

Edison Electric Institute

IFRS Impact on US Utility Companies



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Presenter

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Update on
Developments at the
SEC



Current view on IFRS in the US

- The financial crisis has highlighted certain concerns about IFRS:
 - The debate around the sufficiency of US capital market regulation has influenced views on IFRS. Some view a move to IFRS as less regulation because IFRS is less detailed than US GAAP;
 - The global focus on fair value accounting has caused increased pressure on the IASB and the FASB to establish level playing fields and justify how fair-value accounting has improved financial reporting; and
 - Certain European countries believe they should have more influence in the IASB standard-setting process.

Current view on IFRS in the US

- The IASB and FASB are committed to completing convergence projects on the 11 major topical areas identified in the MoU by 2011. This is an ambitious task. The standard setters have had difficulty getting to common views on changes to financial instruments accounting, especially on the use of fair value.
- The September 2009 G20 leaders' meeting highlighted the commitment of the world's leaders to one global set of high quality accounting standards and asked accounting bodies to redouble efforts to complete their convergence project by June 2011.
- The SEC will consider these matters in its discussions on the path forward. We see the biggest risk coming from exercise of undue European political pressure on the IASB that may cause the SEC to react by slowing down the change process.

Current view on IFRS in the US

- The SEC has been doing IFRS-related analysis out of the public view. Recent comments by the SEC Chairperson and Chief Accountant in September 2009 indicate that SEC analysis of the road to IFRS has been moved to the priority list.
- The SEC has acknowledged it will increase transparency around IFRS considerations. We anticipate more visible SEC activity on IFRS later in 2009 and into 2010.

Current view on IFRS in the US

- Notwithstanding the challenges, we continue to believe the US will transition to IFRS because:
 - The global transition to IFRS is too significant to ignore; transition continues in Brazil, Canada, and South Korea by 2011 and Mexico in 2012. Japan is currently deliberating allowing optional IFRS use for domestically listed companies as early as March 2010.
 - The current financial crisis has shown the interconnected nature of capital markets around the world. This demonstrates the imperative to achieve a common accounting language.
 - The G20 vision will guide world leaders toward making IFRS work for global capital markets.

Current view on IFRS in the US

- We expect to begin to see revised thinking from the SEC in 2010. Any final decision on a mandatory adoption date is still anticipated during 2011 or shortly thereafter. In response to preparer concerns, we believe the SEC will allow more than the three years proposed in the roadmap to effect a conversion. This means that the start of any mandatory conversion period set by the SEC will likely extend beyond the original 2014 date.
- Once the mandatory conversion timetable is established, we believe the SEC may allow a broader early adoption option which would permit more companies to adopt IFRS sooner than proposed in the original roadmap.
- Regardless of the speed and direction of the SEC, the next several years will bring a near-constant rate of accounting change to the US. Companies need to anticipate and prepare these changes.

IFRS Impact on US Utility Companies

Convergence of US
GAAP and IFRS –
Status of MOU



Convergence of US GAAP and IFRS

- In September 2002 the FASB and the IASB issued the Norwalk Agreement in which each acknowledged their commitment to the development of high quality compatible accounting standards.
- The Boards pledged to use their best efforts to:
 - Make their existing financial reporting standards fully compatible as soon as practicable
 - Co-ordinate their future work programs to ensure compatibility is maintained
- At their meetings in April and October 2005, the FASB and the IASB reaffirmed their commitment to the convergence of US GAAP and IFRS.
- In September 2008 the Boards issued a progress report and a timetable towards completion of the joint objectives contained in the Memo of Understanding ("MOU").

Status of Convergence Projects at the IASB

Project: Business Combinations

Objective: Joint project with the FASB to develop a single set of high standard accounting standards for business combinations.

Status: Converged standard issued in 2008. Post-implementation review after the standard has been applied for two years.

Status of Convergence Projects at the IASB

Project: Financial Instruments

Objective: Project divided into three sub-projects with three objectives

Classification and Measurement: Clarify how principles underlying hedge accounting should be applied in particular situations.

Status: IASB amendment to IAS 39, *Financial Instruments: Recognition and Measurement*, issued in July 2008 permitted application for periods beginning on or after July 1, 2009. Mandatory adoption in 2013.

Status of Convergence Projects at the IASB

Disclosures about Financial Instruments: Enhance disclosures about valuations, methodologies and the uncertainty associated with fair value measurements. Also clarify and enhance disclosure about liquidity risk.

Amendment created the three level hierarchy for disclosures of financial instruments measured at fair value similar to FAS 157.

Status: IASB amendment to IFRS 7, *Financial Instruments: Disclosures*, issued in March 2009 and is effective for annual periods beginning on or after January 1, 2009.

Status of Convergence Projects at the IASB

Amortized cost and impairment: Improve the accounting for provisions for losses on loans by taking into consideration expected losses resulting in more timely recognition of losses.

Status: Exposure draft issued in November 2009. Comment period open until June 30, 2010.

Hedge Accounting: To simplify hedge accounting requirements by replacing fair value hedge accounting with an approach similar to cash flow hedge accounting. Also to simplify the cash flow hedge accounting model.

Status: Exposure draft expected in December 2009.

Status of Convergence Projects at the IASB

Project: Financial Statement Presentation

Objective: Joint project with the FASB to create a standard that requires entities to organize financial statements in a manner that clearly communicates an integrated financial picture of the entity. Two key objectives of the project:

- Disaggregation - separating information that responds differently to economic events. Two levels of disaggregation:
 - Separate financing activities from business activities (including investing)
 - Separate items by function (such as cost of sales and administration) and by nature (materials, labor and depreciation)
- Cohesiveness - formatting the information in financial statements so that a reader can follow the flow of information through the various statements.

Status: Discussion papers issued. The IASB expects to publish an exposure draft in 2010.

Status of Convergence Projects at the IASB

Project: Intangible Assets

Status: The Boards decided not to add this project as an active agenda.

Status of Convergence Projects at the IASB

Project: Leases

Objective: Joint project with the FASB to create a common standard on lease accounting to ensure that the assets and liabilities arising from lease contracts are recognized in the statement of financial position (balance sheet). Project to address many aspects of lease accounting, including recognition, initial and subsequent measurement, accounting for lease options, accounting for contingent rentals and accounting for residual value guarantees.

Status: Discussion papers issued. The IASB expects to publish an exposure draft in 2010. Status of lessor accounting more uncertain.

Status of Convergence Projects at the IASB

Project: Liabilities and equity distinction

Objective: Joint project with the FASB to improve and simplify the financial reporting requirements for financial instruments with characteristics of equity. Specifically, this project is intended to develop a better distinction between equity and non-equity instruments.

Status: Discussion paper issued in September 2008. Goal is to publish exposure draft in the first half of 2010.

Status of Convergence Projects at the IASB

Project: Revenue Recognition

Objective: Joint project with the FASB to clarify the principles for recognizing revenue and to create joint revenue recognition standards that companies can apply consistently across various industries and transactions. Significant areas of change are expected in multiple element arrangements and software revenue recognition.

Status: Discussion papers issued. The IASB expects to publish an exposure draft in 2010.

Status of Convergence Projects at the IASB

Project: Consolidation

Objective: To develop a cohesive control based model and provide a clear definition of control; to provide application guidance so that the control model can be applied to all entities; and to enhance disclosures about consolidated and unconsolidated entities.

Status: Exposure draft issued in December 2008. Re-deliberations of the exposure draft began in July 2009. In October 2009 decision made to make deliberations with the FASB in conjunction with the FASB's consolidation project. The main issues for discussion are:

- Agency relationships (including kick-out rights and remuneration)
- Power with less than a majority of voting rights of an entity
- Options and convertible instruments to obtain voting rights
- Disclosures
- Investment companies

Status of Convergence Projects at the IASB

Project: Derecognition

Objective: Improving the requirements to derecognize financial assets and liabilities. Assess when a financial asset should be derecognized and provide users of financial statements with more and better information about an entities risk exposures.

Status: Exposure draft issued in March 2009. FASB will join the IASB's deliberations following the implementation of the FASB's recent amendments to the derecognition and related disclosure requirements in US GAAP. Final standard expected in second half of 2010.

Status of Convergence Projects at the IASB

Project: Fair Value Measurement

Objective: To establish a single source of guidance for all fair value measurements, to clarify the definition of fair value and to enhance disclosures about fair value.

Status: Exposure draft issued in May 2009. Redeliberations scheduled to begin in January 2010, which final standard expected later in 2010.

Status of Convergence Projects at the IASB

Project: Post-employment benefits (including pensions)

Objective: To improve the accounting for pension and post-employment benefits. The project has been divided into three separate exposure drafts:

- an ED on discount rate for measuring employee benefits;
- an ED on the recognition and presentation of changes in the defined benefit obligation and in plan assets, disclosures, and other issues raised in the comment letters that can be addressed expeditiously; and
- an ED on contribution-based promises, potentially as part of a comprehensive review of pension accounting.

Status: Project originally slated to last four years. Due to the financial crises, certain aspects have been accelerated. In August 2009, the Board published an exposure draft proposing amendments to delete from IAS 19 the requirement to use market yields on government bonds. The exposure draft was published with a 40-day comment period. The board will also revisit the timeline for the remainder of the project.

IFRS Impact on US Utility Companies

Other Important IASB
Projects



Other Important IASB Projects

Project: Emission Allowances

Objective: Joint Project with the FASB to develop comprehensive guidance on the accounting for emission allowance schemes. The project aims to answer five primary questions:

- Are emission allowances assets?
- What is the corresponding entry when allowances are received free of charge?
- How should allowances be accounted for subsequently?
- When should an entity recognize its obligation in emission allowance schemes and how should they be measured?
- What are the overall financial reporting effects of these accounting decisions?

Status: Alternative models to be discussed by the board beginning in the fourth quarter of 2009. Exposure draft is expected in the second quarter of 2010 and a final standard expected in the first half of 2011.

Other Important IASB Projects

Project: Accounting for Income Taxes

Objective: To clarify and improve IAS 12 *Income Taxes* and to reduce the differences between IAS 12 and the US standard, SFAS 109, and related US GAAP.

Status: Exposure draft issued in March 2009. Final standard expected in 2010.

The FASB will solicit input from US constituents by issuing an Invitation to Comment concerning the IASB's proposed replacement of IAS 12.

At the conclusion of that review, the FASB will decide whether to undertake a project that would eliminate differences in the accounting for tax by adopting the IFRS.

Other Important IASB Projects

Project: Rate Regulated Activities

Objective: To clarify when regulated entities should recognize assets or liabilities as a result of rate regulation.

Status: Exposure draft issued in July 2009. Comments due by November 20, 2009 Goal is to issue final standard in first half of 2010.

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