



Navigating through Accounting & Regulatory Changes

Capital Link, Athens Greece
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SEC Limits Confidential draft filings by Foreign Private Issuers

SEC Regulatory Update

SEC Limits Confidential draft filings by Foreign Private Issuers

- ▶ **Effective from December 8, 2011**, SEC staff will review initial registration statements of foreign private issuers (FPIs) that are submitted on a **non-public basis only** **where the registrant is:**
 - ▶ a foreign government registering its debt securities;
 - ▶ a FPI that is listed or is concurrently listing its securities on a non-U.S. securities exchange;
 - ▶ a FPI that is being privatized by a foreign government; or
 - ▶ a FPI that can demonstrate that the public filing of an initial registration statement would conflict with the law of an applicable foreign jurisdiction.

What does this mean?

**No more confidential
filings... *with some limited
exceptions.***

SEC Limits Confidential draft filings by Foreign Private Issuers

- ▶ In addition, **shell companies, blank check companies and issuers with no or substantially no business operations** will not be permitted to use the non-public submission procedure.

SEC Limits Confidential draft filings by Foreign Private Issuers

- ▶ The Division believes it is appropriate to limit its policy with respect to the non-public submission of initial registration statements by foreign private issuers.
- ▶ This change in policy will promote transparency and investor protection.

Proposed changes to lease accounting

FASB/IASB Joint Lease Project

Proposed changes to lease accounting

Highlights

- ▶ The new lease accounting model proposed by FASB/IASB will eliminate lease classification with lessees and lessors applying a single approach to all leases
- ▶ All leases will be recognized on the Balance Sheet
(except for leases with a maximum possible lease term of 12 months or less)
- ▶ The proposed model will require companies to make a number of estimates and periodically reassess those estimates in accounting for leases
- ▶ These changes will have a significant impact on a company's financial statements and key financial ratios including EBITDA and gearing levels
- ▶ Implementation of the proposed new guidance will require additional financial reporting and management information resources

Lessee accounting Balance Sheet

Existing

(operating lease)

Balance sheet	
Assets	\$100
Liabilities	90
Equity	10
Liabilities and Equity	\$100
<i>Debt-to-total assets</i>	<i>0.90</i>

Lessee accounting Balance Sheet

Existing (operating lease)		Proposed	
Balance sheet		Balance Sheet	
		<i>Right-of-use-asset</i>	100
Assets	\$100	Assets	↑ \$200
		<i>Liability for lease payments</i>	100
Liabilities	90	Liabilities	110
Equity	10	Equity	10
Liabilities and Equity	\$100	Liabilities and Equity	↑ \$220
<i>Debt-to-total assets</i>	<i>0.90</i>	<i>Debt-to-total assets</i>	↑ 1.05

Lessee accounting Profit & Loss

Existing

(operating lease)

Profit & Loss	
EBITDA before lease	\$100
Rental expense for lease (each year of lease on straight- line basis)	(10)
EBITDA after lease	\$90
Net income (all Years)	\$90
<i>EPS</i>	<i>\$X.XX</i>

Lessee accounting Profit & Loss

Existing

(operating lease)

Profit & Loss	
EBITDA before lease	\$100
Rental expense (each year on a straight-line basis)	(10)
EBITDA after lease	\$90
Interest, Depreciation, Amortization	(80)
Net income (each year)	\$10
<i>EPS</i>	<i>\$X.XX</i>

Proposed

Profit & Loss	
EBITDA before lease	\$100
EBITDA after lease	↑ \$100
<i>Amortization expense of right-of-use asset Year1</i>	<i>(7)</i>
<i>Interest expense Year1</i>	<i>(6)</i>
Interest, Depreciation, Amortization	(80)
Net income Year1 effect	↓ \$7
<i>EPS</i>	↓ \$X.XX

Lessee accounting Profit & Loss

Existing

(operating lease)

Profit & Loss	
EBITDA before lease	\$100
Rental expense (each year on a straight-line basis)	(10)
EBITDA after lease	\$90
Interest, Depreciation, Amortization	(80)
Net income (each year)	\$10
<i>EPS</i>	<i>\$X.XX</i>

Proposed

Profit & Loss	
EBITDA before lease	\$100
EBITDA after lease	↑ \$100
<i>Amortization expense of right-of-use asset Year5</i>	<i>(7)</i>
<i>Interest expense Year5</i>	<i>(1)</i>
Interest, Depreciation, Amortization	(80)
Net income Year5 effect	↑ \$12
<i>EPS</i>	↑ <i>\$X.XX</i>

Lessor accounting Balance Sheet

Existing

(operating lease)

Balance sheet	
<i>Vessel</i>	180
<i>Other assets</i>	20
Total assets	\$200
Liabilities (Debt)	90
Equity	110
Liabilities and Equity	\$200
<i>Liabilities-to-total assets</i>	<i>0.45</i>

Lessors accounting Balance Sheet

Existing (operating lease)

Balance sheet	
Vessel	180
Other assets	20
Total assets	\$200
Liabilities (Debt)	90
Equity	110
Liabilities and Equity	\$200
<i>Liabilities-to-total assets</i>	<i>0.45</i>

Proposed

Balance Sheet	
Vessel	70
<i>Residual asset</i>	<i>110</i>
<i>Right-to-receive lease payments</i>	<i>100</i>
Other Assets	20
Total Assets	↑ \$300
<i>Charter hire liability</i>	<i>100</i>
Liabilities (Debt)	90
Equity	110
Liabilities and Equity	↑ \$300
<i>Liabilities-to-total assets</i>	<i>↑ 0.66</i>

Residual asset is allocated from underlying asset

Lessor accounting Profit & Loss

Existing

(operating lease)

Profit & Loss	
EBITDA before lease	\$100
Rent revenue	10
EBITDA after lease	\$110
Depreciation expense Year1	(5)
Net income	\$105
<i>EPS</i>	<i>\$X.XX</i>

Lessor accounting Profit & Loss

Existing

(operating lease)

Profit & Loss	
EBITDA before lease	\$100
Rent revenue	10
EBITDA after lease	\$110
Depreciation expense Year1	(5)
Net income	\$105
<i>EPS</i>	<i>\$X.XX</i>

Proposed

Profit & Loss	
EBITDA before lease	\$100
<i>Reduction of charter-hire liability</i>	<i>7</i>
EBITDA after lease	↓ \$107
<i>Depreciation of vessel & residual asset over lease term</i>	<i>(5)</i>
<i>Interest on right to receive payments asset (Year1)</i>	<i>6</i>
Net income	↑ \$108
<i>EPS</i>	↑ <i>\$X.XX</i>

Lessor accounting Profit & Loss

Existing

(operating lease)

Profit & Loss	
EBITDA before lease	\$100
Rent revenue	10
EBITDA after lease	\$110
Depreciation expense Year1	(5)
Net income	\$105
<i>EPS</i>	<i>\$X.XX</i>

Proposed

Profit & Loss	
EBITDA before lease	\$100
<i>Reduction of charter-hire liability</i>	<i>7</i>
EBITDA after lease	↓ \$107
<i>Depreciation of vessel & residual asset over lease term</i>	<i>(5)</i>
<i>Interest on right to receive payments asset (Year5)</i>	<i>1</i>
Net income	↓ \$103
<i>EPS</i>	↓ \$X.XX

Implications for your company?

- ▶ Financial metrics—do analysts and others understand?
- ▶ Impact on debt covenants
- ▶ Will need to present consistently for all years upon adoption
- ▶ Infrastructure, process and controls
- ▶ IT and systems

What should companies do in the near term?

- ▶ Understand the magnitude of the changes to your company from both a financial statement and business perspective
- ▶ Establish project management to plan for adoption of the proposed standards
- ▶ Determine training requirements for individuals responsible for lease accounting and related judgments
- ▶ Determine the population of lease arrangements that would be in scope
- ▶ Identify lease data to be accumulated based on the requirements of the revised proposals

What should companies do now?

- ▶ Establish a process for gathering and analyzing lease data
- ▶ Consider requirements for maintaining multiple sets of lease data for comparative periods between current lease accounting and the revised proposals, as well as book/tax differences upon adoption
- ▶ Understand IT financial reporting system options – whether current vendors will provide upgrades to existing lease accounting software or whether new IT systems would be required
- ▶ Continue to monitor the Board’s deliberations

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