

International Financial Reporting Standards
Update and Impact on Instructors and Students

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Relevant experience:

- ▶ More than 30 years of experience serving clients from Ernst & Young's Milwaukee office.
- ▶ More than 25 years was spent in the external audit practice.
- ▶ Serves as the Midwest Sub-Area FAAS Market Leader, coordinating IFRS/Convergence account activity, training, internal communications and presentations.
- ▶ Has led a number of IFRS diagnostic projects or served as the independent review partner for IFRS diagnostic projects.
- ▶ Coordinated and/or participated in numerous acquisition/disposition/financing transactions for various clients.
- ▶ Currently coordinates relationships and provision of various services with clients of the firm's Milwaukee office.

Agenda

- I. Update on latest IFRS/accounting convergence activities
- II. IFRS and the Student
 - ▶ Overall expectations
 - ▶ CPA exam
- III. Ernst & Young Academics Resource Center (EYARC)

SEC work plan and progress

In February 2010, the SEC issued a work plan to gather and analyze information to support its decision-making in 2011. Subsequently, the SEC released a progress report on the work plan in October 2010.

Work plan objectives and topics

Future determination whether to adopt IFRS.

- ▶ Sufficient development and application of IFRS for the U.S. domestic reporting system
- ▶ The independence of standard setting for the benefit of investors
- ▶ Investor understanding and education regarding IFRS

Transitional considerations to determine scope, timing, and approach for IFRS adoption.

- ▶ Examination of the US regulatory environment that would be affected by a change in accounting standards
- ▶ The impact on issuers, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations, and litigation contingencies
- ▶ Human capital readiness
- ▶ Jurisdictions have generally incorporated IFRS by either (1) using IFRS as issued by the IASB or (2) using IFRS after some form of national incorporation process.
- ▶ The IFRS Foundation has yet to secure a long-term mandatory funding commitment.
- ▶ In August 2010, the SEC issued a request for comment on the readiness of the US reporting system to further incorporate IFRS
- ▶ The SEC reached out to industry regulators and found support for a global GAAP, although there were concerns on methods of incorporation due to the prominence of US GAAP
- ▶ In August 2010, the SEC issued a request for comment on the impact on contractual arrangements and compliance with corporate governance standards
- ▶ SEC indicated this area will be evaluated after further progression

October 2010 progress report

IFRS issues featured at AICPA Conference

December 2010

Highlights from the conference

- ▶ SEC, FASB and IASB remain committed to the goal of a single set of high-quality global accounting standards
- ▶ FASB and IASB continue to collaborate and pursue the convergence and improvement of major accounting guidance
- ▶ The goal of timely converged accounting standards is important, but pursuing a timetable should not compromise quality
- ▶ SEC expects to make a decision regarding whether, and if so, when and how, IFRS will be incorporated into the US financial reporting system in 2011
- ▶ SEC to allow sufficient time to convert – likely a minimum of 4 years based on comments made by Mary Schapiro (SEC Chairman)
- ▶ SEC's Deputy Chief Accountant said one possibility for incorporating IFRS into the US financial reporting system is to adopt IFRS into US GAAP on a standard-by-standard basis, retaining a role for the FASB (condorsement)

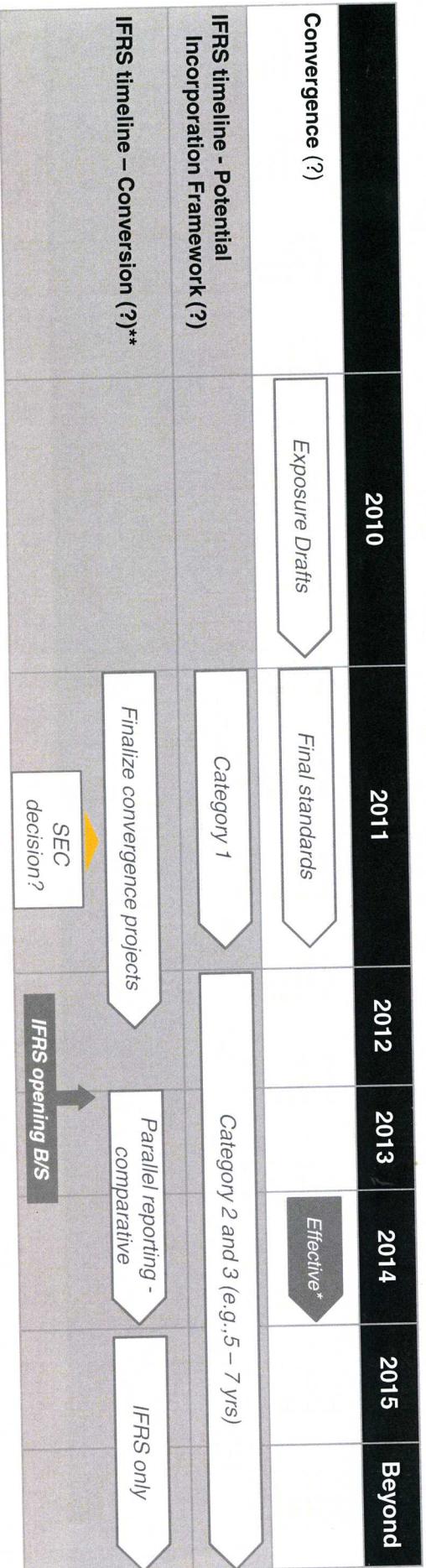
What is condorsement?

- ▶ US GAAP and the FASB continue to exist
- ▶ FASB and IASB complete their major convergence projects
- ▶ The FASB would not begin work on any major new projects
- ▶ The FASB would actively participate in the IASB standard-setting process in the same way as other jurisdictions
- ▶ New IFRS standards would be considered for incorporation into US GAAP, ideally without modification, based on an assessment of what is in the best interest of US investors and capital markets
- ▶ The FASB's priority would become a standard-by-standard consideration of issues not on the IASB's standard-setting agenda, with the objective of converging existing US GAAP to IFRS — that is, adopting the IFRS standard into US GAAP. In all cases, the overriding consideration would be whether the IFRS standard is suitable for the US capital markets and investors.

SEC releases update on IFRS Work Plan

Exploring a Possible Method of Incorporation

- ▶ May 26 – SEC releases a staff paper *Exploring a Possible Method of Incorporation* which describes a modified endorsement plan for incorporating IFRS into US financial reporting and the potential roles of SEC, FASB and US constituents in such a process
- ▶ States the SEC has “not yet made a decision as to whether and, if so, how, to incorporate IFRS into the financial reporting system for U.S. issuers”
- ▶ Staff paper describes a phased approach as a frame work for incorporation:
 - ▶ IFRSs subject to MoU Projects (Category 1)
 - ▶ IFRSs included on the IASB’s current standard setting agenda (Category 2)
 - ▶ All other existing IFRSs and areas not addressed by IFRSs (Category 3)
- ▶ Staff paper describes benefits and risks of a phased transition
 - ▶ Flexible approach
 - ▶ Gradual implementation
 - ▶ Great investor protection with FASB endorsement than direct incorporation
 - ▶ Retains US GAAP as the statutory basis of financial reporting



*Assumes Three Year Implementation Window

**Assumes IFRS Adoption in 2016 with two Years Comparative Information

Modified convergence work plan

- ▶ On 24 June 2010, the IASB and FASB issued a *Progress Report on Commitment to the Convergence of Accounting Standards and a Single set of High Quality Global Accounting Standards* which summarized a modified work plan for the various convergence projects.
 - ▶ Prioritize major projects in the MoU
 - ▶ Financial instruments, revenue recognition, leases, presentation of other comprehensive income, and fair value measurement
 - ▶ Phase publication of exposure drafts and roundtables to maintain appropriate due process
 - ▶ Limit to 4 significant or complex exposure drafts issued in one quarter
 - ▶ In October 2010, the Boards issued a Discussion Paper on Effective Dates and Transition Methods seeking constituent feedback with respect to the MoU projects
- ▶ Revised strategy and work plan will provide a stable platform of standards for countries adopting IFRS in 2011 or 2012
- ▶ On 22 October 2010, the Boards decided to temporarily suspend deliberations on Financial Statement Presentation and Financial Instruments with Characteristics of Equity. They will return to these projects when they have additional capacity, expected to be second half of 2011.

Timeline for accounting change

- ▶ Over 10 Exposure Drafts (“EDs”) expected by 2011/2012 – jointly developed by the FASB and IASB
 - ▶ Includes priority projects to be completed in 2011/2012 - financial instruments, revenue recognition, leases, presentation of other comprehensive income, and fair value measurement
 - ▶ FASB still to respond to high volume of comment letters
 - ▶ Other projects, such as financial statement presentation, are delayed but still on the agenda
- ▶ The rate and volume of accounting change is unprecedented
- ▶ SEC final decision on IFRS is still expected in 2011, potentially driving further convergence changes
- ▶ Navigating the uncertainty and complexity will be challenging and will put extreme pressure on the finance function

Accounting update Convergence timetable

DP - Discussion Paper ED - Exposure draft RT - Roundtable F - Final E-Effective

Projects	2010			2011			2012	2013	2014	2015
	Q2	Q3	Q4	Q1	Q2	2H				
▶ Fair value measurement	ED				F		Implementation ?			
▶ Statement of comprehensive income	ED				F					
▶ Leases		ED	RT			F				
▶ Revenue recognition	ED		RT			ED ⁴				
▶ Reporting discontinued operations					ED	F				
▶ Financial instruments - Classification and Measurement, and Impairment	ED		RT			F				
▶ Financial instruments - Hedging										
▶ Balance sheet - offsetting				ED	RT	F				
▶ Consolidation - Policy and procedures					ED	F				
▶ Consolidation - Investment companies		RT			ED	F				
▶ Insurance contracts		DP	RT			ED				
▶ Financial instruments with characteristics of equity ¹										
▶ Financial statement presentation ¹										
▶ Emissions trading schemes ¹										

¹ This project was reassessed as a lower priority project. Further action not expected before December 2011

² Assumes three year implementation window.

³ Assumes IFRS adoption in 2015 with two years of comparative information.

⁴ The Boards have decided to re-expose. The staff is now estimating a final standard could be issued by September 2012.

Potential impacts

Proposed changes	Potential business implications	Key considerations
<p>Revenue recognition</p> <p>A single revenue recognition model based on transfer of control would replace the current risks-and-rewards-based model.</p>	<ul style="list-style-type: none"> ▶ Revenue recognition may change based on the structure of certain performance obligations within contracts. ▶ Transfer of control must be reassessed within multiple element and long-term contracts in industries such as technology, construction and engineering. 	<ul style="list-style-type: none"> ▶ What contractual relationships (e.g., customer contracts, commission arrangements, bonus plans) are affected and need to be reassessed or terms renegotiated? ▶ What IT systems are affected by the changes in approach and timing for recognizing revenue (e.g., tracking performance obligations to customers, allocations of consideration and transfer of control)? ▶ What controls are required to validate completion of performance obligations in contracts with customers?
<p>Leases</p> <p>The proposal would result in all long-term leases being reflected on the balance sheet and timing of income statement recognition may be accelerated.</p>	<ul style="list-style-type: none"> ▶ Key profit/loss, balance sheet and cash flow metrics would change in industries that rely heavily on leased assets such as retail, airlines and real estate. ▶ Borrowing capacity may be affected. ▶ Changes may affect decisions to lease versus buy significant assets. 	<ul style="list-style-type: none"> ▶ Which leases currently being negotiated should be evaluated in light of the proposed changes? ▶ How will existing lease agreements be inventoried and the required data gathered? ▶ What IT solution will be used to store incremental lease data and perform present value calculations?
<p>Financial instruments</p> <p>The Boards' objective was to simplify and converge the accounting for financial instruments. However, two very different models have been proposed, which may carry forward differences between IFRS and US GAAP.</p>	<ul style="list-style-type: none"> ▶ Whether and when amounts are recognized in net profit will change due to changes in classification and measurement of financial instruments. ▶ Balance sheet presentation may change. ▶ Impairments may be recognized earlier. ▶ Qualifying for hedge accounting would be easier. ▶ Accounting results under IFRS may better align with risk management objectives. 	<ul style="list-style-type: none"> ▶ What changes to processes, controls and systems will be required to assess classification, measurement and rights of offset of financial assets and liabilities? ▶ Are systems changes needed to accommodate the new approach to recognizing and recording impairment losses, including new estimates of credit losses and impairment calculations? ▶ What resources will be required to identify new hedging relationships and perform hedge effectiveness calculations?

Current expectations of students

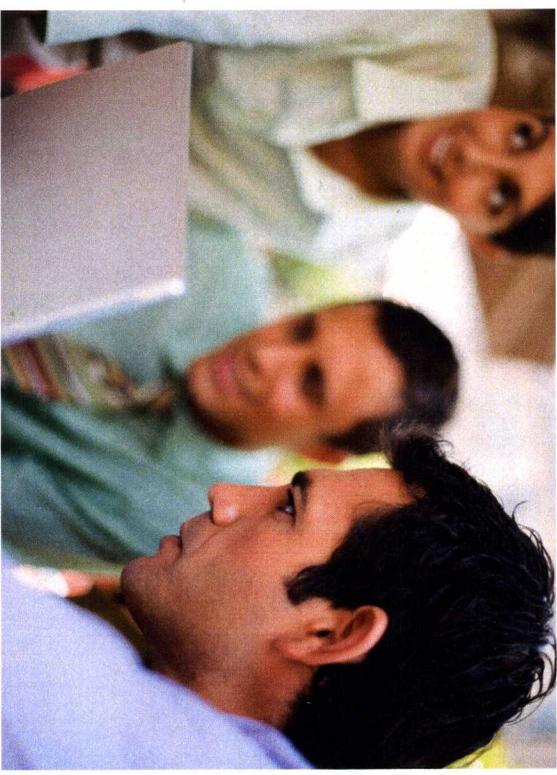
- ▶ No specific recruitment policy
- ▶ General expectations in professional services
 - ▶ US GAAP convergence
 - ▶ IFRS awareness – IFRS conversant but not necessarily proficient
 - ▶ More opportunities available to those with proficiency
 - ▶ International internships
 - ▶ Global accounts
 - ▶ Mobility
 - ▶ Training is provided at a minimum of an awareness level for entry-level hires. Those who have previously been exposed to this will reinforce their learning.
 - ▶ More extensive training is provided to those with IFRS reporting responsibilities.
- ▶ Corporate environment
 - ▶ Range of no needs to very proficient
- ▶ CPA exam

CPA exam expectations relative to IFRS

Content specifications for January 1, 2011

AUD: Candidates will be expected to demonstrate knowledge and awareness:

- ▶ International Auditing & Assurance Board (IAASB) - role in establishing International Standards on Auditing (ISAs)
- ▶ Differences between ISAs and US Auditing Standards
- ▶ International Ethics Standards Board for Accountants (IESBA) - role in establishing International Federation of Accountants (IFAC) Code of Ethics for Professional Accountants.
- ▶ Related independence requirements when auditing a US company that supports an audit report based on auditing standards of another country, or ISAs.



CPA exam expectations relative to IFRS

FAR: Candidates are expected to:

- ▶ Identify and understand the differences between financial statements prepared on the basis of US GAAP and under IFRS.
- ▶ First-time adoption of IFRS related to financial reporting, presentation and disclosures in general-purpose financial statements.
- ▶ IFRS will be tested as its own body of knowledge and questions will not be posed in a comparative format. Some of the more notable differences identified in a recent AICPA publication, International Financial Reporting Standards – An AICPA Backgrounder (January 2011) include:
 - ▶ LIFO not permitted as an inventory costing method.
 - ▶ The allowance of revaluation of assets in certain circumstances.
 - ▶ The use of a single-step method for impairment write-downs rather than the two-step method used in U.S. GAAP, making write-downs more likely.
 - ▶ The requirement for capitalization of development costs, when certain criteria are met.
- ▶ In review of the sample questions disclosed by the AICPA in May 2010, coverage includes some of the following topics in addition to the topics noted above:
 - ▶ Criteria for permitting a change in accounting policy
 - ▶ Criteria for recognizing an intangible asset
 - ▶ First-time adoption
 - ▶ PPE – initial and subsequent recognition and component depreciation
 - ▶ Inventory carried at lower of cost or net realizable value
 - ▶ First-time adoption criteria

CPA exam expectations relative to IFRS

REG: Due to the substantial uncertainty at this time relative to the US tax ramifications of the potential use of IFRS by US companies, the specifications were not modified to reflect IFRS but may be in the future.

BEC: Candidates are expected to:

- ▶ Demonstrate an understanding of globalization on the business environment
- ▶ Explain the underlying economic substance of transactions and their accounting implications.

Academic Resource Center (EYARC)

- ▶ A \$3.3 million investment by the Ernst & Young Foundation
- ▶ Mission is to provide faculty with leading-edge resources to prepare students for the fast-changing, global marketplace
- ▶ A collaboration of faculty and professionals
- ▶ Resources:
 - ▶ University curriculum
 - ▶ Ernst & Young technical and market publications and research
 - ▶ Faculty education
 - ▶ Annual faculty learning event: EYARC Colloquium
 - ▶ Campus specific
 - ▶ Offerings through AAA national and regional meetings
 - ▶ Classroom speakers
 - ▶ Technical content subscriptions

EYARC resources to support you

- ▶ 32 modules of US GAAP/IFRS comparative content covering introduction to accounting, intermediate I, II and advanced as well as audit and tax
- ▶ Each module has:
 - ▶ User guide
 - ▶ Lecture notes (leader guide format with suggested integration levels)
 - ▶ Slides (includes content from lecture notes and examples)
 - ▶ Examples
 - ▶ Homework problems (may be used as test problems)
 - ▶ Behind the scenes (conceptual conversations)
 - ▶ Disclosures (illustrative and real)
 - ▶ Case studies
 - ▶ International spotlights (focused on developing issues)
- ▶ New comprehensive cases for intro, intermediate I and intermediate II topics

Modules

- ▶ Introduction to IFRS
- ▶ Principles of IFRS
- ▶ IFRS in global practice
- ▶ Conceptual framework
- ▶ Financial statements
- ▶ Inventory
- ▶ Property, plant and equipment
- ▶ Intangibles
- ▶ Current liabilities and contingencies
- ▶ Long-term liabilities
- ▶ Equity
- ▶ Financial assets
- ▶ Liability and equity hybrids
- ▶ Share-base payments and earnings per share
- ▶ Revenue recognition, including construction contracts
- ▶ Pensions and other employee benefits
- ▶ Leases
- ▶ Accounting changes and errors
- ▶ Statement of cash flows
- ▶ Subsequent events
- ▶ Discontinued operations
- ▶ Derivatives, including hedging
- ▶ Foreign currency
- ▶ Business combinations
- ▶ Consolidations and joint ventures
- ▶ Segment and interim reporting
- ▶ Adoption of IFRS
- ▶ Accounting for income taxes
- ▶ Advanced accounting for income taxes
- ▶ The impact of IFRS on the tax function
- ▶ The impact of IFRS on the audit function
- ▶ The impact of IFRS on the accounting information systems function
- ▶ Comprehensive cases



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You can access our FRS curriculum modules below. In addition, on each curriculum page in the shortcuts menu, you will find access to additional FRS resources including publications such as US GAAP vs. FRS; the basics and FRS Outlook; web-based learning; Thought Center Webcasts; illustrative financial statements and much more.

Lastly, in addition to these free FRS resources, we offer you an International GAAP® Online annual subscription for a break-even rate of \$400 for 10 users from your institution. This rate is available only to faculty as compared to our client rate of \$795. International GAAP® Online features the complete FRS standards including prior year bound volumes, the full text of International GAAP® 2010 (this textbook interprets FRS standards, sets them in a relevant business context and provides insights into how complex practical issues should be resolved in the real world of global financial reporting), international GAAP disclosure checklist, and much more. To take advantage of this special offer, please contact Laura Mills-Lewis, University Relations, at laura.millslewis@ey.com.

We sincerely hope that you find these resources valuable! Please direct any questions regarding the ARC and its curriculum to the EY ARC's Program Director, Catherine Banks, at catherine.banks@ey.com or 206.654.7793.

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Archived webcast: Revenue recognition under IFRS and US GAAP: the proposed single model

Click to access the webcast in our Thought center (originally aired July 27, 2010).

On June 24, 2010, the FASB and IASB released a proposal to improve the accounting for revenue under both US GAAP and IFRS. The proposal is designed to provide a single revenue model for most transactions under both accounting frameworks. The proposal will affect all entities and the changes may be significant.

In this webcast, a panel of subject-matter professionals will discuss this new exposure draft. The webcast focuses on the major building blocks of the model:

- Identifying the contract with a customer
- Identifying the separate performance obligations in the contract
- Recognizing revenue when the entity satisfies the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations

Ethics resources: Anatomy of a Fraud - The David Meyers Story. Ernst & Young's Americas Ethics and Compliance Officer, Jeff Hoops, had an opportunity to speak with David Meyers, the former controller of WorldCom. Ernst & Young has developed a one-hour interactive program based on the WorldCom fraud, which includes footage from our interview and opportunities for students to think critically about the causes of fraud. If you are a faculty member from a school where Ernst & Young maintains a presence and would like to offer this program facilitated by Ernst & Young professionals, you may reach out to your local Ernst & Young representatives or the EY ARC Program Director, Catherine Banks, at catherine.banks@ey.com regarding your interest. View the program trailer video.

ARC home page

IFRS curriculum

IFRS Curriculum

(Please note that this curriculum is updated frequently so you are encouraged to visit often to ensure that you have content that is most current. If you have previously downloaded material, you can compare the modified date of that material to the update date listed on this site to determine if you need to download updated content.)

- **Overview**
Includes a curriculum overview, and integration model.
- **Introductory Accounting**
Includes Introduction to IFRS, Principles of IFRS, IFRS in global practice, Conceptual framework and Financial statements.
- **Intermediate I accounting**
Includes Inventory, Property, plant and equipment, Intangibles, Current liabilities and contingencies, Long-term liabilities, and Equity.
- **Intermediate II accounting**
Includes Financial assets, Liability and equity hybrids, Share based payments and EPS, Revenue recognition including construction contracts, Pensions and other employee benefits, Leases, accounting changes and errors, Statement of cash flows, Subsequent events, and Discontinued operations.
- **Advanced accounting**
Includes Derivatives including hedging, Foreign currency, Business combinations, Consolidations and joint ventures, Segment and interim reporting and Adoption of IFRS.
- **Tax**
Includes Accounting for income taxes, Advanced accounting for income taxes and The impact of IFRS on the tax function.
- **Audit and accounting information systems**
Includes The impact of IFRS on the audit function and The impact of IFRS on the accounting information systems function.
- **Comprehensive cases**
Includes comprehensive cases covering Intermediate I and Intermediate II topics.

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