Conference Call
ASCG – IASB

Selected issues of IFRS 10 and IFRS 11

16 March 2012

1. IFRS 10

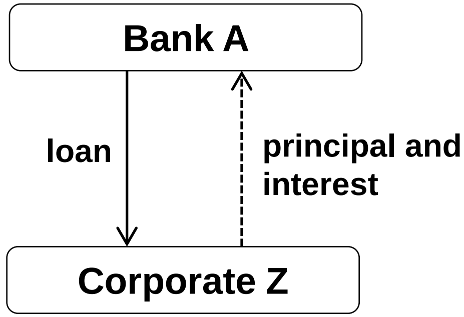
1.1 Non-performing loans / restructuring

Example:

- Bank A is the only financer of Corporate Z
- Credit quality of Corporate Z deteriorates

→ Contractual cash flows of loan are doubtful

➔ Bank A wants to maximize recovery rate / minimize loss



Questions:

- Variable returns depending on the performance of Corporate Z?
- Does the ability of Bank A to influence restructuring decisions result in ‚power' over Corporate Z?
- If so, when would a consolidation happen? (expected loss, incurred loss, terms of restructuring)
- Bank A and Corporate Z decide that a third party X will control Corporate Z in order to maximize the recovery rate: is X an agent of Bank A?

1. IFRS 10

1.2 Principal-agent-model for investmentfunds

Interpretation of the standard: consolidation of most investmentfunds due to principal-agent-model

Economic background: The fund manager has neither the intention, nor the possibility to manage the fund's assets for its own interest:

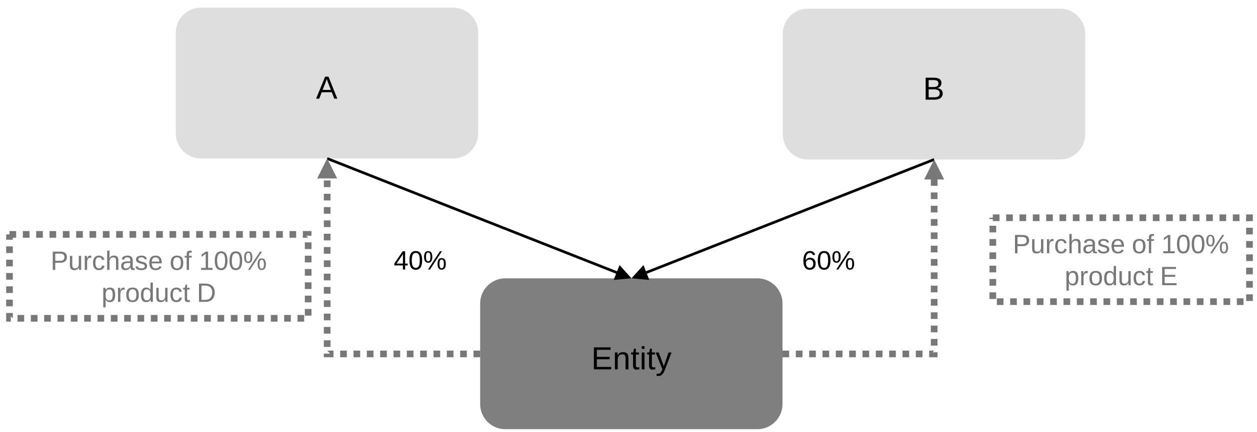
- The fund manager manages the fund's assets in its own name, but only on behalf of the investors.
- The fund manager's interest stems solely from the contractual relationship with the investor(s), not from the fund's assets itself.
- Remunerations are paid to the fund manager not in its capacity as owner; thus, remunerations are in substance not equivalent to investors' returns and should not be considered at the same level.

Adverse accounting impacts:

- Reduced decision-usefulness of consolidated financial statements: Net assets attributable to third party investors have to be reflected on the balance sheet of the fund manager (gross-up of assets and liabilities), although their fluctuation is outside the control of the fund manager.
- Increase of complexity of consolidation procedures: Fluctuations in the relative combined economic interest of the fund manager may require more frequent consolidation and deconsolidation of funds during a reporting period than compared to changes in ownership interests.

2. IFRS 11

2.1 Classification and Scope (1/3)



Facts & Circumstances:

A&B found an entity with capital contribution of 40% and 60%.

Paid-in capital equals construction costs of a production plant. The characteristic of the plant is by-production (Product D and E).

Company A and Company B enter into a purchase contract over the livetime of the production assets to acquire exclusively product D and E at production costs / formula price (i.e. no profit remains in legal entity – profit is „distributed“ via transfer price).

- Contractual agreement : yes
- Collective control: ? → Joint control: ?
- Separate vehicle: yes (indicates JV)
- Legal form: company with limited liability (indicates JV)
- Other facts & circumstances: 100% absoption of total output by shareholders
- if joint operation (which share?) – market prices for both products can differ/change and are not correlated thus no profit share according to paid in capital over time

2. IFRS 11

2.1 Classification and Scope (2/3)

Regulation: Assessing other facts and circumstances IFRS 11.B29 - B32

- IFRS 11.B31: „When the activities of an arrangement are primarily designed for the provision of output to the parties, this indicates that the parties have rights to **substantially all** the economic benefits of the assets of the arrangement".

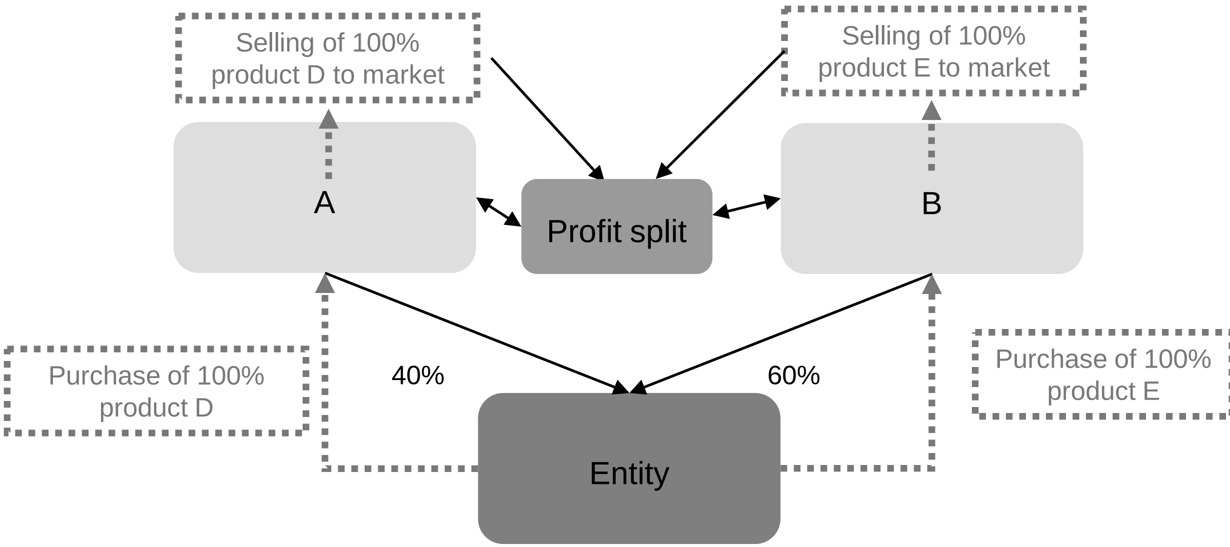
Question:

- Would the construction in this example lead to a Joint arrangement because of the joint "use" of the by-product under an autopilot?
- What needs to be considered: output / revenue / time?
- At which quota (if so) the respective share in the production facility has to be recognized?
- What other facts & circumstances need to be considered?
  E.g. who maintains/obtains/controls the plant?

2. IFRS 11

2.1 Classification and Scope (3/3)

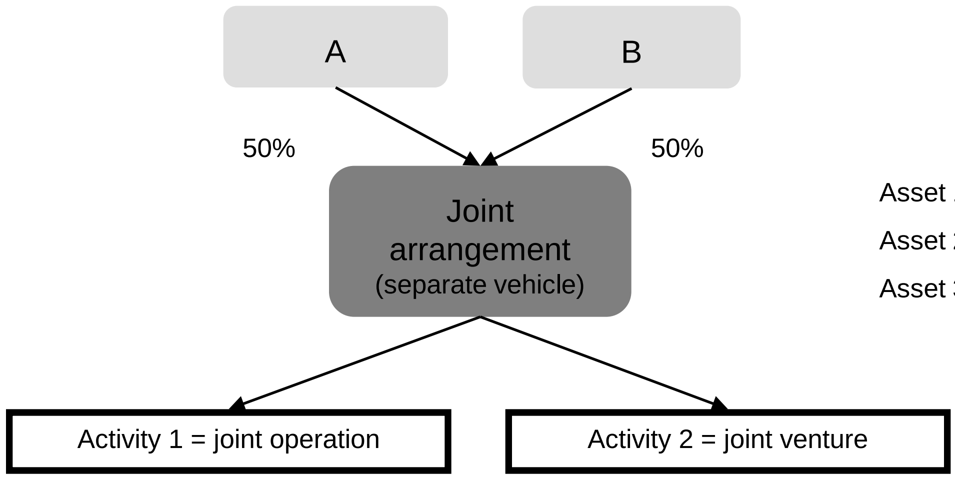
Modification:



Q: Does profit sharing combined in a further (side) agreement make a difference on the overall evaluation?

2. IFRS 11

2.2 Recognition and measurement



Asset 1 is used for activity 1

Asset 2 is used for activity 2

Asset 3 is used for both activities

Regulation: IFRS 11.BC36

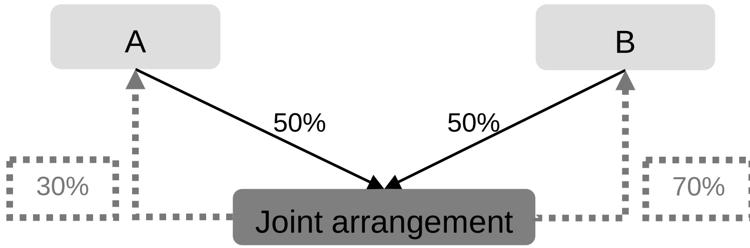
- The Board also observed the possibility that within the same separate vehicle the parties may undertake different activities in which they have different rights to the assets, and obligations for the liabilities, relating to these different activities resulting in different types of joint arrangement conducted within the same separate vehicle.

Question:

- How should be accounted for a assets which are used for both activities if within the same vehicle the parties undertake different activities resulting in two types of joint arrangement?

2. IFRS 11

2.3 First-time application and changes



Regulation:

IFRS 11.C7 „… an entity shall … derecognise the investment that was previously accounted for using the equity method …“

IFRS 11.BC66 „However, for some of those underlying assets the entity could have a lower interest ... The Board concluded …, an entity should adjust any difference between the net amount of the assets and liabilities recognised and the investment … derecognised against retained earnings at the beginning of the earliest period presented.“

Question:

Is it correct that A has to derecognise the whole investment representing 50% of the net assets?

What is the intention of this rule? Couldn´t it be more reasonable to derecognise e.g. 30% and account for an investment (e.g. IAS 28 or IAS 39/IFRS 9) for the rest of 20%?

How shall A account for the 50% of the dividends?

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