ASSOCIATION OF EUROPEAN BUSINESSES
IN THE RUSSIAN FEDERATION

IFRS UPDATE

organised by AEB Audit & Accounting working group

December 17, 2009
Ernst & Young office , Moscow

Developments in IFRS: IASB and IFRIC Update

Quality In Everything We Do

Agenda

- Key IFRS amendments, applicable to 2009 annual and interim periods
- Overview of IFRS amendments to be effective in 2010

Revised and Amended Standards applicable to 2009 interim and annual periods

Revised/ amended standard	Effective date
IFRS 8 Operating Segments *IAS 1 Presentation of Financial Statements (Revised)*	1 January 2009 1 January 2009
IFRIC 13 Customer Loyalty Programmes *IFRIC 15 Agreements for the Construction of Real Estate*	1 July 2008 1 January 2009
IAS 23 Borrowing Costs (Revised)	1 January 2009
Amendments to IFRS 1 and IAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009
IFRS for SMEs	Immediately
Amendments to IFRS 7 *Amendments to IAS 32 and IAS 1 Puttable Financial Instruments* *Amendments to IFRIC 9 and IAS 39 Embedded Derivatives*	1 January 2009 1 January 2009 annual periods ending on or after 30 June 2009
Annual improvements 2008	Different

Presentation and disclosure

- IFRS 8 *Operating Segments*
  - Effective: annual periods beginning on or after 1 January 2009
- IAS 1 *Presentation of Financial Statements* (Revised)
  - Effective: annual periods beginning on or after 1 January 2009

IFRS 8 *Operating Segments*

- IFRS 8 introduces a **management reporting approach** to identifying and measuring the results of reportable operating segments
- **Operating segment**:
  - undertakes business activities from which it may earn revenues and incur expenses
  - its operating results are reviewed regularly by the chief operating decision maker (CODM)
  - discrete financial information is available

IFRS 8 *Operating Segments*

- For an operating segment to be a **reportable segment**, it must exceed any one of three quantitative thresholds (the same as those required by IAS 14).
  - both internal and external revenues are considered (unlike IAS 14);
  - may still be reportable (and thus disclosed) if it is considered useful to users;
- Operating segments may be aggregated into one reportable segment if certain characteristics are met;
- The amounts to disclose are based on the amounts reported internally to the CODM (reconciliation to IFRS numbers is required);
- Disclosure requirements are similar but not identical to IAS 14.

Operating segments – aggregation criteria

Two or more operating segments having similar economic characteristics may be **aggregated** into a single operating segment if the segments are similar in each of the following five areas:

- The nature of the products and services
- The nature of the production processes
- The type or class of customer for their products and services
- The methods used to distribute their products or provide their services
- If applicable, the nature of the regulatory environment, for example banking, insurance or public utilities

Thresholds for reportable operating segments

An entity shall report separately information about an operating segment that meets **any** of the following quantitative **thresholds**:

- (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, **internal and external**, of all operating segments;
- (b) The absolute amount of its reported profit or loss is 10 per cent or more **of the greater**, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss;
- (c) Its assets are 10 per cent or more of the combined assets of all operating segments.

IAS 1 *Presentation of Financial Statements (Revised)*

- Statement of changes in equity
  - Separate owner and non-owner changes in equity, details only for transactions with owners (non-owner changes presented as a single line);
  - Present dividends and dividends per share in the statement of changes in equity or in the notes (presentation in the statement of comprehensive income is not permitted);
- Statement of comprehensive income
  - Present in a single or two separate statements (income and comprehensive income);
  - Tax effects related to each component of other comprehensive income (may be presented in the notes);
- Retrospective accounting policy change or restatement or a reclassification
  - Present statement of financial position at the beginning of the earliest comparative period (the third balance sheet is not required for interim condensed financial statements);
  - Related notes refer to three years;
- New titles for components of financial statements (not mandatory).

IAS 1 – Presentation of Financial Statements
New titles for components of financial statements

IAS 1		IAS 1 (rev.) – <u>rewording is not mandatory</u>
Balance Sheet		Statement of Financial Position
Income Statement		Statement of Comprehensive Income
Statement of Changes in Equity	**Change of contents**	Statement of Changes in Equity
Cash Flow Statement		Statement of Cash Flows
Notes		Notes

Revenue recognition

- IFRIC 13 *Customer Loyalty Programmes*
  Effective: annual periods beginning on or after 1 July 2008
- IFRIC 15 *Agreements for the Construction of Real Estate*
  Effective: annual periods beginning on or after 1 January 2009

IFRIC 13 *Customer Loyalty Programmes* (1)

- Issuing award credit is a **separate component of a sales** transaction (in accordance with IAS 18.13);
- Consideration is allocated to the awards credits by reference to **their fair value**:
  - Equal to their fair value;
  - Represents relative fair value (compared to the other components of the sale);
- Revenue recognised when the awards **are redeemed** or when the risk of a claim being made **expires** (e.g. expiry date or when redemption becomes remote).

IFRIC 13 *Customer Loyalty Programmes* (2)

- When 3d party supplies the awards determine whether the company is acting as a principal or as an agent:

  If principal:
  - Revenue= Gross consideration allocated to the awards;
  - Any amount paid to the 3d party to fulfill the award is recognised as expense;

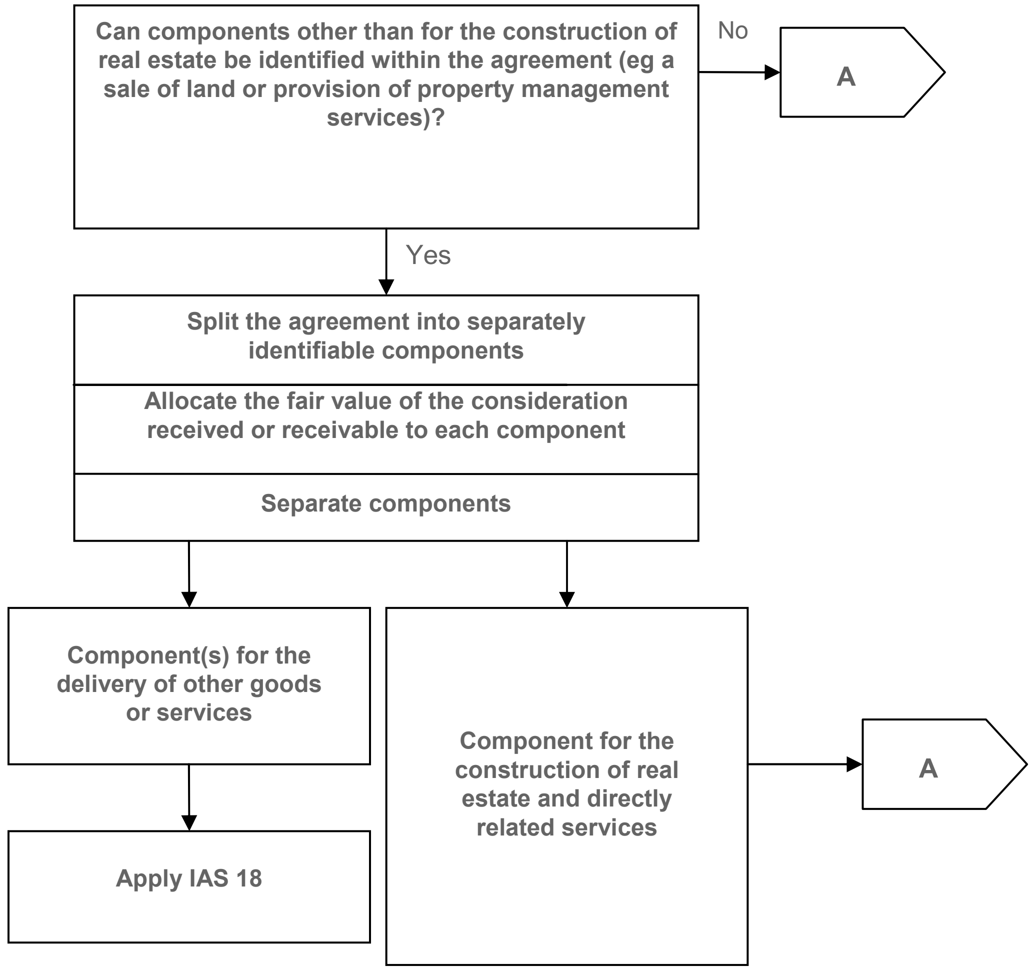
  If agent:
  - Revenue = net amount retained, recognised when the 3d party is obliged to supply the awards;
  - The amount retained = Gross consideration allocated to the awards less paid to the 3d party.

- If unavoidable costs of meeting the obligation to supply the awards exceeds the consideration received and/ or receivable - onerous contract, **liability** recognized in accordance with IAS 37

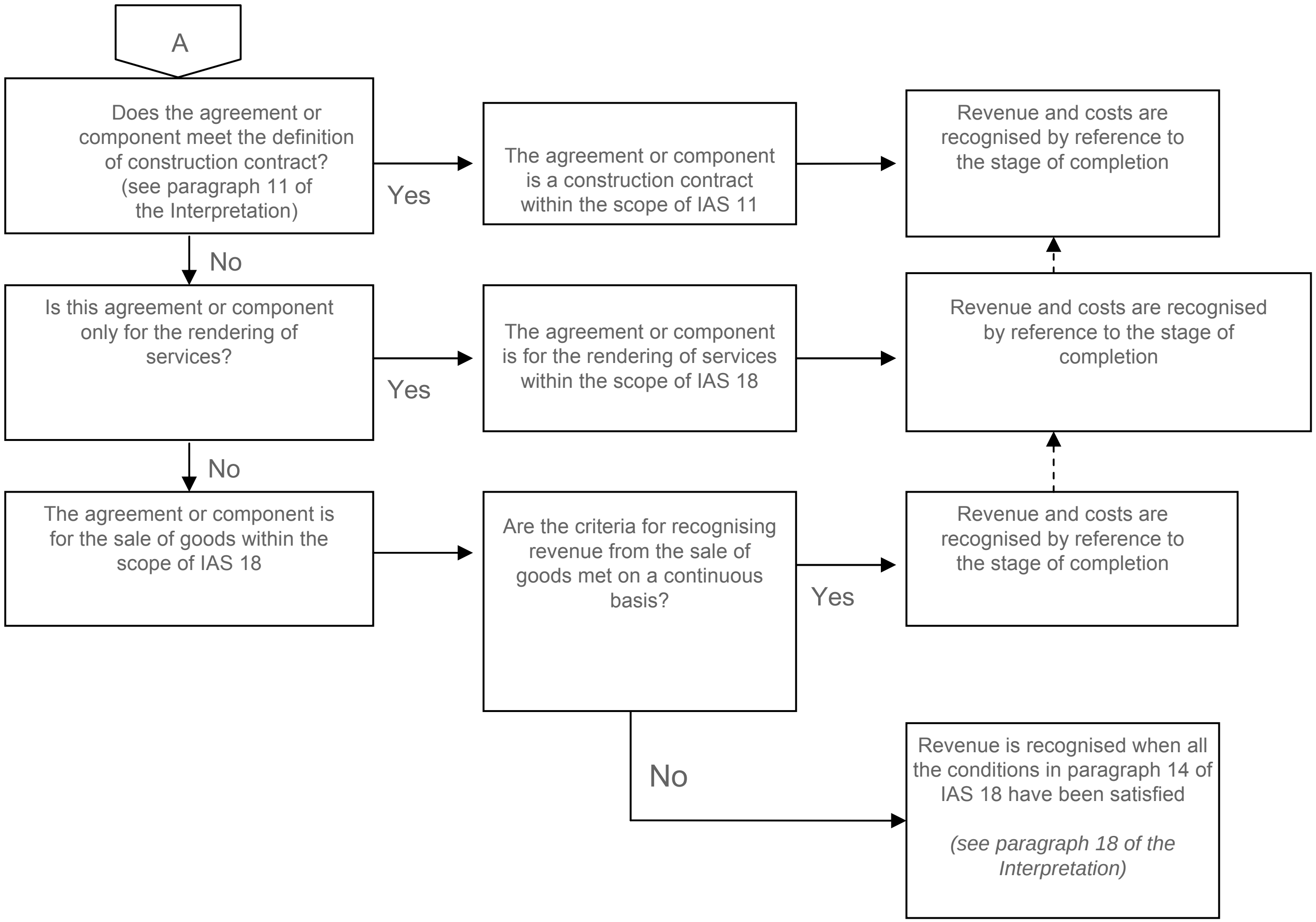
IFRIC 15 *Agreements for the Construction of Real Estate*

- Revenue recognition for sale of a real estate unit
- Guidance to determine:
  - Whether IAS 11 *Construction Contracts* or IAS 18 applies
  - If the percentage of completion method is appropriate
- If the definition of a construction contract is met (i.e. the customer specifies the major structural elements of the contract) → IAS 11, % of completion method
- If the definition is not met → IAS 18:
  - If the agreement (or its component) is the service contract → % of completion
  - If agreement (or its component) is for the sales of goods:
    - risks and rewards are transferred on a continuous basis→ % of completion
    - risks and rewards are transferred upon completion→ sale of goods; revenue is recognised when all the conditions of IAS 18.14 are met
- Retrospective application

IFRIC 15: Agreements for the Construction of Real Estate



IFRIC 15: Agreements for the Construction of Real Estate



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Amendment to IAS 23 – Borrowing costs

- Borrowing costs related to the acquisition, construction or production of a qualifying asset **are capitalised** as part of the cost of that asset:
  - qualifying asset necessarily takes substantial period of time to get ready for its intended use
- Other borrowing costs are expensed as incurred.
- Items excluded from the scope:
  - Assets measured at fair value
  - Inventories produced in large quantities on a repetitive basis

Specific transitional requirements:

- Applied to borrowing costs incurred in relation to qualifying assets where the commencement date for capitalisation is on or after 1 January 2009.
  - An entity may designate any earlier date as a commencement date and apply the requirements to qualifying assets on or after that date.

IAS 27 *Cost of an Investment in a Subsidiary, JCE or Associate (Amendments)*

- Modification of ‘Cost method’:
  - Pre-acquisition dividends are no longer deducted from the cost of the investments
  - No distinction between pre- and post-acquisition profits
- Recognize all dividends in income
  - Consider whether paying a dividend triggers an impairment
    - the dividend > total comprehensive income of the investee for the period, or
    - the carrying amount of the investment > the amount of net assets (including goodwill) in the consolidated FS
- Reorganisation by forming a new parent entity above an existing company:
  - Cost of investment in a subsidiary can be previous carrying amount rather than fair value (limited circumstances)
- Effective date: annual period beginning on or after 1 January 2009

Amendments to IFRS 1/IAS 27-*Cost of an Investment in a Subsidiary, JCE or Associate*

- Amendment allows a parent to use, at its transition date to IFRS
  - Cost determined in accordance with IAS 27 OR
  - Deemed cost for an investment in a subsidiary, i.e.
    - fair value (determined under IAS 39) of the investment in the subsidiary in its separate financial statements OR
    - previous GAAP carrying amount

- First-time adopter may choose which measurement to use for each individual investment in a subsidiary;

- Applicable to separate financial statements only;

- Effective date: annual period beginning on or after 1 January 2009.

Improvements to IFRS
Overview

- First omnibus published in May 2008
  - Amendments to 20 different standards, most effective for 2009 interim and annual period

- Improvements grouped into two categories:
  - Part I – accounting changes
    - Board's rationale will be included in BC
    - Transitional provisions in IFRSs affected
  - Part II – terminology and editorial changes
    - Board expects no/minimal effect
    - General transition as of 1 January 2009
    - Earlier application permitted

IAS 20 – Government loans with a below-market rate of interest

- **Change**
  - Loans granted with no or low interest rates will not be exempt from the requirement to impute interest.
  - Interest is to be imputed on loans granted with below-market interest rates, thereby being consistent with IAS 39.
  - The difference between the amount received and the discounted amount is accounted for as a government grant.
- **Transitional provisions**
  - Applicable for annual periods beginning on or after 1 January 2009
  - To be applied prospectively – to government loans received on or after 1 January 2009
- **Comments and implications**
  - Additional processes to determine the balance of the loan, calculate the interest charge and the portion of the grant to be recognised in income in each period.
  - The grant is most likely to relate to an investment or operating expenses
  - Managements needs to determine the period over which it should be recognised in the income statement.

IAS 40 – Property under construction or development for use as investment property

- **Change**
  - Revises the scope (and the scope of IAS 16) such that property that is being constructed or developed for future use as an investment property, is classified as investment property;
  - If an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete;

- **Transitional provisions**
  - Applicable for annual periods beginning on or after 1 January 2009;
  - To be applied prospectively;
  - Early application is permitted provided that the fair values of investment properties under construction were determined at the date of adoption.

IFRS 5 – Plan to sell the controlling interest in a subsidiary

- **Change**
  - All assets and liabilities of a subsidiary held for sale shall be classified as held for sale even if the entity will retain a non-controlling interest in a the subsidiary after the sale.
- **Transitional provisions**
  - Effective: annual periods beginning on or after 1 July 2009
  - To be applied prospectively
- **Comments and Implications**
  - Mixed practice has developed, some entities only reclassified a percentage of the assets and liabilities that are to be disposed of
  - Any investments in subsidiaries classified as held for sale since IFRS 5 was applied will need to be re-evaluated.

IFRS to be effective in 2010

Revised/ amended standard	Effective date
IFRS 3R Business Combinations *IAS 27R Consolidated and Separate Financial Statements*	1 July 2009 1 July 2009
IFRIC 17: Distribution of Non-Cash Assets to Owners	1 July 2009
Amendments to IAS 39: Eligible Hedged Items	1 July 2009
IFRIC 18 *Transfers of Assets from Customers*	1 July 2009
Amendment to IFRS 2 Group Cash-settled Share-based Payment Arrangements	1 January 2010
Annual Improvements to IFRSs	Different

Business combinations, consolidation and related topics

- IFRS 3R *Business Combinations*
  - Effective: annual periods beginning on or after 1 July 2009 (only to new acquisitions in the year it is applied)

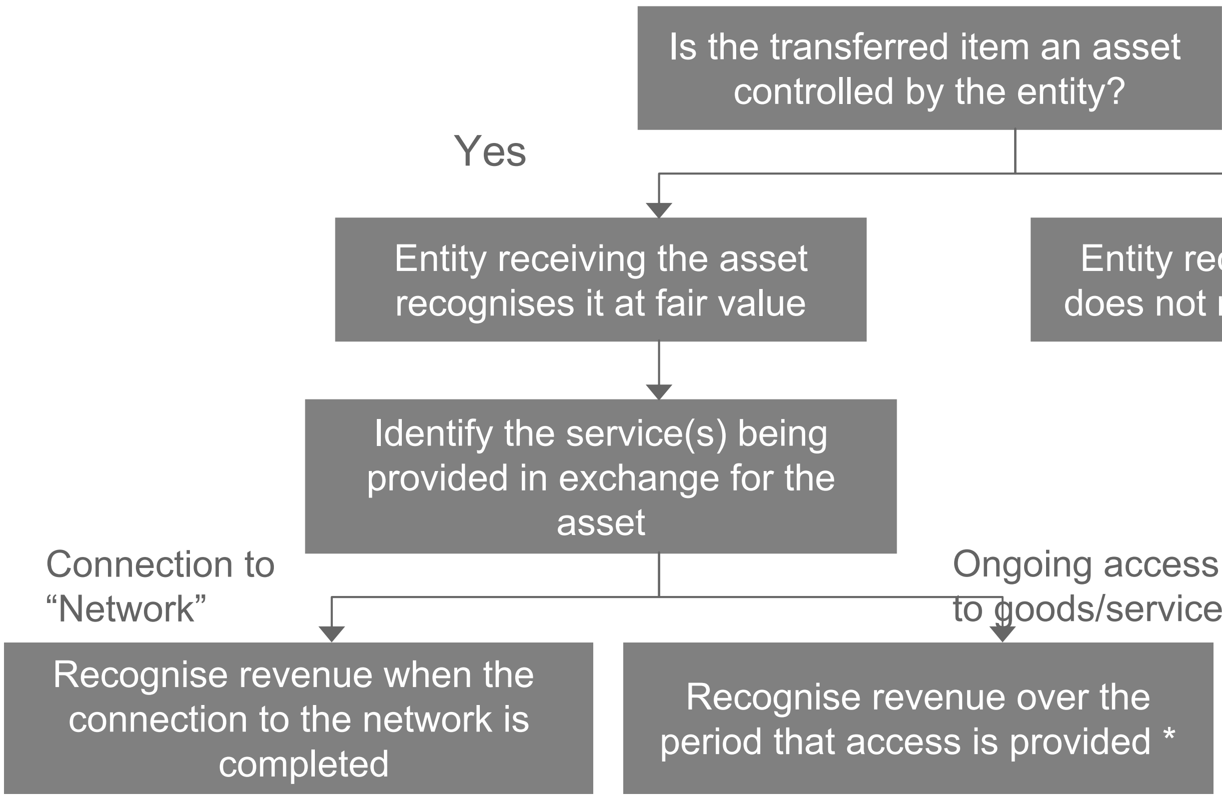
- IAS 27R *Consolidated and Separate Financial Statements*
  - Effective: annual periods beginning on or after 1 July 2009

Note: Early adoption requires early adopting other related standards

IFRIC 17 *Distribution of Non-Cash Assets to Owners*

- Distributions of non-cash assets to shareholders – instead of cash
  - Including if there is a choice of receiving non-cash assets or cash (under certain conditions)
- Liability
  - Recognised when shareholders approve the transaction (if approval is required) or the distribution is declared, at fair value of assets to be distributed
  - Subsequently remeasured to fair value through equity
  - At settlement date any difference between asset and liability carrying amounts is recognised in profit or loss in a separate line
  - Assets reclassified as “held for distribution” (Amendments to IFRS 5)
- Effective: annual periods beginning on or after 1 July 2009

IFRIC 18 *Transfers of Assets from Customers*



*If the agreement is silent, this is no longer than the life of the related asset.

Improvements to IFRS 2007-2009

- Scope of IFRS 2 and revised IFRS 3 (IFRS 2)
- Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations (IFRS 5)
- Disclosure of information about segment assets (IFRS 8)
- Current/non-current classification of convertible instruments (IAS 1)
- Classification of expenditures on unrecognised assets (IAS 7)
- Classification of leases of land and buildings (IAS 17)
- Determining whether an entity is acting as a principal or as an agent (IAS 18)
- Unit of accounting for goodwill impairment test (IAS 36)
- Additional consequential amendments arising from revised IFRS 3 (IAS 38)
- Measuring the fair value of an intangible asset acquired in a business combination (IAS 38)
- Treating loan prepayment penalties as closely related embedded derivatives (IAS 39)
- Scope exemption for business combination contracts (IAS 39)
- Cash flow hedge accounting (IAS 39)
- Scope of IFRIC 9 and revised IFRS 3 (IFRIC 9)
- Amendment to the restriction on the entity that can hold hedging instruments (IFRIC 16)

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Association of European Businesses
Open event

IFRS UPDATE

IFRS 3R & IAS 27R

What’s new – IFRS 3R

What’s new –IAS 27R

What’s new –IFRS 3R

Scope and definitions

Consideration

Goodwill and non-controlling interest

Measurement of assets and liabilities

Post-acquisition impact

What's new –IFRS 3R
Scope and definitions

Acquisition of 100% equity interests

Combination by contract

Unincorporated business

Legal merger

Combination of mutuals

BC between businesses under common control

Purchase of asset

Formation of Joint Ventures

What's new –IFRS 3R
Scope and definitions

«'An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.'

Inputs

Processes

Ability to create outputs

What’s new –IFRS 3R
Consideration

What forms part of the consideration?

Principles:

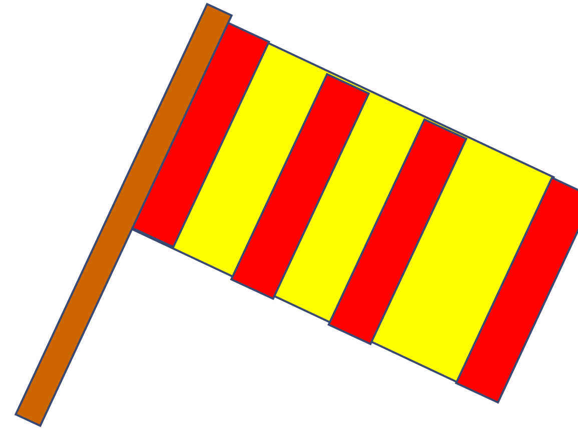
Paid to vendor : Assets transferred, liabilities incurred and equity issued

Measured at fair value (FV) at date control passes

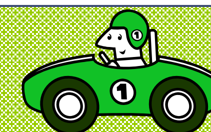
Exclude items not part of consideration[New]

Contingent consideration: recognised at FV[New]

What's new –IFRS 3R
Consideration



Contingent consideration



Fixed number of shares

ATTENTION!

Re-measure at FV

No re-measurement

What's new –IFRS 3R
Consideration

Contingent consideration or employee compensation?

Other agreements

Continuing employment & duration

Remuneration level

Formula to calculate payment

Employee compensation vs. cost of consideration

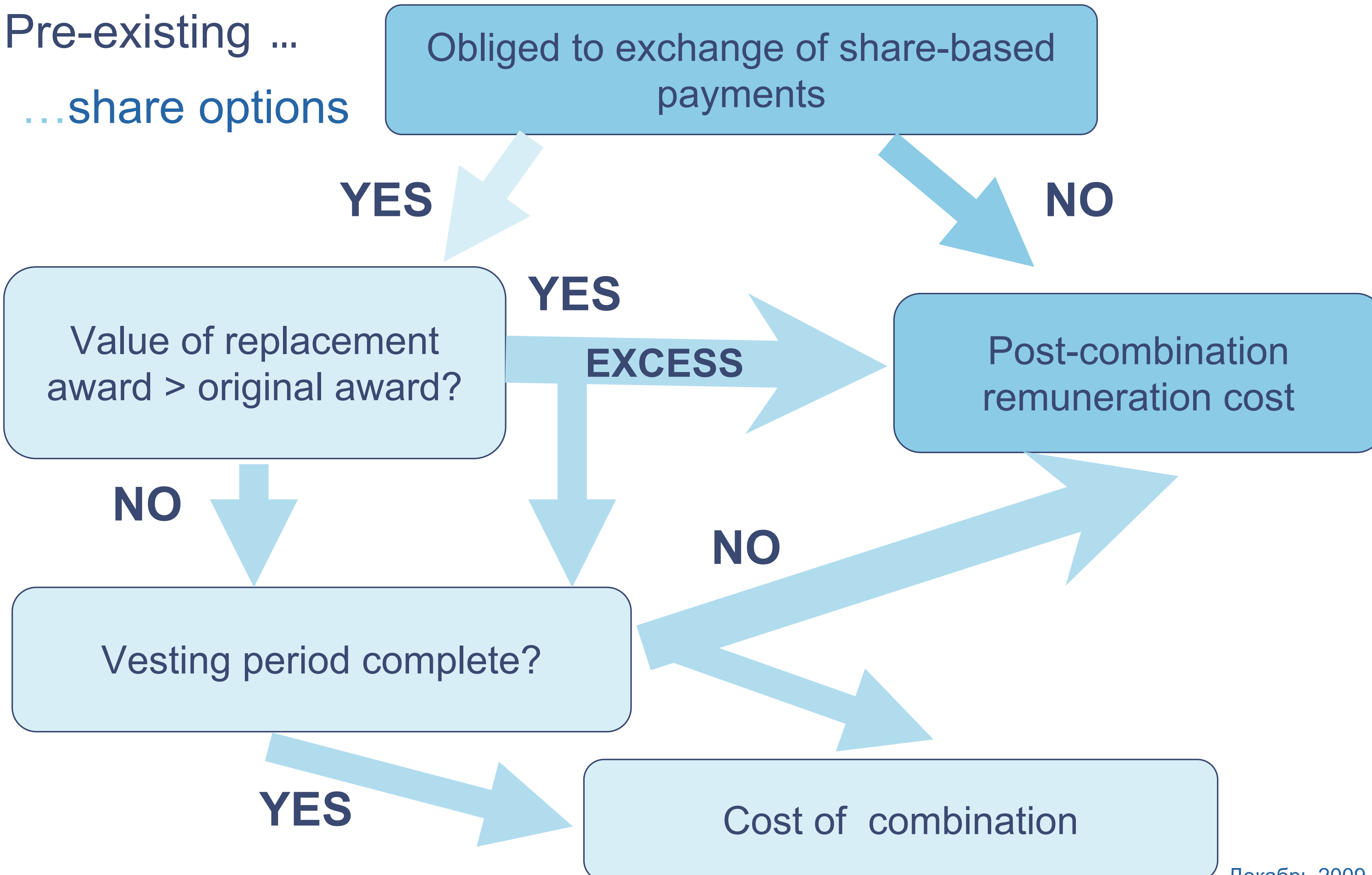
Higher payment to employees

Consideration vs. value of the business

% of shares held by employees

Pre-existing …

…share options



Share options: example

Consideration → Acquisition → Post-combination income statement

Pre-acquisition services
C 67

Excess C 10

Post-acquisition services
C 33

Replacement of awards required

Vesting period 3 years (2 years passed)

Existing awards value C 100

Replacement awards value C 110

What's new –IFRS 3R
Consideration

Pre-existing …
…relationships

Settlement of relationship

Contractual relationship

NO

At FV

YES

Lower of:

Favourable/ unfavourable element

Settlement provision in contract

Step-acquisition- pre-existing interest

In 20X1 A plc acquires 40% stake in B Limited for GBP 4m

In 20X2 A plc acquires remaining 60% stake for GBP 12m

20X2: 40% stake carrying value GBP 5.5m.

20X2: FV of 40% was GBP 8m

GAIN on re-measurement of associate GBP 2.5m in income statement

What’s new –IFRS 3R
Consideration

Summary

- Consideration measured at FV at date control passes
- Contingent consideration measured at FV with subsequent change to income
- Consideration will be reduced by “separate transactions”:

  - acquisition costs

  - employee compensation

  - share based payment

  - pre-existing relationships
- Step-acquisition: revalue existing interest

What’s new –IFRS 3R
Goodwill and non-controlling interest

A plc bought a 40% stake in B Limited for EUR 120m. It already holds a 20% interest.

A plc bought a 40% stake in B Limited for EUR 120m. It already holds a 20% interest.

PROPORTIONATE SHARE

Consideration

(EUR120m)

Previous interest (EUR 60m)

NCI

(EUR 80m)

Goodwill

(EUR 60m)

Assets, liabilities and contingent liabilities

(EUR 200m)

FAIR VALUE METHOD

Consideration

(EUR120m)

Previous interest (EUR 60m)

NCI

(EUR 120m)

Goodwill

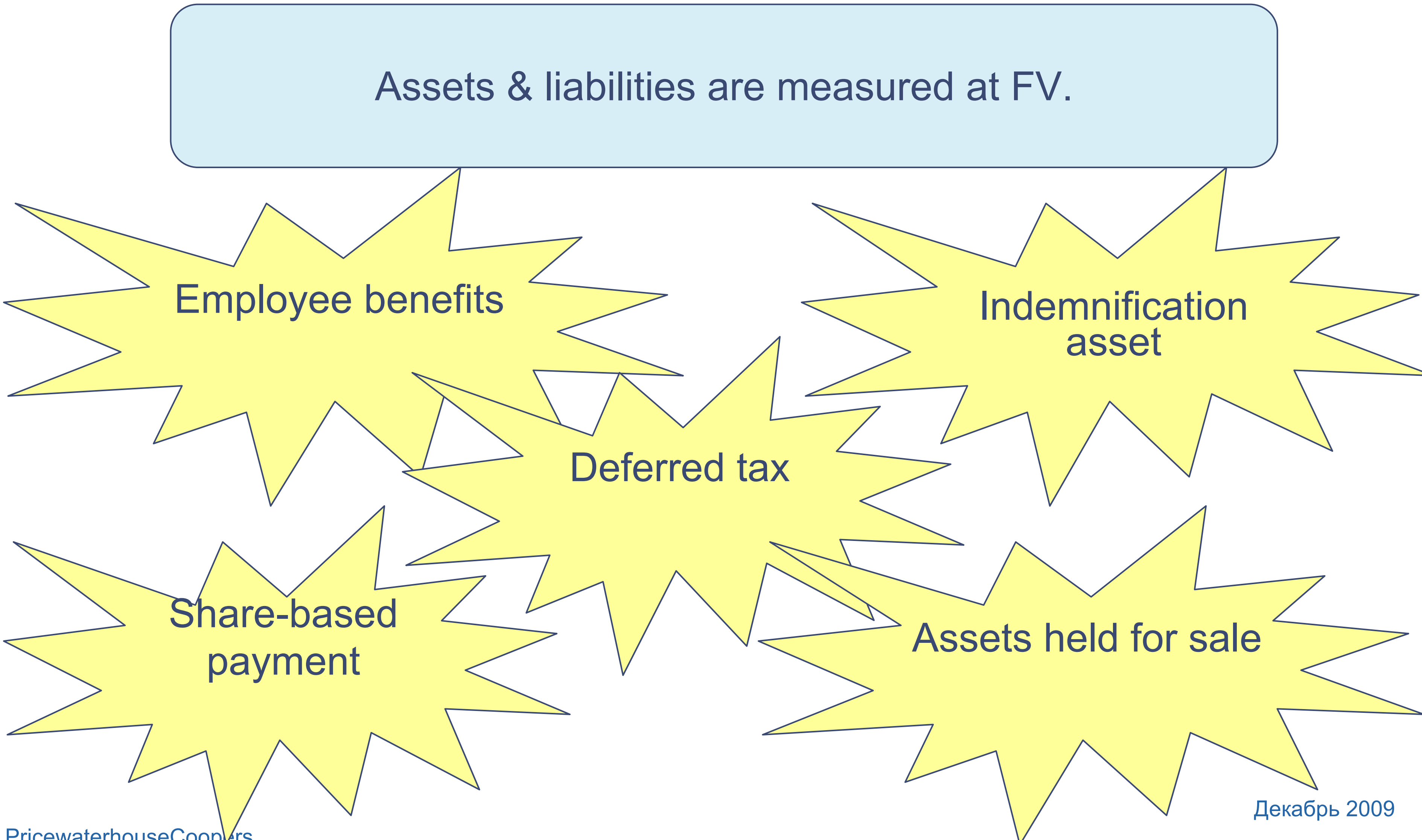
(EUR 100m)

Assets, liabilities and contingent liabilities

(EUR 200m)

What's new –IFRS 3R
Measurement of assets and liabilities

Principles



What’s new –IFRS 3R
Measurement of assets and liabilities

New rules!

Reassessment of contracts (except leases/ insurance contracts)	Reassess hedging, embedded derivatives, classification of financial assets/liabilities.
Indemnities given by seller	Acquirer recognises asset– no impact on goodwill.
Re-acquired rights	Intangible asset

What's new –IFRS 3R
Measurement of assets and liabilities

New rules!

Acquiree is a lessor of an operating lease → Lease terms included in FV of the leased asset.

Deferred taxation → Adjustments made after 12 months post acquisition do not impact goodwill.

Summary

- Measure all assets, liabilities and contingent liabilities at FV (with exceptions)
- Reassess contracts at acquisition date
- Recognises indemnification assets and re-acquired rights
- Deferred tax changes do not affect goodwill

Are the following a one hit wonder or do they have ongoing impact?

One hit wonder

Ongoing

Settlement of pre-existing contract

Share-based payment: post acquisition element

Re-acquire rights – amortisation

Change in recognised deferred tax asset (after 1 year)

Change in indemnification asset

Adjustment to contingent cash consideration

Gain/ loss on re-measurement of pre-existing associate/ AFS.

Adjustment to FV of the contingent liability (after 1 year)

Acquisition costs

Conclusion

- More transactions now in scope
- Consideration includes contingent consideration but payments made for other items excluded
- NCI: choice of full or partial goodwill
- Previous interest measured at fair value
- Reassessment of contracts, indemnities and deferred tax
- Significant impacts on post-acquisition results

What’s new –IAS 27R

Accounting for ownership change:

- Single model – economic entity model
- Changes in ownership interest without loss of control
- Loss of control

What's new –IAS 27R
Ownership changes without loss of control

Group financial statements - single ~~econ~~omic entity.

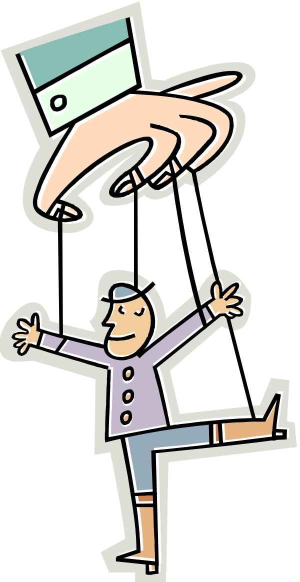
Equity providers include parent company shareholders & NCI

TRANSACTIONS WITH EQUITY HOLDERS

- no goodwill and no gain/loss in income statement.

Losses are allocated to NCI even if result in debit balance

What's new –IAS 27R
Principles of losing control



De-recognise assets (inc. goodwill) and liabilities

De-recognise NCI

Recognise consideration received

Recognise at FV any investment retained

NEW !!

Reclassify to income statement any gain or loss previously recognised in other comprehensive income

IMPORTANT CLARIFICATION

Difference to income statement

Conclusion

- Economic entity model: transactions with equity holders accounted for in equity
- Retained interest is re-measured at fair value
- Loss of control results in gain or loss
- Losses are allocated to NCI even if result in devit balance

Any questions?

AEB Audit & Accounting WG Open Event
IFRS Update. IFRSs for SMEs.
December 17, 2009

IFRS
FOR SMALL AND MEDIUM SIZED ENTITIES

Anton Kalanov
Head of International reporting department
ACG Interexpertiza

GENERAL INFORMATION ON IFRS FOR SMES

- Project was carried forward from the former IASC agenda. IASB deliberations began in **July 2003**
- Discussed by IASB at **44** public Board meetings
- Comprehensive outreach programme that involved presentations at **104** conferences and round tables in **40** countries
- **116** small entities from **20** countries (USA, France, Denmark, Italy; India, Malaysia etc) participated in field testing
- Approved by IASB members in **July 2009**
- One IASB member **dissented** from the issue of the IFRS because he believes that the IFRS for SMEs is neither necessary nor desirable
- The only available information on IFRS for SMEs adoption came from **South Africa**

IFRS FOR SMES: MAIN FEATURES

Aim of the project. IASB wanted to develop high quality standard expressly designed to meet the financial reporting needs of entities that

(a) do not have public accountability **and**

(b) publish general purpose financial statements for external users.

Advantages of world-wide adoption:

a) increased comparability of SMEs (a positive impact on financing and such transactions as exports/imports, mergers and acquisitions);

b) enhancement of overall confidence in the financial statements of SMEs;

c) easier cross-border movement of qualified personnel;

d) reduction of significant costs involved of maintaining standards on a national basis;

e) reduction of costs of multinational companies.

IFRS FOR SMES: MAIN FEATURES (continued)

Outside the scope. An entity is considered to have public accountability if
(a) its debt instruments are publicly traded, **or**
(b) its equity instruments are publicly traded, **or**
(c) it is a financial institution or other entity that, as part of its primary business, holds and manages financial resources entrusted to it by clients (banks, mutual funds, insurance companies etc).

No limits. For a company to qualify as a SME (to be able to use IFRS for SMEs) there are no traditional requirements not to exceed certain revenue amount or quantity of employees or total assets or whatever.

Free at last. The complete IFRS for SMEs (together with the basis for conclusions, illustrative financial statements, and a presentation and disclosure checklist) can be downloaded from IASB's site free of charge unlike the full IFRSs.

Make a choice. If an entity decides to use IFRS for SMEs, it must follow the standard in its entirety – it cannot choose some favorable features of full IFRS (the one and only exemption - option to use requirements of IAS 39) . The same thing applies to users of full IFRSs. Moreover standards allow a simplified transitions between IFRSs and IFRS for SMEs just once.

№	Main IFRS for SMEs and IFRSs differences	IFRSs	Sort of differences	How affects performance (initially)
1	**First time adoption: disclosures** » IFRS for SMEs: Balance sheet for 2 dates should be disclosed. » IFRS 1 (from 2009): Balance sheet for 3 dates should be disclosed (including the balance sheet as at the date of transition to IFRSs).	IFRS 1	Immaterial simplifications	N/a (disclosures)
2	**First time adoption: exemptions** » IFRS for SMEs: SMEs may opt to apply additional exemptions: no retrospective application of requirements for accounting for Business combination, Share-based payment, Compound financial instruments, Service concession arrangements; use of previous GAAP revaluation as deemed cost; use of a deemed cost for investments; for extractive activities - use of previous GAAP PPE carrying amount tested for impairment instead of application of the standard's requirement; decommissioning liabilities included in the cost of property, plant and equipment - calculation as at the date of transition to the IFRS for SMEs and some more. » IFRS 1: Additional exemptions are not allowed.	IFRS 1	Material simplifications	N/a (disclosures)
3	**First time adoption: impracticability** » IFRS for SMEs: SMEs may avoid application of certain restatement requirements and/or disclosure requirements of the standard, if these requirements are impracticable to implement (applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so). » IFRS 1: No such reservations.	IFRS 1	Quasi-simplifications	N/a (disclosures)
4	**Share-based payments** » IFRS for SMEs: If observable market prices are not available, SMEs should measure the share-based payments expenses using the top-management's best estimate of the fair value of the equity-settled share-based payment. » IFRS 2: Deviation from the common rule is not allowed	IFRS 2	Material simplifications (specific)	May be different

№	Main IFRS for SMEs and IFRSs differences	IFRSs	Sort of differences	How affects performance (initially)
5	**Other disclosure requirements** » IFRS for SMEs: In comparison to full IFRSs certain specific disclosure requirements have been abolished for IFRS for SMEs, in particular in respect of business combinations, impairment losses etc	IFRS 3, IAS 36, etc	Material simplifications (specific)	N/a (disclosures)
6	**Non-current assets (or groups) held for sale** » IFRS for SMEs: Existence of assets held for sale requires an assessment for impairment. No special classification or special subsequent accounting requirements. » IFRS 5: An asset held for sale is measured at lower of carrying amount and fair value less costs to sell. Additional disclosure and presentation requirements	IFRS 5	Immaterial simplifications (specific)	May be different
7	**Income tax** » IFRS for SMEs: A new approach of accounting for deferred income tax assets and obligations has been implemented in IFRS for SMEs - based on Income Tax exposure draft issued by IASB in 2009. This will result in easier accounting for deferred taxes in certain transactions and some additional disclosure requirements.	IAS 12	Material simplifications	May be different
8	**PPE & IA: review of accounting estimates** » IFRS for SMEs: An annual review of the useful life, residual value, and depreciation or amortisation method for property, plant and equipment and intangible assets is not required. Instead, a review is required only if there is an indication that there has been a significant change since the last annual reporting date (indications - factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement, and changes in market prices). » IAS 16 and IAS 38 require reviews at least at each financial year-end.	IAS 16, IAS 38	Quasi-simplifications	May be different, usually - decrease

№	Main IFRS for SMEs and IFRSs differences	IFRSs	Sort of differences	How affects performance (initially)
9	**PPE & IA & IP: disclosures** » IFRS for SMEs: A reconciliation of the carrying amount at the beginning and end of the reporting period (showing additions, disposals, etc) need not be presented for prior periods. » IAS 16, IAS 40 and IAS 38: each monetary amount in financial statements should have comparatives.	IAS 16, IAS 38, IAS 40	Material simplifications	N/a (disclosures)
10	**PPE & IA: revaluation** » IFRS for SMEs: - not permitting a revaluation option for property, plant and equipment; - not permitting a revaluation option for intangible assets.	IAS 16, IAS 38	Alternatives deprivation	Matter of accounting policy
11	**Operating leases** » IFRS for SMEs: Allowing other than the straight-line method by lessees for operating leases when the minimum lease payments are structured to compensate the lessor for expected general inflation. » IAS 17: Deviation from the common rule is not allowed	IAS 17	Immaterial simplifications	May be different, usually - increase
12	**Finance leases: disclosures** » IFRS for SMEs: A disclosure of reconciliation between the total of future minimum lease payments and their present value is not required - only for lessees. » IAS 17: Deviation from the common rule is not allowed	IAS 17	Immaterial simplifications	N/a (disclosures)
13	**Defined benefit pension obligation: calculation** » IFRS for SMEs: If information based on the projected unit credit method is not available and cannot be obtained without undue cost or effort, SMEs must apply an approach that is based on IAS 19 but does not consider future salary progression, future service or possible mortality during an employee's period of service. » IAS 19: Deviation from the common rule is not allowed	IAS 19	Immaterial simplifications (specific)	May be different, usually - increase

№	Main IFRS for SMEs and IFRSs differences	IFRSs	Sort of differences	How affects performance (initially)
14	**Defined benefit pension obligation: actuarial gains and losses** » IFRS for SMEs: Certain simplifications on recognition of actuarial gains and losses » IAS 19: Deviation from the common rule is not allowed	IAS 19	Immaterial simplifications (specific)	May be different
15	**Defined benefit pension obligation: past service cost** » IFRS for SMEs: The IFRS for SMEs requires immediate recognition of all past service cost (including that related to unvested benefits), without any deferral. » IAS 19 requires past service cost to be deferred and amortised as an expense (or, in the case of benefit reductions, as income) on a straight-line basis over the average period until the benefits become vested.	IAS 19	Immaterial simplifications (specific)	May be different, usually - decrease
16	**Government grants: recognition in income** » IFRS for SMEs: Recognition of government grants in income when the performance conditions are met (or earlier if there are no performance conditions). » IAS 20: Recognition of government grants in income when the corresponding costs are recognised (for example, depreciation of PPE purchased with this grant).	IAS 20	Simplification, but not for Russian companies	Increase
17	**Government grants: off-set with assets** » IFRS for SMEs: Government grant may not be off-set with the cost of asset which has been purchased with this grant; » IAS 20: Such option still remains in IAS 20.	IAS 20	Alternatives deprivation	Matter of accounting policy
18	**Disposal of a foreign operation** » IFRS for SMEs: On disposal of a foreign operation the cumulative exchange differences that were recognised previously in other comprehensive income shall not again be recognised in profit or loss on disposal of the net investment. » IAS 21: Deviation from the common rule is not allowed	IAS 21	Immaterial simplifications (specific)	May be different

№	Main IFRS for SMEs and IFRSs differences	IFRSs	Sort of differences	How affects performance (initially)
19	**Borrowing costs** » IFRS for SMEs: Must always be charged to expense. » IAS 23: Costs directly attributable to the acquisition, construction or production of a qualifying asset must be capitalised.	IAS 23	Simplification, but not for Russian companies	Decrease
20	**Related parties: disclosures** » IFRS for SMEs: Certain disclosure requirements in respect related parties have been abolished for IFRS for SMEs, e.g.. RP groups are shorter, state-controlled entities are exempt from related parties disclosures - at last.	IAS 23	Material simplifications (specific)	N/a (disclosures)
21	**Accounting for distributions from investments** » IFRS for SMEs: No distinction between distributions from pre-acquisition and post-acquisition profits for investments accounted for by the cost method - instead, all dividends received are recognised in profit or loss. » IAS 27: The investor recognises income from the investment only to the extent that the investor receives distributions from retained earnings of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment	IAS 27	Immaterial simplifications (specific)	Increase
22	**Investment in an associate in consolidated financial statements** » IFRS for SMEs: An investor shall account for all of its investments in associates using one of the following: (a) the cost model (except for those investments for which there is a published price quotation - FV should be used); (b) the equity method; (c) the fair value model (except for those investments for which it is impracticable to measure fair value reliably without undue cost or effort - cost should be used). » IAS 28: An investment in an associate shall be accounted for using the equity method with certain exemptions.	IAS 28	Alternatives addition	Matter of accounting policy

№	Main IFRS for SMEs and IFRSs differences	IFRSs	Sort of differences	How affects performance (initially)
23	**Jointly controlled entities in consolidated financial statements** » IFRS for SMEs: An investor shall account for all of its interests in JCE using one of the following: (a) the cost model (except for those investments for which there is a published price quotation - FV should be used); (b) the equity method; (c) the fair value model (except for those investments for which it is impracticable to measure fair value reliably without undue cost or effort - cost should be used). » IAS 31: Jointly controlled entities in consolidated financial statements must be measured using the equity method or proportionate consolidation.	IAS 31	Alternatives addition	Matter of accounting policy
24	**Financial instruments: accounting policy** » IFRS for SMEs: An entity may choose to apply either (a) the provisions of IFRS for SMEs, or (b) the recognition and measurement provisions of IAS 39 and the disclosure requirements of IFRS for SMEs.	IAS 32&39, IFRS 7	Alternatives addition	Matter of accounting policy
25	**Financial instruments: classification** » IFRS for SMEs: Financial instruments that meet specified criteria are measured at cost (amortised cost), and all others (in fact - a minority) are measured at fair value through profit or loss. The "available-for-sale" and "held-to-maturity" classifications are not available	IAS 32&39, IFRS 7	Material simplifications (specific)	May be different
26	**Financial instruments: complex issues** » IFRS for SMEs: The standard also establishes a simplified approach to accounting for complex derecognition transactions, hedging etc.	IAS 32&39, IFRS 7	Material simplifications (specific)	May be different
27	**Financial instruments: disclosures** » IFRS for SMEs: A very limited amount of disclosures on financial instruments (for example, no sensitivity analysis). » IFRS 5: Extensive (and expensive) disclosure requirements	IAS 32&39, IFRS 7	Material simplifications	N/a (disclosures)

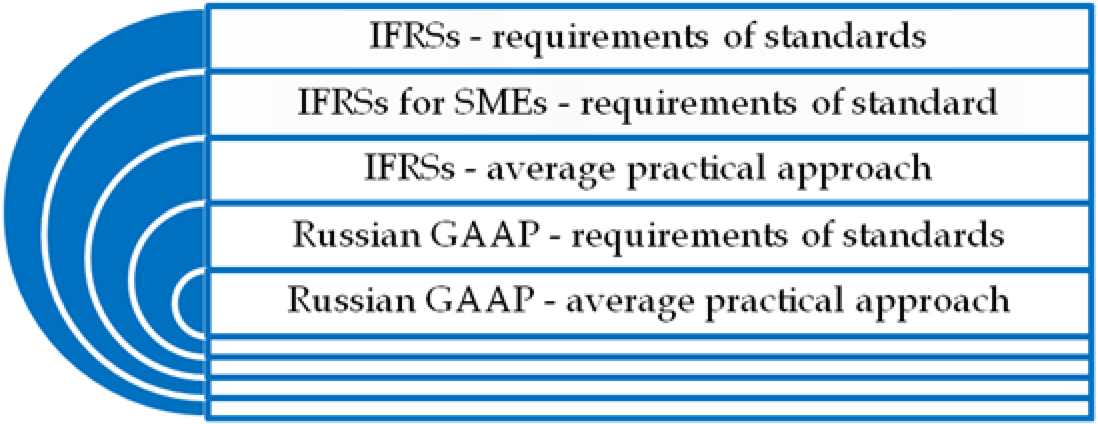
№	Main IFRS for SMEs and IFRSs differences	IFRSs	Sort of differences	How affects performance (initially)
28	**Intangible assets with indefinite useful lives and goodwill** » IFRS for SMEs: All intangible assets and goodwill are considered to have a finite useful life. If an entity is unable to make a reliable estimate, the life is presumed to be ten years. Plus SMEs have to test such assets for impairment if indications of impairment exist (similar to those stated in IAS 36). » IAS 38: Such assets are not amortized but are tested for impairment every year	IAS 38	Quasi-simplifications	May be different, usually - decrease
29	**Intangible assets: research and development** » IFRS for SMEs: Usually research and development expenses are not capitalised. » IAS 38: Certain development expenses meet recognition criteria of intangible assets	IAS 38	Material simplifications (specific)	Decrease
30	**Investment property: fair value or cost** » IFRS for SMEs: Investment property must be measured at fair value through profit or loss when its fair value can be measured reliably without undue cost or effort. All other assets should be accounted for at cost minus depreciation and impairment. » IAS 40: Investment property may be accounted for either at fair value through profit or loss or at cost minus depreciation and impairment.	IAS 40	Alternatives deprivation	Matter of accounting policy
31	**Investment property: disclosure of FV** » IFRS for SMEs: Disclosure of fair value is not required (if FV may be measured than it should affect the carrying amount of the asset). » IAS 40: Even if investment property is accounted for at under cost model its fair value as at the year-end should be disclosed in the notes.	IAS 40	Quasi-simplifications	N/a (disclosures)
32	**Investment property: disclosure of direct operating expenses** » IFRS for SMEs: Direct operating expenses (including repairs and maintenance) are not required to be disclosed. » IAS 40: Full IFRSs require extensive disclosures of direct operating expenses.	IAS 40	Immaterial simplifications (specific)	N/a (disclosures)
33	**Biological assets** » IFRS for SMEs: Biological assets are measured at fair value through profit or loss only if fair value is readily determinable without undue cost or effort. » IAS 41: It is presumed that fair value of all biological assets can be reliably measured.	IAS 41	Material simplifications (specific)	May be different

SUMMARY OF MAIN IFRS FOR SMES AND IFRSS DIFFERENCES

Summary of main IFRS for SMEs and IFRSs differences	quantity
Material simplifications	4
Material simplifications (specific)	7
Immaterial simplifications	3
Immaterial simplifications (specific)	7
Quasi-simplifications	4
Simplification, but not for Russian companies	2
Alternatives deprivation	3
Alternatives addition	3
Total main differences	**33**

How the differences affect performance (initially)	quantity
Increase	2
May be different, usually - increase	2
Decrease	2
May be different, usually - decrease	3
Matter of accounting policy	6
May be different	8
N/a (disclosures)	10
Total main differences	**33**

COMPARATIVE DIFFICULTY (~COST) OF ACCOUNTING AND REPORTING (~AUDITING) UNDER IFRS, IFRS FOR SMES AND RUSSIAN GAAP



Faithfulness.
Expectations of users of financial reporting

Faithfulness of reporting under full

Possible faithfulness of reporting under IFRSs for SMEs

Faithfulness of reporting under IFRSs for SMEs - expectations of users of financial statements

Cost of transition.
Expectations of issuers of financial reporting

Cost of transition to full IFRSs

Required cost of transition to IFRSs for SMEs

Cost of transition to IFRSs for SMEs - expectations of issuers of financial statements

THANK YOU
FOR YOUR ATTENTION

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Audit & Accounting Working Group
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IN THE RUSSIAN FEDERATION

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