



On the Horizon for IFRS

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IASB issues exposure draft on fair value measurement

The IASB [announced](#) the issuance of an [Exposure Draft, Fair Value Measurement](#), which would replace fair value measurement guidance contained in individual IFRS with a single, unified definition of fair value, as well as further authoritative guidance on the application of fair value measurement in inactive markets. The proposed IFRS does not require any additional fair value measurements. The IASB also issued the proposed [Basis for Conclusions](#) and [Illustrative Examples](#) as separate documents.

To ensure consistency between IFRS and U.S. GAAP, the proposals incorporate recent guidance on fair value measurement issued by the FASB and are consistent with a report of the IASB's Expert Advisory Panel issued in October 2008 on fair value measurement in illiquid markets.

The IASB used FASB Statement 157, *Fair Value Measurements* as their starting point during the development of the fair value measurement proposals. Accordingly, the proposed definition of fair value is identical to the definition in Statement 157 and the supporting guidance is also largely consistent with U.S. GAAP.

The IASB's objectives for issuing the proposed IFRS are:

- To establish a single source of guidance for all fair value measurements required or permitted by IFRS to reduce complexity and improve consistency in their application
- To clarify the definition of fair value and related guidance in order to communicate the measurement objective more clearly

- To enhance disclosures about fair value to enable users of financial statements to assess the extent to which fair value is used and to inform them about the inputs used to derive those fair values

The comment period ends on September 28, 2009.

The IASB plans to hold a webcast on the fair value measurement proposals and will announce the details in due course.

IASB issues proposed amendments for prepayments of a minimum funding requirement

The IASB [announced](#) the issuance of an [Exposure Draft, Prepayments of a Minimum Funding Requirement: Proposed amendments to IFRIC 14](#), which corrects an unintended consequence of IFRIC 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements*. In accordance with IFRIC 14, entities in certain circumstances are not permitted to recognize as an asset some prepayments for minimum funding contributions. The proposals would remove this unintended consequence.

The comment period ends on July 27, 2009.

Update issued by the IASB on comprehensive review of financial instrument accounting

The IASB issued [Update on comprehensive review of financial instrument accounting](#), which includes discussions on the following:

- IASB activities relating to the global financial crisis
 - Financial Crisis Advisory Group
 - Public round tables

- Accounting for off balance sheet vehicles
 - Consolidation
 - Derecognition
- Disclosures – IFRS 7
- Fair value
 - Expert Advisory Panel
 - Fair Value Measurement
 - Financial Instruments /IAS 39

Two leading U.S. investment analysts appointed to the IASB

The Trustees of the International Accounting Standards Committee (IASC) Foundation [announced](#) the appointment of two leading investment analysts to the IASB.

- Patrick Finnegan, Director of the Financial Reporting Policy Group, CFA Institute Centre for Financial Market Integrity
- Patricia McConnell, former Senior Managing Director, Equity Research, Accounting and Tax Policy Analyst, Bear Stearns & Co

Both will become full-time IASB members for a five year term beginning on July 1, 2009.

IASB issues March 2009 meeting highlights

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

The International Accounting Standards Board has issued the March 2009 [IASB Update](#) which summarizes the Board meeting in London on March 16-20, 2009. Highlights of the meeting are discussed below.

IASB responds to the global financial crisis

The IASB discussed recent FASB proposals, fair value measurement, and financial instruments – recognition and measurement. Additional information with respect to global financial crisis issues is available on the [IASB's financial crisis page](#).

Recent FASB proposals

On March 17, 2009, the FASB issued two draft staff positions (FSPs) that proposed additional application guidance on fair value measurement and amendments to the impairment requirements for certain investments in debt and equity securities to address long-standing U.S. GAAP application issues. At the March 2009 IASB meeting, the FASB staff presented a summary of the proposed FSPs. On April 8, 2009, the IASB issued a *Request for Views* on the FASB's proposals with a comment period that ended on April 20, 2009. The IASB will consider those views before deciding whether to issue formal proposals for public comment.

(Note: On April 9, 2009, the FASB issued final FSPs as follows:

- FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” which provides guidelines for making fair value measurements more consistent with the principles presented in FASB Statement 157, *Fair Value Measurements*

- FSP FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments,” which enhances consistency in financial reporting by increasing the frequency of fair value disclosures
- FSP FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments,” provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities)

The IASB decided to refer FSP 157-4 on fair value measurements to the IASB Expert Advisory Panel.

Fair value measurement

During its discussions, the IASB considered proposed FSP FAS 157-e, *Determining Whether a Market is Not Active and a Transaction is Not Distressed* and decided

- Not to discuss the merits of the approach in the proposed FSP before issuing its exposure draft on fair value measurements
- To ask respondents to the exposure draft on fair value measurements to comment on the approach in the exposure draft and the approach in the FASB FSP

A roundtable meeting is expected to be held after the comment period on the exposure draft.

(Note: On May, 28, 2009, the Board issued the Exposure Draft, [Fair Value Measurement](#).)

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

Financial instruments – recognition and measurement

The Board discussed the objectives of the financial instruments – recognition and measurement project, including the criteria that may be considered when determining a measurement attribute for a financial instrument. No decisions were reached. The IASB and the FASB discussed this topic further at their joint meeting on March 23, 2009 (see the summary below).

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

Board discusses Conceptual Framework

The Board discussed phases A, C and D of the Conceptual Framework project.

Phase A – Objective of Financial Reporting

The Board reviewed responses to the Exposure Draft, *An improved Conceptual Framework for Financial Reporting: Chapter 1: Objective of Financial Reporting*, and tentatively reaffirmed the proposals in that chapter, including the proposals on the objective of financial reporting and the primary user group. The Board reached a tentative decision to amend the proposals in the Exposure Draft as follows:

- Clarify that financial reports do not necessarily exclude forward-looking or prospective information
- Amend the description of an economic phenomenon
- Avoid using the terms entity perspective, entity theory, and proprietary perspective

The Board asked the staff to draft the final versions of the chapters on the objective of financial reporting and the qualitative characteristics of and constraints on financial reporting.

Phase C – Measurement

The Board continued its discussion of factors that might be used to distinguish between items reported in the financial statements at current amounts and those reported at non-current amounts. The discussion focused on the factor of value realization, which relates to the qualitative characteristic of relevance. No decisions were reached. The staff will continue to develop the value realization factor as well as other factors relating to the qualitative characteristics.

Phase D – Reporting Entity

The Board discussed the reporting entity and reached the following tentative decisions:

- The concept of control of an entity would be discussed at a high level in the conceptual framework
- *Significant influence* does not constitute control of an entity
- The forthcoming exposure draft would not discuss proportionate consolidation

The Board asked the staff to start drafting the exposure draft and indicated that revisions may be needed when the Board reviews comments received on ED 10, *Consolidated Financial Statements*.

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

Emissions trading schemes discussed

The Board discussed the initial accounting for emission allowances that entities receive free of charge from a government in an emissions cap and trade scheme. An emissions cap and trade scheme is a regulatory approach to limit specified emissions by introducing a market-based mechanism. The desired reduction in emissions will be achieved over time by reducing the overall cap of emissions that may be released in a period.

The Board reached a tentative decision that if an entity receives emission allowances free of charge from a government, it would:

- Recognize those allowances as assets and initially measure them at fair value
- Incur an obligation to reduce its emissions below the level represented by those allowances (i.e. the cap) and recognize a liability for this obligation, which would be measured initially at the fair value of the allowances received. Only if the entity fulfils this obligation would it be entitled to retain some of the allowances.

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

IASB continues discussions on financial instruments with characteristics of equity

The IASB continued its discussions on an approach for determining whether a financial instrument should be classified as equity or as a liability and reached the following tentative decisions:

- Instruments that would be classified as equity
 - An ownership instrument that is redeemable at the option of the issuer
 - An ownership instrument that is puttable or mandatorily redeemable only upon the holder's retirement or death. The term *retirement* is used broadly to include events such as termination, resignation, or ceasing to be a member in a co-operative or partnership.
- Instruments that would be classified as a liability

- An ownership instrument that is mandatorily redeemable on a specific date, a range of dates, or an event that is certain to occur (other than retirement or death)

The IASB asked the staff to analyze whether certain instruments should be separated into equity and liability components and how a limited life entity would classify its ownership instruments.

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

IASB continues discussions of proposed IFRS for non-publicly accountable entities

The IASB continued its discussions of the following issues with respect to the proposed IFRS for non-publicly accountable entities.

- *Re-exposure:* The IASB considered the changes that were made during redeliberations to the Exposure Draft, *IFRS for Non-publicly Accountable Entities* (NPAEs), and decided unanimously that re-exposure was not required.
- *Implementation and review:* The IASB asked the staff to develop a plan for implementation and subsequent review of the final standard indicating that the plan should address:
 - How to deal with issues that arise as entities around the world adopt the new standard
 - How to maintain the standard with respect to expected future changes to full IFRS
- *Name of the standard:* The IASB discussed alternative names and expressed a preference for *IFRS for Private Entities*.

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

Educational session conducted on insurance contracts

The Board conducted an educational session to discuss the cash flows that would be included in the measurement of insurance liabilities. No decisions were reached.

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

IASB continues discussions of post-employment benefits

In January 2009, the IASB decided to develop two separate exposure drafts from the proposals in the Discussion Paper, *Preliminary Views on Amendments to IAS 19 Employee Benefits*. At its meeting in March 2009, the IASB continued its discussion of the first exposure draft, which would address recognition and presentation of changes in the defined benefit obligation and in plan assets, disclosures, and other comment letter issues that could be addressed quickly.

Presentation of changes in the defined benefit obligation

The IASB reached a tentative decision with respect to presentation. An entity would separate changes in the net defined benefit asset or liability into the following components:

- Service cost
- Interest cost on the defined benefit obligation that would be presented in the same way as other finance costs
- Remeasurements comprising other changes in the defined benefit obligation and in plan assets that would be presented separately in the income statement net of tax effects

The IASB also reached a tentative decision that an entity would classify (a) the gain or loss on settlement and the effect of the asset ceiling in the

remeasurements component and (b) the gain or loss on curtailment with service costs.

Other issues

The IASB reached tentative decisions on the following:

- Not to provide additional guidance on how to determine the appropriate discount rate. However, when the IASB finalizes the definition of an *active market* in its project on fair value measurement, the IASB may consider bringing that term and related guidance into IAS 19, to replace the term *deep market*.
- Not to introduce a blanket exemption from defined benefit accounting for multi-employer plans
- To amend the basis for conclusions in IAS 19 to clarify that the definitions of short-term employee benefits and other long-term employee benefits are based on the timing of when the entity expects the benefit to become due to be settled
- To clarify that
 - Expected future increases in salaries would be considered by the entity when assessing whether benefits attribute higher benefits to later years
 - Risk-sharing and or conditional indexation features would be considered by the entity when determining the best estimate of the defined benefit obligation
 - Taxes payable by the plan would be included in the return on plan assets or in the measurement of the obligation depending on the nature of the tax. The staff will consider where costs of administering a plan would be included.

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

Discussion paper on revenue recognition

The joint IASB/FASB Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers*, proposes a revenue recognition model that is based on increases in an entity's net contract position with a customer. The net contract position is a contract asset or contract liability resulting from the combination of the remaining rights and performance obligations. An entity would initially measure those rights and obligations at the *transaction price*, which is the amount of promised customer consideration.

The IASB noted that the Discussion Paper does not consider how an entity would determine the transaction price when the promised customer consideration is (a) paid at a time significantly different from the time of performance by the entity, (b) uncertain, or (c) in a form other than cash. Accordingly, at its March 2009 meeting, the IASB discussed transaction price issues.

Time value of money

The Board considered how the transaction price would be determined when the promised consideration is paid at a time significantly different from the time of performance by the entity and reached the following tentative decisions:

- If material, an entity's net contract position would reflect the time value of money. The IASB noted that IAS 39 indicates that short-term receivables and payables with no stated interest rate may be measured at the original invoice amount if the effect of discounting is immaterial.
- The discount rate would be the rate at which the entity and its customer would have entered into a financing transaction that did not involve the provision of other goods and services

- The revenue effect of financing would be presented separately from the revenue for other goods and services

Uncertain consideration

The Board considered how the transaction price would be determined when the promised customer consideration amount is uncertain for reasons other than the customer's credit risk and modifications of the contract and reached the following tentative decisions:

- The transaction price at contract inception would be the amount of the expected customer consideration based on a probability weighted estimate
- After contract inception, an entity would update the measurement of rights to reflect changes in the transaction price and would allocate those changes to the performance obligations as follows:
 - If changes are allocated to satisfied performance obligations, the changes would be recognized as revenue
 - If changes relate to unperformed obligations, the changes would increase or decrease the measurement of those obligations

The staff was asked to consider how to allocate a change in the transaction price to the performance obligations.

Non-cash consideration

The Board considered how the transaction price would be determined when the promised consideration is in a form other than cash and reached the following tentative decisions:

- An entity would measure non-cash consideration at its fair value
- If an entity cannot reliably estimate the fair value of non-cash consideration, it would measure the consideration indirectly by reference to the fair value of the promised goods and services

- If a transaction lacks commercial substance, an entity would not recognize revenue
- The staff was asked to consider whether an exchange of similar assets with commercial substance should generate revenue.

Next steps

At a future meeting, the Board will consider collectability and certain contract-related issues; such as renewal and cancellation options, and combining and segmenting contracts.

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

2009 annual improvements

The Board redeliberated one issue on IAS 39, *Financial Instruments: Recognition and Measurement*, and reached a tentative decision to amend paragraph 2(g) of IAS 39, which would clarify that the scope exemption for business combination contracts applies to forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date. This amendment will be included in the 2009 *Improvements to IFRSs*.

(Note: On May 22, 2009, the IASB issued the 2009 *Improvements to IFRSs*.)

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

Update on IFRIC activities

The staff reported on the March 2009 IFRIC meeting. See the May 14, 2009, [On the Horizon for IFRS](#) for a summary of IFRIC activities.

IASB issues March 2009 joint IASB/FASB meeting highlights

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The International Accounting Standards Board has issued the March 2009 [IASB Update](#) which summarizes the Board meeting in London on March 23-24, 2009. Highlights of the meeting are discussed below.

Work plan

The Boards reviewed the progress they have made on the joint projects included in the 2008 Memorandum of Understanding (MOU) and agreed to continue to work jointly and expeditiously towards common standards that deal with

- Off balance sheet activity
- Accounting for financial instruments
- Analyzing loan loss accounting within the financial instruments project

These steps reaffirm a commitment to a joint approach to the global financial crisis and to the overall goal of seeking convergence of IFRS and U.S. GAAP.

The Boards will also work together towards common standards by developing the IASB projects on consolidation and derecognition as joint projects once the FASB has completed its short-term amendments to its existing standards. In addition, the Boards have agreed to issue proposals to replace their respective financial instruments standards with a common standard in the latter part of 2009. As part of the revision the Boards will be specifically examining loan loss accounting, including the incurred and expected loss models.

The Boards will continue to draw on the expertise provided by the Financial Crisis Advisory Group (FCAG), which has held three meetings and plans to summarize its recommendations and issue a report in the second quarter of 2009.

No decisions were reached by the Boards.

See the [IASB Work Plan](#) for more information.

Boards discuss Conceptual Framework

The Boards reached the following decisions with respect to the Conceptual Framework:

- Each chapter will be published as soon as it is completed
- The reporting entity concept will be the subject of a separate chapter
- Each framework will maintain its current hierarchical status in accordance with IAS 8, *Accounting Policies, Changes in Estimates and Errors* and FASB Statement 162, *The Hierarchy of Generally Accepted Accounting Principles*
- Current phases of the project will continue to focus on business entities in the private sector, with limited consideration of how the concepts may apply to other types of entities. Then a later phase will consider whether modifications are needed to address issues or circumstances unique to not-for-profit entities.

In addition, the IASB reached a tentative decision to amend IAS 8 to reflect the new qualitative characteristics that were agreed to by the Boards and will issue an exposure draft of the proposed amendment.

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

Boards discuss MOU commitments for consolidation and derecognition

The Boards discussed how they would meet their MOU commitments with respect to derecognition and consolidation and noted the following:

- In 2009, the FASB will issue final Statements that amend Statement 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and Interpretation 46R, *Consolidation of Variable Interest Entities*, with expected effective dates of 2010
- In March 2009, the IASB will issue an exposure draft that would replace existing requirements on derecognition of financial instruments. The IASB has already issued an exposure draft of proposed requirements for consolidation. (Note: On March 31, 2009, the IASB issued an Exposure Draft, *Derecognition: Proposed amendments to LAS 39 and IFRS 7*.)

The Boards decided that they would deliberate the issues raised in the comment letters with the objective of reaching common conclusions following the close of the comment period on the IASB's two exposure drafts. At the conclusion of those redeliberations, the IASB would issue standards for derecognition and consolidation. The FASB also plans to issue exposure drafts for public comment on both topics.

See the following IASB project summaries for more information on the projects:

- [Consolidation](#)
- [Derecognition](#)

See the [FASB research project page](#) for more information on the consolidation and derecognition projects.

Educational session held on fair value measurement

An educational session was held on the IASB's project on fair value measurement. No decisions were reached by the Boards. The IASB has completed its deliberations and expects to issue an exposure draft during the second quarter of 2009.

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

Financial instruments – recognition and measurement

The Boards discussed the objectives of the project, potential measurement methods, and potential characteristics for categorizing financial instruments.

Objectives of the project

The Boards decided that the objective of the project is to replace their respective financial instruments standards with a common standard. Although the project objective is comprehensive, the project should be addressed expeditiously.

Potential measurement methods for financial instruments

The Boards reached a tentative decision to consider three possible measurement methods, with the aim of proposing an accounting model for financial instruments that would use two of those methods. The measurement methods that the Boards have agreed to consider are as follows:

- *Fair value*: defined as an exit price in FASB Statement, *Fair Value Measurements*, and in the forthcoming IASB exposure draft on fair value measurements
- Another remeasurement method based on *discounted cash flows* (to be defined later)

- *Amortized cost*: including an impairment approach for financial assets

Potential characteristics for categorizing financial instruments

The Boards discussed the following possible criteria that may be used to categorize which financial instruments would be subject to each of the potential measurement methods.

- Characteristics of the instrument, such as cash flow variability
- Business model of the entity
- The entity's intention and/or ability to trade the instrument

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

Discussion paper on financial statement presentation

The Boards discussed the design of the field test of the presentation model proposed in the October 2008 Discussion Paper, *Preliminary Views on Financial Statement Presentation*. As part of that field test, participating companies were asked to recast two years of financial statements using the principles and application guidance in the Discussion Paper and then to complete a survey.

The staff presented a preliminary overview of the field test results received so far. Once all of the field test companies have completed the recasting exercise, analysts will review both recast and non-recast financial statements and respond to a survey.

At a public meeting in July 2009, the Boards will discuss the participating company field test results and the results of the analysts review. The redeliberations on the proposed presentation model will begin in September 2009.

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

Boards discuss accounting for loan losses

The Boards discussed the accounting for loan losses. They considered the incurred loss model and an expected loss model and noted that both models

- Use amortized cost conventions rather than fair value
- Attempt to identify losses on existing loans, not losses that might exist on future loans

The Boards asked the staff to further explore the dynamic provisioning model used by the Spanish Central Bank.

The Boards noted the following:

- Prudential regulators might require financial institutions to reserve amounts of capital
- Those reserve amounts would result from restrictions on capital or appropriations of profit and, thus, would not appear in the statement of comprehensive income (or separate income statement, if presented). Any display in the financial statements of such restrictions or appropriations needs to be transparent
- Loan loss provisioning is relevant to the project on financial instruments – recognition and measurement and that future work on loan losses would be part of that project

Future Board meetings

The IASB held subsequent meetings on April 22-24, 2009 and May 18-22, 2009. The next IASB meeting is June 15-19, 2009.

