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IFRS: The Path Forward for Energy Companies



Agenda

- Speaker introductions
- SEC Statement on IFRS and Work Plan
- Convergence activities
- Rate-regulated activities project
- What should companies do now?
- Panel Q&A

Speaker Introductions

- **Bryan Wright**

Vice President, Chief Accounting Officer, and Controller
Constellation Energy Group

- **D.J. Gannon**

Partner, U.S. Leader, IFRS Regulatory & Public Policy
Deloitte LLP

- **Brian Murrell**

Partner, Energy IFRS Lead
Accounting, Valuation & Analytics Services
Deloitte & Touche LLP

Bryan P. Wright, *Guest Speaker*
Vice President, CAO and Controller
Constellation Energy Group, Inc.

- Prior positions at the company: VP and Controller of CEG; VP and Controller of Constellation Energy Resources; VP and Assistant Controller of CEG's commodities business unit; Director of Accounting Policy and Control for CEG
- Prior to Constellation, served as Manager of Financial Reporting for Alleghany Energy, Inc.



SEC Statement on Convergence & Global Standards

On February 24, 2010, the SEC issued a statement expressing its continued support for the development of a single set of high-quality globally accepted accounting standards and recognized IFRS as being “best positioned” to serve that role

- Summarizes SEC’s IFRS activities to date and public feedback on IFRS roadmap
- Outlines an approach going forward, including directing the SEC Staff to carry out a “Work Plan” addressing specific areas and factors for consideration before transitioning to IFRS
- Directs the SEC Staff to provide public progress reports to the SEC beginning in October 2010, and continue until the work is completed

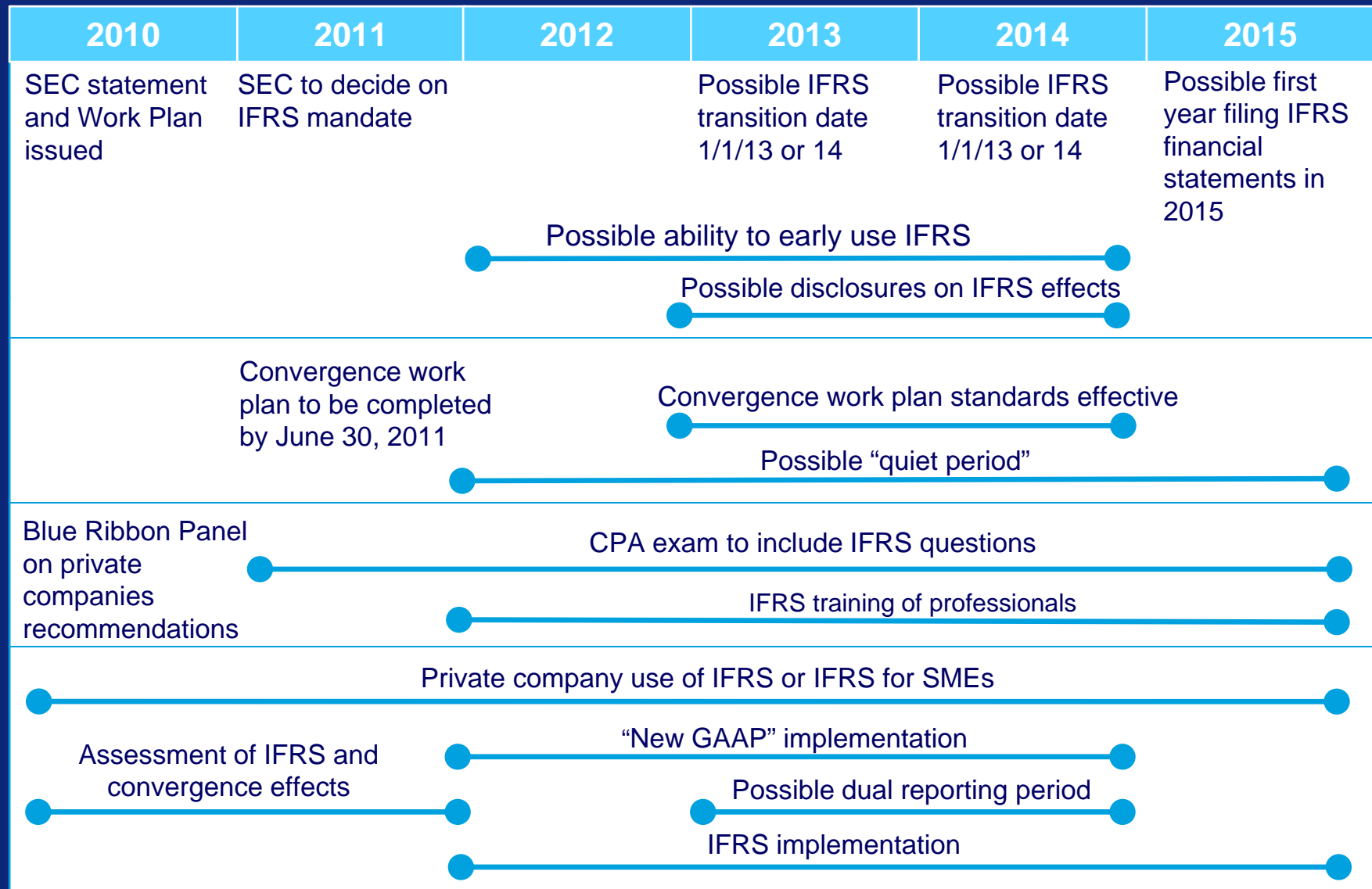
SEC Statement on Convergence & Global Standards

- Withdraws the proposal on early use, but does not rule out an ability to early adopt in the future (presumably once a decision is made next year)
- Execution of the Work Plan, combined with the completion of the convergence efforts, could position the SEC to make an informed decision on a mandate next year, consistent with the timing outlined in the IFRS roadmap
- Additional rulemaking would be required to implement any future mandate, which would likely become effective in approximately 2015 or 2016

Overview of IFRS Work Plan

- Key areas of concern to be addressed by the SEC Staff
 - Sufficient development and application of IFRS globally
 - Independence of standard-setting
 - Investor understanding and education
 - Regulatory environment
 - Impact on issuers
 - Human capital readiness
- SEC Staff will assess the degree to which the area interacts with overall policy consideration
- SEC Staff will use a variety of methods to gather information

Possible Timeline for IFRS Adoption in the U.S.



Level of Convergence and Expected Change

Standard (IAS)			
1	Presentation of financial statements	2011	
2	Inventories		
7	Cash flow statements	2011	
8	Error corrections and policy changes		
10	Events after the balance sheet		
11	Construction contracts	2011	
12	Income Taxes	???	
16	Property, plant & equipment		
17	Leases	2011	
18	Revenue	2011	
19	Employee benefits	2011	
21	Effects of changes in foreign exchange		
23	Borrowing costs		
24	Related party disclosures		
27	Consolidated financial statements	2010	
28	Investment in Associates		
29	Financial reporting in hyperinflationary		
31	Investment in joint ventures		

Standard (IAS/IFRS)			
32	Financial Instruments - presentation	2011	
33	Earnings per share		
34	Interim financial reporting		
36	Impairment of assets		
37	Provisions and contingencies	2010	
38	Intangible assets		
39	Fin. Instruments- recognition & measurement	2010	
40	Investment in property		
41	Agriculture		
1	First-time adoption		
2	Share-based payment		
3	Business combinations		
4	Insurance contracts	2011	
5	Discontinuing operations	2010	
6	Extractive activities		
7	Financial Instruments – disclosure		
8	Segment reporting		
9	Financial instruments	2010	

Mostly Converged
 Some Convergence
 Little Convergence
 Level of Change

Rate-regulated Activities (RRA) Project

- On July 23, 2009, the IASB issued its Exposure Draft (ED) on *Rate-regulated Activities*
- The objective of the ED was to establish whether and how assets and liabilities resulting from rate-regulated activities should be recognized and measured under IFRSs
- The ED-
 - Defined regulatory assets and regulatory liabilities
 - Set out criteria for their recognition
 - Specified how they should be measured
 - Outlined required disclosures

The Timeline for RRA Thus Far...

- **2005**
IFRIC first discusses the project on regulatory assets and liabilities
- **May 2008**
Project added to IFRIC agenda
- **January 2009**
IASB takes over the project
- **July 2009**
IASB publishes exposure draft
- **November 2009**
Comment period due date
- **February 2010**
Staff asks for extension of ED timeline
- **Q2 2010**
IASB Staff expected to propose the plan for the project

- Comment letter period on the RRA closed in November 2009
- The IASB received 155 comment letters demonstrating diverse views in support and against the proposed RRA standard and expressing conflicting views on various aspects of the ED
- In addition to formal letters, the IASB Staff met with individual preparers, regulators, standard setters and accounting firms
- The Staff addressed the comments in their discussions with the IASB Board on February 17, 2010

Future of the Exposure Draft

- **February 2010**
IASB Staff requests for more time for additional analysis on technical merits of IFRS recognition and discussed the path forward
- **Q2 – Q3 2010**
Redeliberation of individual technical issues based on comment letters
- **Q4 2010 – Q1 2011**
If necessary, re-exposure period of exposure draft
- **Q2 2011 – Q3 2011**
Redeliberations on comments received on re-exposed exposure draft
- **Q3/Q4 2011**
Issuance of final standard

Potential paths forward identified by the IASB:

- Finalize standalone IFRS with changes based on comments received
- Proceed with project and general concept of recognition of regulatory assets/liabilities, but incorporate as amendments to current IFRSs
- Alter project to be a disclosure-only standard
- Defer project due to time constraints, but with a public comment addressing why it has technical merits
- Cancel the project based on comments received and the underlying technical merits of those comments

Many of the available routes would involve re-exposure of the proposals

What Should Be Done Now?

	Management Considerations	Key Questions
Develop and analyze statutory reporting baseline	Understand statutory reporting requirements, processes, and related resources, and existing implications of IFRS	<ul style="list-style-type: none"> • What are the company's current statutory reporting requirements? • Is IFRS currently used for statutory reporting? • Where could IFRS be used? Have we assessed the impact of using IFRS in jurisdictions where permitted? • For jurisdictions where local GAAP is required, have we assessed if the requirements are similar to IFRS?
Analysis of convergence and IFRS differences	Understand impacts of current convergence work program, including changes to US GAAP and incremental IFRS differences	<ul style="list-style-type: none"> • What are the key differences between existing accounting policies and "New GAAP"? • What are the incremental differences between "New GAAP" and IFRS?
High level impact analysis on processes and systems	Understand impacts of "New GAAP" and IFRS on internal control processes, technology, and other business activities	<ul style="list-style-type: none"> • Have we assessed whether any of our current company initiatives are impacted by IFRS?
Preliminary analysis of tax implications	Understand impacts of "New GAAP" and IFRS on US and foreign tax positions	<ul style="list-style-type: none"> • What is the overall impact on current tax structures and reporting? • What is the impact on future tax planning?

Panel Q&A



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