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Newly issued IFRSs First Impressions

Business DialogueS

13 October 2011



Agenda

- IFRS 10 – Consolidated financial statements
- IFRS 11 – Joint arrangements
- IFRS 12 – Disclosure of interests in other entities
- IFRS 13 – Fair value measurement



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IFRS 10 Consolidated Financial Statements

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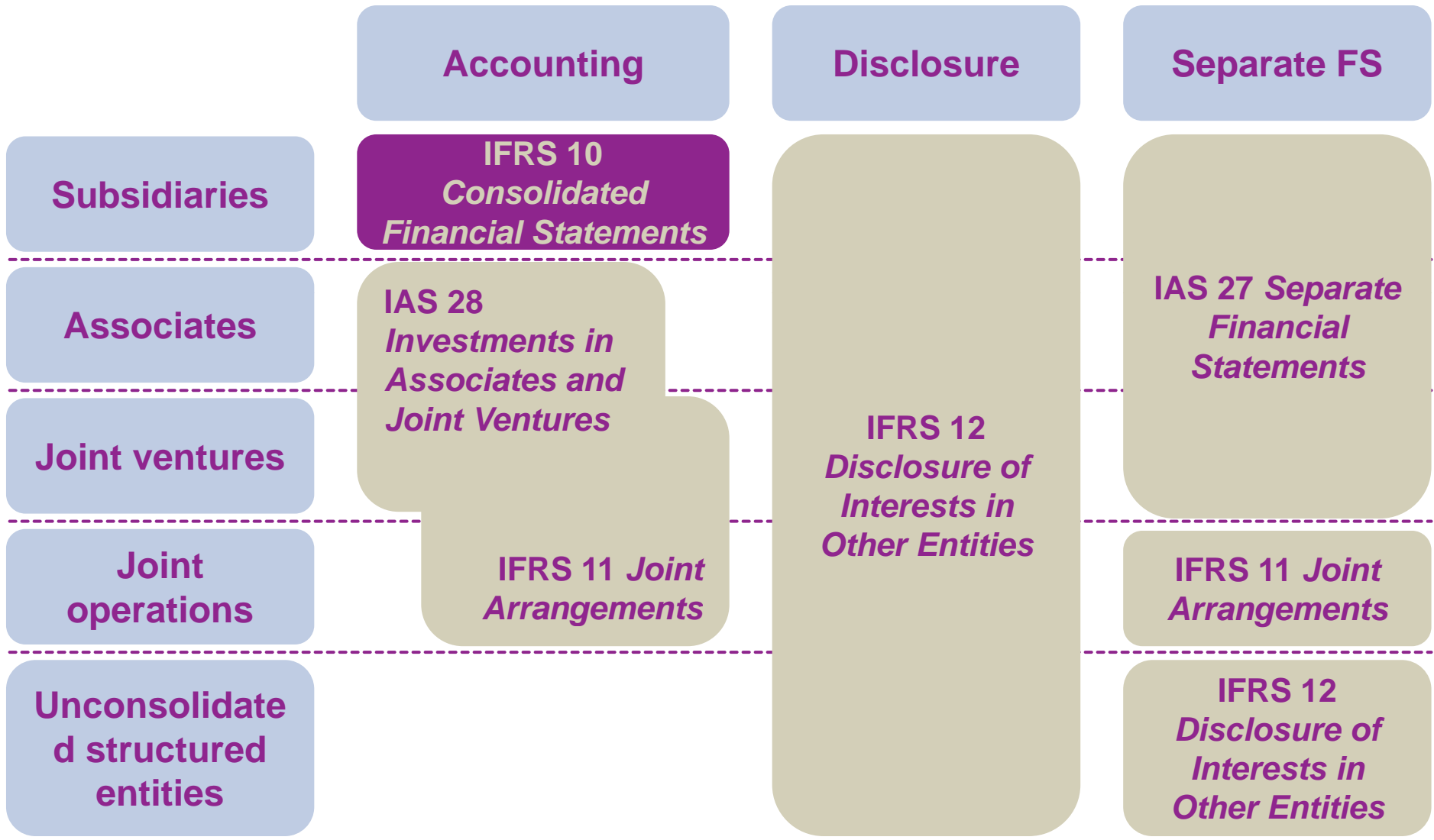


IFRS 10: Consolidated financial statements

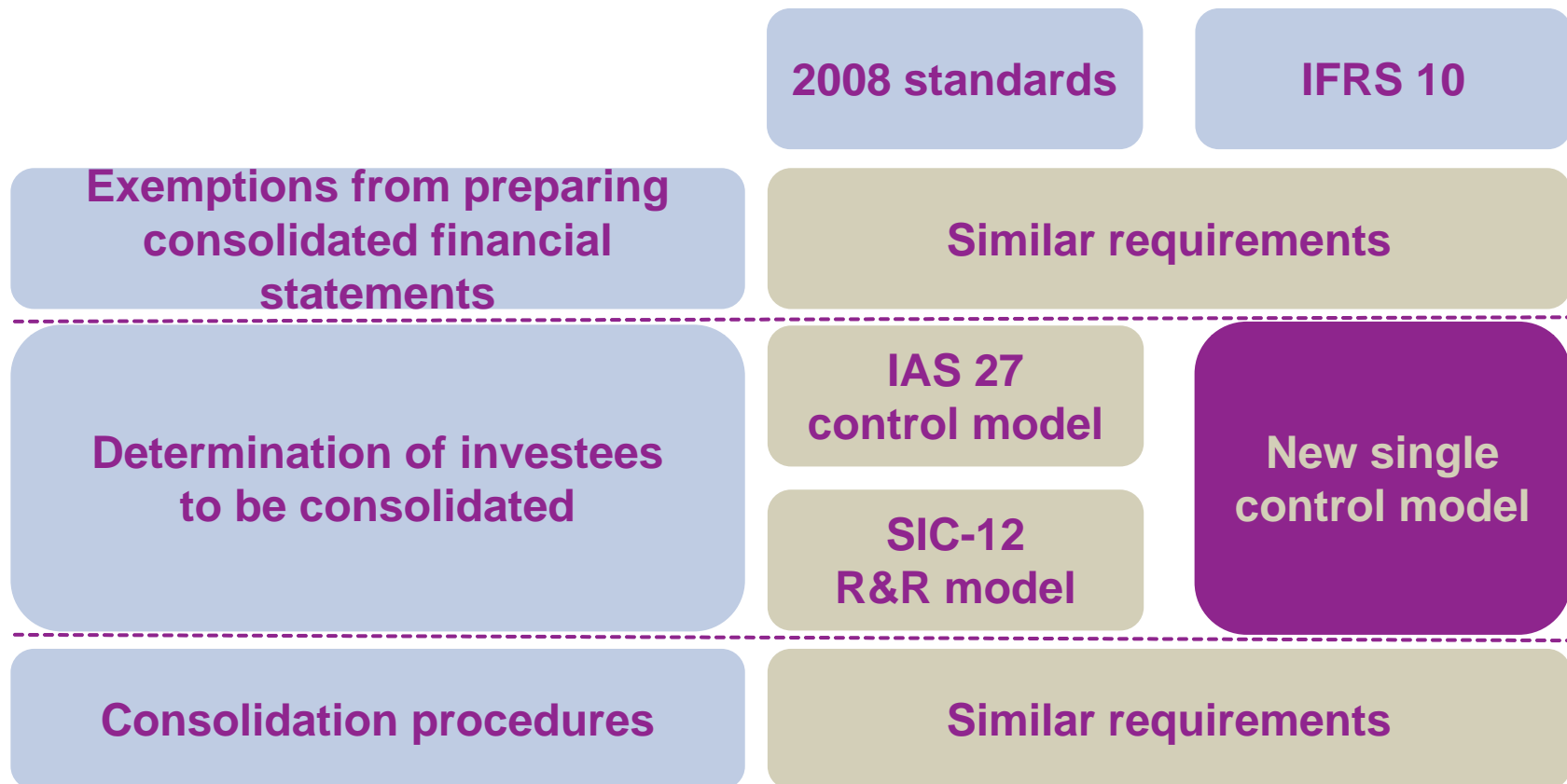
Background

1. Inconsistency in applying IAS 27 and SIC 12
2. Perceived conflict between IAS 27 and SIC 12 (control Vs. “risk and reward”)
3. Off balance sheet “vehicles”

A new suite of consolidation standards



From IAS 27/SIC-12 to IFRS 10



R&R = risks and rewards

IFRS 10 in a nutshell



To have power, it is necessary for investor to have existing rights that give it **current ability** to direct the activities that significantly affect the investee's returns, i.e. the **relevant activities**

Control assessed on continuous basis

IFRS 10: Consolidated financial statements

Control

« An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.»

The new single control model

- 1 Identify the investee (legal entity or silo)
- 2 Identify the relevant activities of the investee
- 3 Identify how decisions about the relevant activities are made
- 4 Assess whether the investor has power over the relevant activities
- 5 Assess whether the investor is exposed to variability in returns
- 6 Assess whether there is a link between power and returns

Assess whether there is a link between power and returns



Effective date: 1 January 2013

Consolidation suite effective for years beginning on or after **1 January 2013**

Early adoption permitted

provided that entire suite of consolidation standards adopted at the same time

- ◆ **Entities encouraged to provide IFRS 12 information** before effective date
 - ◆ This doesn't trigger early adoption

Fully retrospective with some exemption including “impracticability”

Retrospective application except as below

	Investee consolidated under IAS 27/SIC-12	Investee not consolidated under IAS 27/SIC-12
Investee consolidated under IFRS 10	Entity not required to adjust historical figures	Specific requirements
Investee not consolidated under IFRS 10	Specific requirements	Entity not required to adjust historical figures

Potential impacts

Change in control model may affect control conclusion for some investees, in particular **SPEs**

De facto control model could lead to more investees being consolidated

Substantive (vs currently exercisable) potential voting rights are considered when assessing control

Investment and asset managers could be affected by **agency relationship guidance**

New guidance about **silos** could change consolidation conclusion

Exposure to returns (vs benefits in IAS 27 and majority of benefits in SIC-12) could change control conclusion



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IFRS 11 Joint Arrangements

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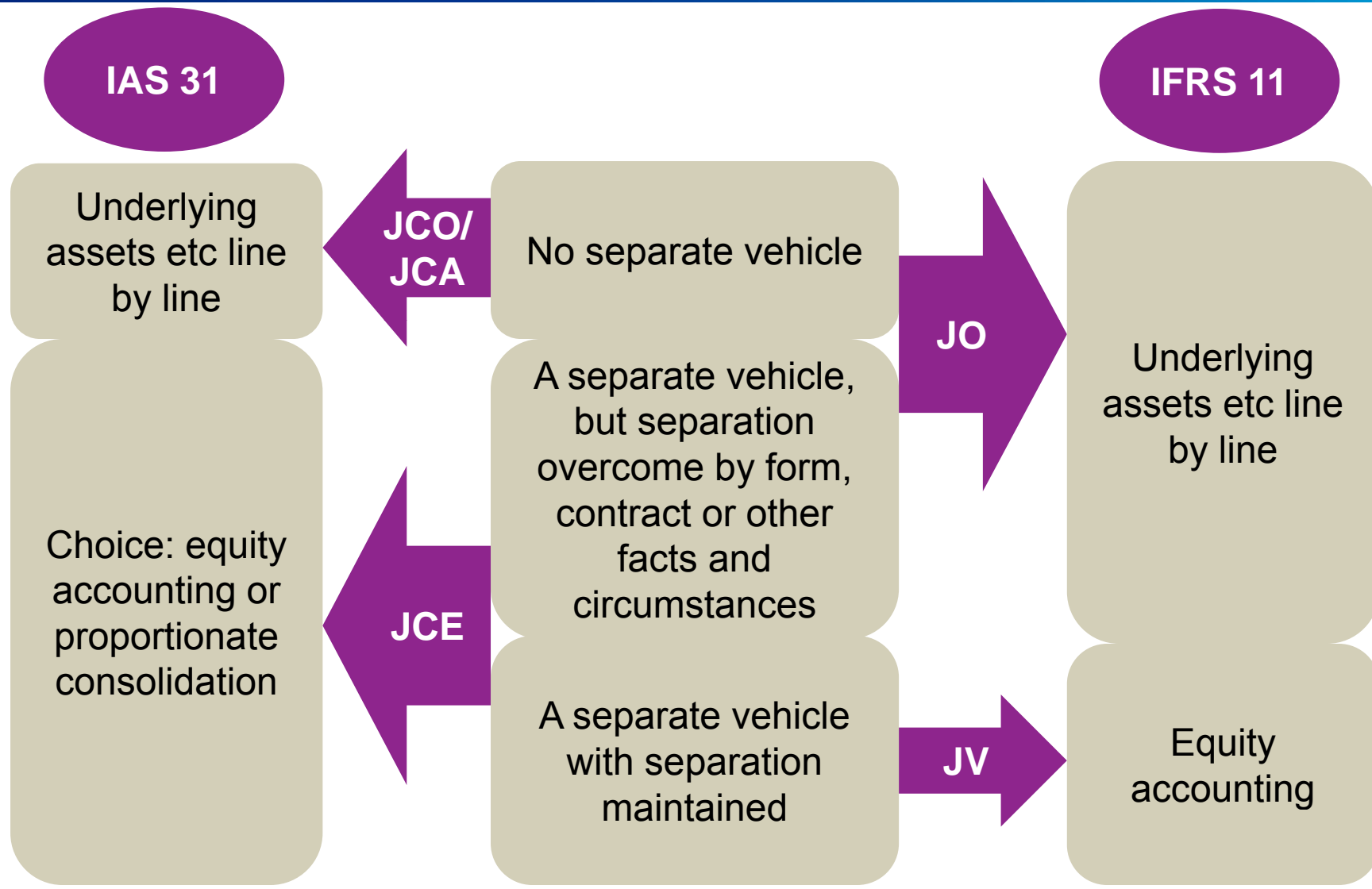


IFRS 11: Joint Arrangements

Definitions

- Joint Arrangement
 - An arrangement of which two or more parties have **joint control**
- Joint Control
 - The **contractually agreed** sharing of control of an arrangement
 - Decisions about relevant activities require **unanimous** consent of parties sharing control

Types and accounting models



A joint operation or a joint venture?

Joint venture

Joint venturers have rights to net assets



- ◆ Single item being an interest in net outcome of joint arrangement
- ◆ Or, for example, single plus guarantee of liabilities
- ◆ Determined by specified tests

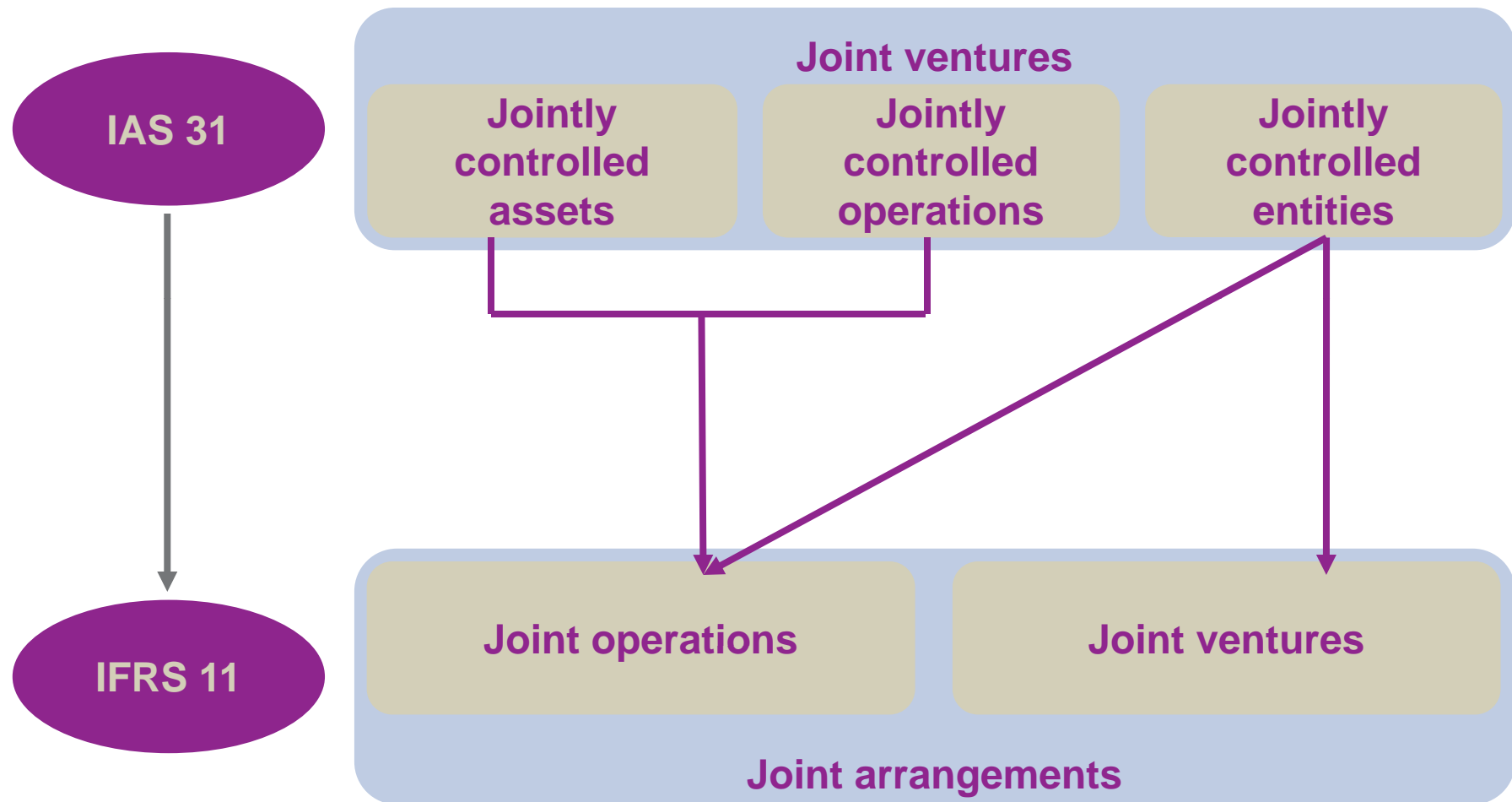
Joint operation

Joint operators have rights to assets and obligations for liabilities



- ◆ *Direct* rights / obligations to underlying *individual* assets and liabilities
- ◆ Relates to assets *and* liabilities
- ◆ In legal form or in substance
- ◆ Determined by specified tests

Summary: changes in terminology & classification



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Transition to IFRS 11 and IAS 28 (2011) generally **retrospective**

Transitional simplifications in **certain cases**
◆ also available for first-time adopters

Key changes and potential impacts

All joint arrangements need to be re-assessed on first implementation

Determining type of joint arrangement – area of judgement and careful consideration

We expect many IAS 31 JCEs will be joint ventures, but some JCEs will be joint operations

Transitioning from proportionate consolidation to equity method can affect all financial statement line items

Consider effect on existing contracts immediately (i.e. debt agreements) and performance measures



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IFRS 12 Disclosure of Interests in Other Entities

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A broad information objective

Provide information that helps financial statement users to evaluate:

Nature of and **risks** associated with interests in other entities

Effects of interests on **financial position, financial performance and cash flows**

IFRS 12: Unconsolidated Structures Entities

A Structured Entity is defined as:

- An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

IFRS 12: Significant judgments

Disclosure any significant judgements and assumptions used in determining whether an entity has:

- Control of another entity;
- Joint control of an arrangement;
- Significant influence over an entity;
- Type of joint arrangement (when structured through a separate vehicle / entity).

IFRS 12: Interests in Subsidiaries

Disclosure information that will enable users to understand and evaluate:

1. **Composition** of the Group;
2. Non-controlling interests disclosures;
3. **Significant restrictions** on group assets and liabilities;
4. Consequences of changes in ownership interest;
5. Consequences of losing control of a subsidiary;
6. Details around **Financial Support** provided.

IFRS 12: Interests in Joint Arrangements and Associates

For each **material** Joint Arrangements and Associate, disclose:

1. Name;
2. Nature of the relationship;
3. Principal place of business;
4. Proportion of ownership interest / voting rights held;
5. Whether the JV or Associate is measured using the equity method or at fair value;
6. Summarised financial information;
7. Any significant restrictions of JV's / Associates;
 - to declare dividends or repay loans / advances
8. Any unrecognised share of losses.

IFRS 12: Interests in Unconsolidated Structured Entities

- Disclosure information including:
 - The nature of the entity;
 - Its purpose;
 - Size;
 - Activities undertaken; and
 - How the structured entity is financed.
- The carrying amount of the assets and liabilities recognised relating to these entities and the entity's maximum exposure to loss from its interests in these entities;
- If an entity sponsors such an unconsolidated entity, without a contractual obligation to do so, it shall additionally disclose:
 - The type of support provided; and
 - Reasons for providing such support.
- If an entity intends to provide financial or other support to an unconsolidated structured entity, this fact shall be disclosed.

Effective date: 1 January 2013

Consolidation suite effective for years beginning on or after **1 January 2013**

Early adoption permitted, together with IFRS 10, 11 and IAS 27/28 (Amended)

- ◆ **Entities encouraged to provide IFRS 12 information** before effective date
 - ◆ This doesn't trigger early adoption

Application is fully retrospective

Potential impacts

Extensive disclosure requirements

Wide-ranging effect due to wide definition of 'interests'

Adjustments to systems / processes may be necessary

Significant judgement as to whether objective is met

Significant judgement for 'involvement' with a structured entity

Retrospective application – no grandfathering



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IFRS 13 Fair Value Measurement

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IFRS 13:- Background

Prior to the introduction of IFRS 13, there were issues surrounding fair value measurement guidance and disclosing information about fair value:

Pre IFRS 13

Fair value measurement guidance in individual IFRSs

Inconsistencies in guidance added to the complexity of financial reporting

Post IFRS 13

A single source of guidance on fair value measurement

Eliminate inconsistencies in guidance

IFRS 13 was developed jointly with the FASB and is largely converged with the FASB's Topic 820

IFRS 13:- Overview of standard

- Fair value defined as an exit price
- Comprehensive framework for measuring fair value when such measurement is required or permitted under other IFRSs
- Additional disclosures required about fair value measurements, including for non-financial assets and liabilities
- IFRS 13 provides guidance on 'how' to measure fair value rather than 'when' to measure fair value; does not require additional fair value measurements

IFRS 13:- Scope

- IFRS 13 applies to other IFRSs that require or permit fair value for measurement or disclosure purposes, such as:
 - Financial instruments
 - Most assets and liabilities acquired in a business combination
 - Non-current assets held for sale in accordance with IFRS 5
 - Investment property/intangibles/PP&E held at fair value
 - Biological assets

Out of scope – measurement & disclosures

- IFRS 2: Share-based payments
- IAS 17: Leases

Out of scope – disclosures

- IAS 19: Employee benefits
- IAS 26: Retirement benefit plans
- IAS 36: Impairment of assets

IFRS 13: What is new?

	Status	Summary of changes
Definition of FV	No major change	Exit price at measurement date
Non-financial assets	New guidance	'Highest & best use'
Financial assets/liabilities with off-setting risks	New guidance	Group of fin. assets/liabilities can be measured on net basis
Valuation techniques	No major change	Prioritises inputs to valuation techniques. Same as per IFRS7
FV hierarchy	No major change	
FV in markets that are no longer active	More guidance	Consistent with guidance in the IASB's Expert Advisory Panel Report (October 2008)
Disclosures	New guidance	FV hierarchy disclosures for both financial/non financial assets/liabilities measured at fair value. Required for interim financial reports.

IFRS 13:- Application date



- IFRS 13 applies for annual periods beginning on or after 1 January 2013
- Earlier application is permitted with disclosure of the fact
- IFRS 13 is applied prospectively as of the beginning of the annual period in which the final standard is initially applied
- The disclosure requirements need not be applied to comparative information provided for periods before the date of initial application



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Questions?



Related upcoming events ...

TAX

8 November 2011

Tax implications with the use of IFRS accounts in Luxembourg

Introduction

This IFRS breakfast meeting will concentrate on the practical tax aspects of the introduction of IFRS accounts as well as the new Lux GAAP law.

Timing

8 November 2011, start time 9:00 am

Language

English

Program

8:30 - 9:00 am	Registration and breakfast
9:00 - 9:05 am	Introduction Louis Thomas, Head of Commercial & Industrial, KPMG in Luxembourg
9:05 - 9:45 am	Presentation Heike Weber, Senior Manager, Financial Services, KPMG in Luxembourg
9:45 - 10:00 am	Q&A session Louis Thomas, Head of Commercial & Industrial, KPMG in Luxembourg Heike Weber, Senior Manager, Financial Services, KPMG in Luxembourg



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Presentation by :

Stephan LEGO

Emmanuel KABAMBA