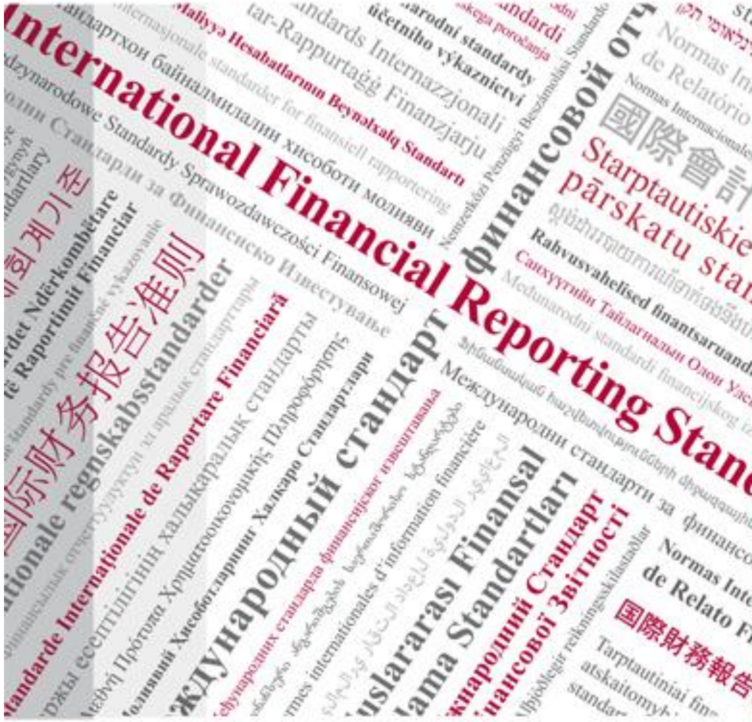

IASB update on main issues affecting financial entities

V Seminario Internacional NIIF y NIIF PyMEs
Buenos Aires, 31 de julio de 2014

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Board Member
IASB

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Main technical issues to affect financial entities

- Fair value: level 3 measurement
- Deferred tax assets
- Financial instruments:
  - Hedge accounting
  - Classification and measurement
  - Impairment
- Leasing

International Financial Reporting Standards

Financial Instruments

Accounting for hedges

- Hedge accounting (general model)
  - More closely aligned to risk management activities
  - Enhanced disclosure
  - Election to use IAS 39 or IFRS 9 hedge accounting model
  - Published in Chapter 6 of IFRS 9 in November 2013

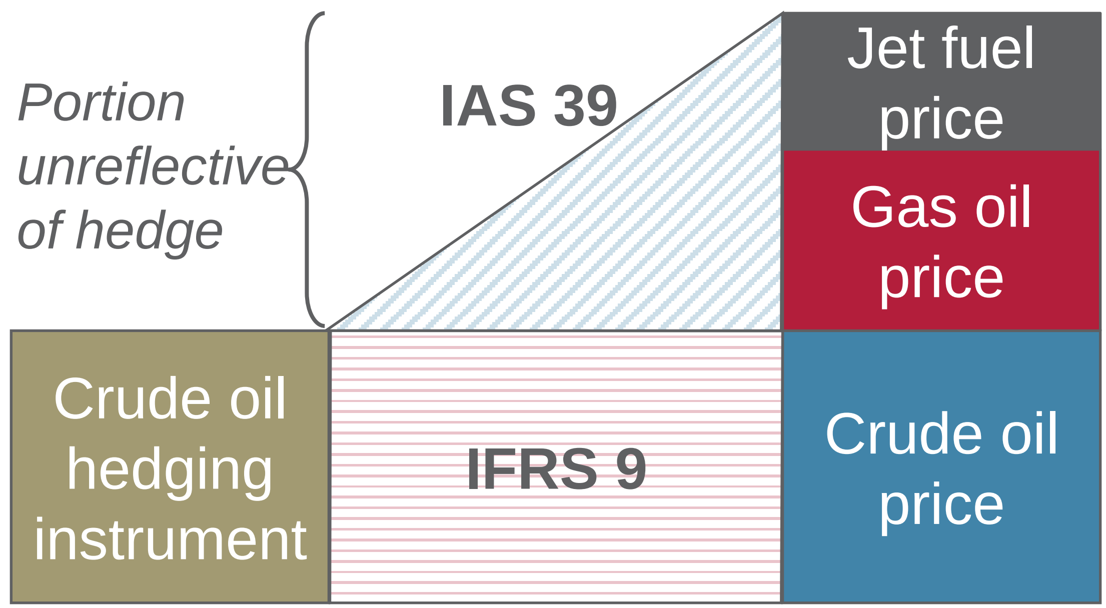
- Accounting for macro hedges
  - Separate project: early stage
  - Risk management practices for open portfolios
  - Discussion Paper published April 2014

Hedge accounting: Key changes from current model

Comprehensive review of hedge accounting

- Links economics of risk management with accounting treatment
- Significantly reduces accounting considerations that affect risk management decisions
- Ability to account for more hedges of non-financial items
- Dynamic risk management not part of IFRS 9

Example: Measuring the success of hedging jet fuel contracts with crude oil futures



Classification and measurement

- Objective: reflect the business model in which assets are managed and their cash flow characteristics (principal and interest)
- What is important to note?
  - Logical approach to classification: foundation of the accounting for financial instruments
  - No bifurcation requirements for assets
  - Measurement: FVPL, amortised cost, FVOCI
  - Reclassification: when, and only when, business model changes
  - Liabilities: banks must recognise effects of ‘own credit’ changes in OCI (‘neutralise’ the result of the value of own debt falling due to a decrease in credit worthiness) and this can be early applied in isolation

Classification of financial assets

Business model‡

Contractual cash flow characteristics

Amortised cost*

FVOCI*

FVO for accounting mismatch

All other instruments:

- Equities
- Derivatives
- Some hybrid contracts
- …

Fair value (No impairment)

Equities: OCI presentation available (alternative)

‡ Reclassification required if business model changes

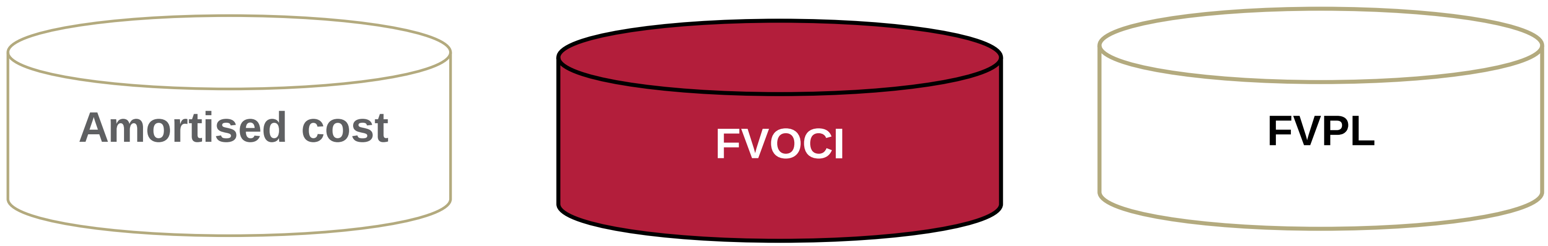
* Same impairment model for amortised cost and FVOCI

The IFRS 9 classification model for assets

	Business model is hold to collect	Business model is hold to collect and sell	Other business models
Cash flows are solely payments of principal and interest	Amortised cost	FVOCI NEW	FVPL
Other types of cash flows	FVPL	FVPL	FVPL

IFRS®

2014 Limited Amendments to IFRS 9



- Defined category
- Better reflects how financial assets are actually managed
  - Business model that involves both collecting contractual cash flows and selling financial assets
- Addresses potential accounting mismatches due to interaction with accounting for insurance contract liabilities
- Provides fair value and amortised cost information
- Supported by the majority of respondents, including users

Financial liabilities at FVO – ‘own credit’

Financial statements – IFRS 9			
Balance sheet		*P&L*	
Financial liabilities – FVO	Full FV	Gain or loss	all FV Δ except own credit
		OCI	
		Gain or loss	FV Δ due to ‘own credit’*

* Not recycled

- Otherwise, **P&L gain when ‘own credit’ deteriorates**, loss when it improves
- ***Required* by IFRS 9** for financial liabilities designated under the FVO – the only change to the IAS 39 model for financial liabilities
- **Limited amendments** allowed the ‘own credit’ requirements to be applied before the rest of IFRS 9

Impairment of financial instruments

- Objective to improve
  - Timeliness of recognition of expected credit losses
  - information about credit quality
- What is it?
  - Single model: apply to all financial instruments
  - Forward looking: expected credit losses always recognised
  - Full lifetime expected credit losses recognised when credit risk increases significantly
  - Improved disclosure

Overview of general approach

Change in credit risk since initial recognition

Expected credit losses recognised		
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Interest revenue		
Gross basis	Gross basis	Net basis
Stage 1 *Performing*	Stage 2 *Underperforming*	Stage 3 *Non-performing*

Financial instruments: Where are we?

- Final version of IFRS 9 published on 24 July 2014
- Effective date: 1 January 2018
- At a glance:
  - Single and integrated standard: classification and measurement, impairment and hedge accounting
  - Replace IAS 39
  - IASB created the Transition Resource Group for Impairment of Financial Instruments (ITG): support on implementation issues

International Financial Reporting Standards

Leasing

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Leasing: The right-of-use model

A lease contract conveys the right to use an asset *(the underlying asset)* for a period of time in exchange for consideration

Lessee model

- **All** leases **on-balance sheet** (except for short-term leases and leases of small assets)
- IASB/FASB main difference: recognition and presentation of lease expenses in the income statement

IAS 17	IASB	FASB
	Single model	**Dual model**
Finance leases Operating expenses Financing expenses	Operating expenses Financing expenses	Operating expenses Financing expenses
Operating leases Operating expenses	Operating expenses Financing expenses	Operating expenses

Leasing Project status

In May 2013 the boards publish a **revised Exposure Draft** (2013 ED)

In November 2013 the boards discuss a **summary of feedback** received on the 2013 ED

Re-deliberations continue

Comment period ends 13 September 2013; the boards received over **640 comments letters**

In January 2014 the boards start the **joint re-deliberations**

Publication of the **new Leases Standard** *(Effective date TBD)*

Conclusion: Transition to IFRS and potential implications for financial entities

- Resources needed to implement requirements: data and systems
- Change in culture: for example on impairment -> assess increases in credit risk and incorporating forward looking information
- Management information systems and remuneration structures
- Products design/pricing/profitability
- Education and training
- Communication with external parties and investors
- Regulatory impact: to be assessed by supervisor

Muchas gracias!