



# On the Horizon for IFRS

June 15, 2009

## **IASB issues April 2009 meeting highlights**

- IASB responds to the global financial crisis
- Board considers comments received on three exposure drafts
- IASB continues discussions of proposed IFRS for small and medium-sized entities
- Measurement approach for insurance contracts considered
- IASB discusses liabilities within the scope of IAS 37
- Preparation and presentation of management commentary
- Board continues discussions of post-employment benefits
- IASB discusses rate-regulated activities
- Share-based payment
- Future Board meetings

## IASB issues April 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 April 2009 [IASB Update](#) which summarizes the Board meeting in London on April 22-24, 2009. Highlights of the meeting are discussed below.

## **IASB responds to the global financial crisis**

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

### Fair value measurement

The IASB discussed the following issues with respect to fair value measurement:

### **IASB request for views on FASB FSP FAS 157-4**

The IASB discussed the comments received on its *Request for views* on FASB Staff Position (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.”

Except for certain differences in emphasis, the respondents noted that the guidance in the FSP is consistent with the guidance in the IASB’s Expert Advisory Panel report, *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*. The IASB reached a tentative decision to include the guidance from the FSP in its exposure draft on fair value measurement.

### **Reference markets**

The IASB reaffirmed that the most advantageous market is presumed to be the market in which the reporting entity would normally enter into a transaction for the asset or liability. In the absence of evidence to the contrary, an entity may assume that the principal market for the asset or liability is the most advantageous market, provided that the entity could sell the asset or transfer the liability in the principal market.

### **Interim disclosures**

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments” and FSP FAS 157-4, both of which amended the requirements for disclosures about fair value measurements in interim financial reports. At its April 2009 meeting, the IASB noted that the FASB disclosures may be relevant when an entity applies the disclosure principles in IAS 34, *Interim Financial Reporting*. At its May 2009 meeting, the IASB plans to consider staff proposals for an amendment to the disclosure principles in IAS 34.

Accordingly, the IASB reached a tentative decision that the exposure draft on fair value measurement would propose the following additional disclosure requirements for interim financial reports:

- *For financial instruments measured at fair value*: the same disclosures that are required in annual financial statements in accordance with IFRS 7, *Financial Instruments: Disclosures*
- *For financial instruments not measured at fair value*: the same disclosures that are required in annual financial statements in accordance with IFRS 7, including the fair value of those instruments
- *For non-financial assets and non-financial liabilities*: no additional specific requirements beyond the existing disclosure requirements in IAS 34

The IASB noted that FSP FAS 157-4 requires fair value disclosures by major type of security as defined in FASB Statement 115, *Accounting for Certain Investment in Debt and Equity Securities*. The IASB reaffirmed its decision to require fair value disclosures for each class of financial asset or financial liability in accordance with IFRS 7.

### **Next steps**

In May 2009, the IASB expects to issue the exposure draft on fair value measurement with a comment period of 120 days.

(Note: On May 28, 2009, the IASB issued the [Exposure Draft, Fair Value Measurement](#). The comment period ends on September 28, 2009.)

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

### **Financial instruments**

The IASB discussed the following issues with respect to financial instruments.

### **IASB request for views on FSP FAS 115-2 and FAS 124-2**

The IASB discussed the comments received on its *Request for views* on the FASB's proposed FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments."

Many of the comment letters recommended that the IASB should not make short-term piecemeal amendments to current impairment requirements. The IASB should focus instead on the broader joint IASB/FASB project to replace existing requirements for financial instruments.

Some respondents commented that the IASB should consider short-term amendments to current impairment requirements for financial assets held as available for sale. The amendments suggested were different from those required by the FASB FSP. The IASB discussed those suggestions and noted that the suggested revisions also form part of the project to replace IAS 39, *Financial Instruments: Recognition and Measurement* (see summary of IAS 39 project below).

The respondents also emphasized the importance of due process and the need for adequate public consultation time during the standard setting process.

The IASB decided not to develop a separate proposal for public comment with respect to FSP FAS 115-2 and FAS 124-2 but to consider the comments received as part of the project to replace IAS 39.

### **Project to replace IAS 39**

The project to replace IAS 39 was discussed at the March 2009 joint IASB/FASB meeting.

At the April 2009 IASB meeting, the staff presented a project update including future plans. The IASB is expected to decide on the basic measurement model

by July 2009, with the remainder of the measurement model expected to be completed by October 2009.

The IASB discussed the amortized cost measurement method, including possible impairment approaches for financial assets, at an educational session. No decisions were reached.

On May 5, 2009, the IASB conducted a public education session to discuss the discounted cash flows method that has been proposed by certain FASB members.

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

### **Board considers comments received on three exposure drafts**

#### **Discontinued operations**

The Board discussed the comments received on the Exposure Draft, *Discontinued Operations: Proposed amendments to IFRS 5*. The Board decided to consider the possibility of eliminating the requirement to present discontinued operations in the statement of comprehensive income except for businesses that meet the criteria to be classified as held for sale on acquisition. Alternatively, this information would be presented in the notes accompanying the financial statements. The Board asked the staff to gather additional input from users and preparers on this alternative presentation approach.

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

#### **Earnings per share**

The Board discussed a summary of the comments received on the Exposure Draft, *Simplifying Earnings per Share: Proposed amendments to IAS 33*.

Due to other priorities, the Board asked the staff to defer the timing of the Board review of the comments until later in the year.

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

#### **First-time adoption of IFRS**

The Board considered an analysis of the comments received on proposals related to oil and gas assets in the Exposure Draft, *Additional Exemptions for First-time Adopters: Amendments to IFRS 1*. The Board reached a tentative decision that no substantive changes to the proposals are required, but acknowledged the need for certain clarifications to the wording. The Board plans to consider the comments received with respect to other proposals in the exposure draft in May 2009.

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

#### **IASB continues discussions of proposed IFRS for small and medium-sized entities**

The IASB continued its discussions of the proposed IFRS for small and medium-sized entities.

#### **Name of the Standard**

The name of the standard has been discussed by the IASB at several meetings during its redeliberations of the Exposure Draft. After considering the various views that have been received, the IASB reached a decision that the name of the standard would be *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs), as proposed in the original Exposure Draft.

#### **Issues arising in drafting the pre-ballot draft**

During the drafting of the pre-ballot draft, the Board reached the following tentative decisions:

- To add disclosure requirements similar to those in paragraph 41 of IAS 27, *Consolidated and Separate Financial Statements*
- Not to include in the appendix to the provisions section an illustrative example on calculating a provision for settlement of a lawsuit

The IASB also asked the staff to prepare a comparison of the proposed alternatives for disclosure requirements for financial instruments and to circulate the comparison to the IASB members for comments, if any.

The proposed IFRS for SMEs contains two financial instrument sections. One section applies to basic financial instruments and is relevant to all entities and the other section applies to more complex financial instruments and transactions. An entity can make an accounting policy choice to apply either a) the recognition and measurement provisions of the proposed IFRS for SME's or b) the recognition and measurement requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, together with the disclosure requirements of the proposed IFRS for SMEs.

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

#### **Measurement approach for insurance contracts considered**

The Board discussed the following issues with respect to a measurement approach for insurance contracts:

#### **Margins, including subsequent measurement**

The Board discussed the initial measurement of an insurance contract. The Board reached a tentative decision that an insurer would recognize a loss in earnings when the initial measurement of an insurance contract results in a day-one loss.

The Board also discussed whether

- A measurement approach for insurance contracts would incorporate a separate risk margin that is remeasured at each reporting date
- A fulfillment notion would include a separate service margin
- All margins identified for each of the candidate measurement approaches are part of the insurance liability rather than a separate liability outside the insurance liability

No clear consensus emerged. The Board will reconsider this issue at a future meeting.

#### **Acquisition costs**

The Board discussed an example in which two insurers issue identical insurance contracts but incur different acquisition costs and, as a result, charge premiums that differ by the same amount. The Board reached a tentative decision that those contracts would have the same initial measurement at inception.

The Board reached a tentative decision that at inception an insurer would recognize as revenue the part of the premium that covers acquisition costs. Acquisition costs would be limited to the incremental costs of issuing (i.e. selling, underwriting, and initiating) an insurance contract and would not include other direct costs. Incremental costs are those costs that the insurer would not have incurred if it had not issued those contracts.

#### **Policyholder behavior**

The Board conducted an educational session on future premiums arising from existing insurance contracts. No decisions were reached.

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

#### **IASB discusses liabilities within the scope of IAS 37**

The IASB discussed the following issues with respect to liabilities within the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*:

##### **Measurement guidance**

The IASB had previously reached a tentative decision that liabilities within the scope of IAS 37 would be measured at the amount the entity would rationally pay at the end of the reporting period to be relieved of the present obligation, i.e. to settle it or to transfer it to a third party.

At its meeting in April 2009, the IASB discussed

- *How an entity could estimate the end of the reporting period amount using expected cash flow techniques:* A tentative decision was reached to clarify that an entity would not automatically add a risk adjustment to the expected cash flows. A risk adjustment would be required only if, and to the extent that, uncertainty about the expected cash flows affects the amount that the entity would rationally pay to be relieved of its obligation.
- How an entity would use expected cash flow estimation techniques to measure an obligation to undertake a service, such as an asset retirement obligation: A tentative decision was reached that the relevant cash flows are the amounts that the entity would rationally pay a contractor to undertake the service on its behalf. In the absence of an efficient market for those services, the entity could estimate the amount it would rationally pay a contractor by estimating the amount it would itself charge another party to carry out the service. That amount would include the entity's estimates of the costs it expects to incur in fulfilling the obligation and the compensation it requires for providing the service inherent in the obligation.

### **Disclosure of restructuring activities**

The IASB discussed a proposed disclosure requirement for restructuring activities and considered the disclosure requirements in FASB Statement 146, *Accounting for Costs Associated with Exit or Disposal Activities*. The IASB reached tentative decisions as follows:

- The following disclosures would be required:
  - A description of the restructuring activity, including the facts and circumstances leading to the expected activity and the expected completion date
  - For each reportable segment, the total amount of costs expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date
  - The expected timing of any resulting outflow of economic benefits
- The disclosures would be required in the period in which an entity first implements a restructuring plan or announces its main features to those affected by it, and in any subsequent period until the restructuring is complete.

### **Next steps**

At its June 2009 meeting, the Board will consider whether the proposed recognition, measurement, or disclosure requirements need to be adapted for liabilities with respect to major litigation, and whether to add guidance on measuring reimbursement rights.

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

### **Preparation and presentation of management commentary**

The Board provided comments to the staff on the draft of a proposed exposure draft on management commentary. The proposals in the exposure draft will not

result in an IFRS, however, the proposals will provide a non-binding framework for the preparation and presentation of management commentary as well as certain guidance on how to apply that framework. The Board expects to issue an exposure draft in June 2009. Comments will be due by February 2010.

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

### **Board continues discussions of post-employment benefits**

The Board continued its discussions of post-employment benefits.

### **Recognition of changes in the net pension asset/liability**

The Board completed its redeliberations on recognition and presentation of the net defined benefit asset or liability and reached a tentative decision that entities would recognize:

- All changes in the value of plan assets and changes in the post-employment benefit obligation in the profit and loss of the period in which they occur
- Vested and unvested past service cost in the period of the related plan amendment

### **Classification of administration costs**

The Board reached a tentative decision that entities would include the costs of administering the plan in the defined benefit obligation, unless the costs relate to the management of plan assets and the benefit promise does not depend on the return on those plan assets.

### Next steps

The Board will discuss disclosure and transition requirements at a future meeting. The Board expects to issue an exposure draft in the third quarter of 2009.

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

### IASB discusses rate-regulated activities

The Board discussed rate-regulated activities as follows.

#### Recognition and measurement

The Board reached the following tentative decisions with respect to recognition and measurement:

- Specific recognition criteria are not required. Once an entity has determined its activities are within the scope of the project, the effects of rate regulation, if any, would be recognized
- Assets and liabilities recognized as a result of rate regulation would be excluded from the scope of IAS 38, *Intangible Assets* and IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*
- Assets and liabilities arising from the effects of rate regulation would be measured using a probability-weighted average of possible future cash flows on initial recognition and subsequently

The Board generally agreed that the primary driver for recognition of assets and liabilities is the existence of future economic benefits or obligations. However, the Board asked the staff to provide additional analysis to clarify the interaction of future economic benefits and previously incurred specific costs in the recognition of those assets and liabilities, the appropriate discount rate to be used, and other matters.

### Presentation and disclosures

The Board reached the following tentative decisions with respect to presentation and disclosure:

- Regulatory assets and liabilities would not be offset in the statement of financial position
- When an entity presents a classified statement of financial position, it would distinguish between current and non-current assets and liabilities recognized as a result of rate regulation

The Board discussed how the effects of changes in assets and liabilities recognized as a result of rate regulation would be presented in the statement of comprehensive income and asked the staff to provide illustrative examples of the recommended presentation and note disclosures.

### Scope

The Board reached the following tentative decisions with respect to scope:

- The standard would include guidance on the application of the scope criteria
- The standard would not include examples illustrating the requirements, however, examples would be included in the exposure draft to help respondents provide feedback

### Next steps

At a future meeting, the staff will present the remaining issues concerning transition and first-time adoption.

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

### Share-based payment

The Board considered several issues with respect to the Exposure Draft, *Group Cash-settled Share-based Payment Transactions*, and reached the following tentative decisions:

- To explicitly include transactions of a settling entity within the scope of IFRS 2, *Share-based Payment*, only in a group share-based payment transaction
- To exclude transactions of a settling group entity from the revised definitions of *equity-settled* and *cash-settled* share-based payment transactions
- To not refer to the goods or services that suppliers provide in the amended definition of *share-based payment arrangement*
- To replace the term *share-based payment arrangement* with *share-based payment transaction* in the disclosure requirements in IFRS 2
- To not require re-exposure of the final revised amendments

The Board also decided that replacing existing paragraph 3 to state clearly that the intended scope of IFRS 2 does not change the requirements with respect to

shareholder transfers and that the accounting for transfers of employees among group entities would remain the same for all awards that are accounted for as equity settled as required by IFRIC 11, *IFRS 2 -Group and Treasury Share Transactions*.

The effective date of the standard will be January 1, 2010, with retrospective application subject to the transitional provisions of IFRS 2. If the information necessary for that retrospective application is not available, an entity's separate financial statements would use the amounts previously recognized in the group's consolidated financial statements.

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

### Future Board meetings

The IASB held a subsequent meeting on May 18-22, 2009. The next IASB meeting is June 15-19, 2009.