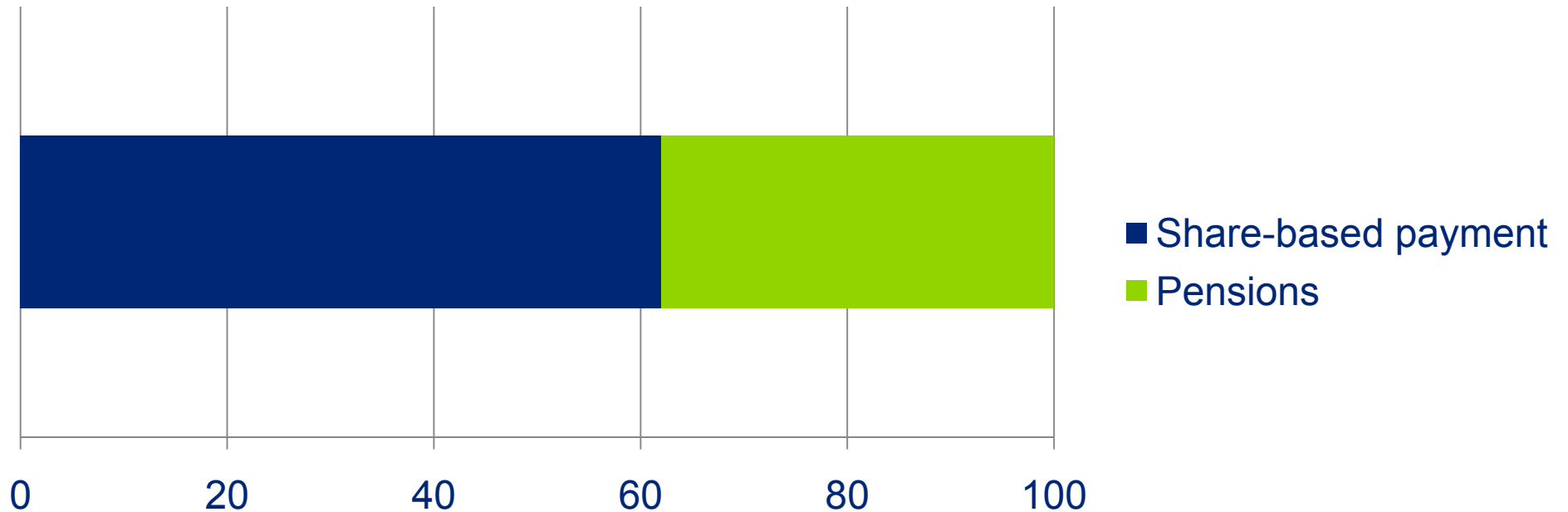
Presentation and Disclosure Standards



Key Areas:

- First-time adoption questions focused on the use/interaction of IFRS 1 exemptions
- General presentation questions focused on format of financial statements (use of prior GAAP formats, local regulatory requirements)
- SEC staff comments on clarity and specificity of IFRS transition disclosures; use of alternative performance measures; cash flow classification; segments

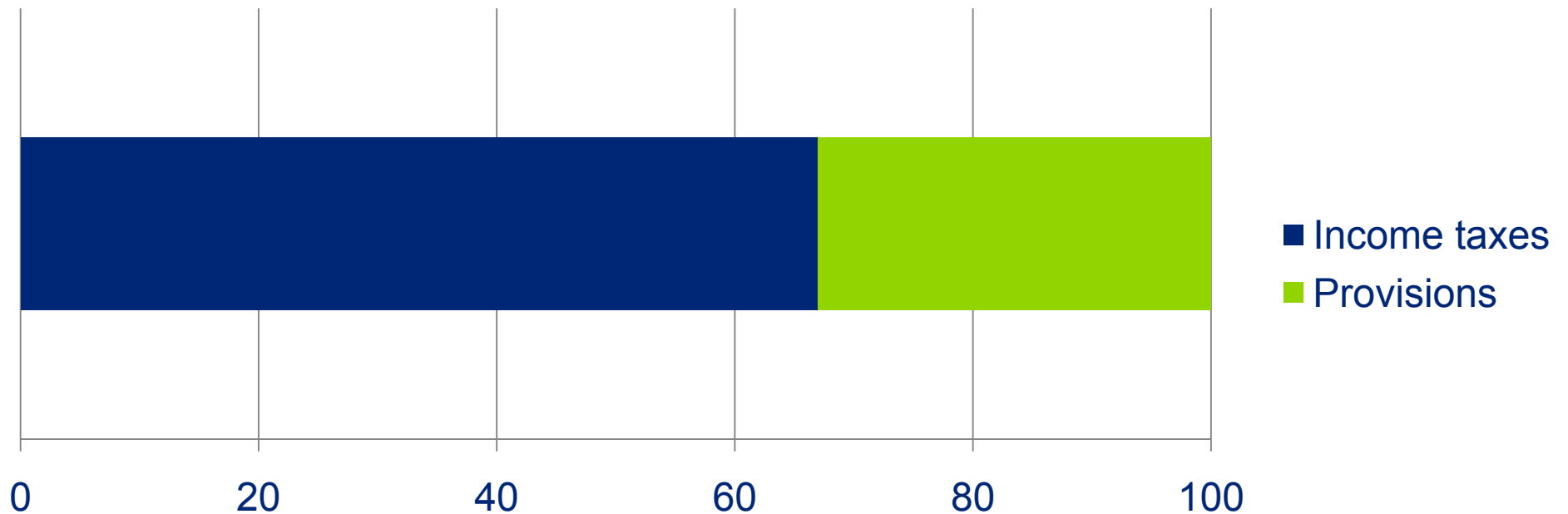
Employee Benefits



Key Areas:

- Share-based payment questions focused on grant date, vesting conditions, modifications, measurement issues
- Pension questions focused on accounting for settlements and curtailments, country specific schemes
- SEC staff comments on disclosure of assumptions used in determining share-based compensation and pension liabilities

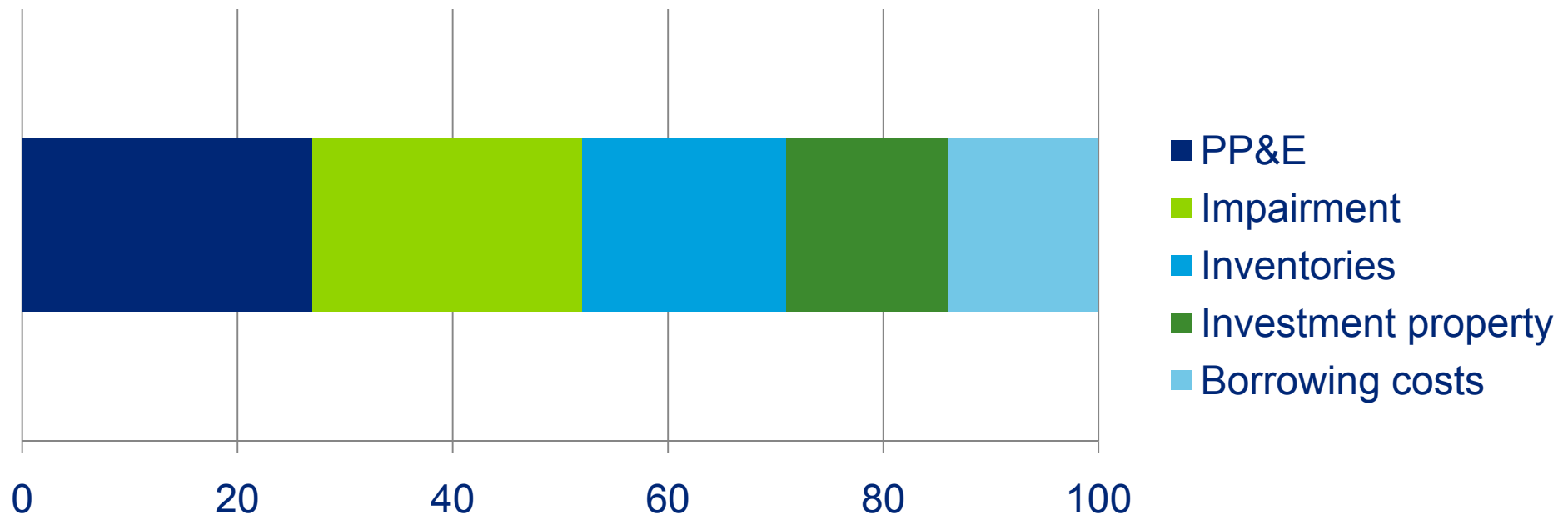
Provisions



Key Areas:

- Income tax questions focused on scoping, tax uncertainties, realization of deferred tax assets, tax holidays, taxes on subsidiaries
- Provisioning questions focused on restructuring charges, measurement and use of expected value
- SEC staff comments on measurement of deferred tax items; circumstances around impairment charges; litigation disclosures

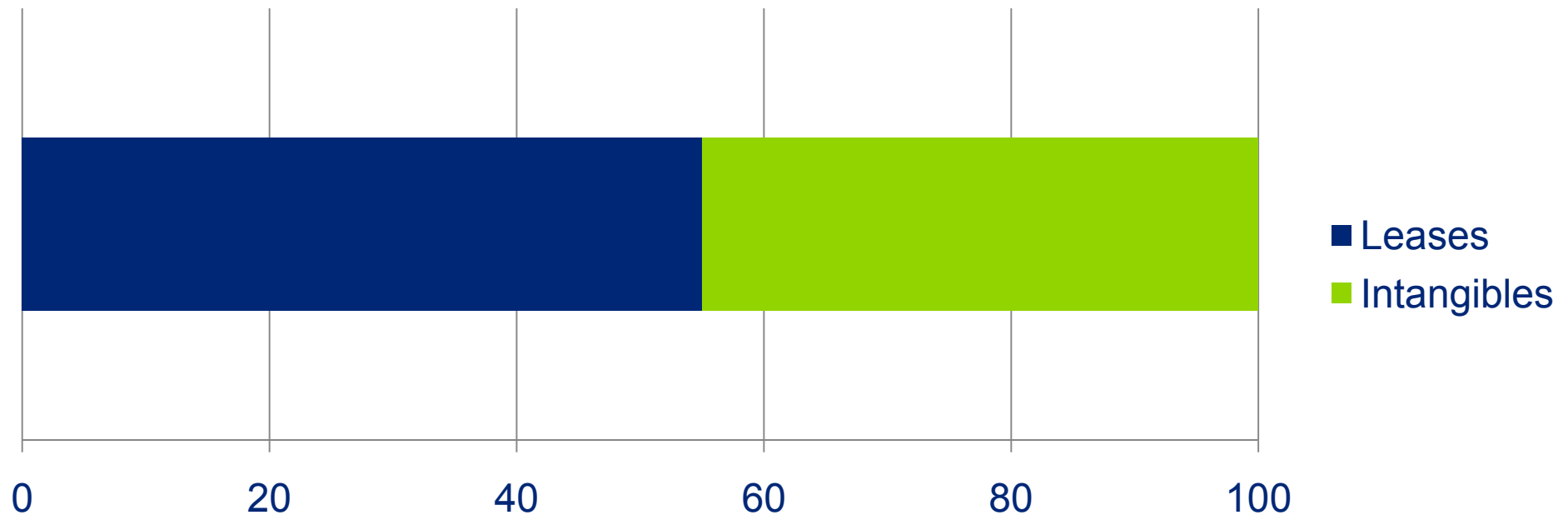
Assets and Impairment



Key Areas:

- PP&E questions focused on scoping, costs to capitalize
- Impairment questions focused on determining level of testing (i.e., CGU), accounting for reversals of impairment
- Borrowing cost questions focused on amounts to be capitalized
- SEC staff comments on level of componentization; asset exchanges; determination of CGUs, level of goodwill impairment testing; reversals

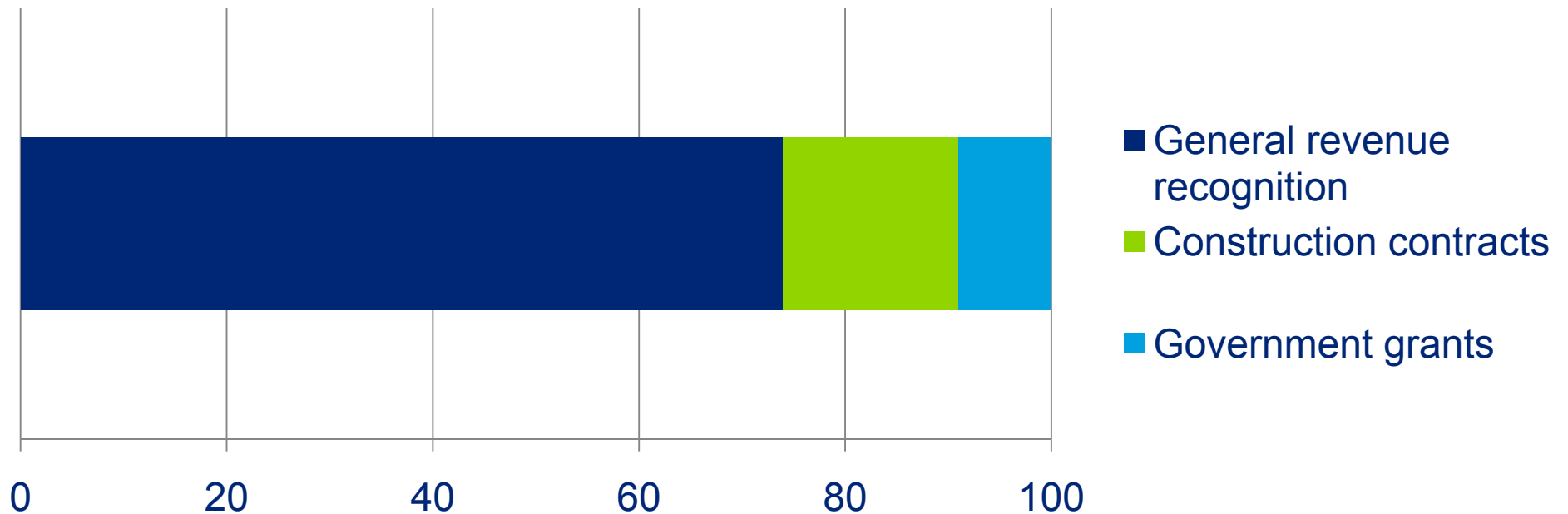
Intangibles



Key Areas:

- Lease questions focused on determining minimum lease payments, lease classification
- Intangible questions focused on contract acquisition costs, revaluation, useful lives
- SEC staff comments on accounting/disclosure of sale and leaseback transactions; concessionary arrangements; capitalization of development costs

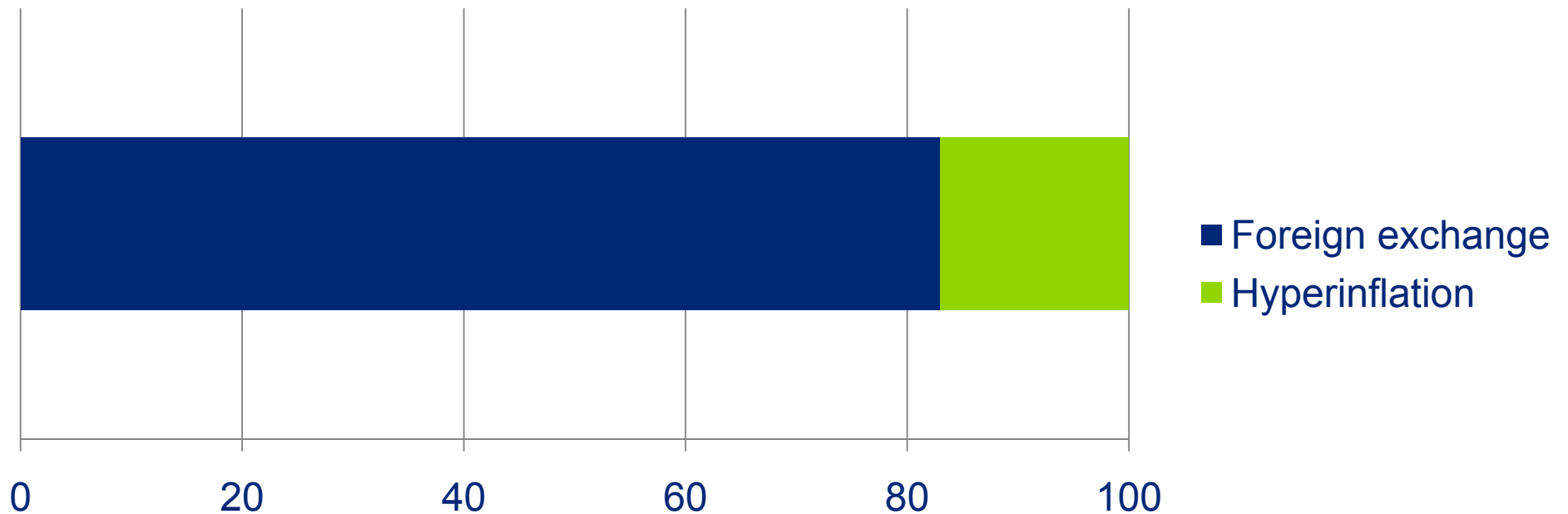
Revenues



Key Areas:

- General revenue questions focused on gross versus net presentation, multiple elements, transfer of risks and rewards, upfront fee arrangements
- Construction contract questions focused on combining and segmenting contracts
- SEC staff comments on clarity of revenue policy disclosures; gross versus net; customer acceptance provisions

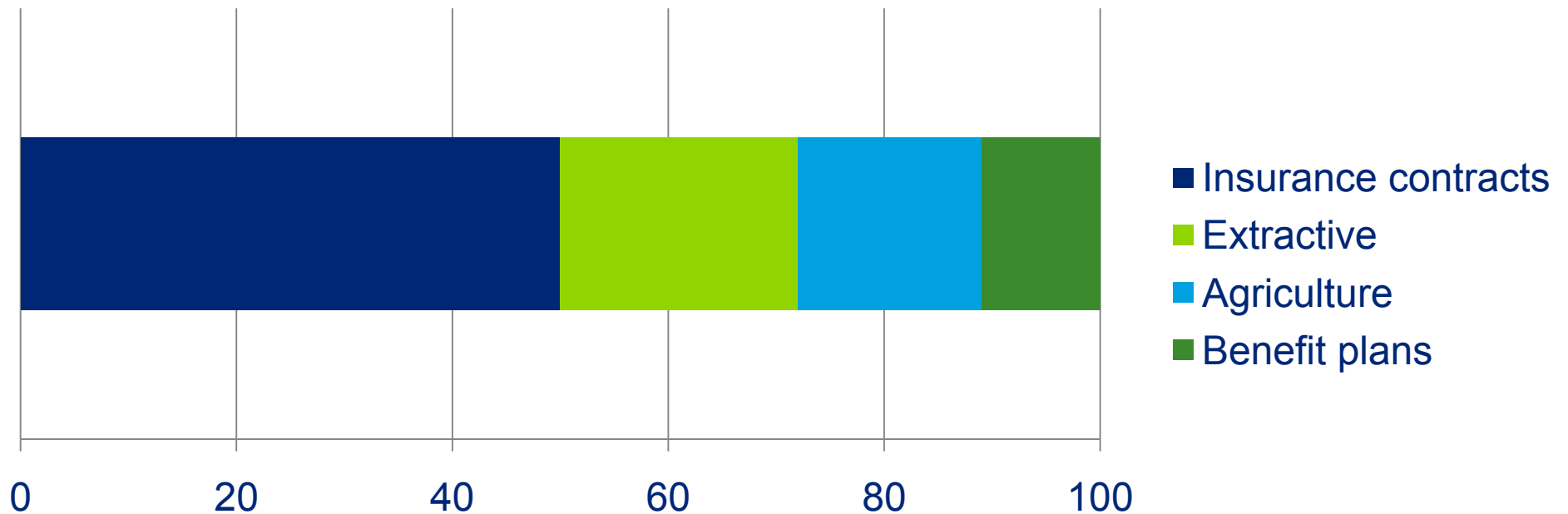
Foreign Currency



Key Areas:

- Foreign exchange questions focused on functional currency determination, effects of partial disposals of investments
- Hyperinflation questions related to the application of the restate/translate approach

Industry Standards



Key Areas:

- All industry standards involved questions on scoping
- Agriculture questions also focused on the measurement of certain types of assets (e.g., biological assets)