



On the Horizon for IFRS

May 20, 2010

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IASB issues March 3, 2010 additional IASB and joint IASB/FASB meeting highlights

Key issues

At the March 3, 2010 additional IASB and IASB/FASB joint meetings the following issues were discussed:

- *Fair value measurement*: the IASB staff plans to issue educational material to accompany the IFRS on fair value measurement
- *Financial instruments – hedge accounting*: the IASB tentatively decided that the following could be designated as hedged items:
 - Derivatives, including combinations of derivatives and non-derivatives
 - Proportions of nominal amounts
 - One-sided risks
- *Financial statement presentation*: the Boards reached tentative decisions on the transition and effective date provisions of the forthcoming exposure draft

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 and joint IASB/FASB meetings that were held in London on March 3, 2010. The FASB participated via video conference for the sessions on Fair value measurement and Financial statement presentation.

Highlights of the meetings are discussed below.

Fair value measurement

The Boards discussed the staff's plan for developing educational material to accompany an IFRS on fair value measurement. The Boards considered the scope of the proposed guidance and whether it should be included in the fair value standard or remain separate. The educational material, which will be issued separately from the standard, will describe at a high level the thought process that one might go through to meet the objective of a fair value measurement. IASB and FASB staff will liaise during the development of the educational material, which will be published by the IASC Foundation, and will not be approved by the IASB or FASB.

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

Financial instruments: hedge accounting

The IASB continued their discussion on eligibility for designation as a hedged item in a hedge accounting relationship. The Board tentatively decided that derivatives could be designated as hedged items in several situations, including hedged items that are a combination of a derivative and a non-derivative. That sometimes occurs when entities are managing multiple risks, such as interest rate risk and foreign exchange risk on fixed rate debt denominated in a foreign (non-functional) currency. An entity could end up managing the risk of an underlying that is determined in part by another derivative. The Board also tentatively decided that proportions of nominal amounts (e.g. 50% of the nominal value of a loan or 50,000 cubic meters of natural gas in a particular location) and one-sided risks (e.g. an interest rate cap that hedges interest exposure over 5%) would be eligible for designation as hedged items.

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

Financial statement presentation

The Boards addressed the transition and effective date provisions to be included in the exposure draft on financial statement presentation.

- *Transition provisions:* the Boards reached a tentative decision to require full retrospective application on adoption including classification, grouping, and disaggregation of comparative information presented and disclosed as if the proposed presentation provisions had always been applied
- *Effective date provisions:* the exposure draft will include a question soliciting information about the amount of time needed to implement the proposed changes. The Boards indicated that the effective date for the final standard would provide adequate lead time for reporting entities to prepare for and implement the proposed changes.

The Boards plan to consider the effective dates and transition for standards to be completed by June 30, 2011 collectively and therefore may modify previously-stated preferences for some individual standards. The Boards will address whether early adoption of the financial statement presentation standard should be permitted as part of that overall consideration of effective dates.

With respect to IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, the IASB tentatively decided that:

- First-time adopters of IFRS would not be eligible for any exceptions to, or exemptions from, the proposed financial statement presentation standard
- First-time adopters of IFRS would be permitted to early adopt the proposed financial statement presentation standard

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

IASB issues March 11, 2010 additional IASB and joint IASB/FASB meeting highlights

Key issues

At the March 11, 2010 additional IASB and IASB/FASB joint meetings the following issues were discussed:

- *Fair value measurement:* the Boards tentatively decided to allow offsetting in the measurement of fair value of financial instruments in a portfolio
- *Financial instruments with characteristics of equity:* The Boards decided:
 - How to account for conversion or settlement of convertible debt and options, including where to report any difference
 - Whether to require reclassification if events occur or circumstances change after initial classification
 - Whether to consider economic compulsion in classification
 - Other issues, including the fair value option, scope, transition, disclosures and comment period
 - *Financial statement presentation:* the Boards discussed for possible clarification several issues for the forthcoming exposure draft, specifically discussing required comparative financial statements

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The International Accounting Standards Board has issued an [IASB Update](#), which summarizes the additional IASB and joint IASB/FASB meetings that were held in London on March 11, 2010. The FASB participated via video conference for all of the sessions.

Highlights of the meetings are discussed below.

Fair value measurement

Measuring the fair value of financial instruments within a portfolio

At their February 2010 meeting, the Boards tentatively decided that the concepts of *highest and best use* and *valuation premise* are only relevant for nonfinancial assets. If those concepts are not relevant for financial assets and liabilities, that raises a question about how entities would measure the fair value of financial instruments managed within a portfolio. The February tentative decision would mean that the fair value of financial instruments would be measured on an instrument-by-instrument basis, which is different from the current practice of valuing financial instruments using a portfolio approach.

Currently, entities might manage their portfolio of financial instruments on the basis of their net exposure. Generally, these entities might not sell financial assets or transfer financial liabilities to exit a position; instead they may buy (or sell) instruments that offset the risk exposure created by the instruments they hold. A simple example would be when an entity that has a long position in a bond that is subject to interest rate risk enters into a short position in that bond to offset the risk, rather than closing out the long position. These entities transact on the basis of their net exposure, not by unwinding positions and selling individual instruments. In valuing their financial instruments, the unit of account (the individual instrument) and the unit of valuation (groups of instruments) are different.

Current guidance allows for the use of a different unit of account and unit of valuation. The unit of account being the individual instrument is not the issue; it is whether the use of a different unit of valuation has a basis in the literature. U.S. GAAP permits this distinction in FASB ASC Topic 820-10-30-3 in that the unit of account represented by the transaction price can be different from the unit of account for the asset or liability measured at fair value (the unit of valuation). In IFRS, support for the different valuation premise comes from paragraph AG 72 of IAS 39, *Financial Instruments: Recognition and Measurement*, which allows for the use of mid-market pricing when an entity has assets and liabilities with offsetting market risks.

At their March 2010 meeting the Boards tentatively decided to permit an exception to fair value measurement principles by permitting entities to use mid prices as a basis for establishing fair values for offsetting market risk positions (e.g. interest rate risk, currency risk or other price risk) and to apply the price within the bid-ask spread that is most representative of fair value to the net open risk position. To use this exception, an entity must both:

- Manage its financial instruments on the basis of the net open risk positions in accordance with the entity's documented risk management strategy
- Manage the net open risk position in a consistent manner from period to period
- In addition:
- The market risks that are being offset must be substantially the same
- The financial instruments must share common characteristics
- The financial instruments must be measured at fair value on a recurring basis

The Boards also tentatively decided to clarify that entities are permitted to consider offsetting counterparty credit risk positions when measuring the fair value of financial instruments when there is a legally enforceable right of offset with the counterparty in the event of default (e.g. a master netting agreement).

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

Financial instruments with characteristics of equity

The Boards deliberated the following topics at their joint meeting:

- Accounting for conversion or settlement of convertible debt and exercises of options
- Reassessment of classification
- Economic compulsion
- Fair value option
- Scope
- Transition
- Disclosures and supplemental schedule
- Comment period

Accounting for conversion or settlement of convertible debt and exercises of options

When convertible debt or options are exercised, converted, or otherwise result in the issuance of a new instrument, the old instrument is derecognized and there is an issue of how to initially measure the replacement instrument. The Boards debated whether the new instrument should be recorded at the book value of the old instrument, plus cash received, or at fair value. The Boards decided on fair value, which raises the issue of whether the difference between the recorded value and the fair value should be recognized in profit or loss or in

equity. The Boards decided that where the difference would be recognized depends on the instrument, as follows:

Shares issued upon conversion of convertible debt would be recorded at their fair values on the issuance date. If the convertible debt had been separated into liability and equity components, the difference between the carrying value of the liability component and the fair value of that component (equal to the fair value of a comparable freestanding instrument without an equity component) would be recognized in profit or loss. The remainder of the fair value of the shares issued (the total fair value of the shares less the fair value of the liability component) would be recognized directly in equity.

Shares issued upon exercise of written call options would be recorded at their fair values on the issuance date. If the option had been classified as equity, the difference between the fair value of the shares and the carrying value of the option plus the cash received on exercise would be recognized directly in equity. If the option had been classified as a liability, the difference between the fair value of the shares and the carrying value of the liability would be recognized in profit or loss.

Reassessment of classification

As reported previously, the Boards decided in February 2010 that if an entity does not have enough authorized shares to settle a share-settled instrument classified as equity at initial recognition or any time thereafter, that instrument would be reclassified as a liability and left there for the remainder of its life. At the March 2010 meeting, the Boards discussed whether there are other events or circumstances that should require an entity to reassess the classification of its instruments, and if so, how that would be measured.

The Boards decided that instruments would be reclassified if events occur or circumstances change with the result that an instrument no longer meets the conditions for its existing classification. The reclassification would be as of the date of the event or circumstance that changed the classification. There is no limit on the number of times an instrument may be reclassified.

Upon reclassifying the instrument, an entity would immediately remeasure the instrument according to the requirements for the new classification as if it were a newly-issued instrument on the date of reclassification. If an instrument classified as equity is reclassified as a liability, the difference between the carrying value before the reclassification and the measurement after reclassification would be an adjustment directly to equity. If an instrument classified as a liability is reclassified as equity, the difference between the carrying value before the reclassification and the measurement after reclassification would be reported in profit or loss.

Required disclosures about reclassified instruments would include a description of the instrument, the amount that was reclassified, and the reason for reclassification.

Economic compulsion

Economic compulsion can occur when an issuer feels compelled to settle an instrument that has no settlement requirement because failure to do so would result in a significant economic penalty. An entity may feel economically compelled to redeem an instrument whenever that instrument's terms are more onerous than the terms of a replacement instrument. The most commonly cited example is callable increasing rate preferred stock. The stated dividend rate on this preferred stock increases to an above market rate on a specified date. The dividend, which is payable only if declared, must be declared before a dividend may be declared or paid on common stock, or before the preferred stock can be retired. If an issuer wants to pay dividends on its common stock, or retire the

preferred stock, it could be compelled to redeem the instrument before the cumulative undeclared dividend becomes too large. Economic compulsion could be a consideration for other types of instruments, such as perpetual preferred stock with a fixed dividend rate when interest rates are declining. Economic compulsion differs from either an expressed obligation, which is legally binding, or a constructive obligation, which is based on an entity's past actions.

The current principle in IAS 32, *Financial Instruments: Presentation*, is that economic compulsion (as distinguished from expressed or implied contractual obligations) is not relevant to classification of a financial instrument as a liability or equity. The Boards discussed whether to retain the approach in IAS 32, develop an economic compulsion principle, or identify and address specific instruments. The Boards decided to retain the approach in IAS 32.

Fair value option

The Boards decided that an issuer may not avoid separation of an instrument into a liability and an equity component by choosing the fair value option for the instrument in its entirety.

Scope

The Boards considered whether to narrow the scope of the project or to match the scope of IAS 32. The Boards decided on the latter. Accordingly, the proposed requirements would apply to all financial instruments except the following:

- Interests in subsidiaries, associates, or joint ventures that are accounted for under other standards
- Employers' rights and obligations under employee benefit plans
- Insurance contracts accounted for under other standards

- Share-based payment awards accounted for under IFRS 2, *Share-based Payment*, and FASB ASC Topic 718, *Compensation - Stock Compensation*

The proposed standard would also apply to contracts to buy or sell a nonfinancial item that can be settled in net cash or another financial instrument or by exchanging financial instruments.

Transition

The Boards considered whether to require full retrospective application, whereby entities would restate profit or loss in periods presented and restate beginning retained earnings for the effects on years not presented. There were concerns that full retrospective application would be very difficult for some preparers, and whether the benefits would justify the cost. The Boards also considered prospective application, whereby entities would simply apply the new requirements to financial instruments issued or acquired on or after the effective date, but that would impact comparability between identical instruments depending on when they were issued or acquired.

The Boards decided on a form of limited retrospective application. An entity would apply the proposed requirements to all instruments outstanding at the beginning of the first period presented in the financial statements for the period of adoption. Profit or loss would be restated for all the periods presented. If the proposed requirements result in an instrument being reclassified from a liability to equity, any measurement change upon reclassification should result in an adjustment to equity. If the proposed requirements result in an instrument being reclassified from equity to a liability, any measurement change upon reclassification should result in an adjustment to beginning retained earnings. The IASB decided the same transition requirements would apply to first-time adopters under IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

Disclosures and supplemental schedule

An entity would disclose the nature and terms of instruments with settlement alternatives. That disclosure would include:

- The identity of the entity that controls the settlement alternatives
- The amount that would be paid, or the number of shares that would be issued and their fair value, determined under the conditions specified in the contract if the settlement were to occur at the reporting date
- How changes in the fair value of the issuer's equity shares would affect the settlement amounts (for example, "the issuer is obligated to issue an additional X shares or pay an additional Y dollars in cash for each \$1 decrease in the fair value of one share")
- The maximum amount that the issuer could be required to pay to redeem the instrument by physical settlement, if applicable
- The maximum number of shares that could be required to be issued, if applicable
- That a contract does not limit the amount that the issuer could be required to pay or the number of shares that the issuer could be required to issue, if applicable
- For a forward contract or an option indexed to the issuer's equity shares, all of the following:
 - The forward price or option strike price
 - The number of issuer's shares to which the contract is indexed
 - The settlement date or dates of the contract, as applicable

In addition, a public company would present a statement of capitalization at fair value. This schedule would show the beginning balance plus issuances less repurchases or expirations plus (or minus) changes in fair values of equity instruments and long-term debt instruments.

Comment Period

The Boards decided on a comment period of approximately 120 days.

The Boards directed the staff to begin drafting an Exposure Draft on reporting financial instruments with characteristics of equity, to be voted on by written ballot.

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

Financial statement presentation

Sweep issues in advance of pre-ballot draft

The Boards discussed whether to clarify several points in their forthcoming exposure draft on financial statement presentation.

Previously, both Boards had decided that a complete set of financial statements includes a statement of financial position, comprehensive income, cash flows, and changes in equity, and the accompanying notes. IAS 1, *Presentation of Financial Statements*, requires presentation of a complete set of financial statements for both the current period and one comparative period. In addition, an entity is required to present a statement of financial position as of the beginning of the earliest comparative period (an opening statement of financial position) when it applies an accounting policy retrospectively, makes a retrospective restatement of items, or reclassifies items in its financial statements.

The Boards decided that the exposure draft would clarify what constitutes a complete set of financial statements as follows:

- Only one comparative period is required for a complete set of financial statements. Presenting one or more financial statements for additional comparative periods is acceptable, provided it is not misleading. Accordingly, any additional financial statements presented must be

prepared in accordance with current IFRS/U.S. GAAP and must be presented with the same prominence as the required financial statements.

- When there is a change in accounting policy, restatement, or reclassification, an opening statement of financial position for the beginning of the comparative period is the only additional statement that is required to be in compliance with IFRS/U.S. GAAP

The Boards also decided that an item of other comprehensive income that relates to, or will relate to, a discontinued operation, would be identified and presented as such on the statement of comprehensive income.

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

IASB issues March 15-24, 2010 IASB and joint IASB/FASB meeting highlights

Key issues

At the March 15-24, 2010 IASB and IASB/FASB joint meetings the following issues were discussed:

- *Annual improvements*: on the basis of the comments received from respondents and the recommendations of the IFRIC, the IASB reached a tentative decision to finalize six of the improvements to IFRS from the exposure draft issued in August 2009
- *Consolidation*: the Boards tentatively decided that
 - The power to direct the activities of another entity would exist when the reporting entity has the current ability to direct the activities of

the entity that significantly affect that entity's returns

- A decision-maker would be evaluated either as an agent or a principal based on an assessment of the overall relationship between the decision-maker, the entity being managed, and the other interest holders
- *Derecognition*: the IASB made tentative decisions regarding sale and repurchase agreements, pass through arrangements, non-recourse loans, assets and liabilities of SPEs, and disclosures
- *Fair value measurement*: the IASB tentatively decided to exclude two IFRS from the scope of the new standard, whether to refer to fair value in other standards, and the disclosure requirements to be included in the IFRS on fair value measurement
- *Financial instruments – classification and measurement*: the IASB confirmed its earlier decisions on changes to the fair value option for liabilities with respect to “own risk” and the elimination of the cost exception for particular derivative liabilities. The Board tentatively decided to leave unchanged subsequent measurement of loan commitments and financial guarantees.
- *Financial instruments – updates*: the IASB discussed feedback on hedge accounting, and amortized cost and impairment
- *Income taxes*: the IASB reached tentative decisions on possible revisions to the objective and the scope to amend IAS 12, *Income Taxes*
- *Insurance contracts*: the Boards deliberated the following areas and reached tentative decisions in some areas:
 - Measurement model for insurance contracts
 - Accounting for acquisition costs

- Definition of insurance contract
- Scope of the standard on insurance contracts
- Risk adjustments in the proposed measurement model
- Participating features in insurance contracts
- *Joint arrangements*: the Boards reached tentative decisions on transitional provisions and disclosures
- *Leases*: the Boards tentatively decided that
 - A simplified retrospective transition approach would be used to recognize and measure all outstanding leases as of the date of initial application of the proposed new lease requirements
 - The initial measurement of assets and liabilities would be determined at the inception of the lease
 - Lessor accounting for residual value guarantees provided by a lessee would be accounted for in a manner consistent with the accounting for contingent rentals
- *Liabilities – IFRS to replace IAS 37*: the IASB decided to extend to May 19, 2010 the comment period for the Exposure Draft, *Measurement of Liabilities in IAS 37*
- *Revenue recognition*: the Boards tentatively decided that
 - Contract costs, such as costs to obtain a contract or costs of abnormal waste would be expensed as incurred. Contract fulfillment costs that meet specified conditions would be recognized as an asset and amortized.
 - If other standards specify how to separate or measure components of a contract, an entity would apply those requirements. Otherwise, the principles of the proposed revenue standard would apply.

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The International Accounting Standards Board has issued an [IASB Update](#), which summarizes the additional IASB and joint IASB/FASB meetings that were held in London on March 15-24, 2010. The FASB joined the IASB for some sessions. The International Accounting Standards Board has also issued an [IASB Update Supplement](#) that provides a summary for the insurance contracts sessions held on March 23-24, 2010.

Highlights of the meetings are discussed below.

Annual improvements

The IASB discussed eight of the proposed *Improvements to IFRSs* from the exposure draft issued in August 2009. On the basis of the comments that the Board received from respondents and the recommendations of the IFRIC, the IASB tentatively decided to finalize six of the improvements.

IFRS 1, First-time Adoption of International Financial Reporting Standards – Accounting policy changes in the year of adoption

The amendment clarifies that a first-time adopter may change its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34, *Interim Financial Reporting*, for part of the period covered by its first IFRS financial statements, if it explains those changes and updates the reconciliations of its equity and total comprehensive income from previous GAAP to IFRS.

IFRS 3, Business Combinations – Un-replaced and voluntarily replaced share-based payment transactions

The amendment clarifies the guidance for the accounting of share-based payment transactions of the acquiree that were voluntarily replaced by the acquirer and acquiree awards that the acquirer chooses not to replace. Those awards should be accounted for in the same way as acquiree awards that the acquirer is obliged to replace. The IASB also tentatively decided how the transition provisions apply for replaced share-based payment transactions of the acquiree depending on whether they expire or not as a result of the business combination and to reflect in the Basis for Conclusions the rationale for the distinction in accounting.

IAS 1, Presentation of Financial Statements – Clarification of statement of changes in equity

The amendment states that an entity would present changes in the components of equity either in the statement of changes in equity or in the notes to the financial statements. Subject to minor edits, the Board reached a tentative decision to retain the current wording of paragraph 107 of IAS 1 to emphasize that dividends recognized as distributions would be disclosed separately.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – Change in terminology to the qualitative characteristics

The IASB conditionally decided to finalize the amendment to enhance consistency with the pending changes in terminology to be made in the forthcoming revisions to the conceptual framework. This tentative decision is subject to issuance of the relevant chapters of the proposed conceptual framework before finalization and issue of *Improvements to IFRSs*.

IAS 27, Consolidated and Separate Financial Statements – Transition requirements for amendments made as a result of IAS 27 (as amended in 2008) to IAS 21, IAS 28 and IAS 31

The amendment clarifies that the consequential amendments made to IAS 21, IAS 28, and IAS 31 as a result of the 2008 amendment of IAS 27 require prospective application.

IFRIC 13, Customer Loyalty Programmes – Fair value of award credits

The IASB tentatively decided to clarify that the fair value of awards in paragraph AG2(a) reflects, for example, the amount of discount or incentive that would otherwise be offered to customers who have not earned award credits from an initial sale. In addition, the Board amended the Illustrative Examples to include possible redemption in goods as well as in cash.

Review of illustrative examples to previously recommended proposed amendment

The Board considered the illustrative examples relating to the proposed amendment for IFRS 3, *Business Combinations - Measurement of non-controlling interests* and asked the staff to revise these with respect to some concerns that had been raised. The choice of measuring non-controlling interests (NCI) either at fair value or at the proportionate share in the recognized amounts of an acquiree's identifiable net assets, is now limited to NCI that are present ownership instruments and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. The amendment also clarifies that all other components of NCI shall be measured at their acquisition-date fair values, unless another measurement basis is required by IFRS.

Revision to proposed improvement to IFRS 1

The IASB discussed a revision to the proposed amendment to IFRS 1 relating to the extension of the *deemed cost* exemption in paragraph D8 of IFRS 1.

At its meeting in February 2010, the Board decided to finalize the original amendment that extends the deemed cost exemption to event-driven

revaluations that occur during the period covered by the entity's first IFRS financial statements. The amendment also permits entities that had previously applied IFRS 1 to apply the extension of the deemed cost exemption retrospectively in the first annual period after the amendment is effective.

At this meeting, the IASB tentatively decided to permit entities that had certain event-driven revaluations before IFRS 1 was issued to apply the deemed cost exemption.

Two proposed amendments removed, without finalization, from Annual Improvements

The IASB also tentatively decided to remove from the *Annual Improvements* process, without finalization, two proposed amendments that had been included in the *Improvements to IFRSs* exposure draft in August 2009:

- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Application of IFRS 5 to loss of significant influence over an associate or loss of joint control over a jointly controlled entity: Following the Board's February 2010 tentative decisions relating to the Joint Arrangements project and the definition of significant economic events, the IASB tentatively decided to bring the issue back as a sweep issue at a future meeting
- IAS 40, Investment Property - Change from fair value model to cost model: The IASB asked the IFRIC to reconsider this issue as part of the next Annual Improvements cycle in light of the comments received

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

Note: On May 6, 2010, the IASB issued *Improvements to IFRSs*. Unless otherwise specified, the amendments are effective for annual periods beginning on or after January 1, 2011, with earlier application permitted. See the [May 19, 2010 IFRS Update](#) for a summary of the *Improvements to IFRSs*.

Consolidation

The Boards deliberated the following topics at their joint meeting:

- Control model
- Principal-agency relationship
- Structured entities
- Disclosures

Control model

At a prior meeting, the Boards tentatively decided that control would be the basis for consolidation and that the definition of control of an entity would have two elements: a power element and a returns or benefits/losses element. At this meeting, the Boards continued to discuss the power element in the context of a reporting entity with less than half of the voting rights in another entity.

The Boards tentatively decided that a reporting entity would have the power to direct the activities of another entity when it has evidence of the current ability to direct those activities of the entity that significantly affect the returns. The FASB differed from the IASB by voting that there must be evidence of control.

A reporting entity could have the current ability to direct those activities by having the contractual ability to direct activities by holding:

- More than half of the voting rights (in an entity controlled by voting rights)
- Rights within other contractual arrangements that relate to the substantive activities of the entity
- A combination of voting rights and rights within other contractual arrangements

- Upon consideration of the relevant facts and circumstances despite holding less than half of the voting rights in an entity

In situations where a reporting entity does not have the contractual ability to direct the activities of another entity (for example, when the reporting entity holds less than half of the voting rights in an entity) the Boards tentatively decided that a reporting entity may need to rely on other indicators of power to provide evidence of having the ability to direct the activities of another entity, such as

- Whether current facts and circumstance indicate that the reporting entity could exercise potential voting rights (the potential rights are substantive)
- Whether the entity's operations would be dependent on the reporting entity

The Boards noted that in some situations the size of the reporting entity's holding of voting rights relative to the size and dispersion of holdings of other vote holders, together with voting patterns at previous shareholders meetings, could provide sufficient evidence of having the ability to direct the activities of an entity.

The Boards also tentatively decided that the assessment of whether a reporting entity has the current ability to direct the activities of an entity would include both an assessment of both the reporting entity's rights (and whether they are sufficient to give the reporting entity power), and whether the rights held by other parties could prevent the reporting entity from having the ability to direct those activities.

The FASB tentatively decided that the guidance for variable interest entities in FASB ASC Codification Topic 810, Consolidation, other than the implementation guidance, would be replaced by the control principles established within this project. It is expected that the guidance in the consolidation project will produce consolidation results consistent with those reached under the Variable Interest Entity subsections of Topic 810.

Principal-agency relationship

The Boards tentatively decided that evaluating whether a decision-maker is an agent or a principal would be made based on an assessment of the overall relationship between the decision-maker, the entity being managed, and the other interest holders. The assessment would consider all of the following factors:

- Scope of decision-making authority
- Rights held by other parties
- Remuneration of the decision-maker
- Exposure to variability of returns as a result of other interests that the decision-maker holds in the entity

Related parties

The Boards tentatively decided that when assessing control, the involvement and interests of a related party would be considered to be involvement and interests of the reporting entity when the reporting entity or those who direct its activities have the ability to direct the related party to act on its behalf. The list of potential related parties would include those entities with a majority of members on the governing body who are also on the governing body of the reporting entity. In addition, the Boards also tentatively decided that the final standard would include guidance similar to FASB ASC Topic 810-10-25-44 to address situations in which a reporting entity, together with its related parties, as

a group, meets the control requirements. Topic 810-10-25-44 states that when a reporting entity concludes that neither it nor one of its related parties has the characteristics of control but, as a group, the reporting entity and its related party have those characteristics, then the party within the related party group that is most closely associated with the variable interest entity is the primary beneficiary.

Structured entities

The Boards discussed whether specific guidance for structured entities should be included in the consolidation standard. As a result of that discussion, the next due process document is expected to include a description of a structured entity that would incorporate some of the factors that describe a variable interest entity in FASB ASC Topic 810-10.

Disclosures

The Boards discussed disclosure requirements for the consolidation standard, including a disclosure principle and specific disclosures.

Disclosure principle

The Boards tentatively decided that the final consolidation standard would contain a general disclosure principle that would require a reporting entity to disclose information that would help users of financial statements to understand:

- The composition of the group as well as any changes in that composition
- The effect of legal structures within the group on the reporting entity's ability to access and use assets and resources of consolidated entities and changes to those structures
- The nature of the risks associated with the reporting entity's involvement with structured entities and any changes in those risks

The Boards also tentatively decided that a reporting entity would be able to aggregate disclosures as long as separate disclosure would not provide more decision-useful information. Application guidance on aggregating disclosures is expected to be included in the final disclosure requirements.

Disclosures for subsidiaries

To comply with the general disclosure principle, the Boards tentatively decided that a reporting entity would disclose the following information:

- All significant judgments and assumptions used in determining whether the reporting entity controls another entity
- Any changes in the reporting entity's control assessments that require significant judgment and the reasons for those changes
- The nature of restrictions that are a consequence of assets and liabilities being held by the parent or its subsidiaries

The staff was asked to perform additional research on disclosures relating to the following areas:

- Summarized financial information of the subsidiaries
- Noncontrolling interests in the group
- A reporting entity's risk exposure due to its involvement with its subsidiaries

Disclosures on implicit obligations

The Boards discussed whether a reporting entity should be required to disclose implicit obligations of support that it may have with another entity. As a result of that discussion, the Boards tentatively decided that a reporting entity would be required to disclose the following:

- Support provided to another entity in the absence of any contractual or constructive obligation to do so
- Any current intentions to provide support or other assistance in the future

Further deliberation on disclosures for consolidated and unconsolidated entities is expected at the April 2010 joint board meeting.

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

Derecognition

At this meeting, the Board continued its discussions of the new derecognition approach for financial assets. The approach requires derecognition of a financial asset when it no longer qualifies as an asset of the entity, which is when the benefits of the financial asset no longer exist or the item does not embody future economic benefits. The Board also discussed the feedback received on the disclosures proposed in the exposure draft.

Sale and repurchase agreements and similar transactions

At this meeting, the Board tentatively decided to make an exception to the derecognition approach to require that a sale of a financial asset that is accompanied by an agreement that entitles and obligates the seller to repurchase the same, or substantially the same, asset before maturity of the asset should be accounted for as a secured borrowing (rather than as a sale of the asset).

The Board discussed whether to provide guidance regarding “substantially the same.” If the repurchased asset is totally different from the transferred asset (e.g. fixed coupon vs. variable interest rate) it would seem that the transaction would not be a secured borrowing, even as an exception to the proposed

derecognition model. The Board tentatively decided that for a financial asset to meet the “substantially the same asset” requirement, it must have all of the following characteristics (as are found in FASB ASC Topic 860, *Transfers and Servicing*):

- The same primary obligor (except for debt guaranteed by a sovereign government, central bank, government-sponsored enterprise or agency thereof, in which case the guarantor and the terms of the guarantee must be the same)
- Identical form and type so as to provide the same risks and rights
- The same maturity (or in the case of mortgage backed pass-through and pay-through securities, similar remaining weighted-average maturities that result in approximately the same market yield)
- Identical contractual interest rates
- Similar assets as collateral
- The same aggregate unpaid principal amount or principal amounts within accepted “good delivery” standards for the type of security involved

The Board also tentatively decided to provide the following application guidance for the “same primary obligor” and “similar assets as collateral” conditions (also as in Topic 860):

- *The same primary obligor*: the exchange of pools of single-family loans would not meet this criterion, because the mortgages comprising the pool do not have the same primary obligor, and would therefore not be considered substantially the same
- *Similar assets as collateral*: mortgage-backed pass-through and pay-through securities must be collateralized by a similar pool of mortgages, such as single-family residential mortgages, to meet this characteristic

Pass-through arrangements, non-recourse loans and accounting for assets and liabilities of SPEs

The Board also discussed how the derecognition approach for financial assets would apply to pass-through arrangements, SPEs that issue beneficial interests in the “assets” of the SPE, and non-recourse loans. The Board tentatively decided the following:

- Paragraph 19 of IAS 39, *Financial Instruments: Recognition and Measurement*, includes three criteria (known as the “pass-through test”) that, if met, require that the transaction be treated as a transfer of the asset, or part thereof. The proposed derecognition approach will not include the pass-through criteria in IAS 39.19 because the approach addresses the issues that the pass-through criteria are designed to address. However, the next due process document will include application guidance on how the derecognition approach addresses the pass-through requirements.
- In the past, some Board members had expressed concern that application of the new derecognition approach would result in the transfer of all the assets and liabilities of special-purpose entities (SPEs). The Board determined, however, that application of the derecognition approach will not necessarily result in SPEs becoming “empty shells.” The Board concluded that whether an SPE will be empty depends on the nature of the beneficial interests issued (i.e. whether the beneficial interests entitle the holders of such instruments to the cash flows of an asset or a portfolio of assets, or to an interest in the entity).
- A non-recourse provision in a loan means that, should the debtor default on a secured obligation, the creditor can look only to the securing assets for recovery. If that is insufficient, the creditor has no legal recourse to the other assets of the debtor. For non-recourse loans that are effectively pass-through arrangements, the debtor would not

recognize the securing asset, nor would it recognize a liability. Rather, the parties involved (creditor and debtor) would only recognize their related interests in the underlying asset, or in parts of the underlying asset. Non-recourse loans are in effect pass-through arrangements if the primary source from which the debtor is expected to obtain cash to pay the principal and interest on the loan is the securing asset. In these arrangements, the debtor effectively promises or agrees to pass the cash flows of the asset to the creditor.

Disclosures

The Board tentatively decided that the next due process document would incorporate the derecognition objectives, and related disclosures, proposed in the exposure draft. Some transfers of financial assets that qualify for derecognition may include more than one category of continuing involvement, e.g. servicing and an option agreement. The proposal will also clarify that the disclosures for assets that are derecognized with more than one type of continuing involvement should be aggregated rather than presenting the disclosures by each type of continuing involvement.

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

Fair value measurement

The Board deliberated the following topics at its meeting:

- Scope
- Recognition of day 1 gains or losses of financial instruments
- Disclosures about fair value measurements

Scope

The Board tentatively decided to exclude the following two IFRS from the scope of an IFRS on fair value measurement:

IFRS 2, Share-based Payment: In some situations, IFRS 2 requires fair-value based measures when measuring the value of share-based payment transactions. In particular, if an entity cannot estimate reliably the fair value of the goods or services received for equity-settled share-based payment transactions, it would measure the transaction indirectly by reference to the fair value of the equity instrument granted. In doing so, however, the entity would not be allowed to take into account vesting conditions (other than market conditions) and reload features. In a fair value measurement, market participants would be expected to consider vesting conditions and reload features. To amend IFRS 2 to distinguish between measures that are fair value and those that are fair-value-based, new measurement guidance would need to be created for the fair-value-based measures, which might result in an unintended change in practice.

IAS 17, Leases: The current definition of fair value, which would be relevant in the application of the guidance in IAS 17, does not require the use of an exit price, as the proposed definition of fair value would. In deliberating the exposure draft, the Board concluded that an entity would generate cash flows either through the use of the leased asset, or by sub-leasing the asset, which would indicate that the value of the asset would be determined by an exit price. During the comment process, some practical concerns were identified related to the potential effect on classification of leases as finance leases or operating leases if the evaluation is performed based on an exit price as compared to an entry price. For sale and leaseback transactions, applying an exit price notion might affect the profit or loss recognized when the entry price is different from the exit price. That could result from applying the highest and best use concept, if the asset's current use differs from its highest and best use or other factors. In addition to concerns about the potential to significantly change classifications of leases and the amount of recognized

gains or losses on sale and leaseback transactions, the IASB, jointly with the FASB, is currently reviewing the accounting for lease agreements. Both Boards plan to replace IAS 17 within the first half of 2011. If the IASB includes IAS 17 in the scope of an IFRS on fair value measurement, this might require entities to make significant changes to their accounting systems twice, first for the IFRS on fair value measurements and secondly for the IFRS on lease accounting.

The Board also tentatively decided:

- In IFRS 3, *Business Combinations*, to retain the term “fair value” when referring to the measurement of reacquired rights. IFRS 3 already describes the measurement of reacquired rights as an exception to fair value. Paragraph 29 states that a reacquired right is recognized as an intangible asset on the basis of the remaining contractual term of the related contract, regardless of whether market participants would consider potential contract renewals in determining fair value.
- In IAS 39, *Financial Instruments: Recognition and Measurement*, to retain the term “fair value” for measuring financial liabilities with a demand feature. The guidance in paragraph 49 of IAS 39 requires that the fair value for financial liabilities with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.
- In IAS 19, *Employee Benefits*, not to describe the provisions for measurement of reimbursement rights as a practical expedient for determining fair value. When an entity is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, under IAS 19.104A an entity recognizes the right to reimbursement as a separate asset at fair value. If the right to reimbursement arises under an insurance policy that exactly matches the

amount and timing of some or all of the benefits payable under a defined benefit plan, IAS 19.104D says that the fair value of the reimbursement right is deemed to be the present value of the related obligation. In the exposure draft, the Board had proposed to describe the IAS 19.104D measurement as a practical expedient. A practical expedient is considered to be a suitable short cut method to arrive at the same answer as following the required guidance. When accounting for postretirement benefits, the present value of the benefit obligation does not equate to the fair value of the obligation. Therefore, the current description in paragraph 104D, that the present value of the benefit obligation is deemed to be the measure of fair value for this specific case, is correct.

- Not to exclude the measurement of award credits in IFRIC 13, *Customer Loyalty Programmes* from the scope of an IFRS on fair value measurement. One method of allocation under IFRIC 13 is relative fair value. To avoid making IFRIC 13 subject to measurement and disclosure requirements of a new fair value measurement standard, the staff had recommended that IFRIC 13 be scoped out of the fair value measurement standard. Because IFRIC 13 would be subsumed into forthcoming revenue recognition guidance which measures amounts based on customer consideration instead of fair value, the Board did not believe it is necessary to exclude IFRIC 13 from the proposed standard.

The Board tentatively decided that each of the IFRS that are excluded from the scope of an IFRS on fair value measurement will state the reasons for that decision and why the term “fair value” was nevertheless retained in that standard.

Recognition of day 1 gains or losses of financial instruments

In January 2010, the IASB tentatively decided to address the recognition of day 1 gains or losses separately from the fair value measurement project. Although the issue will not be addressed in the fair value measurement project, that project team will prepare an analysis on the basis of which the IASB will consider amending IAS 39. The project team plans to bring this issue to the IASB at a future meeting. No decisions were made on this issue.

Disclosures about fair value measurements

The Board deliberated disclosures about fair value measurements jointly with the FASB.

The Boards tentatively decided:

- To define “class” in the proposed standard. Although the exposure draft and current U.S. guidance (FASB ASC Topic 820, *Fair Value Measurements and Disclosures*) both require that an entity disclose information about its fair value measurements by class of assets or liabilities, the exposure draft does not define class. The Boards considered it best to address this by defining class on the basis of the following principles:
 - An entity should determine the appropriate classes of assets and liabilities based on the nature, characteristics and risks of the assets and liabilities, and their classification in the fair value hierarchy
 - A class of assets and liabilities will often require greater disaggregation than the entity's line items in the statement of financial position
 - Judgment is needed to determine the appropriate classes of assets and liabilities
- Not to require an entity to disclose information about the change in the nonperformance risk of a non-financial liability, as was proposed in the IASB's exposure draft. Some comment letters had objected on the grounds that the issue of own credit is being addressed as part of the financial instruments project, and for non-financial liabilities, nonperformance risk would be difficult to assess.
- To require an entity to disclose its policy for determining when transfers between levels of the fair value hierarchy are recognized. The exposure draft included a requirement to disclose the amounts of significant transfers between Levels 1, 2 and 3 and the reasons for those transfers. It did not, however, specify when the transfers were deemed to have been made. Rather than requiring a specific time, such as the date of transfer, beginning of the reporting period, or end of the reporting period, the Boards believed it is more appropriate to require disclosure of the entity's policy on when it recognizes the transfers.
- To require an entity to disclose information about fair value measurements only after initial recognition. While the IASB's exposure draft did not explicitly state when the information is required, Topic 820 specifically requires disclosure only in periods after initial recognition. This will result in convergence to the U.S. guidance.
- For assets and liabilities that are remeasured at fair value each reporting period, to require an entity to disclose a reconciliation of activity within Level 3 of the fair value hierarchy and information about transfers between Levels 1 and 2. For assets and liabilities remeasured at fair value only in specific circumstances, an entity does not need to disclose this information. With this clarification, the same disclosure requirements would be required for recurring items (such as financial assets held for trading) and nonrecurring items (such as goodwill impairment) except for the two items mentioned, which would be limited to recurring items.
- To require an entity to disclose fair value information by level in the fair value hierarchy for items that are not measured at fair value in the

statement of financial position. Although some thought this disclosure would not be meaningful or cost beneficial, others thought the information would be readily available to the entity preparing the disclosure of items that are reported at other than fair value in the statement of financial position (e.g. amortized cost), but for which fair value disclosure is required, such as by IFRS 7, *Financial Instruments: Disclosures*.

- Not to include guidance for assessing the significance of an input or of changes in fair value. The exposure draft refers to significance in the context of a threshold for requiring a sensitivity analysis for Level 3 disclosures. Some comment letters had asked for more guidance. Because there was already guidance stated in the proposal (significance shall be judged with respect to profit or loss, and total assets or total liabilities), the Boards decided to not provide more.

The Boards also tentatively decided to require a sensitivity analysis disclosure for all Level 3 fair value measurements unless another standard does not require such a disclosure. Currently, IFRS 7 requires a sensitivity analysis for Level 3 fair value measurements of financial instruments. U.S. GAAP (Topic 820) does not have that requirement. By including the requirement in the proposed fair value measurement standard, the sensitivity analysis would apply to all Level 3 fair value measurements (unless exempted by another standard), not just financial instruments. It could affect, for example, impairment of goodwill or fixed assets (U.S. GAAP) or investment properties using the fair value model (IFRS).

The Boards believed that it would be important to clarify the objective of the sensitivity analysis. The objective of the sensitivity analysis disclosure is to provide users of financial statements with information about measurement

uncertainty for Level 3 fair value measurements. That is, the disclosure does not represent a worst-case scenario and is not forward looking.

In addition, the Boards tentatively decided that the sensitivity analysis disclosure should consider the effect of the correlation between inputs when relevant. The sensitivity analysis required by IFRS 7 does not require entities to consider the correlation between inputs. Although preparers question its benefit, users have indicated that the sensitivity disclosure would be more helpful if entities provided information about correlation between inputs. Entities would therefore have to discuss interdependencies between inputs in the proposed requirements.

The IASB tentatively decided to require entities to disclose information about fair value measurements for financial instruments in an entity's interim financial statements. This will most likely require an amendment to IAS 34, *Interim Financial Reporting*.

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

Financial instruments: classification and measurement

The Board deliberated the following topics at its meeting:

- Fair value option
- Cost exception for particular derivative liabilities
- Other issues

Fair value option

At the February 2010 meeting, the Board tentatively decided to retain the existing classification and measurement requirements in IAS 39 *Financial Instruments: Classification and Measurement* for financial liabilities. However, the Board also tentatively decided to propose changes to the fair value option

(FVO) in order to address widespread concerns about recognizing gains or losses arising from changes in an entity's own credit risk.

At this meeting, the Board confirmed the tentative decisions about the FVO, but agreed to describe alternatives for particular aspects of the decisions and ask respondents for feedback. The alternatives include whether:

- Changes in credit risk of the liability should *not* affect profit or loss
- Changes in credit risk of the liability should not affect profit or loss only in the case of an accounting mismatch. When an entity matches a liability with a non-derivative financial asset, both items are affected by the change in the price of credit, so a mismatch would result when the effect on the liability is recognized in other comprehensive income (OCI) and the effect on the asset is through profit or loss.
- Changes in credit risk of the liability should be reflected in other comprehensive income (as opposed to equity)
- The “two-step approach” is appropriate. In the proposal, the first step is to present the entire fair value change in profit or loss, and in the second step, to “back out” of profit or loss (to OCI) the portion of the fair value change that is attributable to changes in the liability’s credit risk.
- To prohibit recycling through profit or loss. For example, if the liability is settled prior to maturity there could be amounts in accumulated OCI that would be realized when the liability is derecognized. Those amounts would not be reclassified (recycled) to profit or loss.

In addition, the Board tentatively decided to propose full retrospective application for the proposals on the FVO.

Cost exception for particular derivative liabilities

The Board confirmed its previous decision that there will not be a cost exception for any derivative liabilities on investments in unquoted equity

instruments. The Board had originally proposed removing the cost exception for both financial assets and financial liabilities, but due to the decision to exclude financial liabilities from the scope of IFRS 9, *Financial Instruments*, at present the cost exception still exists for derivative financial liabilities in IAS 39.

The Board also decided that the transition for such derivative liabilities previously measured at cost should be the same as the requirements in IFRS 9 for any derivative asset on investments in unquoted equity instruments previously measured at cost.

Other issues

The Board tentatively decided to carry forward the subsequent measurement requirements in IAS 39 for loan commitment liabilities and financial guarantee contracts.

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

Financial instruments: updates

Amortized cost and impairment

The Board discussed the feedback received from the outreach efforts with preparers, auditors, regulators, and users of financial statements. The staff also presented a summary of discussions to date from the Expert Advisory Panel. No decisions were made.

Hedge accounting

The Board discussed the feedback received to date from the outreach efforts with users of financial statements. No decisions were made.

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

IFRIC update

The Director of Implementation Activities reported on the IFRIC's meeting on March 4-5, 2010. See the [April 21, 2010 IFRS Update](#) for a summary of the March 2010 IFRIC meeting.

Income taxes

The IASB discussed possible revisions to the objective and the scope of IAS 12, *Income Taxes*. The IASB decided that the preferred objective of the project is to resolve problems in practice under IAS 12 without changing the fundamental approach or increasing divergence from U.S. GAAP.

The IASB also decided that the scope of the project would include:

- Uncertain tax positions, after completion of revisions to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*
- Deferred tax on revaluation of property at fair value. The staff was directed to explore the possibility of an exception for investment property measured at fair value under IAS 40, *Investment Property* based on the lower tax consequences of sale or use.
- Consideration of the following proposals generally supported by respondents to the Exposure Draft on Income Tax:
 - Initial consideration of whether recovery of an asset or settlement of a liability will affect taxable profit
 - Recognition of a deferred tax asset in full with an offsetting valuation allowance when necessary
 - Guidance on assessing the need for a valuation allowance
 - Guidance on the meaning of substantive enactment
 - The allocation of current and deferred taxes within a group that files a consolidated tax return

In addition, the IASB indicated that it would explore the possibility of resolving the issue of the tax effects of dividends by entities such as real estate investment trusts and co-operative societies.

The staff is expected to present proposals on the above issues to the IASB beginning in the third quarter of 2010.

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

Insurance contracts

The Boards discussed the following topics at their joint meeting:

- Measurement model
- Acquisition costs
- Definition of an insurance contract
- Scope
- Risk adjustments
- Participating features in insurance contracts
- Disclosures

Measurement model

The proposed measurement model for insurance contracts would include a residual margin that would be determined at inception. The residual margin would be the difference between the expected premiums and the expected claims and expenses plus a risk adjustment. At this meeting, the Boards discussed how the residual margin would be subsequently released to profit or loss by the insurer.

The Boards tentatively decided that the insurer would release the residual margin to profit or loss over the coverage period in a systematic way that best reflects the exposure from providing insurance coverage. That would be on

the basis of passage of time unless the insurer expects to incur benefits and claims in a different pattern. If so, the residual margin would be released on the basis of the expected benefits and claims.

At a future meeting, the Boards plan to discuss whether the residual margin would accrete interest.

Acquisition costs

The FASB and the IASB have different views on the accounting for acquisition costs for insurance contracts.

At the meeting, the FASB affirmed its previous tentative decision that an insurer would recognize all acquisition costs as an expense when incurred and would not recognize a corresponding amount of premium as revenue at inception.

The IASB tentatively decided to exclude an amount equal to the incremental acquisition costs from the initial measurement of the residual margin. The staff was asked to look into which of the following approaches would best implement the IASB's tentative decision:

- Excluding the acquisition costs from the premium to which the contract liability is calibrated
- Including the acquisition costs in the contract cash flows at the inception of the contract

The Boards noted that some acquisition costs may be recoverable in some circumstances either from the policyholder or from third parties. The staff was asked to consider whether investigating those circumstances would make it easier for the Boards to reach a common approach for acquisition costs.

Definition of insurance contract

The Boards tentatively decided to use the current definition of an insurance contract in IFRS 4, *Insurance Contracts*. An *insurance contract* is defined as “A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.” The Boards also tentatively decided to use the following related guidance in Appendix B of IFRS 4 in the exposure draft:

- That compensation rather than indemnification be used in the definition of an insurance contract in describing the benefit provided to the policyholder
- That the guidance in IFRS 4 be used in determining whether insurance risk is significant, subject to matters discussed below

The staff was asked to consider the notion of significant insurance risk in the context of multiple-element contracts when the topic of unbundling is brought back to the Boards for deliberation.

Regarding the role of timing risk (contractual provisions that delay timely reimbursement to the policyholder) in defining insurance risk, the Boards tentatively decided:

- To change the factors considered in evaluating the significance of insurance risk from absolute amounts to present values
- To amend the guidance in IFRS 4 to explain that contractual terms that delay timely reimbursement to the policyholder can significantly reduce insurance risk, so that some contracts containing such terms might not meet the definition of an insurance contract

The IASB and the FASB each expressed an initial preference on how to assess possible outcomes when determining whether insurance risk exists, but

did not reach a tentative decision. The IASB would consider the range of possible outcomes. The FASB would consider whether there are outcomes in which the present value of the net cash outflows can exceed the present value of the premiums.

The Boards plan to reconsider these initial preferences at a future meeting.

Scope

The Boards tentatively decided that the standard on insurance contracts would not apply to the following:

- Warranties issued directly by a manufacturer, dealer, or retailer
- Residual value guarantees embedded in a lease
- Residual value guarantees provided by a manufacturer, dealer, or retailer
- Employers' assets and liabilities under employee benefit plans and retirement benefit obligations reported by defined benefit retirement plans
- Contingent consideration payable or receivable in a business combination

At a future meeting, the Boards plan to discuss whether to include the following contracts in the scope of the standard:

- Financial guarantee contracts
- Health contracts
- Fixed-fee service contracts. The Boards expressed an initial preference to exclude fixed-fee service contracts from the scope of the standard, but noted that it would not be desirable to exclude contracts merely because they pay benefits in kind rather than in cash.

Risk adjustments

The IASB and the FASB discussed the risk factor included in the proposed measurement for insurance contracts, but could not arrive at a consensus. The

IASB tentatively decided that the measurement of an insurance contract would include a separate risk adjustment and the risk adjustment would be the amount that the insurer would rationally pay to be relieved of the risk. The FASB tentatively decided that the measurement of an insurance contract would include one single composite margin and would not include a separate risk adjustment.

Participating features in insurance contracts

The IASB and the FASB discussed the treatment of participating features in insurance contracts, but could not arrive at a consensus. The IASB tentatively decided that payments arising from the participating feature would be included in the measurement of insurance contracts on an expected present value basis, the same as other contractual cash flows. The FASB decided tentatively that the insurer would recognize a liability for participating benefits to the extent that it has a legal or constructive obligation to pay those benefits.

The Boards also discussed possible disclosure requirements for participating contracts and gave the staff comments to consider in developing these requirements.

Disclosures

The staff proposed that the forthcoming exposure draft on insurance contracts would require an insurer to disclose information that would:

- Explain the characteristics of its insurance contracts
- Identify and explain the amounts in its financial statements arising from insurance contracts
- Help users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts

The staff was asked to clarify those disclosure objectives in light of the following:

- Relevance in providing information about amount, timing, and uncertainty of future cash flows
- Disclosure objectives developed in other projects
- Appropriate level of disaggregation for disclosures

The Boards also reviewed proposed minimum disclosure requirements that would supplement the disclosure objectives and gave the staff comments to consider in developing these requirements.

Next steps

The Boards plan to continue to discuss this project in April.

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

Joint arrangements

The IASB continued its deliberations on the proposals in the Exposure Draft, *Joint Arrangements*.

Transitional provisions

The IASB tentatively concluded that Jointly Controlled Entities (JCEs) would transition from proportionate consolidation to the equity method by aggregating the carrying values of the proportionate consolidated assets and liabilities into a single line item. The investment will also need to be tested for impairment in accordance with IAS 36, *Impairment of Assets* when the new standard is first applied, and at corresponding comparative periods.

The IASB also had a preliminary discussion relating to the transition provisions for JCEs that will have to change their accounting from the equity method to accounting for shares of assets and liabilities. The IASB did not reach a decision on this issue, but stated that the objective for these transition provisions should

require an entity to apply the provisions of the proposed standard retrospectively.

Disclosures

The Board tentatively decided:

- To align the disclosure objectives for joint arrangements and associates
- To require a list and description of investments in individually material joint arrangements and associates
- To require an entity to disclose commitments and contingent liabilities relating to its joint arrangements, including its share of commitments or contingent liabilities incurred jointly with other parties
- To require identical summarized financial information for joint ventures and associates, independent of the measurement method used
- To require disclosure of the fair value of joint ventures accounted for under the equity method when published prices quotes are available
- To not require disclosure of summarized financial information for joint operations or the basis of joint control

The IASB also held a preliminary discussion relating to aggregation of and the level of detail of the summarized financial information required for joint ventures and associates; however no decisions were reached on the issue.

The IASB will continue its discussion at future meetings, with the goal of issuing an IFRS in the second quarter of 2010.

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

Leases

The Boards deliberated the following topics at their joint meeting:

- Lessee disclosures

- Lessor transitional provisions
- Initial measurement
- Lessor accounting for residual value guarantees
- Presentation by lessees
- Presentation by lessors
- Lessor accounting model

Lessee disclosures

The Boards tentatively agreed on a set of disclosure requirements for lessees that would be included in the exposure draft on leases. The disclosures would be based on a disclosure objective that, in general, would require lessees to disclose quantitative and qualitative financial information that helps users to evaluate the nature, extent, amount, timing, and uncertainty of future cash flows arising from lease contracts, and the way in which the lessee manages those uncertainties. Lease disclosures for lessees would include:

- A general description of the lessee's leasing activities disaggregated by nature or function
- A reconciliation between opening and closing balances for right-of use assets and obligations to pay rentals
- A narrative disclosure of assumptions and estimates on the amortization method, option exercise, contingent rent, residual value guarantees, and discount rate
- A maturity analysis of the gross obligation to pay rentals displaying the contractual obligations and total estimated obligations on an annual basis for the first five years and a lump sum figure for the remaining amounts. The total gross obligation would reconcile to the total obligation to pay rentals presented in the financial statements.

For leases accounted for using the simplified model, if applicable, the entity would disclose:

- The fact that the simplified model is used for short-term leases
- The amounts recognized in the financial statements
- For sale and leaseback transactions, if applicable, the entity would disclose:
 - Material terms and conditions related to such transactions
 - Gains or losses arising from such transactions shown separately from other types of asset sales

In addition, the Boards tentatively decided that lessees would not be required to disclose the fair value of a lessee's obligation to pay rentals, which is a financial liability. The disclosure of the fair value of each class of financial liability is currently required under IFRS 7, *Financial Instruments: Disclosures*. However, the obligation to pay rentals is a more complex measurement that incorporates options, contingencies, and residual value guarantees that would be more costly to measure at fair value.

Lessor transitional provisions

Application of the proposed new requirements to existing leases could be costly and difficult for some lessors. Acknowledging these difficulties, the Boards tentatively decided that the lessor would use a simplified retrospective approach to recognize and measure all outstanding leases as of the date of initial application of the proposed new lease requirements.

Although the lessor would be required to recognize and measure a lease receivable and a performance obligation for all outstanding leases as of the effective date, the measurement of these assets and liabilities would be simplified. Under a simplified retrospective approach, the lessor's receivable

would be measured at the present value of the remaining lease payments discounted using the original rate that the lessor is charging the lessee in the lease. The performance obligation would be measured on the same basis as the receivable.

Under the proposed new lease requirements, all lessors would continue to recognize all leased assets on their financial statements. However, under current guidance the leased asset is derecognized if the lease is classified as a finance lease. Therefore, previously derecognized leased assets would have to be reinstated. The Boards tentatively decided that a lessor would reinstate previously derecognized leased assets at depreciated cost, adjusted for impairment and, for IFRS preparers, revaluation if applicable.

IFRS preparers would be required to provide transition disclosures in accordance with the guidance in IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, except for the disclosure of adjusted basic and diluted earnings per share.

Initial measurement

In previous meetings, the Boards tentatively decided that assets and liabilities arise when a contract is signed. Between contract signing and delivery, the unit of account is the contract as a whole and the contract position would be presented net. At this meeting, the Boards discussed whether an entity should measure leased assets and liabilities at the inception date or the commencement date.

The Boards tentatively decided that initial measurement of assets and liabilities arising in lease contracts would be determined at the inception of the lease. This approach would be consistent with existing guidance.

Lessor accounting for residual value guarantees

The Boards tentatively decided that a lessor would account for a residual value guarantee provided by a lessee in a manner consistent with the accounting for contingent rentals. Therefore,

- The lease receivable would include amounts payable under a residual value guarantee, if the amount could be measured reliably
- The receivable would be measured using an expected outcome technique; however, not every possible scenario would need to be considered when measuring the receivable
- The carrying amount of the receivable would be reassessed at each reporting date if any new facts or circumstances indicate that there is a material change in the receivable
- Any change in the receivable arising from a change in amounts payable under a residual value guarantee would be treated as an adjustment to the lessor's receivable and performance obligation

The Boards also tentatively decided that residual value guarantees from an unrelated third party would be accounted for in accordance with the accounting for other guarantees.

Presentation by lessees

The Boards reached the following tentative decisions on how a lessee's assets, liabilities, expenses, and cash flows arising from a lease contract would be presented in the financial statements:

- The right-of-use asset would be presented with property, plant, and equipment on the face of the statement of financial position; however, it would be presented separately from other assets that are owned but not leased

- The obligation to pay rentals would be presented separately from other financial liabilities on the face of the statement of financial position
- Amortization and interest expense arising in lease contracts would be presented either on the face of the statement of comprehensive income or in the notes to the financial statements separate from other amortization expense and other interest expense
- Cash repayments of amounts borrowed and interest payments arising in lease contracts would be classified separately as financing activities in the statement of cash flows. The staff was instructed to consider how total cash rentals paid in the period would be presented or disclosed in the financial statements.

In the forthcoming exposure draft on leases, the Boards will ask for comments about whether the lessee's asset, liability, and expenses for the first three items described above should be presented on the face of the financial statements or in the notes to the financial statements.

Presentation by lessors

Under the proposed new lease requirements, a lessor would recognize its leased asset, an asset representing its right to receive rental payments (a lease receivable), and a liability representing its performance obligation under the lease (its obligation to permit the lessee to use its leased asset). The Boards tentatively decided that the leased asset, the lease receivable, and the performance obligation would be presented separately in the statement of financial position totaling to a net lease asset or a net lease liability.

The IASB tentatively decided that interest income attributable to the interest component of leased payments received, lease income attributable to the satisfaction of the performance obligation, and depreciation expense on the underlying leased asset would be presented separately in the statement of

comprehensive income. The FASB tentatively decided that interest income, lease income, and depreciation expense would be presented separately in the statement of comprehensive income but total to a net lease income or expense.

The Boards also tentatively decided that repayments of the lease receivable and interest income arising from the lease receivable would be classified as operating activities in the statement of cash flows.

Lessor accounting model

The IASB stated that it would like to reconsider an alternative accounting model (the derecognition approach) for lessors.

Next steps

The Boards plan to continue discussing lessee and lessor accounting at the April 2010 meeting.

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

Liabilities - IFRS to replace IAS 37

The Board decided to extend to May 19, 2010 the comment period for the Exposure Draft, *Measurement of Liabilities in LAS 37*. The extension is to give respondents more time to understand the recognition requirements before they finalize their comments on the revised measurement proposals.

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

Revenue recognition

The Boards deliberated the following topics at their joint meeting:

- Disclosures
- Accounting for contract costs
- Scope - components

Disclosures

The Boards continued their discussion about revenue disclosures and tentatively decided that the forthcoming exposure draft would include a requirement for an entity to disclose the following:

- The amount of revenue recognized on a disaggregated basis. An entity would be required to make clear how that disaggregation relates to amounts presented or disclosed in accordance with other standards.
- For contracts with an original term of more than one year, the amount of remaining performance obligations and the expected timing of their satisfaction

The revised disclosure proposal includes the following:

- A revised disclosure objective to focus on the timing and amount of revenue recognition
- Streamlined risk disclosures
- Enhanced disclosures on onerous contracts
- Elimination of the requirement to disaggregate revenue
- A new requirement to disclose the amount and expected timing of satisfaction of performance obligations

Accounting for contract costs

The Boards also discussed accounting for costs in contracts with customers and tentatively decided that:

- An entity would recognize the following costs as expenses when incurred:
 - Costs of obtaining a contract (for example, selling, advertising, and marketing costs)
 - Costs that relate to goods and services that have been transferred

- Costs of abnormal waste, including labor, material, or other fulfillment costs
- An entity would recognize an asset for contract fulfillment costs that would not otherwise be eligible for recognition as an asset in accordance with other standards (for example, inventory, property, plant, or equipment, and software) if the costs meet all of the following conditions:
 - The costs generate or enhance a resource that will be used to satisfy performance obligations in a contract
 - The costs relate directly to a contract or anticipated contract
 - The costs are probable of recovery under a contract

An entity would amortize a recognized asset as the goods or services to which the asset relates are transferred to the customer. An entity would test the asset for impairment by comparing its carrying amount to the amount recoverable under the contract (that is, the amount of consideration allocated to remaining performance obligations less the direct costs of satisfying those performance obligations).

Consequently, the IASB tentatively decided to withdraw the guidance in IAS 2, *Inventories*, for inventories of a service provider.

Scope - components

The proposed revenue model would require that a contract be separated in two steps. First, an entity would segment a single contract into more than one contract if certain criteria are met. Next, the entity would identify separate performance obligations in each contract. At the February 2010 joint meeting, the Boards began to discuss how to account for a contract that includes some performance obligations that would be within the scope of the proposed model and others that would be within the scope of other standards (for

example, leases, financial instruments, and guarantees). The Boards continued to discuss this topic at the March 2010 joint meeting and tentatively decided that if other standards specify how to separate or measure components of a contract, an entity would apply those requirements. If not, the entity would apply the principles of the proposed revenue standard.

Next steps

The Boards plan to publish an exposure draft in the second quarter of 2010.

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

Future IASB meetings

The IASB held subsequent meetings (some of them jointly with the FASB) on April 8, 2010, April 19-23, 2010, May 4, 2010, and May 17-21, 2010. The next IASB meeting is June 14-18, 2010.

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