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U.S. IFRS Conversion Update: Tax Accounting Standards

Responding to Latest Developments in International Financial Reporting Standards Conversion

THURSDAY, NOVEMBER 11, 2010

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

Today's faculty features:

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IFRS Conversion Update: Tax Accounting Standards Webinar

NOV. 11, 2010

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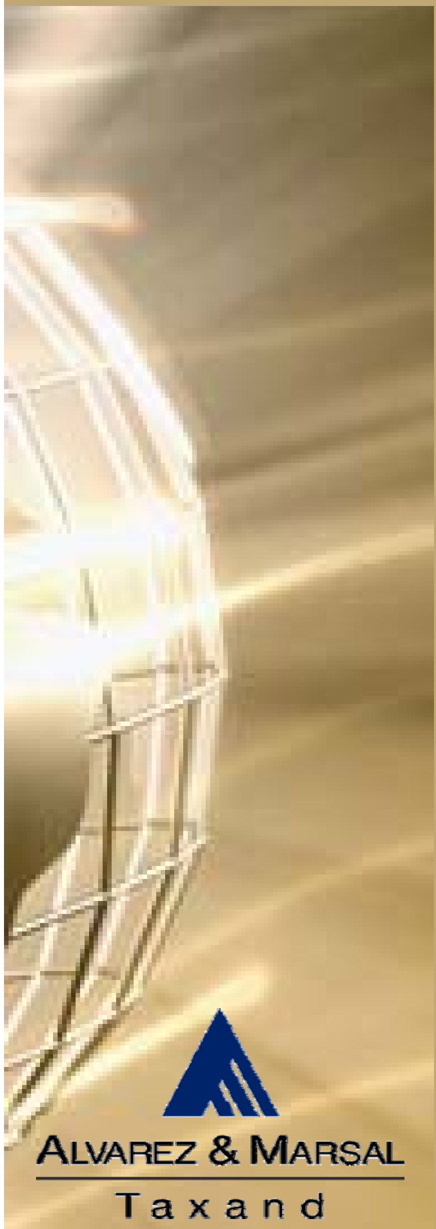
Today's Program

Mark Sumlin, Alvarez & Marsal Taxand

BACKGROUND AND CURRENT DEVELOPMENTS

Background And Current Developments



2002 | 2004 | 2006 | 2008 | 2010 | 2012 | Beyond

2002 – The IASB and FASB issue the Norwalk Agreement – a commitment to develop compatible accounting standards for domestic and cross-border financial reporting.

2005 – The SEC releases its roadmap for allowing IFRS filings without U.S. GAAP reconciliations for foreign filers by 2009 (or earlier).

2006 – The IASB and FASB agree to work together on major projects (the Memorandum of Understanding or MOU). There were 11 such projects outlined in the original MOU to be completed by 2011. High – level framework for the convergence effort.

2007 – The SEC announces foreign filers in the U.S. can use IFRS in filings without reconciliation to U.S. GAAP.

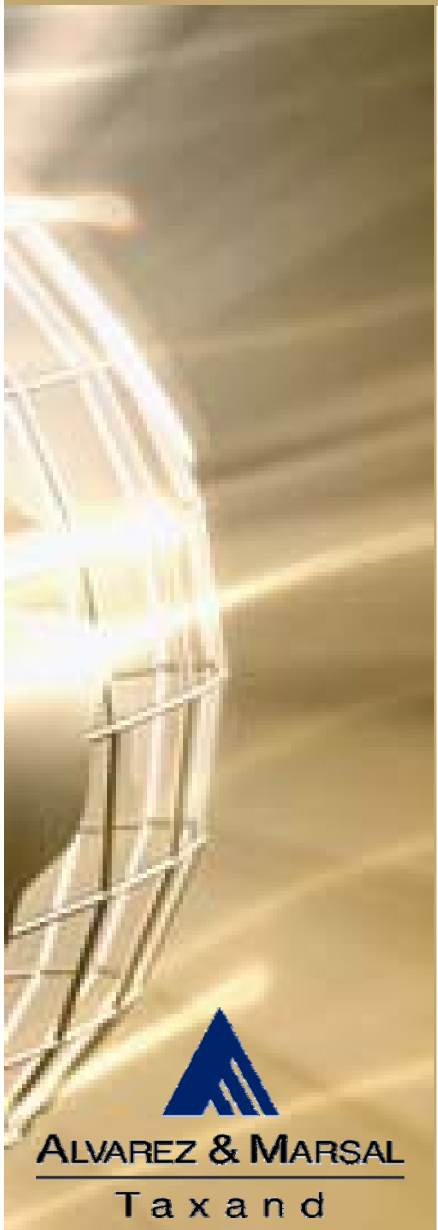
2008 – The IASB and FASB issue an updated MOU, still focused on 11 convergence projects to be completed by 2011.
Also, the SEC releases a proposed roadmap that establishes milestones for acceptance of IFRS for U.S. public filers.

Feb. 2010 – SEC issues Work Plan to evaluate impact that IFRS would have on U.S. financial reporting, noting that 2015 is the earliest point at which U.S. issuers would report under IFRS.

June 2010 – FASB/IASB issue joint statement modifying strategy, prioritizing major projects, and staggering Exposure Drafts. Key projects still to be completed by June 2011 – others fall to end of 2011.

2011 – Even with modified FASB/IASB strategy on convergence projects, SEC still plans to determine if, and how to incorporate, IFRS into the U.S. financial reporting system – placing a lot of weight on the completion of its Work Plan and the outstanding MoU items.

Background And Current Developments (Cont.)



While some countries are simply adopting IFRS, the process in the U.S. will be driven by a steady convergence of U.S. GAAP and IFRS.

U.S. companies will need to focus on several challenges over the next few years:

- o Prepare to deal with an unprecedented rate of financial reporting change, as updates of U.S. GAAP standards related to convergence projects are exposed and issued between now and 2011 (see timetable on next slide)
- o Even with revised strategy to slow things down, the timing, volume and complexity are challenging.
- o Consider potential systems (IT) implications

- Manage foreign subsidiaries' adoption of IFRS as more countries require them
- Track remaining differences between IFRS and U.S. GAAP, since convergence projects will not eliminate all differences
- How will each financial reporting change affect the tax department and the income tax provision?

Background And Current Developments (Cont.)

Explanations:

C – Comment Period
DP – Discussion Paper
ED – Exposure Draft
F – Final Document
R – Roundtable
SD – Staff Draft

Source: FASB Website

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FASB/IASB Convergence Project Timetable (as of Sept. 20, 2010)

Project	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Accounting for Financial Instruments *(ED issued 05/26/10, Updated 10/08/10)*	ED	C	R		F		
Fair Value Measurement *(ED issued 06/29/10, Updated 10/11/10)*	ED	C,R		F			
Leases *(ED issued 08/17/10, Updated 10/18/10)*		ED	C,R		F		
Revenue Recognition *(ED issued 06/24/10, Updated 09/20/10)*		ED	C,R		F		
Financial Statement Presentation *(SD issued 07/01/10, Updated 09/10/10)*		SD		ED	C	R	F
Reporting Discontinued Operations *(Updated 07/29/10)*				ED	C	R	F
Balance Sheet – Offsetting *(Updated 09/28/10)*			ED	C,R	F		
Statement of Comprehensive Income *(ED issued 05/26/10, Updated 09/01/10)*	ED	C,R	F				
Insurance Contracts *(DP issued 09/17/10, Updated 10/07/10)*		DP	C,R				
Financial Instruments with Characteristics of Equity *(Updated 07/15/10)*				ED	C	R	F

Background And Current Developments (Cont.)

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FASB/IASB Convergence Project Timetable (as of Sept. 20, 2010)

Project	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Emissions Trading Schemes *(Updated 09/28/10)*						ED	
Consolidations: Voting Interest Entities *(Updated 10/11/10)*			R				
Consolidations: Investment Companies *(Updated 10/14/10)*			ED	C,R	F		
Earnings Per Share *(not active)* *(Updated 05/07/09)*							
Income Taxes *(not active)* *(Updated 11/06/09)*							
Postretirement Benefit Obligations including Pensions (Phase 2) *(not active)* *(Updated 01/21/09)*							

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Background And Current Developments (Cont.)

SEC roadmap on potential IFRS adoption for U.S. financial reporting

- **Issued in November 2008:** Possible path to the **adoption** of IFRS in the U.S. for SEC registrants
  - o Set forth a required adoption date of as early as 2014
    - Certain industries would be permitted early adoption as soon as 2010.
  - o SEC position: A single set of high-quality global accounting standards can enhance comparability between U.S. and non-U.S. companies, and IFRS has the best potential to provide that platform
  - o Detailed milestones, which if achieved, could lead to the use of IFRS by U.S. issuers
  - o Stated that SEC would evaluate a potential move to IFRS in 2011 (coincides with established FASB and IASB convergence target deadline)
    - Consistent with G-20 urging: "Standard setters must redouble their efforts to complete convergence in global accounting standards by June 2011."

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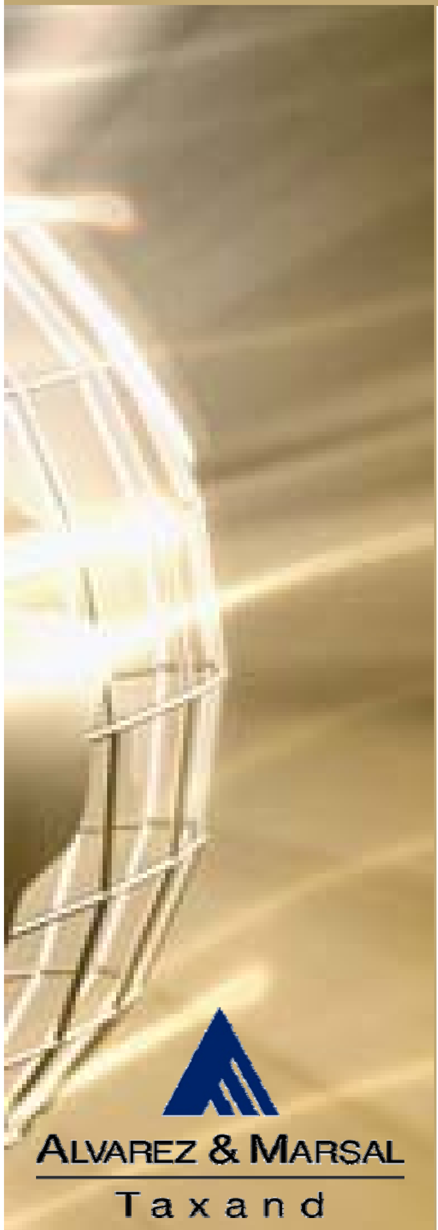
Background And Current Developments (Cont.)



SEC roadmap and work plan

- Feb. 24, 2010: SEC publishes *Commission Statement in Support of Convergence and Global Accounting Standards*
  - Update regarding the SEC's consideration of global accounting standards, including its continued support for convergence efforts
  - Eliminates the option of early adoption
  - Pushes back the earliest reporting adoption year from 2014 to 2015 or 2016
  - Specifically emphasized that the FASB/IASB convergence project (based on the MoU) must demonstrate real progress before conversion to IFRS is allowed
  - Reaffirms its June 2011 determination date
- In addition, on June 2, 2010: Chairman Schapiro issued statement supporting the revised convergence strategy and timeline, indicating the commission is still on schedule to make IFRS decision in 2011
- SEC shift from considering **adoption** of IFRS in 2008 road map to "incorporating IFRS into financial reporting system for U.S. issuers"

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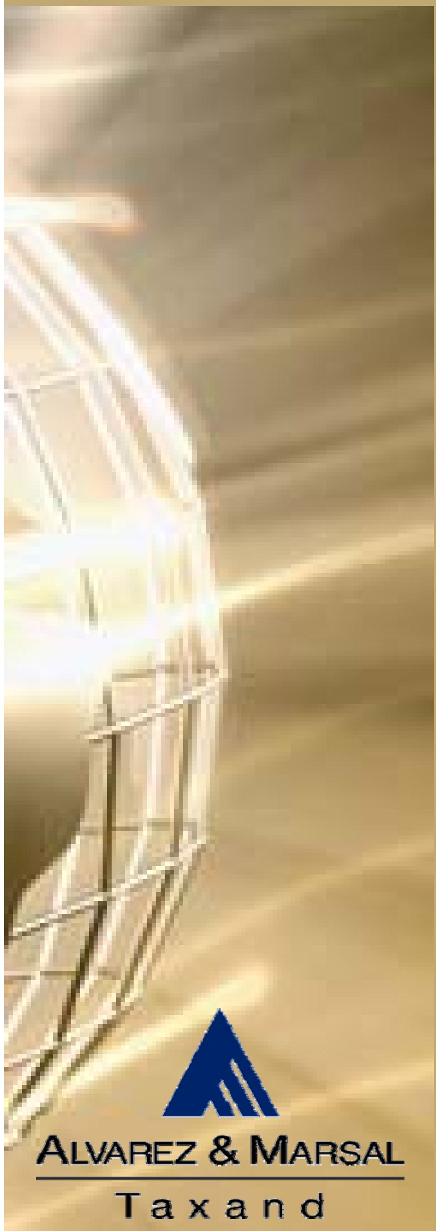
HOW IFRS CONVERSION AFFECTS A BUSINESS

How IFRS And Convergence Affect A Business



Adoption
Manage ongoing IFRS adoption by non-US subsidiaries

Customers and Vendors
Recognize how IFRS metrics influences biases of non-US counterparties

Cost Savings
Exploit opportunities for rationalizing financial reporting through shared services

US COMPANIES

M&A
Consider implications of IFRS on non-US targets and acquirers

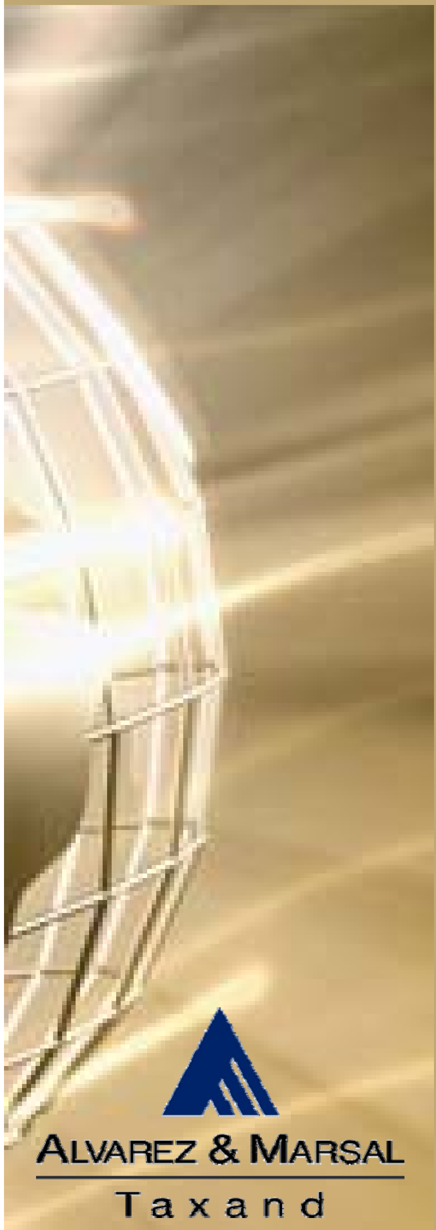
IT Concerns
Address impact of IFRS on enterprise-wide and subsidiary IT systems

Contracts
Understand how convergence will impact long-term contracts and financial agreements

Tax Strategies
Prepare for the effects of convergence on ETR and cash flow

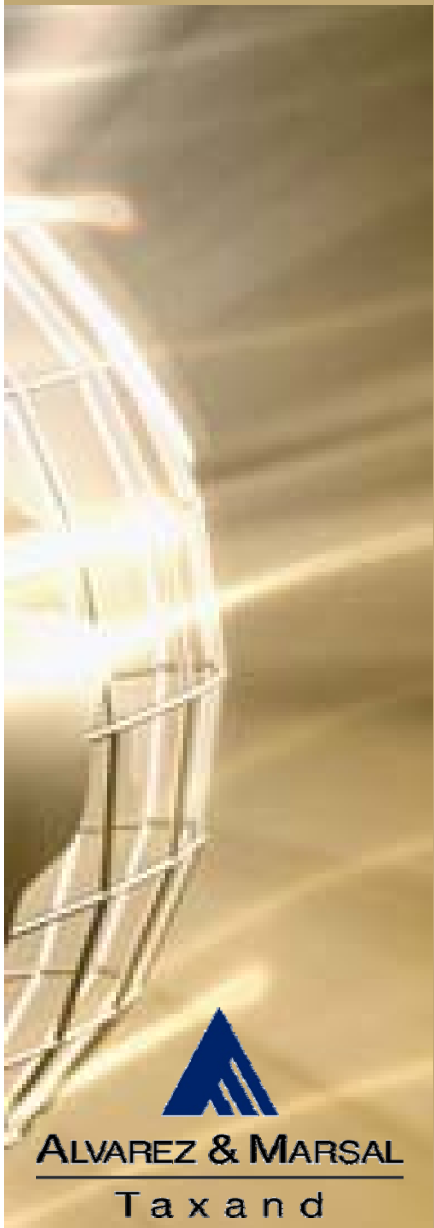
Business Implications
Assess impact of accounting changes on business metrics

Business Decisions: Planning Ahead



- Increase the level of IFRS and convergence understanding among accounting personnel
- Identify and evaluate changes in the basis of calculation for performance indicators/metrics
- Assess potential impact on employee compensation
- Raise awareness among non-finance personnel of the impact of changes on current projects and contract negotiations
- Review contractual agreements to determine those that could be affected by IFRS/convergence
- Analysts and the investor community should be made aware of the potential impact of convergence or adoption of IFRS in advance, to ensure there are "no surprises."
- Work with treasury function to understand the impact of convergence or IFRS adoption on debt covenants and financing arrangements and other treasury transactions

Information Technology Impacts Of IFRS/Convergence



- Identifying potential data gaps early will allow companies to modify IT systems to deliver the necessary information efficiently
- When assessing IT functionality, companies should carefully evaluate:
  - Whether IT can handle changes in disclosure under IFRS/convergence
  - Dual-reporting requirements (statutory/regulatory), if necessary
- May need to prepare information under existing U.S. GAAP and IFRS/converged standards
  - During a transition period (for U.S. companies)

  or

  - After non-U.S. subs have begun reporting under IFRS
- Potential change in the amount and type of info needed for external reporting as standards are converged or IFRS is adopted

Impact Of IFRS/Convergence To The Tax Life Cycle

Provision	Compliance	Controversy	Planning
▲What are tax accounting impacts of IFRS convergence and/or adoption across reporting standards? ▲What changes are needed with respect to accounting for income taxes under IFRS (IAS 12 v ASC 740)? ▲What is the impact on the effective tax rate? ▲What are the impacts to the cumulative inventory of deferred taxes ▲What disclosures are required and how will the information necessary for the disclosures be obtained? ▲Do changes to ERP/accounting systems change the how, what, where and when re: information necessary to calculate tax provision? ▲What is the impact on current internal controls and how will your processes and controls change?	▲Do changes to ERP/accounting systems change the how, what, where, when re: information needed to prepare and review tax returns? ▲What opportunities exist to improve overall effectiveness and efficiency of the tax accounting, reporting and compliance processes as part of overall IFRS conversion efforts? ▲Will there be any method of accounting changes?	▲Evaluate effect of convergence or adoption on current tax positions ▲What information will be available to tax authorities through IFRS disclosures? ▲Identify specific actions necessary with respect to the tax authorities (e.g., to validate new tax treatment) and similar tax related issues ▲How are local taxing authorities responding or will respond to IFRS?	▲Need to understand where book accounting impacts current and/or anticipated tax planning or positions in all jurisdictions (e.g., thin cap rules, transfer pricing, derivatives, etc.) ▲What impact does convergence or IFRS adoption have on these areas? ▲What new planning opportunities arise from this?

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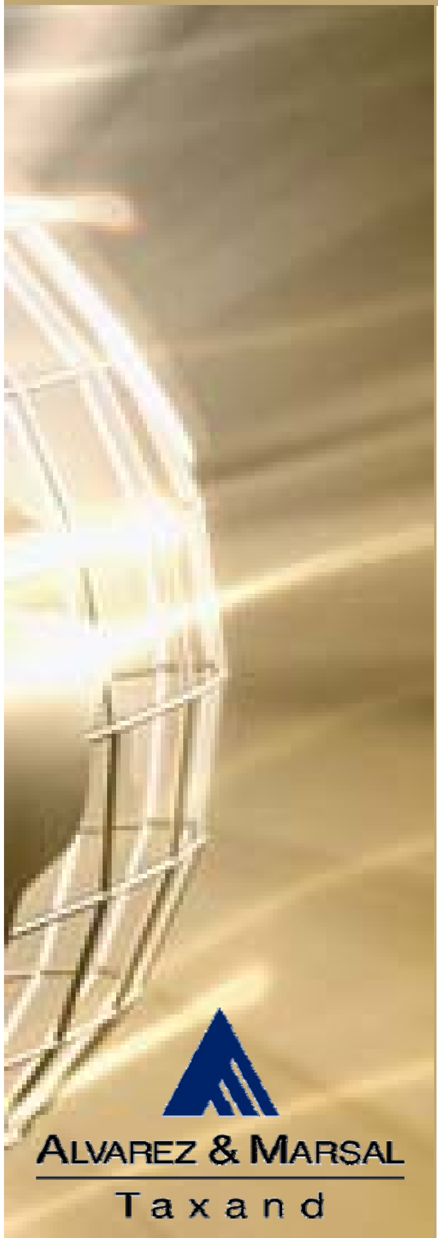
STATUS OF OTHER IFRS CONVERSION PROJECTS

Convergence Progress Around the World

- Approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic-listed companies.
  - o Roughly 90 countries have fully conformed with IFRS as promulgated by the IASB and include a statement acknowledging such conformity in audit reports.
- Other countries, including Canada and Korea, are expected to transition to IFRS by 2011.
- Mexico will require IFRS for all listed companies starting in 2012.
- Japan has introduced a road map for adoption that it will decide on in 2012 (with a proposed adoption date of 2015 or 2016) and is permitting certain qualifying domestic companies to apply IFRS from fiscal years ending on or after March 31, 2010.
- Other countries have plans to converge their national standards with IFRS.

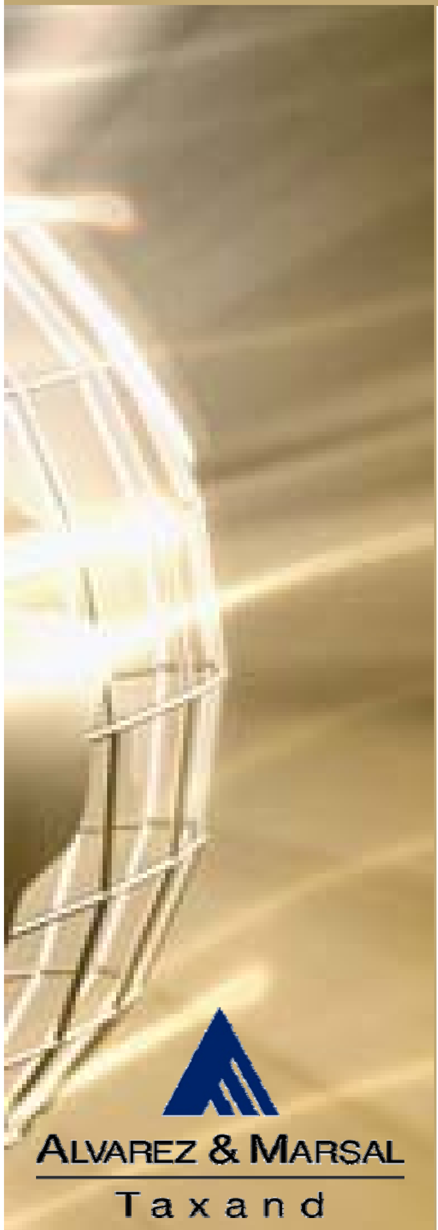
Convergence Progress Around the World (Cont.)



What has happened with other countries?

- Canada
  - o Listed companies: Public accountable enterprises will be required to use IFRS, as published, beginning Jan. 1, 2011.
  - o Statutory filings: The Companies Act generally requires compliance with Canadian GAAP (Canadian GAAP is slowly converging with IFRS).
    - In some cases (local entity statements for income tax purposes), these parameters can be overcome.

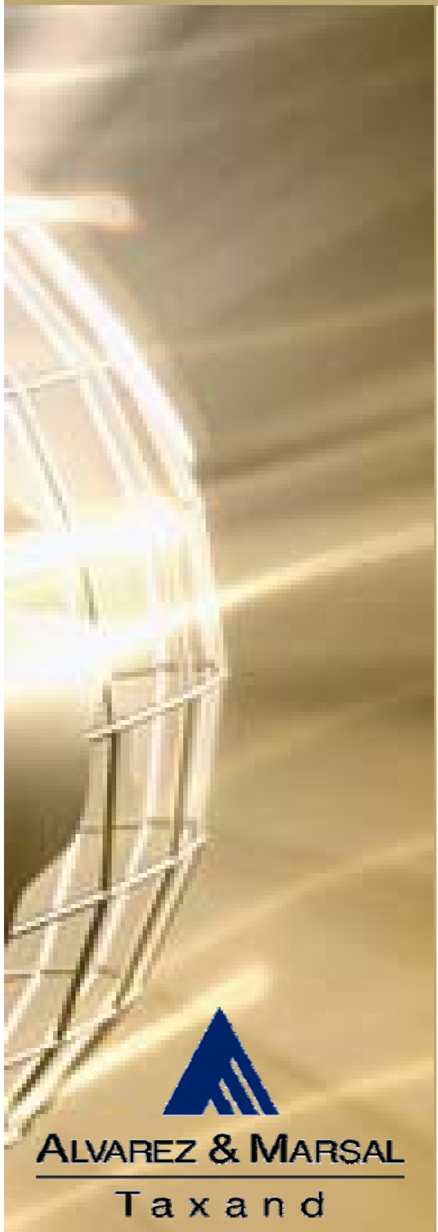
Convergence Progress Around the World (Cont.)



What has happened in other countries? (Cont.)

- United Kingdom
  - Listed companies: IFRS, as adopted by the EU, is required for consolidated financials and permitted for separate financials
  - Statutory filings: IFRS is permitted (companies can still choose between IFRS and U.K. GAAP; however, once IFRS is adopted, they generally cannot go back to U.K. GAAP).
- On July 20, 2010, the ICAEW hosted a public meeting on the Future of U.K. GAAP.
  - Outlined the ASB's tentative decisions in its re-deliberations of its policy proposal issued in August 2009
    - The U.K. ASB has proposed to replace U.K. GAAP with full IFRS adoption in years beginning Jan. 1, 2012.
  - It was outlined at the meeting that the ASB's next steps include developing and drafting a FRED for consultation.
    - The FRED will include an impact assessment.
    - Responses requested to aid the development of the impact assessment, due Aug. 20, 2010

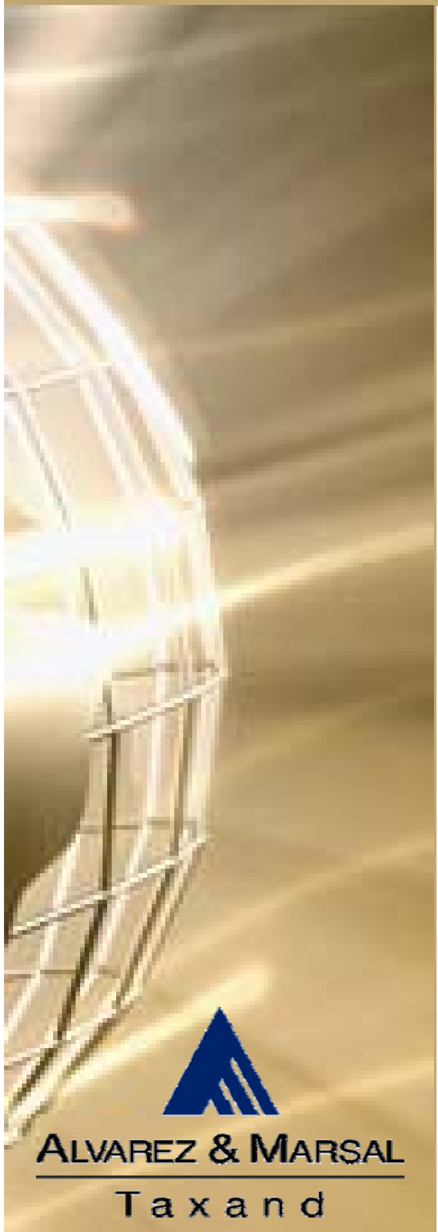
Convergence Progress Around The World (Cont.)



What has happened in other countries? (Cont.)

- China
  - Listed companies: Chinese Accounting Standards (CAS) required; however, they have mostly converged with IFRS
  - Statutory filings: Only financial institutions are required to prepare IFRS, as published, financial statement in addition to those prepared under CAS
  - The Ministry of Finance has plans to eliminate remaining differences in standards over the next few years
- Japan
  - Listed companies: Only specified companies are permitted to use IFRS, as adopted by the Financial Services Agency of Japan, for consolidated financial statements; mandatory adoption may start in 2015 or 2016.
  - Statutory filings: Under the Companies Act, financial statements of specified companies are permitted to use IFRS for the consolidated financial statements/
  - Japan is currently working on a convergence project with a completion target in 2011. The country hopes to make a final decision in 2012.

Convergence Progress Around the World (Cont.)



What has happened in other countries? (Cont.)

- Brazil
  - Listed companies: IFRS, as published, is permitted for consolidated financial statements.
  - Statutory filings: Permitted for consolidated financial statements only (not permitted for stand-alone companies)
  - Significant progress toward convergence has been made over the last few years. Full convergence is on track for the end of 2010.

- India
  - Listed companies: Financial statements must be prepared in accordance with Indian GAAP.
  - Statutory filings: Financial statements must be prepared in accordance with Indian GAAP.
  - Plans for convergence have been unofficially announced, beginning April 1, 2011, by the Institute of Chartered Accountants of India.

Convergence Progress Around the World (Cont.)

What has happened in other countries? (Cont.)

- Others that have adopted IFRS

UAE	France	Panama
Austria	Germany	Portugal
Australia	Hong Kong	South Africa
Belgium	Ireland	Spain
Chile	Italy	Sweden
Denmark	Luxembourg	
Dubai	Netherlands	

- Overall adoption for listed companies
  - Not permitted: 31 countries
  - Permitted: 25 countries
  - Required for some: Six countries
  - Required for all: 91 counties

Jenna Summer, KPMG

ACCOUNTING FOR INCOME TAXES UNDER IFRS, AND TAX STANDARDS PROJECTS UPDATE

Accounting For Income Taxes Under IFRS

IAS 12 *Income Taxes* provides guidance on accounting for income taxes under IFRS

- Similar to ASC Topic 740, IAS 12 is based on a balance sheet asset and liability method.

Differences between the income tax amounts under U.S. GAAP and IFRS generally are a result of:

- Tax-effects of pre-tax adjustments to the financial statements
- Differences between IAS 12 and ASC Topic 740
  - Recognition and measurement differences
  - Presentation and disclosure differences

Exceptions To The Temporary Difference Approach

Exceptions in ASC Topic 740, not contained in IAS 12:

- Inter-company transfers of assets
- Foreign non-monetary assets and liabilities
- Excess of tax-deductible goodwill over the reported amount of goodwill acquired in fiscal years beginning before Dec. 15, 2008
- Leveraged leases
- Statutory reserve funds of U.S. steamship enterprises
- Additional exceptions apply for bad debt reserves and policyholders' surplus

Exception in IAS 12, not contained in ASC Topic 740:

- Initial recognition of assets acquired in a transaction not constituting a business combination

Exceptions To The Temporary Difference Approach (Cont.)

Investments in subsidiaries, branches and associates, and interest in joint ventures

- U.S. GAAP
  - A deferred tax liability is recognized unless evidence overcomes the presumption that one is needed (indefinite reversal criteria ASC 740-30-25-18).
  - A deferred tax asset is only recognized if it is apparent that the temporary difference will reverse in the foreseeable future.
  - The exception for recognizing a liability related to domestic subsidiaries and domestic corporate joint ventures only applies to earnings that arose in fiscal years beginning on or before Dec. 15, 1992.
- IFRS
  - A deferred tax liability is recognized except to the extent it is “probable” that the temporary difference will not reverse in the foreseeable future.
  - The exception allows recognition of a deferred tax asset, to the extent and only to the extent it is probable that the temporary difference will reverse in the foreseeable future, and taxable profit will be available against which the deferred tax asset can be utilized.
  - The exception includes branches and associates; however, control of timing of reversal of the temporary differences is required to avoid recognition of a deferred tax liability.

Recognition Of Deferred Tax Assets

Recognition of deferred tax assets

- Under IAS 12, a deferred tax asset is not recognized unless it is probable that it will be realized.
- Under ASC Topic 740, all deferred tax assets are recognized, and a valuation allowance is recognized to the extent that it is “more likely than not” that the deferred tax assets will not be realized.

Measurement Of Income Taxes

- U.S. GAAP requires entities to measure deferred taxes using the "enacted" tax rate, while IFRS uses the "substantively enacted" tax rate. This does not result in a difference within the U.S.

- In jurisdictions that apply a different tax rate to distributed versus undistributed profits:
  - U.S. GAAP requires, for consolidated financial statements, the use of the distributed rate at the foreign subsidiary if the parent is not applying the indefinite reversal criteria (ASC 740-30-25-18). If the parent is applying the indefinite reversal criteria, then the undistributed rate should be used at the foreign subsidiary to the extent that the parent has not provided for deferred taxes on the unremitted earnings of the foreign subsidiary as a result of applying the indefinite reversal criteria.
  - IFRS requires use of the tax rate applicable to undistributed profits.

Uncertainty In Income Taxes

U.S. GAAP

- ASC Subtopic 740-10 provides guidance on accounting for uncertainty in income taxes.

IFRS

- No specific guidance provided in IAS 12 or elsewhere in IFRS
- KPMG guidance in *Insights*
  - Assess each tax exposure item individually
  - The amount provided for is the best estimate of the tax amount expected to be paid
- There is diversity in practice in determining the best estimate in accounting for income tax uncertainties under IFRS. Two common approaches include:
  - Single point best estimate
  - Probability weighted amount
- No "reporting date" guidance exists. Accounting is subject to the normal subsequent events guidance under IFRS.
- Accounting policy election whether interest and penalties are accounted for under IAS 12 or IAS 37, if and only if an income tax exposure is present. The presentation of interest and penalties should be consistent with the accounting policy election. This accounting policy choice is not available when uncertainties are not present. In these circumstances, interest and penalties related to income taxes are presented as interest payable and other operating expenses, rather than as current tax payable.

Uncertainty In Income Taxes (Cont.)

Possible Outcome of Benefits	Individual Probability (%)	Cumulative Probability (%)	Weighted Average
$ 1,000	35	35	350
800	20	55	160
100	30	85	30
0	15	100	0

Probability weighted average	**$ 540**
Single point best estimate	**1,000**
US GAAP cumulative probability	**800**

Uncertainty In Income Taxes (Cont.)

Possible Outcome of Benefits	Individual Probability (%)	Cumulative Probability (%)	Weighted Average
$ 1,000	95	95	950
0	5	100	0

Probability weighted average	**$ 950**
Single point best estimate	**1,000**
US GAAP cumulative probability	**1,000**

Intra-Period Allocation

U.S. GAAP

- U.S. GAAP provides that the effect of a change in the beginning-of-the-year balance of a valuation allowance concerning the realizability of the related deferred tax asset in future years ordinarily is included in income from continuing operations.
- U.S. GAAP provides that the effect of a change in deferred tax liabilities and assets for a change in tax law or rate is included in income from continuing operations.
- All items should be considered for purposes of determining the amount of tax benefit that results from a loss from continuing operations.

IFRS

- Tax is included in profit or loss, except to the extent that the tax arises from a transaction recognized directly in equity.
- IAS 12 requires subsequent changes in amounts originally recognized in equity to also be recognized in equity.

Presentation

Current taxes

- Under U.S. GAAP, an amount is classified as current to the extent the enterprise anticipates payment (or receipt) of cash within one year or the operating cycle, if longer.
- Under IFRS, a receivable is classified as current if the entity expects to realize the asset within 12 months or the normal operating cycle.
- Under IFRS, a payable is classified as current unless the entity has an unconditional right to defer settlement for at least 12 months.

Deferred taxes

- Under U.S. GAAP, deferred tax assets and liabilities are classified as either current or non-current based on the classification of the related asset or liability for financial reporting.
- Under IFRS, all deferred tax assets and liabilities are classified as non-current and may be offset when relating to the same tax authority.

Disclosures

IFRS has certain disclosure requirements not identical to U.S. GAAP, including:

- Similar to U.S. GAAP, significant components of tax expense should be disclosed. IAS 12 specifically mentions adjustments recognized in the period for current tax of prior periods as an example. ASC Topic 740 has no such example.
- The rate reconciliation has certain differences including:
  - Often the most meaningful rate will aggregate national taxes with the rates for local taxes.
  - It may be more meaningful to use the average statutory tax rate applicable to the group, calculated on a weighted average basis.
  - The rate reconciliation may include discontinued operations and the tax of equity accounted investees.
- The amount (and expiry date, if any) of deductible temporary differences for which no deferred tax asset is recognized must be disclosed. ASC Topic 740 has no such requirement.
- The disclosure requirement for the amount (and expiry date, if any) for unused tax losses and unused tax credits only applies to items for which no deferred tax asset is recognized. ASC Topic 740 requires disclosure for all carryforwards.
- The amount of deferred tax income or expense recognized in profit or loss for each type of temporary difference is required to be disclosed. This may result in disclosure of a roll-forward of the entire table of deferred tax assets and liabilities.
- An entity discloses the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:
  - The utilization of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences, and
  - The entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

Disclosures (Cont.)

- Disclosure is required regarding the potential income tax consequences of the payment of dividends, and the impact of proposed or declared dividends. ASC Topic 740 has no such requirement.
- The effect of changes in tax rates or laws substantively enacted after the balance sheet date. ASC Topic 740 has no such requirement.

IAS 12 is silent with respect to tax uncertainties. However, companies should consider the application of IAS 37 disclosure guidance to tax-related contingent liabilities and contingent assets. In addition, IAS 1 has further guidance that may apply.

- Unless the possibility of any outflow is remote, tax-related contingent liabilities (i.e., amounts for which a liability is not recognized) require:
  - An estimate of its financial effect
  - An indication of the uncertainties relating the amount or time of any outflow, and
  - The possibility of any reimbursement.
  - An exception is provided for the extremely rare cases in which disclosure can be expected to prejudice seriously the position of the entity.
- The judgments that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in the financial statements
- The assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year

Interim Financial Reporting

U.S. GAAP

- ASC Subtopic 740-270 provides guidance on accounting for income taxes in interim periods.
- The estimated annual effective tax rate is used to allocate expected annual income tax expense to interim periods.
  - When subject to multiple jurisdictions, generally one overall effective tax rate should be computed unless:
    - The company anticipates a loss for which no benefit can be recognized, or
    - It is unable to make an estimate of ordinary income or related tax.

IFRS

- IAS 34 (interim financial reporting) provides guidance on accounting for income taxes in interim periods
- Income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.
  - To the extent practicable, a separate estimated average annual effective income tax rate is determined for each taxing jurisdiction and applied individually to the interim period pre-tax income of each jurisdiction.
  - To the extent practicable, a separate rate is applied to each individual category of interim period pre-tax income.
  - Tax benefits that relate to a one-time event are recognized in computing income tax expense in that interim period.

FASB/IASB "Short-Term" Convergence Project

- September 2002: The FASB takes on a project to improve accounting for income taxes while reducing existing differences between ASC 740 and IAS 12.
- April 2003-January 2009: IASB and FASB held meetings to consider amendments to IAS 12 and ASC 740.
- August 2008: The FASB suspends deliberations on the project, pending the results of a review of its strategy for short-term convergence; the IASB continued with the project.
- March 2009: An exposure draft of an IFRS to replace IAS 12 was published by the IASB.
- March 2010: The IASB decided to change the project to resolve problems in practice under IAS 12, and preferably without increasing divergence from U.S. GAAP.
- September 2010: The IASB released an exposure draft adding an exception to IAS 12 for the measurement of deferred taxes. The IASB plans to address other practice issues in due course.

KPMG

FASB/IASB "Short-Term" Convergence Project (Cont.)

- Other practice issues to be addressed in due course include:
  - Uncertain tax positions (after revision of IAS 37 is finalized)
  - Recognition of a deferred tax asset in full and an offsetting valuation allowance
  - Guidance on assessing the need for a valuation allowance
  - Guidance on substantive enactment
  - Classification of deferred taxes as current and non current

- The board decided to consider a fundamental review of the accounting for income tax in the future.

Exposure Draft – Deferred Tax: Recovery Of Underlying Assets

- In September 2010, the IASB released an exposure draft to amend IAS 12.

- The purpose of the amendments is to provide an exception to the principle that the measurement of deferred tax should reflect the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

- The proposed amendments state that, in specified circumstances, the measurement of deferred tax should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale.

- The specific circumstances arise from investment property when an entity applies the fair value model; or from property, plant and equipment or intangible assets when an entity applies the revaluation model.

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WHAT IFRS MEANS FOR TAX DEPARTMENTS

What Does IFRS Mean For Tax Departments?

- ASC 740 (formerly FAS 109/ FIN 48) and ASC 450 (formerly FAS 5), collectively “tax accounting,” will all be affected, requiring changes to current processes and procedures by all tax departments.
- Book income statements and balance sheets are the starting point for both federal and state tax return positions and tax planning. IFRS conversion will present both opportunities and potential pitfalls.
- IT/technology impact on tax departments could be significant, and tax departments should be actively involved in the planning process .
- Opportunities exist to drive other IT/technology changes by tax departments as part of the IFRS conversion process.
- Parent companies might decide to use global shared-services centers to facilitate reporting and reduce tax spend.
- Tax return accounting method changes may be required.
- Multi-national companies will need to closely monitor and participate in the accounting policy elections made by non-U.S. subsidiaries under the IFRS adoption.

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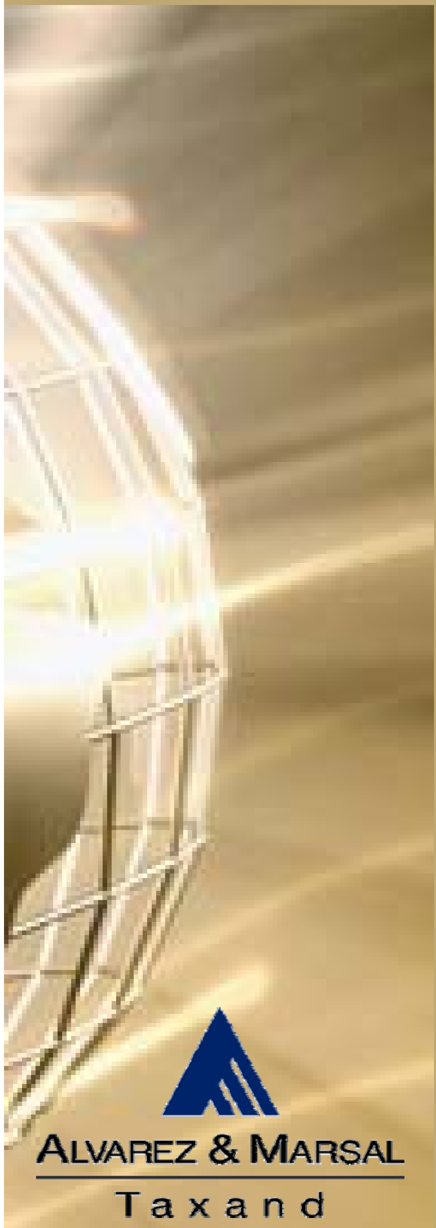
What Does IFRS Mean For Tax Departments? (Cont.)

- As more countries adopt IFRS, knowledge and understanding of IFRS will become increasingly important for M&A due diligence.
- U.S. targets may need to quickly share IFRS-based data with a potential foreign buyer.
- Significant differences between IFRS and U.S. GAAP in the area of accounting for pension and other post-retirement and post-employment benefits can result in different classifications of a plan as a defined benefit or defined contribution plan.
- Further differences regarding employee benefits and share-based payments could have significant impacts on presentation, operating metrics and key ratios.
- State apportionment impacts and state franchise/net worth tax impacts
- If convergence results in the elimination of operating leases, how will sales and use tax authorities deal with it?

Observations In The Market



- Companies that are implementing or upgrading an ERP system are addressing IFRS business requirements in current design
  - Includes special focus in fixed asset and executive comp systems
- Many multi-national corporations already have subsidiaries that are required to comply with IFRS in the countries in which they operate.
  - Planning for IFRS should be a consolidated company decision and action, coordinated by a centralized corporate function.
- Some U.S.-based companies are modeling their financials under IFRS, for comparability against financials of IFRS-compliant competitors.
- Organizations with a large amount of domestic activity in the U.S. are performing state and local modeling, to understand how the underlying change in financial data will affect apportionment factors and net worth/capital based franchise taxes.
- Companies are looking to understand the flash points of IFRS reporting to them, in order to be a part of comment letter writing to the IASB and FASB as the convergence effort occurs (results are happening from these efforts).

What Are Tax Departments Doing NOW?

TOP THREE THINGS YOU CAN DO, TODAY!

- Understand your organization's overall approach to IFRS
  - Example: Get a seat on the IFRS Committee
- Be a part of quantifying the impact of currently converging standards
  - Example: Considering how changes in revenue recognition affect the tax methods of accounting
- Leverage existing technology changes (ERP, compensation and benefits, fixed assets, etc.) for IFRS and tax reporting requirements
  - Example: Usage of cost-segregation studies for the purpose of fixed asset reporting

Q&A

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To exit the queue, press *1 again.

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