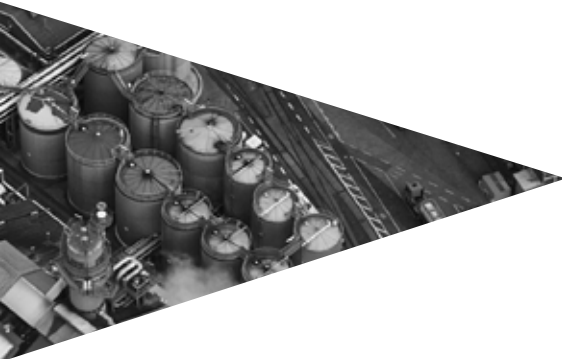


IFRS Outlook



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A better revenue accounting model?

As we anticipate the imminent release of the IASB¹ and FASB's² second exposure draft (ED) on revenue recognition, read about the highlights of tentative decisions made by the Boards during their redeliberations. These proposed changes will significantly impact current revenue recognition practices for most entities.

Conversation with Wayne Upton – A tough balancing act for the IFRS Interpretations Committee

Read our interview with Wayne Upton, the new chairman of the IFRS Interpretations Committee, and learn more about the Committee's role and the challenges it faces. The Interpretations Committee wants to provide more guidance for companies using IFRS, but this is not always easy.

IFRS project update

Find out which projects the IASB and the IFRS Interpretations Committee are currently discussing.

Resources

Look here for an up to date list of our recent publications.

We welcome your feedback on *IFRS Outlook*. Please contact us at ifrs@ey.com.

Ruth Picker
Global Leader of IFRS Services

¹ International Accounting Standards Board

² US Financial Accounting Standards Board

A better revenue accounting model?



The IASB and the FASB are on the brink of issuing their revised revenue recognition proposal. This revised model would change the timing and amount of revenue to be recognised for entities reporting under both IFRS and US GAAP. During the redeliberation phase, the Boards have made significant changes to the originally proposed model, which was issued in June 2010, based on feedback obtained from constituents. The new model may seem straightforward in theory, but, in practice, it will require entities to exercise greater judgement and make wider use of estimates. Entities could also see some of their key metrics change. It is essential that constituents take the opportunity to assess the new proposals when the new model is issued and provide feedback to the Boards.

Furthermore, these standards have limited guidance on important topics such as revenue recognition for multiple-element arrangements. As a result, some entities have developed their accounting policies by referring to parts of US GAAP. However, US GAAP has been criticised for the numerous requirements for particular industries or transactions, which often results in inconsistent accounting results for economically similar transactions.

As former IASB chairman, Sir David Tweedie, explained in a speech to the US Chamber of Commerce earlier this year, a high-quality, principles-based, common standard would give those applying IFRS a more comprehensive set of requirements, removing the need for them to use the detailed guidance found in US GAAP.

Moreover, “the acknowledged inconsistencies in the very specific industry requirements that permeate US GAAP will be replaced by a cohesive set of principles that make cross-industry comparisons much more meaningful,” he said, adding. “This is a clear win for all.”

Background

The Boards embarked on the process of reforming the accounting in this area because the current revenue standards under IFRS – IAS 18³ and IAS 11⁴ – can be difficult to apply to complex transactions.

Brief project timeline⁵

September 2002	Prior to May 2005	May 2008	December 2008	June 2010	Q4 2011
IASB and FASB agreed to work jointly on the revenue project	Development of revenue model based on fair value	Boards moved away from fair value to customer consideration based model	Discussion Paper issued	First exposure draft issued	Planned issuance of second exposure draft

³ IAS 18 *Revenue*.

⁴ IAS 11 *Construction Contracts*.

⁵ More detailed project background can be accessed on www.fasb.org/project/revenue_recognition.shtml.

Key metrics could change for many entities. Apart from the possible change to the timing of revenue recognition, the model will notably impact gross margin.

A snapshot of the proposed model

The proposed five-step model for recognising revenue will be significantly different from the current model under IFRS. On entering into a contract with a customer, an entity first identifies the contract. It then evaluates the terms of the contract to identify the separate performance obligations (any promised goods or services) in the contract. The third step is to determine the transaction price for the contract, which is the amount an entity expects to be entitled to receive in exchange for promised goods or services. Next, it needs to allocate the transaction price to each performance obligation in the contract, typically based on relative standalone selling prices. Lastly, the entity recognises revenue as each performance obligation is satisfied, when or as the customer obtains control of the goods or services.

The five step model

1. Identify the contract(s) with the customer
2. Identify separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Satisfy the performance obligations and recognise revenue

While the model may appear straightforward when applied to uncomplicated revenue transactions, entities could find the increased reliance on judgements and estimates, along with the increased disclosure requirements, challenging.

Greater judgement and use of estimates

Entities will need to use greater judgement when applying the new model. For example, when identifying separate performance obligations in a contract, entities would account for a bundle of goods or services as one performance obligation if the risks assumed in order to provide the goods or services are highly interrelated. The process of building a bridge, for example, might be considered highly interrelated with the ultimate "product" itself – the bridge. Both the construction services and the goods needed to build the bridge would, therefore, be treated as one performance obligation rather than identifying multiple performance obligations. On more complex transactions, entities

may have to exercise significant judgement and evaluate all the facts and circumstances against the criteria before deciding to account for multiple goods or services as a single performance obligation or separate performance obligations. For example, an entity contracted to supply, install and periodically maintain a machine for a customer might account for the supply and installation as a bundle, but may need to account for the maintenance service separately if the risks related to providing the subsequent maintenance are not highly interrelated to the supply and installation of the equipment.

In addition, the new model requires the frequent use of estimates, for example, the determination of transaction prices in a contract when discounts, incentives, performance bonuses or contingencies vary. The entity would need to estimate the variable components using the expected value method (or the most likely outcome approach) based on historical, current or forecast information.

Changing metrics

Key metrics could change for many entities. Apart from the possible change to the timing of revenue recognition, the model will notably impact gross margin. The bad debt allowance that entities have been able to include as an operating expense would now need to be shown as a separate line item, next to the revenue line item, i.e., as contra revenue. This would include bad debt expense for the period and movements relating to revenue from prior periods. There may not necessarily be a connection between the revenue recognised in a particular reporting period and the bad debts expense recognised, but the Boards believe that presenting bad debts expense next to revenue makes it easier for users to understand how much an entity ultimately expects to receive from the customer.

Increased disclosure requirements

Greater transparency is expected. The proposals will introduce several disclosure requirements. For example, entities will have to provide disaggregated revenue data and disclose the significant judgements they have used to determine when they have satisfied performance obligations to calculate the transaction price and its allocation. To make these disclosures, entities will need to be able to capture and analyse more detailed information, including revenues and the costs incurred to obtain the contract and provide the good or service.

A better revenue accounting model? *continued*

Selected issues highlighted during redeliberations

The Boards' redeliberations highlighted a number of issues that are likely to have a significant impact for entities; a selection is outlined below.

Determining when performance obligations are satisfied

All entities, particularly those that currently use the percentage of completion method to recognise revenue, will have to conclude whether the terms and conditions of their contract would enable them to continue to have a similar revenue recognition profile under the proposed model. This is because the model specifies that performance obligations are either satisfied at a point in time or over time, depending on the pattern of transfer of control. Changes made to the model during the redeliberations phase may continue to allow entities, such as those in the real estate and construction industries, to continue recognising revenue over time.

Allocating the transaction price based on standalone selling prices

The need to allocate the contract transaction price to each separate performance obligation could also have a big impact on some businesses. Companies in the telecommunications industry are a good example. They often provide customers with free or subsidised equipment, such as a mobile phone or a broadband modem. Currently, little or no revenue may be allocated to this equipment. Under the new model, these entities would have to allocate the transaction price to each separate performance obligation, which would include the free or subsidised equipment, taking into account their standalone selling prices. As a consequence, entities are likely to recognise more revenue upfront.

Entities may face further difficulties if standalone selling prices are not directly observable. For example, if an entity typically sells equipment with free periodic maintenance services to its customers, it may not have an observable price for the maintenance service and would need to estimate this. Only in situations where the standalone selling price of a performance obligation is highly variable can an entity use a residual technique to allocate the transaction price.

Licences and rights to use

In some industries, it is common for entities to grant licences and usage rights. Life sciences and consumer products are two examples. Typically, revenue is recognised on a straight-line basis over the licence period. This could change under the proposed model. An entity would have to assess its performance obligations to the customer over the licence period. If there are none, other than granting the licence itself, those promised rights give rise to a performance obligation satisfied at a point in time – when the customer obtains control of the rights. That means entities may not be able to spread revenue recognition over the licence period under the proposed model.

Rights of return and product warranties

The current IFRS literature on revenue offers little guidance about how to treat rights of return and product warranties. The proposed model states that where goods are sold with a right of return, the entity would only recognise revenue for goods that it is reasonably assured will not be returned. The entity would also recognise a refund liability and an asset for its right to recover products from customers who avail themselves of a refund for products expected to be returned. Management will have to use judgement to decide the likely quantity and value of goods that might be returned.

The original proposals had contained a new method of accounting for product warranties. During the consultation stage, constituents commented that this method was complex and onerous. As a result, the Boards have listened and reconsidered. Under the proposed new model, accounting for standard product warranties won't change from current practice, i.e., raising a necessary provision. However, if an entity provides more assurance than a normal warranty, for example, if the customer has an option to purchase an extended warranty, that type of warranty would be treated as a separate performance obligation and revenue would be allocated to that warranty service.



Looking ahead – next steps for entities

The new model is likely to have a wide-reaching impact. Input from all business units across an entity will be needed. Entities will need to develop robust processes for capturing and determining information, such as standalone selling prices for goods or services that are typically not sold separately.

The Boards have suggested that the eventual standard will not take effect before 1 January 2015, but it is important that all entities assess the impact of the proposed changes and provide feedback to the Boards when the ED is released for comment. We are able to help entities to perform their impact assessments and to formulate a response to the Boards.

Without a full field test, it is too early to tell whether the new model represents an improvement for investors and analysts. In the meantime, the Boards will have to rely on feedback from constituents as to whether the information generated to comply with the standard will be relevant and useful to users and preparers. We would also encourage preparers and users of financial reports to get involved in the Boards' upcoming outreach activities and not to miss the opportunity to provide feedback to the Boards.

Summary

The Boards' proposed model for recognising contract revenue might seem straightforward. But businesses are likely to face a number of challenges when applying it. Three that stand out are:

- ▶ How to estimate a transaction price for a contract that includes uncertain or variable performance-based considerations
- ▶ How to estimate the standalone selling prices needed to allocate a transaction price to each performance obligation
- ▶ How to decide when control of goods or services is transferred to the customer for obligations performed over time

Conversation with Wayne Upton – A tough balancing act for the IFRS Interpretations Committee

The Interpretations Committee wants to provide more guidance for companies using IFRS, but this isn't always easy. Wayne Upton, the new chairman of the IFRS Interpretations Committee, talks about the challenges of helping companies in a principles-based framework.

How did you feel about taking on the role of Interpretations Committee chairman?

At first I was bemused when Ian Mackintosh, IASB vice-chairman, approached me to take on the task. When I joined the Board back in 2001, I recalled candidly telling Sir David Tweedie, former chairman of the IASB, that the Interpretations Committee was the only part of its work that I didn't particularly want to be involved with. But I've come to appreciate the value and importance of what it does; I'm very happy to be its chair. Moreover, my position as chair is a great fit with my other IASB job: International Director. Both roles are focused on solving problems, which is something I enjoy doing.

When the financial crisis hit in 2008, the IASB responded by changing the financial instrument standards and added several other crisis-related projects to its agenda. We now face a sovereign debt crisis: how will that affect the future of international accounting standard setting?

Well, those of us setting accounting standards will always have to deal with political pressure. It goes with the territory. Politicians want accounting standards to ratify their policies. I have witnessed that many times, whether it is accounting for employee stock options or treatment of oil and gas properties or power and utilities properties. I understand that. But that is not why we have accounting standards. Politicians have a responsibility to make sure that there is an effective system for setting standards, but those standards should not be driven by political concerns.

What are the main challenges facing the Interpretations Committee?

Our biggest challenge is to be more responsive. We want to make sure that companies around the world have the guidance they need to follow principles-based standards. The problem is that with a principles-based model you are likely to have people with diametrically opposite views on how a company should deal with a particular issue. We feel the onus is on us to provide more guidance

on the issues where there is diversity in the interpretations of IFRS. But at the same time, we need to preserve the core idea of IFRS: they are standards built out of general principles that companies will always have to interpret for their own circumstances. We want to help preparers, without removing the need for them to apply these principles-based standards. It can be a tough balancing act.

At the same time, due process is crucial to uphold the quality of the international accounting standards and their interpretations. Although we would like to be quicker in responding to constituents' problems, we have to follow due process to ensure that we end up with robust resolutions for our constituents.

How can the Interpretations Committee make life easier for countries making the transition to IFRS? And what more can it do to help those that want specific guidance for their national jurisdiction?

Let me wear my International Director's hat for a minute. We do work hard to help countries that are making the move to IFRS. For example, before Korea adopted IFRS at the start of this year, I was invited to participate at a roundtable sponsored by the KASB.⁶ The purpose of the roundtable was to identify IFRS first-time adoption issues for Korean companies and to find ways of dealing with them, where possible. The KASB organised the event; representatives from major Korean companies and accounting professionals from the accounting firms took part. The aim wasn't to find a single answer for every issue, but a local consensus often emerged from those discussions.

So do you think that local accounting standard setters have a role to play in developing interpretations, if there is a set of national circumstances unique to their jurisdiction?

Yes and no. When we get a question about something, we always ask other standard setters and regulators around the world two questions: have you seen this issue in your jurisdiction and does the way that companies apply IFRS on this issue vary in your jurisdiction? I'd say that, in about nine out of ten cases, we find that an issue that might seem specific to one jurisdiction usually isn't unique to that jurisdiction; if there is a problem that needs to be resolved, it tends to be an international one, not a local one.

⁶ Korean Accounting Standards Board.



However, there are at least two ways in which local standard setters can play a valuable role. First, different legal codes can result in similar transactions producing different accounting outcomes; local standard setters have a much deeper understanding of national laws and regulations and can help us to understand how they might affect accounting interpretations. Second, if urgent guidance is needed in a particular jurisdiction, the local standard setters can step in. The International Committee is not designed to produce quick answers to urgent issues.

If a national accounting standard setter does issue an interpretation to address a local concern, how can the IASB ensure such guidance is compatible with IFRS?

When companies adopt IFRS, they sign up to agreed Best Practices guidelines on how to develop local interpretations, should the need arise. But if countries want to write their own interpretations without bringing them to us, there is not a great deal we can do. We are not there to police their activities. However, there have only been a few situations where local standard setters have issued their own interpretations, so this isn't a big problem. It should be noted that if a local interpretation is not consistent with IFRS then the entities applying that interpretation would not be able to assert compliance with IFRS as issued by the IASB.

How would you like the Interpretations Committee to develop its role?

The Trustees of the IFRS Foundation who govern the IASB and its committee are currently reviewing the Board's long-term plans. We would like to produce more guidance for companies, but we need to make sure we do this while following due process. Sometimes companies want us to move faster. They might not care what form our guidance takes, so long as it helps them to deal with their problems. This is a challenge for us. If there is an issue where we feel that we can reach a consensus with relative ease, we need a way of making guidance available a lot faster. For example, we could make discrete amendments to a standard or interpretation and push standard-setting type issues to the Board for their consideration. This could be the niche for the Interpretations committee. From the limited time I've spent with my Interpretation Committee colleagues so far, I'm confident they are willing to find creative ways of dealing with accounting issues. That bodes well for the future.

About Wayne Upton

Wayne was appointed chairman of the International Accounting Standards Board's IFRS Interpretations Committee in July 2011. He joined the IASB in 2001, initially as its Research Director, and became Director of International Activities in 2008, a role he still plays at the IASB. In that appointment, he assists both major and transitional economies in making the transition to IFRS and implementing IFRS. Before joining the IASB he spent 17 years as a senior staff member of the US FASB.

Wayne is a frequent speaker at accounting conferences and has written a number of articles on accounting topics. His articles have appeared in numerous journals including the Journal of Accountancy, Journal of Reinsurance and the publications of the FASB, ACCA and Society of Actuaries. He is also the author of three FASB Special Reports. He graduated *magna cum laude* from Regis University in Denver.

IFRS project update

What's new?

The following table shows new publications issued by the IASB.

Projects	Publication
First-time adoption of International Financial Reporting Standards	The IASB has published an exposure draft ED/2011/5 <i>Government loans (Proposed amendments to IFRS 1)</i> which sets out how a first-time adopter would account for a government loan with a below-market rate of interest when it transitions to IFRS. The exposure draft is open for comment until 5 January 2012 and can be accessed at www.ifrs.org .
Stripping costs	The IASB has issued IFRIC Interpretation 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i> . The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Interpretation is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted. The Interpretation can be accessed at www.ifrs.org . Our <i>IFRS Developments for Mining and Metals – Accounting for waste removal costs</i> summarises what you need to know about this Interpretation. Refer to the Resources section below for more details.
Investment entities	The IASB has published an exposure draft ED/2011/4 <i>Investment Entities</i> , which proposes criteria for an entity to qualify as an investment entity and guidance for making this assessment. The proposals would require an investment entity to measure its investments in controlled entities at fair value through profit or loss in accordance with IFRS 9 <i>Financial Instruments</i> (as issued in October 2010) and to provide additional disclosures to enable users of its financial statements to evaluate the nature and financial effects of its investment activities. The comment period of the exposure draft closes on 5 January 2012. The exposure draft can be accessed at ifrs.org . Our <i>IFRS Developments</i> Issue 15 summarises what you need to know about this ED. Refer to the Resources section below for more details.
IFRS for SMEs	The SME Implementation Group has published five draft Questions and Answers (Q and As) on the IFRS for SMEs. These draft Q and As cover the following topics: <ul style="list-style-type: none"> ▶ Application of the <i>IFRS for SMEs</i> for financial periods ending before the <i>IFRS for SMEs</i> was issued ▶ Interpretation of 'undue cost or effort' and 'impracticable' ▶ Jurisdiction requires fallback to full IFRS ▶ Departure from a principle in the <i>IFRS for SMEs</i> ▶ Prescription of the format of financial statements by local regulation The draft Q and As are open for comment until 30 November 2011 and can be accessed at www.ifrs.org .
Consolidation and Joint Arrangements	The IASB has published the effect analysis for IFRS 10 <i>Consolidated Financial Statements</i> , which also includes the effect analysis for IFRS 12 <i>Disclosures of Interests in Other Entities</i> , and the effect analysis for IFRS 11 <i>Joint Arrangements</i> . The effect analyses provide detailed insights into the potential impacts of the new requirements using case studies and other quantitative and qualitative materials. These effect analyses can be accessed at www.ifrs.org .



Current discussions

In recent months, the IASB has focused its discussions on key projects that are intended to result in the issue of exposure drafts for public consultation in the coming months.

Tentative decisions were made regarding a number of projects, including leases, revenue recognition, insurance contracts, impairment of financial assets, hedge accounting, offsetting financial assets and financial liabilities. In addition, the IASB discussed issues that the IFRS Interpretations Committee had recommended that the Board should include in the next *Improvements to IFRSs* exposure draft that is expected to be published in November 2011.

The IFRS Interpretations Committee met on 8-9 September 2011. The Committee continued discussions on the use of *IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* by analogy, and made agenda decisions on business combinations involving newly formed entities: factors affecting the identification of the acquirer, business combinations under common control, business combinations – acquirer in a reverse acquisition and group reorganisations in separate financial statements. Tentative decisions were made on income tax – rebuttable presumption to determine the manner of recovery, and income tax – corporate wrapper. The Committee also discussed a comment letter received from the submitter regarding

its previous decision on the application of the aggregation criteria and the identification of the chief operating decision maker in IFRS 8 *Operating Segments*. The Committee noted that some aspects of IFRS 8 could be the subject of future clarification. The Committee also deliberated two additional issues for consideration within the Annual Improvements Project. It decided that the issue of the meaning of 'the date of initial application' in the transitional requirements of IFRS 10 (which must be applied retrospectively) should be considered for a separate amendment, and the term 'becomes receivable' is sufficiently understood within IFRS to enable an entity to identify when compensation from third parties for items such as property, plant and equipment should be recognised and therefore does not need to be clarified. The Committee also continued deliberations on the definition of a business for acquisition of a single investment property, acquisition of interests in joint operations and classification of cash payments for deferred and contingent considerations for business combinations. The staff has been directed to present further analyses for these issues at a future meeting.

Updates from Board meetings and the Interpretations Committee meetings can be found at www.ifrs.org/Updates.

Resources

The publications below are all available at www.ey.com/ifrs.

IFRS Developments Issues 15, 16 and 17

Issue 15: Proposal for investment entities to measure investments at fair value

On 25 August 2011, the IASB published an ED, *Investment Entities*, which proposes an exception to the principle in IFRS that an entity consolidates all controlled entities. Instead the ED would require an entity that meets the criteria to be an investment entity to measure all controlled investments at fair value, with changes recognised in profit or loss. Comments on the ED are due by 5 January 2012.

Issue 16: Hedge Accounting – summary of redeliberations

At its September 2011 meeting, the IASB completed redeliberations on the Hedge Accounting ED. During the redeliberations, the Board made some significant changes to proposals in the ED addressing some, but not all, of the major concerns raised by constituents in their comment letters on the ED.

Issue 17: Operating lease accounting survives for some real estate lessors

At their October 2011 joint meeting, the IASB and the FASB significantly modified the proposed accounting for lessors that they had agreed to in July 2011. They removed the requirement that profit must be reasonably assured to recognise profit upon the commencement of the lease, and made other modifications to the proposed approach. In addition, the Boards decided that lessors with leases of investment property measured at cost would apply current operating lease accounting.

IFRS Developments for Mining and Metals

Accounting for waste removal costs – A summary of IFRIC Interpretation 20

In October 2011, the IFRS Interpretations Committee finally issued its Interpretation on accounting for waste removal costs – IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*. This Interpretation is effective for annual periods beginning on or after 1 January 2013. This publication summarises the key requirements of the Interpretation and explore some of the challenges a mining entity may face when determining how to apply its requirements.

Applying IFRS: IFRS 11 Joint Arrangements

Applying IFRS 11 describes the requirements of IFRS 11 *Joint Arrangements*, which was issued in May 2011, and explores the application issues associated with the new standard. It describes the related disclosure requirements for joint arrangements and joint ventures and identifies possible business impacts of adopting IFRS 11.

IFRS 11 establishes principles for financial reporting by parties to a joint arrangement and replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 is intended to broaden the focus for classifying a joint arrangement, so that the structure of the joint arrangement is not the only factor considered.

Many of the disclosure requirements included in IAS 31 have been carried over to IFRS 12 *Disclosures of Interests in Other Entities*. One of the most significant changes introduced by IFRS 12 is that an entity is required to disclose the judgements made to determine whether it has joint control over another entity, as well as the judgements made to classify joint arrangements.

IFRS 11 is effective for annual periods beginning on or after 1 January 2013, and must be applied retrospectively (with some modifications).

Joint Project Watch – August/September 2011

The standard-setting activities of the IASB and the FASB continue to move forward. This August/September issue of Joint Project Watch provides a snapshot of key developments from an IFRS perspective, together with observations on the potential implications for companies.

Measure by measure – Synchronising IFRS 9 and IFRS 4 Phase II for Insurers

This publication specifically focuses on the expected impact of IFRS 9 *Classification and Measurement* for insurers taking into consideration types of financial assets held currently, the expected impact of the proposals under IFRS 4 Phase II and the considerations for any potential difference in the timing of adoption of the standards. It is important that insurers understand the impact of IFRS 9, and ensure that they are prepared for the potential impact.



Global Insurance Center – Discount rates: one size does not fit all

The IASB and FASB both issued proposals for a new recognition and measurement model for insurance contracts in 2010. Both require the use of current discount rates that are consistent with observable market prices for instruments whose characteristics reflect those of the insurance contract liability. How will this affect insurers? Our newest publication explains.

Insurance Accounting Alert October 2011

Boards discuss risk adjustment and composite margin

At their joint meeting on 19 September 2011, the IASB and FASB continued their deliberations on the tentative decisions in the IASB's ED, *Insurance Contracts*, and the FASB's Discussion Paper (DP), *Preliminary Views on Insurance Contracts*. This publication summarises these discussions.

Upcoming Thought Center Webcasts

29 November 2011: A revised proposal for revenue recognition

In our webcast, a panel of subject-matter professionals and a project team member from the IASB will discuss the revised model and impact that the proposed requirements would have on companies reporting under IFRS. The webcast will focus on the major building blocks of the revised five-step model.

The webcast has been scheduled for 29 November 2011, subject to final issuance of the exposure draft in early November. Registration details for the webcast are available on webcast.ey.com/thoughtcenter.

Archived webcast

Discount rates for insurance contracts: one size does not fit all

The IASB ED and the FASB DP propose that discount rates for insurance liabilities should be consistent with observable markets and reflect the characteristics of insurance liability cash flows. This webcast explored the fundamental components of discount rates: the risk-free rate, illiquidity premium and credit spread. A small change in any of these components can often have a significant impact on insurers' profit or loss and capital position. Listen to our panel's discussion of a range of topics, including: current interest rates; methods for determining discount rates for insurance liability cash flows; and the potential impact that discount rates can have on volatility.

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The move to International Financial Reporting Standards (IFRS) is the single most important initiative in the financial reporting world, the impact of which stretches far beyond accounting to affect every key decision you make, not just how you report it. We have developed the global resources – people and knowledge – to support our client teams. And we work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide. It's how Ernst & Young makes a difference.



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