



# On the Horizon for IFRS

November 20, 2009

## **IASB issues additional October 2009 meeting highlights on project to replace IAS 39**

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## **IASB issues October 2009 IASB meeting and IASB/FASB joint meeting highlights**

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## **Future Board meetings**

## **IASB issues additional October 2009 meeting highlights on project to replace IAS 39**

*All decisions reached at IASB meetings are tentative and may be changed or modified at future meetings. Board decisions become final only after completion of a formal ballot to issue a Standard or Interpretation or to publish an Exposure Draft.*

The International Accounting Standards Board has issued an [IASB Update](#), which summarizes the additional IASB meeting that was held on October 15-16, 2009 to discuss the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

Highlights of the additional meeting are discussed below.

### **Classification and measurement – phase 1**

The IASB discussed the following with respect to the Exposure Draft, *Financial Instruments: Classification and Measurement* issued in July 2009.

#### **Unquoted equity instruments: elimination of cost exception**

The Exposure Draft includes a proposal to eliminate the provision in IAS 39 paragraph 46, which requires measurement at cost (less impairment) for investments in equity instruments that are not traded in an active market

and whose fair value cannot be reliably measured, and certain related derivatives. The IASB reached a tentative decision to eliminate this exception from fair value measurement. The final standard will contain guidance on how to determine the fair value of these instruments, including when cost might be representative of fair value.

#### Reclassification

The Exposure Draft includes a proposal to prohibit reclassification between the amortized cost and fair value categories. The IASB reached a tentative decision to require reclassification between fair value and the other measurement categories when there is a change in the entity's business model for managing its financial instruments and to prohibit reclassification in all other circumstances.

The IASB reached a tentative decision that all reclassifications would be accounted for prospectively:

- If an instrument is reclassified from another category to fair value, the instrument would be measured at fair value on that date, and any difference between the carrying amount and fair value would be recognized in a separate line in profit and loss
- If an instrument is reclassified from fair value to another category, the fair value of the instrument on the reclassification date would be its new carrying amount

The IASB reached a tentative decision to amend IFRS 7, *Financial Instruments: Disclosures* to add disclosures about reclassifications between measurement categories.

#### Instruments measured at fair value through other comprehensive income

The IASB tentatively confirmed the proposal in the Exposure Draft to allow an irrevocable election at initial recognition to present all fair value changes for

equity investments other than those held for trading in other comprehensive income.

In addition, the IASB reached a tentative decision to revise the proposal to require recognition of dividends received from those investments in profit or loss, as long as they represent a return on investment. The IASB tentatively reconfirmed that recycling of gains and losses from other comprehensive income to profit or loss would be prohibited.

The IASB reached a tentative decision to retain all disclosures proposed in the Exposure Draft and to require disclosure of dividends presented in profit or loss from investments that the entity measures at fair value through other comprehensive income.

#### Concentrations of credit risk

The Exposure Draft includes specific guidance for accounting for concentrations of credit risk created by using multiple contractually linked and subordinated interests (i.e. waterfall tranches). The Exposure Draft proposes that only the most senior tranche would be eligible for measurement at amortized cost (if the other classification criteria are met), while all other tranches would be measured at fair value through profit or loss.

The IASB reached the following tentative decisions:

- To require a separate assessment of the classification criteria by the issuer of the contractually linked instruments that affect concentrations of credit risk. The assessment by the issuer of contractually linked instruments that affect concentrations of credit risk would be performed at the overall obligation level and not at the individual obligation (tranche) level.

- To require holders of tranches to use a look through measurement approach that would look through the underlying instruments pool at the assets generating (and not only passing through) the cash flows
- To qualify for measurement at amortized cost, the underlying instruments pool would contain instruments with basic loan features and/or:
  - Instruments that change the cash flow variability of the instruments with the basic loan features in accordance with the *basic loan features* criterion
  - Instruments that align the cash flows (e.g. for interest rates or currencies) of the issued instruments with the underlying instrument pool
- To require measurement at fair value if the underlying instruments pool contains any instrument used to create additional leverage or any non-financial items. Reassessment of the underlying instruments pool would not be permitted. However, an underlying instruments pool that could subsequently change in a manner that would prohibit classification at amortized cost in the future cannot be measured at amortized cost at initial recognition.

#### Financial assets acquired at a discount that reflects incurred credit losses

The IASB reached a tentative decision that the fact that an asset is acquired at a discount that reflects incurred credit losses does not in itself disqualify it from being measured at amortized cost.

#### Next steps

The IASB plans to issue a final IFRS on classification and measurement of financial instruments in November 2009.

**Note:** On November 12, 2009, the IASB issued IFRS 9, *Financial Instruments: Classification and Measurement*.

#### Impairment – phase 2

The IASB reached a tentative decision to draft an exposure draft that would replace the impairment provisions of IAS 39. The exposure draft will be issued in October 2009 as a stand-alone document. The IASB reached a tentative decision to include a comment period of eight months with plans to issue a final standard by the end of 2010.

**Note:** On November 5, 2009, the IASB issued the [Exposure Draft, \*Financial Instruments: Amortised Cost and Impairment\*](#). The comment period ends June 30, 2010.

#### Hedge accounting – phase 3

The IASB reached a tentative decision that financial instruments managed on a contractual cash flow basis are eligible to be a hedged item in a fair value hedge. The IASB plans to issue an exposure draft on hedge accounting in December 2009.

#### IASB issues October 2009 IASB meeting and IASB/FASB joint meeting highlights

*All decisions reached at IASB meetings are tentative and may be changed or modified at future meetings. Board decisions become final only after completion of a formal ballot to issue a Standard or Interpretation or to publish an Exposure Draft.*

The International Accounting Standards Board has issued *IASB Updates* which summarize the following meetings:

- [IASB Update](#) for the IASB meeting in London on October 19-23, 2009

- [IASB Update](#) for the joint IASB/FASB meeting in Norwalk on October 26-28, 2009

Highlights of the meetings are combined by topic and are discussed below.

### Financial crisis

At its October 2009 meeting, the IASB discussed consolidation, credit risk in liability measurement, derecognition, fair value measurement, and financial instruments as part of its response to the global financial crisis. At the joint IASB/FASB October 2009 meeting, the Boards discussed consolidation, fair value measurement, and financial instruments as part of their response to the global financial crisis.

Additional information with respect to the global financial crisis issues is available on the [IASB's financial crisis page](#).

### Consolidation

#### IASB October 2009 meeting

The IASB continued its discussions of the comments received on the Exposure Draft, *Consolidated Financial Statements* and comments received from participants at the June 2009 roundtable meetings.

The Board reached the following tentative decisions:

- To clarify that activities in the definition of control refers to the activities of an entity that significantly affect the returns
- To retain a broad definition and description of returns, similar to the description included in paragraphs 10 and 11 of the Exposure Draft
- To clarify the following with respect to returns in the definition of control:

- A reporting entity must be exposed to variability of returns in the future
- A reporting entity's returns may potentially be wholly positive, wholly negative, or either positive or negative
- To clarify the characteristics of power as follows:
  - Power refers to a reporting entity's current ability to enforce its will in directing the activities of an entity that significantly affect the returns
  - Power need not be exercised (this will be readdressed when the IASB discusses power with less than half of the voting rights at a future IASB meeting)
  - Power need not be absolute
  - Power is assessed on the basis of current facts and circumstances
- To include guidance in the final standard discussing participating rights as follows:
  - Participating rights are rights that, if held by one party, are sufficient to give that party the ability to enforce its will in directing the activities that significantly affect the returns of an entity. If exercise requires agreement by more than one party, participating rights prevent other parties from controlling the entity.
  - Participating rights must be substantive
  - Rights that are exercisable only when specified circumstances arise or events occur are participating rights in some

circumstances and protective rights in others. The final standard will explain those circumstances.

- To retain the guidance on protective rights included in paragraphs B1 and B2 of the Exposure Draft
- To clarify that when two or more parties have discrete, unilateral decision-making authority over different activities of an entity, the party that has the ability to direct the activities that most significantly affect the returns meets the power element of the control definition
- To clarify that understanding the purpose and design of an entity is an important factor to consider when assessing control of that entity, but that involvement in the design of an entity would not, in isolation, be sufficient to support a conclusion about control
- To require that a reporting entity assess control continuously and that the final standard would clarify the application of that requirement

The IASB discussed when a party that has been delegated decision-making authority would be considered to be an agent, but did not reach any decisions on agency relationships.

#### **Joint IASB/FASB October 2009 meeting**

In June 2009, the FASB amended its requirements with respect to identifying when variable interest entities should be consolidated. The IASB is currently deliberating proposals to revise its requirements for identifying when entities should be consolidated that would apply to entities that would be variable interest entities under U.S. GAAP and also apply to those entities that are normally controlled by means of voting rights. At the joint IASB/FASB meeting in October 2009:

- The Boards concluded that the objectives for assessing control of structures that would be classified as variable interest entities under the recent amendments to U.S. GAAP on consolidation and in the proposed IASB model are fundamentally the same
- The Boards identified some differences in the application of those principles and agreed to conduct their respective projects on consolidation jointly and to deliberate issues relating to the consolidation guidance at monthly joint meetings
- The IASB agreed to amend its project timetable to give both Boards the opportunity to deliberate the consolidation requirements, with the goal that the FASB would publish an exposure draft that is consistent with the consolidation standard issued by the IASB.
- The FASB expects to be in a position to issue an exposure draft at the beginning of the second quarter of 2010 and final standard by the end of 2010.

See the [IASB project summary](#) for more information on this project.

#### **Credit risk in liability measurement**

At its October 2009 meeting, the IASB considered a summary of the comments received on the Discussion Paper, *Credit Risk in Liability Measurement* and reached the following tentative decisions:

- To stop work on credit risk as a free-standing work stream
- Not to reach a general conclusion on credit risk at this time but instead to incorporate the topic into the conceptual framework measurement project

- Not to change the role of credit/performance risk in the definition of fair value as a result of the responses to the Discussion Paper.
- To consider the application of the fair value definition in every project involving measurements that would otherwise be at fair value
- To consider the question of credit risk in every project involving a current measurement of liabilities that is not fair value

See the [IASB project summary](#) for more information on this project.

#### Derecognition

At its October 2009 meeting, the IASB discussed the following with respect to comments received on the Exposure Draft, *Derecognition: Proposed amendments to IAS 39 and IFRS 7*.

- *Whether the derecognition model would include a test of bankruptcy remoteness (legal isolation):* The IASB reached a tentative decision that a test of bankruptcy remoteness would not form part of the derecognition model
- *Whether sale and repurchase agreements and similar transactions would be treated as sales or lending transactions:* The IASB was not convinced that all repurchase agreements are sales. Therefore, the IASB directed the staff to ascertain whether certain repurchase agreements (on the basis of the terms of those arrangements) are in-substance lending arrangements.

The IASB reached a tentative decision to pursue the Exposure Draft's alternative approach as a replacement for the current derecognition requirements for financial assets in IAS 39. The IASB asked the staff to further develop that approach to account for a retained interest as follows:

- *If the retained interest is a disproportionate interest in the asset previously recognized:* The transferor would treat it as a new asset and measure it

initially at fair value but subsequently using the classification and measurement requirements in IAS 39. The transferor would recognize any gain or loss resulting from the transfer in profit or loss.

- *If the retained interest is a proportionate interest in the asset previously recognized:* The transferor would treat it as part of that asset and would recognize a gain or loss only on the part transferred. The transferor would continue to measure the retained interest using the measurement basis that it applied to the asset recognized before the transfer.

See the [IASB project summary](#) for more information on this project.

#### Fair value measurement

##### IASB October 2009 meeting

The IASB discussed the comment letters received on the Exposure Draft, *Fair Value Measurement*. No decisions were reached. The IASB plans to hold roundtable meetings in Norwalk on November 2, 2009, Tokyo on November 27, 2009, and London on December 11, 2009.

In January 2010, the IASB will begin redeliberations of the issues raised in the comment letters and during the roundtable discussions. The IASB plans to issue an IFRS on fair value measurement in the third quarter of 2010.

##### Joint IASB/FASB October 2009 meeting

In May 2009 the IASB issued an Exposure Draft, *Fair Value Measurement* that is substantially consistent with Statement 157, *Fair Value Measurements*. At the joint IASB/FASB meeting in October 2009 the Boards agreed:

- That fair value would have the same meaning in U.S. GAAP and IFRS

- To make U.S. GAAP and IFRS fair value measurement requirements the same other than minor necessary differences in wording or style. The FASB agreed to consider comments received on the IASB's Exposure Draft and to propose amendments to the fair value measurement requirements in U.S. GAAP, if necessary, to achieve that goal.
- That if they become aware of perceived differences in the measurement requirements, they will work together to address those perceptions

See the [IASB project summary](#) for more information on this project.

#### Financial instruments

##### **IASB October 2009 meeting**

The IASB discussed the following with respect to comments received on the Exposure Draft, *Financial Instruments: Classification and Measurement*:

- *Gains or losses related to Level 3 fair value measurements*: The IASB discussed whether entities should be required to present on the face of the statement of comprehensive income total gains or losses from financial instruments in Level 3 of the fair value hierarchy. Such amounts are already required to be disclosed, but not on the face of the statement of comprehensive income. The IASB reached a tentative decision that the forthcoming IFRS on classification and measurement would not include a requirement to disclose this information on the face of the statement of comprehensive income.

This issue was also discussed at the joint IASB/FASB meeting in October 2009 as part of the financial statement presentation project (see summary below).

- *Scope of the IFRS*: The IASB reached a tentative decision to exclude financial liabilities from the scope of the forthcoming IFRS. In the short term, the requirements of IAS 39 would continue to apply to financial liabilities. The IASB asked the staff to further consider the accounting for financial liabilities and will address this issue in the near future.
- *Effective date and transition*: The IASB reached the following tentative decisions:
  - That the effective date will be January 1, 2013
  - To permit early adoption of the final IFRS. In addition, the IASB tentatively decided to require transition disclosures by all entities adopting the new IFRS, as proposed in the Exposure Draft.
  - To clarify the guidance in the Exposure Draft on the date of initial application
  - To permit, but not require, restatement of comparative periods by entities that implement the standard in 2009 or 2010. Comparative information will be required if an entity adopts the final guidance after 2010.
  - To finalize the guidance on impracticability of retrospective application, as proposed in the Exposure Draft
  - Not to permit the continuation of separate accounting (bifurcation) for those hybrid contracts embedded in financial hosts that were bifurcated in accordance with the existing IAS 39

- To remove the specific transition provisions on hedge accounting from the Exposure Draft
- That if an entity adopts the IFRS resulting from any phase of this project before its effective date, the entity must also adopt all previously issued IFRS from the project, but need not adopt any subsequent IFRS from the project before its effective date
- To finalize all other transition provisions as proposed in the Exposure Draft
- *Transitional insurance issues:* The IASB noted that insurers may face certain problems if they apply the forthcoming IFRS on classification and measurement of financial instruments before they apply the IFRS resulting from phase 2 of the project on insurance contracts. The IASB reached certain tentative decisions with respect to transitional insurance issues (see the [IASB Update](#) for details).
- The fair value of financial instruments measured at amortized cost on the statement of financial position
- Information about changes in the fair value of financial instruments recognized at amortized cost on the performance statement
- The components of other comprehensive income, including any fair value changes recognized in other comprehensive income, on the performance statement

The Boards agreed to jointly discuss the accounting for credit losses and hedge accounting. The Boards discussed the basic accounting for credit losses for financial assets in the fair value through other comprehensive income category that was tentatively agreed to by the FASB at its October 21, 2009 meeting. Once the FASB model is developed, that model, along with the IASB's expected cash flow approach, will be discussed with an expert advisory panel that will advise the Boards on issues that could arise on the application of those credit impairment models and how those issues might be resolved.

The IASB expects to issue an exposure draft on impairment in November 2009.

**Note:** On November 5, 2009, the IASB issued the [Exposure Draft, \*Financial Instruments: Amortised Cost and Impairment\*](#). The comment period ends June 30, 2010.

See the [IASB project summary](#) for more information on this project.

#### **Discontinued operations**

At the joint IASB/FASB meeting in October 2009, the Boards discussed the definition of a discontinued operation and asked the staff:

#### **Joint IASB/FASB October 2009 meeting**

The Boards discussed and agreed upon a set of core principles for working to achieve a converged solution on financial instruments accounting. The Boards also discussed possible alternatives for presenting certain financial instruments that are not measured at fair value through net income.

The Boards agreed that both fair value and amortized cost are relevant information about financial instruments with principal amounts that are held for collection or payment of contractual cash flows rather than for sale or settlement with a third party.

The FASB will continue to consider the financial statement presentation of financial instruments that are not measured at fair value through income.

The IASB will separately consider whether to require presentation of:

- To assess IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* and to explore the option of adopting, as the converged definition, the definition of a discontinued operation in that standard
- To analyze the disclosures required by IFRS 5 and Topic 205, *Presentation of Financial Statements*, of the FASB Accounting Standards Codification™ (originally issued as Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*) and develop a proposal for converged disclosures

See the [IASB project summary](#) for more information on this project.

#### **Financial instruments with characteristics of equity**

At the joint IASB/FASB meeting in October 2009, the Boards reached a tentative decision to consider an approach that would classify certain share-settled instruments as equity. An issuer would classify an instrument it must settle by issuing equity instruments as equity unless the issuer is using the equity instrument as currency. The following are examples in which the issuer is using its equity instruments as a form of currency:

- Either party has a cash settlement option
- The contract requires net settlement in shares or either party has a net settlement option
- The contract exposes either party to risks of changes in value other than those resulting from share price changes, the time value of money, counterparty performance risk, or, possibly, foreign currency (if the counterparty has a different functional currency before the transaction)

See the [IASB project summary](#) for more information on this project.

#### **Financial statement presentation**

##### **IASB October 2009 meeting**

The IASB discussed the following with respect to the proposals included in the Discussion Paper, *Preliminary Views on Financial Statement Presentation*:

- Classification of items of other comprehensive income on the statement of comprehensive income ([Agenda Paper 5A](#))
- Allocation of income taxes on the statement of comprehensive income and the presentation of income taxes on the statement of financial position and the statement of cash flows ([Agenda Paper 5B](#))
- Disaggregation of items of income and expense by both function and nature on the statement of comprehensive income ([Agenda Paper 5C](#))

##### **Classification of items of other comprehensive income**

The Discussion Paper proposes that items of other comprehensive income would be presented in a separate section that is displayed with prominence equal to that of all the other sections. It further states that for each item in other comprehensive income (except for foreign currency translation adjustments on consolidated subsidiaries and proportionately consolidated joint ventures), an entity would identify and indicate in the statement of comprehensive income whether the item relates to (or will relate to) an operating activity, investing activity, financing asset, or financing liability. The IASB reached a tentative decision to retain that proposal in the exposure draft.

### **Allocation and presentation of income taxes**

The Discussion Paper proposes that an entity would apply existing requirements for allocating and presenting income taxes in the statement of comprehensive income. The IASB reached the following tentative decisions:

- To retain the proposal in the Discussion Paper that an entity would apply existing requirements for allocating and presenting income taxes in the statement of comprehensive income, including the requirement that an entity must present components of other comprehensive income either (i) net of related tax effects or (ii) before related tax effects with a single amount for the aggregate amount of income tax relating to those components
- To retain the existing requirement that an entity must disclose the amount of income tax allocated to each component of other comprehensive income
- To retain the proposal in the Discussion Paper that an entity would be required to present current and deferred income tax assets and liabilities recognized in accordance with IFRS or U.S. GAAP, and the related cash flows, in an income tax section in the statement of financial position and the statement of cash flows

### **Disaggregation of items of income and expense by function and nature**

The Discussion Paper proposes the following:

- That within each category on the statement of comprehensive income an entity must disaggregate its items of income and expense by function.
- That each function be further disaggregated by nature to the extent that information enhances the usefulness of the statement of

comprehensive income in predicting an entity's future cash flows. If it is not practical to disaggregate each function by nature on the face of the statement of comprehensive income, an entity would present the information in the notes to financial statements.

The IASB considered certain disaggregation proposals in an education session. No decisions were reached.

### **Joint IASB/FASB October 2009 meeting**

The Boards continued their discussions on the proposals in the Discussion Paper.

### **The proposed reconciliation schedule**

The Discussion Paper proposes that an entity include a schedule in the notes to the financial statements that reconciles cash flows to comprehensive income on a line-by-line basis and disaggregates comprehensive income into four components: cash, accruals other than remeasurements, remeasurements that are recurring fair value changes or valuation adjustments, and remeasurements that are not recurring fair value changes or valuation adjustments.

The Boards reached the following tentative decisions:

- To replace the reconciliation schedule proposed in the Discussion Paper with an analysis of the changes in balances of all significant asset and liability line items. The analysis will explain the nature of the transactions and other events that gave rise to a change in the account balance. Each significant asset and liability line item analysis would separately distinguish the following components:
  - Changes due to cash inflows and cash outflows

- Changes resulting from non-cash (accrual) transactions that are repetitive and routine in nature (e.g. credit sales, wages, material purchases)
- Changes resulting from non-cash transactions or events that are non-routine or non-repetitive in nature (e.g. acquisition or disposition of a business)
- Changes resulting from accounting allocations (e.g. depreciation)
- Changes resulting from accounting provisions/reserves (e.g. bad debts, obsolete inventory)
- Changes resulting from remeasurements

The Boards discussed modifying the definition of a remeasurement as proposed in the Discussion Paper as follows: a remeasurement is an amount recognized in comprehensive income that reflects the effects of a change in the carrying amount of an asset or liability to a current price or value (or to an estimate of a current price or value). The Boards asked the staff to further refine the definition.

The Boards reached a tentative decision that information about remeasurements would be presented in the financial statements. The FASB tentatively agreed to require disaggregation of remeasurements on the face of the statement of comprehensive income in a columnar format. The IASB expressed a preference for presenting information about remeasurements in the notes to financial statements. The IASB agreed to reconsider the issue after the staff analyzes current disclosures of remeasurement information and disclosures being considered in other projects.

#### **Presentation of cash flow information**

The Discussion Paper proposes that an entity present the statement of cash flows using the direct method. The Boards reached the following tentative decisions:

- To retain the Discussion Paper proposal that an entity be required to present the statement of cash flows using the direct method; presenting line items for cash receipts and payments in each section (and category) in the statement of cash flows
- To specify that an entity would disaggregate its statement of cash flows information such that significant or material cash flows are apparent to a user of the entity's financial statements
- To require the presentation of an indirect reconciliation of operating income to operating cash flows in the notes to financial statements
- To retain the Discussion Paper proposal that an entity disclose all relevant information about its non-cash activities unless that information is presented elsewhere in the financial statements
- To require disclosure of information about repatriation limitations and other restrictions on cash (and short-term investments similar to cash) in the notes to financial statements

#### **Disaggregation of items of income and expense by function and nature**

The Discussion Paper proposes that within each category on the statement of comprehensive income, an entity disaggregate its items of income and expense by function. Each of those functions would be further

disaggregated by nature to the extent that information enhances the usefulness of the statement of comprehensive income in predicting an entity's future cash flows.

The Boards reached the following tentative decisions with respect to the exposure draft:

- To include an overall disaggregation principle that requires an entity to consider disaggregation by function, nature, and measurement bases in the financial statements as a whole
- To include guidance for applying that disaggregation principle in each financial statement

The Boards reached the following tentative decisions with respect to the statement of comprehensive income:

- To retain the proposals in the Discussion Paper that an entity would disaggregate income and expense items by function and by nature
- If an entity has only one reportable segment, that disaggregated information would be presented on the face of the statement of comprehensive income. If an entity has more than one reportable segment that disaggregated information would be presented in its segment note. The Boards will discuss segment reporting at a future meeting.

#### **Defining the business and financing sections**

The Boards reached the following tentative decisions with respect to defining the business and financing sections:

- The business section would have defined categories as follows:

- *Operating category*: Business activities that are part of a reporting entity's day-to-day business activities (and the business activity generates revenue through a process that requires the interrelated use of the net resources of the entity)
- *Investing category*: Business activities that generate non-revenue income (and no significant synergies are created from combining assets)

The categories described above differ from what was proposed in the Discussion Paper.

- The financing section would include items that are part of an entity's activities to obtain (or repay) capital and would consist of the following:
  - *Debt category*: This category would include liabilities where the nature of those liabilities is a borrowing arrangement entered into for the purpose of raising (or repaying) capital
  - *Equity category*: This category would include equity as defined in either IFRS or U.S. GAAP
- The financing section would not include a treasury category. Cash and short-term financial assets (or financial liabilities) used as a substitute for cash would be included in the business section.

See the [IASB project summary](#) for more information on this project.

#### **Income tax**

At the joint IASB/FASB meeting in October 2009, the IASB staff presented an analysis of the comment letters received on the IASB Exposure Draft, *Income Tax*. The Boards indicated that at some time in the future, they would consider undertaking a fundamental review of

accounting for income taxes. In addition, the IASB staff plans to present options on how the IASB should proceed with the proposals in the Exposure Draft at the November 2009 IASB meeting.

### **Insurance contracts**

#### **IASB October 2009 meeting**

The IASB discussed the following with respect to insurance contracts.

#### **Unbundling**

Some insurance contracts contain an insurance component, an investment (or financial) component and/or a service component. The IASB discussed whether an insurer should recognize and measure the components of a contract as if they were separate contracts (unbundling). The staff recommended an approach that depends on whether the components of a contract are interdependent. The IASB asked the staff:

- To develop a more detailed explanation of the notion of interdependence
- To clarify how the notion of interdependence relates to the notion of contract segmentation that is being discussed in the revenue recognition project
- To consider whether the notion of interdependence is similar to the notion that the fair value of a compound financial instrument may not equal the sum of the fair values of its components

#### **Deposit floor**

The IASB reconfirmed its May 2009 tentative decision that the measurement of insurance contracts would include the expected (i.e. probability-weighted) cash flows resulting from those contracts, including the expected cash flows whose

amount or timing depends on whether policyholders exercise options in existing contracts (policyholder behavior).

At its October 2009 meeting, the IASB confirmed that no deposit floor would apply in measuring insurance contracts. The staff will develop more specific proposals for identifying the boundary of an existing contract.

#### **Presenting income and expense**

During an educational session, the IASB discussed the recognition of premium receipts. No decisions were reached.

#### **Joint IASB/FASB October 2009 meeting**

The Boards discussed whether the scope of the insurance contracts project should address all policyholder accounting rather than only the accounting for the cedant in a reinsurance contract. The Boards asked the staff to prepare an analysis of policyholder accounting.

The Boards also discussed the similarities and differences between their preliminary decisions on a measurement approach. At a high-level, the Boards agreed with a three building block approach (probability-weighted current estimates of expected future cash flows, time value, and an explicit margin). The Boards asked the staff to analyze the potential remaining differences between the FASB's measurement approach (current fulfillment value) and the IASB's measurement approach (developed in its project to amend IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The Boards asked the staff to clarify the measurement objective including the role of uncertainty under both the IASB and FASB measurement approaches.

The Boards affirmed that an insurer would recognize all acquisition costs as an expense when incurred. In addition, both Boards agreed that the insurer

would not recognize a part of the premium equal to the acquisition costs incurred as revenue (or income) at inception.

See the [IASB project summary](#) for more information on this project.

### Leases

At the joint IASB/FASB meeting in October 2009, the Boards discussed the following with respect to leases.

#### Right-of-use approach for lessees

The Boards tentatively reconfirmed the right-of-use approach for lessees. The Discussion Paper, *Leases: Preliminary Views* proposes that for all leases, a lessee would recognize:

- An asset representing its right to use the leased item for the lease term (the right-of-use asset)
- A liability for its obligation to pay rentals

#### In-substance purchase or sale of an asset

The Boards reached a tentative decision to exclude from the scope of a leases standard a contract that represents the purchase (lessee) or sale (lessor) of the subject item. The Boards asked the staff to develop criteria for an entity to use to determine whether an arrangement is in-substance the purchase or sale of an asset and not a lease.

#### Performance obligation approach to lessor accounting

The Boards reached a tentative decision to adopt the performance obligation approach to lessor accounting under which a lessor would:

- Recognize an asset representing its right to receive rental payments (a lease receivable)

- Recognize a liability representing its performance obligation under the lease (i.e. its obligation to permit the lessee to use one of its assets (the leased item)). The lessor would recognize revenue as that performance obligation is satisfied over the lease term.

#### Timing of initial recognition

The Boards reached the following tentative decisions with respect to whether an entity would recognize any assets or liabilities during the period between the signing of a lease contract and delivery of the leased item to the lessee:

- Assets and liabilities would arise when a contract is signed
- The unit of account would be the contract as a whole and the asset and liability would be presented net in the statement of financial position of both the lessee and lessor on signing and presented gross upon delivery. An entity would recognize any impairment of the lease between contract signing and delivery as a net liability.
- An entity would initially and subsequently measure the net contract asset or liability on a cost basis. Generally the initial measurement of the contract asset would equal the initial measurement of the contract liability.
- An entity would provide disclosures about the assets and liabilities that arose upon contract signing

See the [IASB project summary](#) for more information on this project.

#### Liabilities – project to amend IAS 37

At its meeting in October 2009, the IASB reached the following tentative decisions with respect to whether it should re-expose the revised proposals

for a new standard to replace IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*:

- To issue a limited-scope document, exposing for comment its proposals to clarify the measurement requirements. The proposed clarifications are included in Section 4.1 of [Agenda Paper 7A](#).
- To post a working draft of the new standard on its website highlighting all other changes to the previous proposals

The IASB plans to issue the limited-scope re-exposure document in December 2009 and to post the working draft of the new standard on its website in January 2010.

See the [IASB project summary](#) for more information on this project.

### **Other comprehensive income**

#### **IASB October 2009 meeting**

The IASB and the FASB have separate projects on financial instruments that could add more items to other comprehensive income (OCI). At its meeting in October 2009, the IASB considered whether it should eliminate certain options and choices available in IAS 1, *Presentation of Financial Statements*. Eliminating the choice that entities now have in how and where they present components of OCI will make it easier to compare income statements prepared in accordance with IFRS and will help to identify differences between IFRS and U.S. GAAP.

The IASB agreed that nothing in the proposals would change which items can or must be presented in OCI or whether an item must be reclassified (i.e. recycled) upon derecognition.

The IASB reached a tentative decision to eliminate the option in paragraph 81 of IAS 1 that permits an entity to present all items of income and expense

recognized in a period in two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income). Instead, entities would be required to present one statement of comprehensive income. The IASB reaffirmed the current requirement in IAS 1 that the single statement of comprehensive income must be displayed with two sections: profit or loss and other comprehensive income. An entity would be able to change the title of these sections (as long as the meaning is clear) but the components of income displayed in each section may not be changed.

The IASB also reached a tentative decision that:

- Components of OCI that will not be reclassified into profit or loss in future periods would be displayed together
- Components of OCI that might be reclassified into profit or loss in future periods would be displayed together
- The choice available to entities to report components of OCI either net or before income tax effects would be retained. However, if an entity reports components of OCI before tax effects, it would be required to report the aggregate amount of income tax for each of the aggregate of components of OCI that would not be reclassified into profit or loss in future periods and components of OCI that might be reclassified into profit or loss.

#### **Joint IASB/FASB October 2009 meeting**

At the joint IASB/FASB meeting in October 2009, the IASB staff discussed the IASB tentative decisions discussed at the IASB October 2009 meeting (see summary above). The FASB has made similar decisions during

its discussions of its ongoing projects on financial instruments and the joint IASB/FASB project on financial statement presentation. The Boards reached a unanimous decision to work together to develop guidance that requires an entity to prepare a single statement of comprehensive income. The IASB will most likely issue an exposure draft to amend IAS 1 around the time the FASB issues its financial instruments proposals next year.

#### **Post-employment benefits**

At its October 2009 meeting, the IASB discussed the following with respect to post-employment benefits.

#### **Prepayments of a Minimum Funding Requirement**

The IASB considered comments received on the Exposure Draft, *Prepayments of a Minimum Funding Requirement: Amendments to IFRIC 14* and tentatively:

- Confirmed the scope of the project as proposed
- Confirmed the definitions as proposed. However, the IASB also reached a tentative decision to propose clarifying in the exposure draft of proposed amendments to IAS 19 that a minimum funding requirement must be enforceable.
- Confirmed the transition arrangements as proposed
- Reinstated paragraph 22 of IFRIC 14, IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction and IAS 19 Employee Benefits*

The IASB reached a tentative decision to require application of the amendments for annual periods beginning on or after January 1, 2011 with early adoption permitted.

#### **Discount Rate for Employee Benefits**

The IASB considered responses to the Exposure Draft, *Discount Rate for Employee Benefits: Amendments to IAS 19*. The IASB reached a tentative decision to adhere to its original plan to address measurement issues only in the context of a fundamental review of the accounting for employee benefits and therefore decided not to proceed with the amendment. Therefore, entities will continue to be required to refer to a government bond rate in the absence of a deep market in high-quality corporate bonds.

#### **Termination Benefits**

In June 2005, the IASB issued an Exposure Draft of amendments to IAS 19 that includes the accounting for termination benefits. At its October 2009 meeting, the IASB tentatively:

- Confirmed its previous decisions on termination benefits
- Decided that entities would apply the amendments for annual periods beginning on or after January 1, 2011 with early adoption permitted
- Decided it would issue the amendments to IAS 19 with respect to termination benefits together with the amendments to IFRIC 14

#### **Next steps**

The IASB plans to issue final amendments to IFRIC 14 and IAS 19 in December 2009.

See the [IASB project summary](#) for more information on this project.

#### **Revenue recognition**

The Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers*, proposes that an entity allocate transaction prices, on a relative standalone selling price basis, to each performance obligation in a contract.

When an entity satisfies a performance obligation, it would recognize revenue equal to the amount allocated.

At the joint IASB/FASB meeting in October 2009, the Boards discussed additional guidance to determine the amount of revenue that would be recognized and reached the following tentative decisions:

- An entity would allocate the transaction price to segments of a contract instead of to individual performance obligations. A segment is an aggregation of performance obligations which could be sold separately (when there is evidence that a separate market exists).
- When segmenting a contract, an entity would consider when the promised goods and services are transferred to the customer, the margins for those goods and services, and materiality
- An entity would estimate standalone selling prices if they are not observable and would maximize the use of observable inputs
- The exposure draft would not prescribe or preclude any particular method of estimating a standalone selling price, however the residual method would not be an acceptable method of allocation.

The Discussion Paper proposes that when goods and services in a contract segment are transferred at different times (or continuously), an entity would be required to determine how much revenue to recognize as each performance obligation is satisfied. The Boards reached a tentative decision that:

- An entity would select a method of measuring performance that best depicts the transfer of goods and services to the customer. Acceptable methods would include methods based on units of output, units of input, or the passage of time.
- An entity would select one method per segment and apply that method consistently throughout the contract and across segments with similar characteristics in other contracts

See the [IASB project summary](#) for more information on this project.

### **Future Board meetings**

The next IASB meetings are November 16-20, 2009 and December 14-18, 2009.