



On the Horizon for IFRS

July 13, 2010

IASB issues May 4, 2010 additional joint IASB/FASB meeting highlights

Conceptual framework - measurement
Consolidation
Other comprehensive income

IASB issues May 17-20, 2010 joint IASB/FASB meeting highlights

Annual Improvements
Conceptual framework: qualitative characteristics
Consolidation
Emissions trading schemes
Financial instruments: hedge accounting
IFRS Interpretations Committee update
Insurance contracts
Joint arrangements
Leases
Accounting for residual assets
Management commentary
Revenue recognition
Repurchase agreements

Future IASB meetings

IASB issues May 4, 2010 additional joint IASB/FASB meeting highlights

Key issues

At the May 4, 2010 additional joint IASB/FASB meeting the following issues were discussed:

- *Conceptual framework – measurement:* The Boards decided not to produce a neutral discussion paper, but instead to continue to attempt to develop preliminary views using the questions and views in the staff paper as a starting point
- *Consolidation:* The Boards reached tentative decisions on disclosures for unconsolidated structured entities and investment companies
- *Other comprehensive income:* The IASB reached a tentative decision to change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income

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 joint IASB/FASB meeting that was held in London on May 4, 2010. The FASB participated via video conference for certain sessions.

Highlights of the meetings are discussed below.

Conceptual framework - measurement

The Boards discussed a staff paper that proposed working towards a neutral discussion paper that would be the first due process document for the measurement phase of the conceptual framework project. The Boards decided not to produce a neutral discussion paper, but instead to continue to attempt to develop preliminary views using the questions and views in the staff paper as a starting point.

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

Consolidation

At the May 4, 2010 meeting, the IASB and the FASB discussed a general disclosure principle for subsidiaries and specific disclosures for subsidiaries, but did not reach any decisions. These issues will be discussed further at a future meeting. The Boards also discussed disclosures for unconsolidated structured entities and disclosures related to investment companies and reached the following tentative decisions.

Disclosures for unconsolidated structured entities

At a prior meeting, the Boards tentatively decided on a general disclosure principle that would require a reporting entity to disclose information that helps

users of financial statements understand the nature of, and changes in, the risks associated with the reporting entity's involvement with unconsolidated structured entities and how those risks affect future cash flows. At the May 4, 2010 meeting, the Boards clarified that, for disclosure purposes, a reporting entity is involved with a structured entity when the reporting entity is exposed to variability of returns from its involvement with the structured entity.

The IASB tentatively decided that a reporting entity would be required to disclose the following information:

- Income from its involvement with structured entities that it has set up or sponsored
- The fair value of assets recognized by those structured entities at the time that the structured entities are established

The FASB tentatively decided not to require these specific disclosures because disclosures about income from an entity's involvement with structured entities that it has set up or sponsored would be included within the overall disclosure principles.

Disclosures related to investment companies

The Boards tentatively decided that an investment company would disclose the following:

- Whether the investment company has provided any financial or other support to any of its controlled investees that it was not previously contractually required to provide
- The nature and extent of any significant restrictions on the ability of its controlled investees to transfer funds, such as dividends or repayment of loans or advances, to the investment company

The Boards also tentatively agreed that an investment company would not be required to present summarized financial information for controlled investments.

At a future meeting, the IASB will discuss whether to require an investment company to provide additional disclosures about its investees as is currently required under U.S. GAAP.

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

Other comprehensive income

The Boards discussed whether to change the title of the statement of comprehensive income:

- The IASB reached a tentative decision to change the title from the *Statement of Comprehensive Income* to the *Statement of Profit or Loss and Other Comprehensive Income*. The title would not be mandatory, but it would be used in all IFRS literature.
- The FASB reached a tentative decision to retain *Statement of Comprehensive Income* for its proposed accounting update

The Boards plan to issue the proposals in May 2010 for comments.

Note: On May 26, 2010, the IASB issued an Exposure Draft, *Presentation of Items of Other Comprehensive Income: Proposed amendments to IAS 1*. The FASB also issued its Exposure Draft, *Statement of Comprehensive Income*. The comment period for both Exposure Drafts ends September 30, 2010.

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

IASB issues May 17-20, 2010 joint IASB/FASB meeting highlights

Key issues

At the May 17-20, 2010 joint IASB/FASB meeting the following issues were discussed:

- *Annual Improvements:* The IASB discussed proposals to revise the criteria for determining which amendments to IFRS are eligible for inclusion within the Annual Improvements project
- *Conceptual framework: qualitative characteristics:* The Boards decided that materiality is an entity-specific aspect of relevance rather than a constraint to be considered in setting financial reporting standards
- *Consolidation:* The Boards reached tentative decisions on the following topics, among others:
 - Not to include specific guidance for determining whether a regulated fund should be consolidated
 - To prohibit the parent of an investment company from retaining the fair value accounting applied by an investment company subsidiary to its controlled investees and to require the parent to retain the fair value accounting applied to an investment company subsidiary's noncontrolled investees
 - To include transition guidance for situations where the proposed guidance will require consolidating or deconsolidating entities
- *Emissions trading schemes:* The IASB held an education session to discuss the emissions trading scheme research paper

- *Financial instruments – hedge accounting:* The IASB tentatively decided that:
 - Groups of hedged items would not be subject to group-specific eligibility criteria
 - Amounts transferred as hedge accounting adjustments between profit or loss and other comprehensive income would be presented in a separate income statement line for net hedge positions
 - A contractually-specified risk component would be eligible to be a hedged item whether a component of a financial or non-financial item
- *Insurance contracts:* The IASB tentatively selected a risk adjustment plus a residual margin measurement approach for insurance contracts while the FASB tentatively selected a single composite margin approach. The Boards made tentative decisions regarding:
 - The objective of a risk adjustment
 - Amortization of the composite margin
 - Disclosure requirements
 - A guiding principle for unbundling
 - The scope of the future standard on insurance contracts
- *Joint arrangements:* The IASB tentatively decided that partial disposals of an interest in a joint venture or associate that meet the criteria under IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, would be classified as held for sale. An interest in a joint operation which the entity is committed to sell and which meets the other criteria also would be classified as held for sale. The IASB tentatively decided to replace the term “significant” with “individually material” in the criteria for determining which interests in joint arrangements and associates must

be disclosed and described. On transition, the IASB tentatively decided that first time adopters of IFRS will first convert their investment in a jointly controlled entity to comply with existing IFRS. Also, if an entity is transitioning from proportionate consolidation to the equity method, the investment must be tested for impairment even if there is no indication that the asset is impaired.

- *Leases:* The Boards reached tentative decisions on the following topics, among others:
 - Under a performance obligation approach to lessor accounting, the performance obligation would be satisfied and revenue would be recognized continuously over the lease term
 - Under a derecognition approach to lessor accounting, the partial derecognition model would be adopted. In light of this tentative decision, the Boards discussed the accounting for residual assets, options, contingent rentals, residual value guarantees, and subleases under this model, as well as presentation and disclosures.
- *Management commentary:* The IASB discussed the comment letters received on the exposure draft but did not make any decisions
- *Revenue recognition:* The Boards reached tentative decisions on the following topics:
 - How a seller of a nonfinancial asset would determine whether a buyer obtains control of the asset when it is subject to a repurchase agreement
 - Whether an entity should apply the recognition and measurement principles of the proposed revenue model to sales of assets that are not an output of an entity's ordinary activities

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 joint IASB/FASB meeting that was held in London on May 17-20, 2010. The FASB participated via video conference for certain sessions.

Highlights of the meetings are discussed below.

Annual Improvements

The IASB discussed proposals to revise the criteria for determining whether a proposed amendment to IFRS should be included within the Annual Improvements project. At the current time, the general criteria for inclusion are:

- The relevance to users of the information and the reliability of information that could be provided
- Whether existing guidance is available
- The possibility of increasing convergence
- The quality of the standard to be developed
- Resource constraints

In addition, the issue must be non-urgent but necessary.

The proposals will be presented to the Trustees in July 2010.

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

Conceptual framework: qualitative characteristics

The IASB and the FASB discussed two issues that arose from the ballot draft on the objective of financial reporting and the qualitative characteristics

chapters. Some Board members objected to characterization of materiality as a constraint and also noted that the definitions of materiality and relevance are the same. The Boards decided that materiality is an entity-specific aspect of relevance rather than a constraint to be considered in setting financial reporting standards. In addition, some Board members objected to the inclusion of wording regarding stewardship (efficient or effective use of resources) within the objective of financial reporting. The Boards discussed how best to describe the objective of financial reporting.

The Boards directed the staff to prepare a new ballot draft to reflect both the discussion of the objective and the results of the decision about materiality.

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

Consolidation

At the May 17-20, 2010 joint meeting, the Boards discussed the following topics:

- Agency relationships—regulated funds
- Investment companies
- Transition
- Separate presentation of consolidated assets and liabilities

Agency relationships—regulated funds

The IASB and the FASB discussed whether a fund manager should consolidate a fund when the fund being managed is strictly governed by law or regulation to ensure that the fund is operated in the best interest of all investors. The Boards tentatively decided that a decision-maker would assess whether it controls regulated funds that it manages. That assessment would be made by using the proposed agency guidance that applies to all decision-makers that have been delegated decision-making authority. Therefore, the

Boards tentatively decided that there is no need to include specific guidance for regulated funds.

Investment companies

IASB and FASB

At a prior meeting, the Boards tentatively decided that the parent of an investment company would retain the fair value measurement basis that an investment company applies for its controlled investees in the consolidated financial statements. At this meeting, the Boards redeliberated that tentative decision as a result of questions raised about the accounting by the parent company when the parent or another entity consolidated by the parent owns an investment in an investee of the investment company subsidiary.

After redeliberating this issue, the Boards tentatively decided that the parent of an investment company (if it is not an investment company itself) would be prohibited from retaining the fair value accounting applied by an investment company subsidiary to its controlled investees. The parent of an investment company would be required to consolidate all entities that it controls, including those that are controlled by an investment company subsidiary, unless the parent is also an investment company. The Boards also confirmed their previous tentative decision that an investment company would be required to measure its investment in entities that it controls at fair value through profit or loss.

IASB only

IAS 28, *Investments in Associates*, and IAS 31, *Interests in Joint Ventures*, include a scope exception for investments in associates and interests in jointly controlled entities held by venture capital organizations, mutual funds, unit trusts, and similar entities such as investment-linked insurance funds that are designated as at fair value through profit and loss upon initial recognition or classified as held

for trading and measured at fair value through profit or loss. At its meeting, the IASB discussed whether the scope exception in IAS 28 and IAS 31 should be amended to apply to investments in associates and interests in jointly controlled entities held by investment companies as defined in the consolidation project.

The IASB tentatively decided to replace the list of entities referred to in paragraph 1 of IAS 28 and paragraph 1 of IAS 31 with the proposed criteria for an investment company in the consolidation project. An investment company would be required to measure investments in associates and joint ventures at fair value through profit or loss and therefore would not apply the equity method of accounting.

The IASB asked the staff to conduct further research to identify whether the tentative decision to replace the list of entities referred to in paragraph 1 of IAS 28 and paragraph 1 of IAS 31 would restrict the number of entities currently applying the scope exemption in those paragraphs.

The IASB also tentatively decided that:

- A parent of an investment company would be required to retain the fair value accounting applied by the investment company subsidiary to investments that it does not control, including investments in associates and joint ventures
- It would not address the timing issue faced by investment companies that are first-time adopters of IFRS in 2011. Some jurisdictions will be applying IFRS for the first time from January 1, 2011. In some of those jurisdictions, an investment company is required to measure investments in entities they control at fair value instead of consolidating those investments. That accounting is similar to the proposed accounting in the consolidation project. However, the current consolidation guidance

in IFRS does not include a scope exception for investment companies. Therefore, it is possible that some entities that are investment companies will have to consolidate investments in entities they control on transition to IFRS and shortly thereafter revert back to their original accounting at fair value when the consolidation standard is finalized.

Transition

The IASB discussed the transition guidance for situations where applying the proposed consolidation requirements results in a reporting entity:

- Consolidating an entity that was previously not consolidated
- No longer consolidating an entity that was previously consolidated

When consolidating a previously unconsolidated entity, the Board tentatively decided that the assets, liabilities, and non-controlling interests would be measured as if that subsidiary had been consolidated from the date when the reporting entity obtained control of the subsidiary based on the revised consolidation requirements. If that approach is impracticable, the reporting entity would apply the acquisition method in IFRS 3, *Business Combinations*, at the beginning of the earliest period for which application of those requirements would be practicable.

When deconsolidating a consolidated entity, the Board tentatively decided that the interest in a previously consolidated entity would be measured as if the reporting entity had accounted for that interest from when it first became involved with, or no longer had control of, the entity. If that approach is impracticable, the reporting entity would derecognize the assets, liabilities, and non-controlling interests of an entity, and recognize any interest in the entity at fair value as of the beginning of the earliest period for which application of those requirements is practicable.

The IASB tentatively decided to permit early application.

Separate presentation of consolidated assets and liabilities

The IASB discussed whether to permit or require a reporting entity to present separately on the face of the statement of financial position the following:

- Assets of a consolidated variable interest entity that can only be used to settle obligations of the consolidated variable interest entity
- Liabilities of a consolidated variable interest entity for which creditors (or beneficial interest holders) do not have recourse to the general credit of the reporting entity

The IASB tentatively decided not to require the separate presentation of the assets and liabilities of a consolidated variable interest entity in the consolidated financial statements. However, the IASB asked the staff to investigate whether it would be useful to require disclosure of restrictions on the reporting entity's ability to access the cash flows of assets that can only be used to settle particular liabilities.

The IASB plans to discuss this issue at the next joint Board meeting.

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

Emissions trading schemes

The IASB held an educational session to discuss the emissions trading scheme research paper written and presented by a former IASB Industry Fellow. The research paper provides an overview of emission trading schemes and a brief description of the current joint project. The IASB staff plans to publish the information as a Staff Research Paper in the next several months, as a resource for those interested in the joint project. The Board did not make any technical decisions at this meeting, but provided comments to the author of the paper and requested that additional information be added to the research paper relating to accounting issues that the staff and the Boards are currently debating.

The IASB staff plans to present information related to the main accounting issues on the project to the Boards in the third quarter of 2010.

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

Financial instruments: hedge accounting

Currently under IAS 39, *Financial Instruments: Recognition and Measurement*, there are restrictions that apply to hedges of groups of hedged items and net positions. The effects of these restrictions are that only items that would qualify for hedge accounting on an individual basis will qualify as part of a group of hedged items, and hedged items that together constitute a net position do not qualify for hedge accounting. The current accounting model, however, is inconsistent with commercial hedging strategies. In an effort to continue to improve the general hedge accounting model, the IASB discussed the eligibility of groups of hedged items for designation in hedging relationships, including net positions and contractually-specified risk components.

Groups of hedged items including net positions

The staff provided some examples of groups of hedged items, including net positions. As a first step, the Board tentatively decided that no group-specific eligibility criteria would apply. The Board discussed the examples in the context of an earlier tentative decision to propose using the cash flow hedge accounting mechanism for fair value hedges. In that context, the Board tentatively decided to present hedge accounting adjustments between profit or loss and other comprehensive income in a separate line on the statement of profit or loss. As the Board continues to discuss further examples of groups of hedged items, these tentative decisions will be reviewed.

Contractually-specified risk components

Under current requirements, the eligibility of risk components for hedge accounting depends on the type of hedged item. Financial items can be

disaggregated into risk components if the component is separately identifiable and the effects are reliably measurable. Non-financial components other than foreign currency risk cannot be disaggregated into risk components. In February 2010 the IASB tentatively decided to permit the designation of risk components as eligible hedged items under the new model. In the May 2010 meeting the IASB discussed contractually-specified risk components for both financial and non-financial items. The Board tentatively decided that a contractually-specified risk component would be an eligible hedged item whether it is the component of a financial or a non-financial item.

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

IFRS Interpretations Committee update

The Board discussed the IFRS Interpretations Committee's meeting on May 6-7, 2010. Highlights of the meeting are discussed in the [June 28, 2010 On the Horizon for IFRS](#).

Insurance contracts

The Boards discussed the following topics:

- Margins
- Risk adjustment
- Composite margin
- Level of measurement
- Disclosures
- Unbundling
- Scope

Margins

The Boards discussed the measurement approach for insurance contracts. The IASB tentatively selected an approach that includes a risk adjustment plus a residual margin, while the FASB tentatively selected an approach that includes a single composite margin.

Risk adjustment

The Boards discussed the objective for a risk adjustment, along with draft supporting guidance, and tentatively decided that:

- The objective should reflect the maximum amount that an insurer rationally would pay to be relieved of the risk, considering that actual benefits and claim costs may exceed expected benefits and claim costs
- The guidance accompanying this objective should clarify that a risk adjustment would capture the level of uncertainty inherent in the cash flows from the insurance liability from the perspective of the insurer, not from the perspective of a market participant
- The range of applicable techniques used to measure the risk adjustment should be limited. At a future meeting the Boards will hold a discussion on which techniques would be available for measuring the risk adjustment and whether a cost of capital approach would meet the objective of the risk adjustment.

Composite margin

The Boards discussed how to amortize the composite margin based on either the insurer's exposure from the provision of insurance coverage or from uncertainties related to future cash flows.

The Boards tentatively decided that these factors should be implemented through the following formula:

Premium allocated to current period + current period claims and benefits

Total contract premium + total claims and benefits

The Boards also affirmed that an insurer would not adjust a composite margin for changes in cash flow estimates.

Level of measurement

The Boards then discussed the level of measurement and tentatively decided:

- An entity would measure any risk adjustment at the portfolio level
- To retain the definition of a portfolio of contracts in the existing guidance under IFRS 4, *Insurance Contracts*
- Residual or composite margins would be determined at a cohort level of aggregation, by grouping insurance contracts by portfolio and, within the same portfolio, by date of inception of the contract and by length (or life) of the contract

The Boards asked the staff to consider and recommend whether to require or permit the insurer to determine a composite margin on an individual contract basis rather than on a cohort basis.

Disclosures

The Boards tentatively approved disclosure requirements including a principle on the level of disaggregation for disclosure purposes.

Unbundling

The Boards discussed a potential guiding principle for unbundling insurance, investment (or financial) and service components of a contract based on a concept of significant interdependence. They asked the staff to refine the guidance supporting the proposed principle to clarify how an insurer would assess whether interdependence is significant. If the staff is unable to draft the clarifying language the Boards will likely review the proposed principle at a future meeting.

The Boards tentatively decided that account balances of account-driven contracts would be unbundled. The characteristics of those contracts will be defined in accordance with the guidance in FASB ASC Topic 944-20-15, *Financial Services - Insurance*.

The IASB tentatively decided that embedded derivatives would be unbundled when required by the IASB's existing standards on financial instruments. The FASB tentatively decided that embedded derivatives would be unbundled using the unbundling principle being developed for insurance contracts.

In addition, the Boards tentatively decided that unbundling would be prohibited except in cases where it was required.

Scope

The Boards tentatively decided that the scope of the future standard on insurance contracts would:

- Exclude fixed-fee service contracts
- Include financial guarantee contracts, which are contracts that require the issuer to make specified payments to reimburse the holder for losses incurred because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument

The Boards noted that the proposed definition of an insurance contract excludes:

- Contracts that pay out regardless of whether the counterparty holds the underlying debt instrument
- Contracts that pay out on a change in credit rating or credit index, rather than on the failure of a specified debtor to make payments when due

Those contracts would be financial instruments within the scope of applicable standards.

The Boards will continue their discussion of this project at the joint Board meeting in June 2010.

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

Joint arrangements

The IASB discussed the following topics:

- Interaction between IFRS 5 and loss of joint control/significant influence
- Disclosures
- Transition provisions

Interaction between IFRS 5 and loss of joint control/significant influence

The IASB tentatively decided that when an entity partially disposes of an interest in a joint venture or an associate only the interest disposed of that meets the criteria under IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* is to be classified as held for sale. The portion of the interest in a joint venture or associate that is retained by an entity continues to be accounted for under the equity method until the disposal occurs.

The Board also tentatively decided to require that an interest in a joint operation which an entity is committed to sell and which meets the other criteria for classification as held for sale in IFRS 5, should be classified as held for sale.

The Board additionally agreed to clarify that an entity would amend the financial statements for the periods since classification as held for sale if an interest (or a portion of an interest) in a joint venture, an associate, or a joint operation ceases to meet the criteria in IFRS 5 to be classified as held for sale.

Disclosures

The Board tentatively decided that:

- The term *significant* would be replaced by *individually material* in the disclosure requirement for a list and description of interests in joint arrangements and associates
- The summarized financial information required to be provided for individually-material joint ventures and associates would be presented on a total or hundred per cent basis instead of a venturer's or investor's interest basis and that an entity would disclose its net interest amount in joint ventures and associates that are not individually material
- The summarized financial information provided by associates would include current assets, non-current assets, current liabilities, non-current liabilities, revenues, and profit or loss
- An entity would separately disclose commitments and contingent liabilities in relation to its joint ventures
- An entity would not be required to disclose commitments and contingent liabilities in relation to its joint operations separately, as they are included in the reporting entity's own disclosures
- Disclosure requirements for venture capital organizations, mutual funds, unit trusts, and similar entities including investment-linked insurance funds

who have an interest in a joint venture or an investment in an associate would not be specifically addressed

Transitional provisions

The Board tentatively decided that on transition an entity will derecognize an equity method investment and recognize the entity's portion of the assets and liabilities at their carrying values in accordance with the contractual arrangement. Any difference is recorded in retained earnings. The entity will provide a reconciliation between the investment derecognized and the individual assets and liabilities recognized, and disclose the amount, if any, recognized in retained earnings.

The Board also discussed transitional provisions for first-time adopters. The Board tentatively concluded that the main difference between the transitional provisions for first-time adopters and for those entities already reporting under IFRS is that a first-time adopter will first convert its investment in a jointly controlled entity to comply with existing IFRS. Also, if an entity is transitioning from proportionate consolidation, which will no longer be an acceptable method for accounting for joint arrangements, to the equity method, the investment is required to be tested for impairment under IAS 36, *Impairment of Assets*, even if there is no indication that the asset is impaired.

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

Leases

The Boards discussed the following topics:

- Lessor accounting for a performance obligation
- A derecognition approach to lessor accounting
 - Accounting for residual assets
 - Accounting for options

- Accounting for contingent rentals and residual value guarantees
- Accounting for subleases
- Presentation
- Disclosures

Lessor accounting model: performance obligation or derecognition

Lessor accounting for the performance obligation

The IASB and the FASB considered whether a lessor should ever be permitted to recognize revenue at lease commencement under the performance obligation approach to lessor accounting. The Boards tentatively decided that under a performance obligation approach to lessor accounting, the lessor has a single performance obligation to continue to permit the lessee to use the leased asset over the lease term. Therefore, the performance obligation would be satisfied and revenue would be recognized continuously over the lease term.

Derecognition approach to lessor accounting

The Boards discussed the derecognition approach to lessor accounting as an alternative to the performance obligation approach.

Under the performance obligation approach, the lease creates a new right (the right to receive lease payments) and an obligation (an obligation to permit the lessee to use the leased asset). Because the new right and the obligation are separate from the lessor's rights over the leased asset, the lessor would not derecognize the leased asset.

Under the derecognition approach, the underlying leased asset would be viewed as a bundle of rights. Any portion or all of these rights can be transferred to a lessee at a point in time. In effect, the lessor has exchanged a portion of the

rights attached to the leased asset to the lessee during the lease term and the lessee will receive the future economic benefits of the leased asset. Once the lessor transfers these rights (the right-of-use asset) to the lessee, the lessor has satisfied its performance obligation. Therefore, the leased asset would be derecognized and revenue would be recognized.

Two possible models were considered - a full derecognition approach and a partial derecognition approach. Under the full derecognition approach, a lessor would derecognize the full carrying amount of the leased asset and would recognize a receivable for the right to receive payments and a residual asset. Under a partial derecognition approach, the leased asset is a resource that comprises a bundle of rights that can be broken down. The lessee acquires an unconditional right to use the underlying asset for a period of time (part of the bundle of rights). The lessor then derecognizes the unconditional right to use the portion of the underlying asset transferred to the lessee in return for a receivable and recognizes a residual asset which represents the lessor's rights to the underlying asset at the end of the leased term.

If a derecognition approach to lessor accounting is adopted, the Boards tentatively decided that they would adopt the partial derecognition model. In light of that tentative decision, the Boards discussed the following topics under a partial derecognition approach.

Accounting for residual assets

Under the derecognition approach, the lessor would recognize an asset for its interest in the underlying asset at the end of the lease (the residual asset). The Boards tentatively decided that the residual asset would be an allocation of the previous carrying amount of the underlying asset and would not be remeasured other than for impairment.

Accounting for options

The Boards discussed how to account for leases that include options to extend or terminate a lease under the derecognition approach and reached the following tentative decisions:

- The lessor would initially measure the residual asset based on the assessed lease term, which is the longest possible lease term that is more likely than not to occur
- The lessor would treat a reassessment of the expected lease term as a new derecognition/re-recognition event. Under this approach, the lessor would derecognize/reinstate a portion of its residual asset.

The staff was asked to provide additional analysis on accounting for purchase options under lessee and lessor accounting for the Boards' consideration.

Accounting for contingent rentals and residual value guarantees

The Boards tentatively decided that changes in amounts receivable for all types of contingent rentals and residual value guarantees would be recognized in profit or loss under a derecognition approach.

Accounting for subleases

The Boards discussed how to account for subleases under a derecognition model for lessors and reached the following tentative decisions:

- Different measurement guidance would not be provided for assets and liabilities arising from a sublease
- Intermediate lessors would present all assets and liabilities arising from a sublease gross in the statement of financial position

Presentation

The Boards discussed how a lessor's assets, liabilities, revenues, and expenses that arise from a lease contract should be presented in the financial statements under a derecognition approach and tentatively decided that

- Lease receivables would be presented separately from other receivables in the statement of financial position
- Residual assets would be presented within property, plant, and equipment, but separately from other assets that are owned but not leased. A lessor would also be required to disclose residual assets by class of assets in the notes.
- Revenue and cost of sales would be presented in the statement of comprehensive income based on the lessor's business model. Therefore, manufacturer/dealers would present these items gross and other lessors would present them net.

Disclosures

The Boards tentatively agreed to a set of disclosure requirements for lessors under the derecognition approach that would include additional disclosures about the residual asset and service obligations. The staff was asked to consider the disclosure requirements in the derecognition project as they develop the disclosures under the derecognition approach to lessor accounting.

Lessor accounting model: performance obligation or derecognition

Over the course of the lease project, the Boards have discussed two lessor accounting models: the performance obligation approach and the derecognition approach. At this meeting, the Boards debated which approach to adopt. The FASB expressed a preference for the performance obligation

approach for lessors. The IASB expressed a preference for a hybrid model in which the lessor would apply the derecognition approach for some leases and the performance obligation approach for others. The IASB asked the staff to develop proposals for deciding when to apply each of the models.

The Boards will continue discussing lease accounting at the joint meeting in June 2010.

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

Management commentary

The IASB discussed the comment letters received on the Exposure Draft, *Management Commentary*. The comment period ended in March 2010. The Board did not make any technical decisions at this meeting.

The staff will continue to consider if there are issues that need to be redeliberated by the Board and if not, the staff will begin to finalize the document.

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

Revenue recognition

The IASB and FASB discussed the following topics:

- Repurchase agreements
- Sales of assets that are not an output of an entity's ordinary activities

Repurchase agreements

Under the proposed revenue recognition model, revenue would be recognized when the customer obtains control of the promised good or service and the other proposed criteria are met. Because the concept of control is critical to the proposed model, the Boards discussed how a seller of a nonfinancial asset would determine whether a buyer obtains control of the asset when it is subject

to a repurchase agreement. The Boards reached the following tentative decisions:

- If a buyer has the unconditional right to require the entity to repurchase the asset (a put option), the buyer would obtain control of the asset and the entity would account for the agreement similarly to the sale of a product with a right of return
- If an entity has an unconditional obligation or unconditional right to repurchase the asset (a forward or a call option), the buyer would not obtain control of the asset. The entity would account for the repurchase agreement as:
 - A lease in accordance with FASB ASC Topic 840, *Leases*, or IAS 17, *Leases*, if the entity repurchases the asset for less than the original sales price of the asset
 - A financing arrangement if the entity repurchases the asset for more than the original sales price of the asset
- If the sale and repurchase agreement is a financing arrangement, the entity would
 - Continue to recognize the asset
 - Recognize a financial liability for any consideration received from the buyer
 - Recognize the difference between the amount of consideration received from the buyer and the amount of consideration paid to the buyer as interest and, if applicable, as holding costs

As a result of these tentative decisions, the FASB tentatively decided to remove Subtopic 470-40, *Debt - Product Financing Arrangements* from the Accounting Standards Codification.

Sales of assets that are not an output of an entity's ordinary activities

The Boards tentatively decided that an entity would apply the recognition and measurement principles of the proposed revenue model to contracts for the sale of the following assets that are not an output of the entity's ordinary activities:

- Intangible assets within the scope of FASB ASC Topic 350, *Intangibles - Goodwill and Other*, or IAS 38, *Intangible Assets*
- Property, plant, and equipment within the scope of FASB ASC Topic 360, *Property, Plant, and Equipment*, or IAS 16, *Property, Plant and Equipment*, or IAS 40, *Investment Property*.

As a result of the Boards' tentative decision, the entity would derecognize the asset when the buyer obtains control of the asset. At that date, a gain or loss would be recognized equal to the difference between the transaction price and the carrying amount of the asset. The transaction price would be limited to amounts that can be reasonably estimated at the date of transfer.

Note: On June 24, 2010, the Boards published an Exposure Draft, *Revenue from Contracts with Customers*. The comment period ends October 22, 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 June 1, 2010, June 10, 2010, June 15-17, 2010, and June 23, 2010. The next IASB meeting will be held on July 19-23, 2010.

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