



On the Horizon for IFRS

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Center for Audit Quality issues Guide to International Financial Reporting Standards

In September 2009, the Center for Audit Quality announced the issuance of a [Guide to International Financial Reporting Standards](#). The Center for Audit Quality has developed this Guide to provide interested parties with useful information and facilitate informed public discussion among those who have a stake in our capital markets system.

AICPA issues FAQs on leases and revenue recognition

In September 2009, the AICPA issued answers to frequently asked questions about the FASB/IASB projects for [leases](#) and [revenue recognition](#) in order to facilitate understanding of the issues.

IASB Foundation Trustees

Monitoring Board statement on accounting standards

The Trustees of the International Accounting Standards Committee Foundation (the Trustees), the body responsible for oversight of the IASB, [welcomed](#) the September 22, 2009 statement by the International Accounting Standards Committee Foundation Monitoring Board (the Monitoring Board), a group that consists of the Chairman of the Emerging Markets Committee of the International Organization of Securities Commissions (IOSCO), the Vice-Chairman of the Technical Committee of IOSCO, the Commissioner of the Financial Services Agency of Japan (JFSA), and the Chairman of the U.S. Securities and Exchange Commission (SEC). In its statement of principles, the Monitoring Board emphasized the relevance of providing high-quality financial information to ensure the confidence of capital providers in making investment

decisions. The full Monitoring Board statement can be found on the [IOSCO website](#).

The Trustees recently issued a [letter](#) to the G20 leaders, who met in Pittsburgh on September 24-25, 2009, to emphasize that the Trustees and the IASB are committed to taking all of the actions within their sphere of responsibility necessary to deal with the issues arising from the financial crisis. Appendix A to the letter includes a comprehensive overview of the measures undertaken by the IASB Foundation and the IASB since April 2009.

Proposals issued on enhanced accountability and stakeholder outreach

In September 2009, the Trustees issued an [Exposure Draft, Proposals for Enhanced Public Accountability: Part 2 of the Constitution Review](#). The proposals build on governance enhancements implemented as a result of the first five-yearly Constitution Review, completed in 2005. The objectives of the proposals are to enhance further the governance of the IASB Foundation, improve the involvement of stakeholders with a broad range of perspectives in both developed and emerging markets, and make operational improvements. The comment period ends November 30, 2009.

IFRIC proposes guidance on settling financial liabilities with equity instruments

In August 2009, the IFRIC announced the issuance of a draft Interpretation, [IFRIC D25 Extinguishing Financial Liabilities with Equity Instruments](#). In the current environment, some entities are renegotiating the terms of financial liabilities with their creditors. In some circumstances, the

creditor agrees to accept an entity's shares or other equity instruments to settle the financial liability fully or partially. The IFRIC was asked to consider guidance on how an entity should account for such transactions in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* and IAS 32, *Financial Instruments: Presentation*. The comment period ended October 5, 2009.

IASB

Amendments issued on the accounting for group cash-settled share-based payment transactions

In June 2009, the IASB issued amendments to IFRS 2, *Share-based Payment* that clarify the accounting for group cash-settled share-based payment transactions. The amendments respond to requests the IASB received to clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. In these arrangements, the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay those suppliers. The IASB clarified that in IFRS 2 a group has the same meaning as in IAS 27, *Consolidated and Separate Financial Statements*, that is, it includes only a parent and its subsidiaries.

Amendments to IFRS 1 issued on additional exemptions for first-time adopters

In July 2009, the IASB issued *Additional Exemptions for First-time Adopters: Amendments to IFRS 1*. These amendments offer relief from retrospective application of IFRS in selected areas to ensure that entities applying IFRS will not face undue cost or effort in the transition period. The areas addressed relate to deemed cost, decommissioning liabilities, and leases. The amendments to IFRS 1 should be applied for annual periods beginning on or after January 1, 2010. Earlier application is permitted.

Proposed amendments under the annual improvements project

In August 2009, the IASB issued an [Exposure Draft, *Improvements to IFRSs*](#), which includes proposed amendments to eleven IFRS under its annual improvements project. The proposals include clarification of the measurement of non-controlling interests in IFRS 3, *Business Combinations* (revised 2008) and changes of wording to clarify the meaning in various IFRS and remove unintended inconsistencies. Unless otherwise specified, the proposed effective date for the amendments will be for annual periods beginning on or after January 1, 2011, with early adoption permitted. The proposed effective date for the amendments arising from IFRS 3 and the consequential amendments to the transition requirements of IAS 27, *Consolidated and Separate Financial Statements* (amended 2008), is July 1, 2010. The comment period ends November 24, 2009.

Proposals issued on rate-regulated activities

In July 2009, the IASB issued an [Exposure Draft, *Rate-regulated Activities*](#). The IASB also issued the related [Basis for Conclusions](#) and [Illustrative Examples](#). The objective of the proposals is to establish how regulatory assets and regulatory liabilities resulting from cost-of-service regulation should be recognized and measured under IFRS. Cost-of-service regulation is a form of regulation for setting prices where there is a cause and effect relationship between the entity's specific costs and revenues. The comment period ends November 20, 2009.

Proposed guidance for the preparation and presentation of management commentary

In June 2009, the IASB issued an [Exposure Draft, *Management Commentary*](#), which is a proposed non-mandatory framework to help entities prepare and present a narrative report. The IASB believes that providing non-

mandatory guidance will improve the consistency and the comparability of management commentary across jurisdictions. The comment period ends March 1, 2010.

Proposed amendments to discount rate for measuring employee benefits

In August 2009, the IASB issued an [Exposure Draft, *Discount Rate for Employee Benefits: Proposed amendments to IAS 19*](#), which includes proposals to amend the guidance for selecting a discount rate for measuring employee benefits. IAS 19, *Employee Benefits*, requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds. However, when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds instead. Because the global financial crisis has led to a widening of the spread between yields on corporate bonds and yields on government bonds, the Exposure Draft proposes to eliminate the requirement to use yields on government bonds. Instead, entities would use an estimated rate based on the yield on high quality corporate bonds denominated in the same currency with the same duration. The comment period ended September 30, 2009.

Proposals issued on the classification of rights issues

In August 2009, the IASB issued an [Exposure Draft, *Classification of Rights Issues: Proposed amendment to IAS 32*](#). The proposals would clarify the accounting treatment when rights issues are denominated in a currency other than the functional currency of the issuer. Current practice appears to require such rights to be accounted for as derivative liabilities. The proposals state that such rights would be classified as equity regardless of the currency in which the exercise price is denominated if they are issued pro rata to an entity's existing shareholders for a fixed amount of currency. The IASB plans to issue the final

amendment before the end of 2009, with early application permitted. The comment period ended September 7, 2009.

Proposed improvements to financial instruments accounting

In July 2009, the IASB issued an [Exposure Draft, *Financial Instruments: Classification and Measurement*](#) that proposes improvements to financial instruments accounting. The proposals, which the IASB believes will significantly reduce complexity and make it easier for investors to understand financial statements, address how financial instruments are classified and measured. The proposals also answer concerns raised by interested parties during the financial crisis (for example, eliminating the different impairment approaches for available-for-sale assets and assets measured using amortized cost). The IASB plans to finalize the classification and measurement proposals in time for non-mandatory application in 2009 year-end financial statements. The comment period ended September 14, 2009.

Request for information issued on feasibility of expected loss model

In June 2009, the IASB issued a [Request for Information, \("Expected Loss Model"\) *Impairment of Financial Assets: Expected Cash Flow Approach*](#), which addresses the feasibility of an expected loss model for the impairment of financial assets. Currently, IAS 39 requires an incurred loss impairment approach for financial assets measured at amortized cost. Under that approach, an impairment loss is required to be recognized if an impairment loss has been incurred. If losses are expected to arise from future events, those losses are not recognized. The Request for Information seeks input on the practical issues that would arise under an expected loss model. The input will assist the IASB in developing formal proposals that it plans to

issue in an exposure draft in October 2009. The comment period ended September 1, 2009.

Discussion paper issued on accounting for own credit risk

In June 2009, the IASB issued a [Discussion Paper, Credit Risk in Liability Measurement](#), on the role of credit risk in liability measurement (own credit risk). This paper asks whether current measurements of liabilities (including fair value) should incorporate the risk that an entity will fail to perform as required. The Discussion Paper is accompanied by a [Staff Paper](#) that describes the most common arguments for and against including credit risk in measuring liabilities. The comment period ended September 1, 2009.

IASB issues meeting highlights

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

The International Accounting Standards Board has issued *IASB Updates*, which summarize each of the following Board meetings.

- [IASB Update](#) for the IASB meetings in London on May 5, 2009 and May 18-21, 2009
- [IASB Update](#) for the IASB meeting in London on June 15-19, 2009
- [IASB Update](#) for the IASB meeting in London on July 21-22, 2009 and the joint IASB/FASB meeting in London on July 23-24, 2009
- [IASB Update](#) for the additional IASB meeting in London on August 4, 2009

Highlights of each of the meetings are combined by IASB project topics and are discussed below.

Annual improvements

The IASB discussed the following topics for possible inclusion in its exposure draft of annual improvements.

May 2009 IASB meeting

Interim financial reporting

The IASB reached a tentative decision to include a proposed amendment to IAS 34, *Interim Financial Reporting*, to emphasize existing disclosure principles.

Business combinations

The IASB reached a tentative decision to make the following clarifications with respect to IFRS 3, *Business Combinations*, and IAS 27, *Consolidated and Separate Financial Statements*:

- The consequential amendments made by IAS 27 to IAS 21, IAS 28, and IAS 31 would be applied prospectively
- IFRS 7, IAS 32, and IAS 39 do not apply to contingent consideration resulting from a business combination whose acquisition date preceded the application of the revised IFRS 3
- An entity would classify an investment in an associate or a jointly controlled entity as held for sale when applying IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* if it is highly probable that the entity will lose joint control or significant influence

The IASB deferred certain issues until the post-implementation review of IFRS 3 and IAS 27 to be conducted two years after their effective date.

June 2009 meeting

First-time Adoption of IFRS – Revaluation basis as *deemed cost*

The IASB reached a tentative decision to clarify the scope of the exemption in paragraph D8 of IFRS 1 that permits a first-time adopter to use a revaluation basis as *deemed cost* when an event such as a privatization triggered a revaluation at or before the date of transition to IFRS.

First-time Adoption of IFRS – Accounting policy changes in the year of adoption

The IASB reached a tentative decision that an entity that changes its accounting policies or its use of the IFRS 1 exemptions during the period covered by its first IFRS financial statements would be required to explain the changes and update the required reconciliations of comprehensive income and equity.

IFRS 3 Business Combinations – Contingent consideration of an acquiree

The IASB clarified the treatment of contingent consideration arising from a prior business combination of an acquiree. Contingent consideration of an acquiree assumed by an acquirer in a subsequent acquisition (*pre-existing contingent consideration*) does not qualify as contingent consideration of the acquirer. Pre-existing contingent consideration becomes one of the identifiable liabilities assumed by the acquirer in the subsequent acquisition. The IASB reached a tentative decision not to add this issue to the annual improvements project.

IAS 28 Investments in Associates – Venture capital consolidations and partial use of fair value through profit or loss

The IASB reached a tentative decision to clarify that different measurement bases can be applied to portions of an investment in an associate when part of the investment is designated at initial recognition as at fair value through profit or loss in accordance with the scope exception in paragraph 1 of IAS 28.

IAS 28 Investments in Associates – Impairment of investments in associates

The IASB reached a tentative decision that in its separate financial statements the investor would determine impairment of its investment in an associate in accordance with IAS 39.

July 2009 IASB meeting

IFRS 3 Business Combinations – measurement of non-controlling interest

The IASB reached a tentative decision to clarify that the measurement choice in paragraph 19 of IFRS 3 with respect to non-controlling interests applies only to equity instruments that are currently entitled to a proportionate share of the acquiree's net assets. Other equity instruments that are part of non-controlling interest would be measured at fair value or in accordance with applicable IFRS.

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

The IASB reached a tentative decision to clarify that paragraphs B57–B62 of IFRS 3 apply to all share-based payment transactions that are part of a business combination, including share-based payment transactions of the acquiree that the acquirer chooses not to replace and those that the acquirer chooses to replace with its own share-based payment transactions.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – write-down of a disposal group

IFRS 5 requires that an impairment loss recognized for a disposal group should be allocated to reduce the carrying amount of the disposal group's non-current assets that are within the measurement requirements of IFRS 5. When the write-down exceeds the carrying amount of the non-current assets, a conflict exists between IFRS 5's requirement to recognize the

disposal group at fair value less costs to sell and its limitation on the assets to which that loss can be allocated. The IASB reached a tentative decision not to include this issue in the annual improvements project, however, the IASB would consider amending IFRS 5 and working with the FASB to ensure that IFRS 5 remains aligned with U.S. GAAP.

IFRS 5 – presentation of items of other comprehensive income

The IASB reached a tentative decision to amend IFRS 5 so that other comprehensive income (OCI) items relating to discontinued operations are presented separately from other OCI items, and may be presented as a single item net of tax.

IAS 39 Financial Instruments: Recognition and Measurement - Debt to equity swap in a restructuring

The IASB discussed how an entity should recognize equity instruments issued in settlement of debt in a restructuring (a “debt to equity swap”). The IFRIC has decided to add this issue to its agenda and to develop a draft interpretation for public comment as soon as possible. Accordingly, the IASB decided not to include this issue in the annual improvements project.

IAS 23 Borrowing Costs – meaning of general borrowings

The IASB discussed the issue of whether debt incurred specifically to acquire a non-qualifying asset could be excluded from general borrowings as defined in IAS 23. The IASB noted that IAS 23 only excludes debt used to acquire qualifying assets from the determination of the capitalization rate. The IASB decided not to include this issue in the annual improvements project.

Note: On August 26, 2009, the IASB issued an [Exposure Draft, Improvements to IFRSs](#). The comment period ends November 29, 2009.

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

Classification of rights issues

At its meeting in July 2009, the IASB discussed whether issues of rights (options to purchase additional shares at a fixed price) should be classified as equity instruments if the price is denominated in a currency other than the entity’s functional or reporting currency. In 2005 the IFRIC had concluded that a conversion option embedded in a convertible bond that was not denominated in the entity’s functional currency should not be classified as an equity instrument.

The IASB was advised that the IFRIC’s conclusion is being applied to rights issues in practice, with the result that the rights are being accounted for as derivative liabilities with changes in value being recognized in profit or loss. The IASB was also advised that in the current environment many entities are issuing rights to raise capital that are not denominated in the issuer’s functional currency.

The IASB reached a tentative decision that if such rights are issued pro rata to an entity’s existing shareholders for a fixed amount of cash, they would be classified as equity regardless of the currency in which the exercise price is denominated.

Note: On August 6, 2009, the IASB issued an [Exposure Draft, Classification of Rights Issues: Proposed Amendments to IAS 32](#). The comment period ended September 7, 2009.

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

Conceptual framework

At its May 2009 meeting, the IASB reached a tentative decision that the comment period for the forthcoming exposure draft of the Reporting Entity chapter would be 120 days.

At its June 2009 meeting, the IASB discussed a draft measurement chapter for the conceptual framework based on certain measurement factors discussed by the IASB in previous meetings. The IASB reached a tentative decision that the measurement factors and a discussion of their relation to the objective of financial reporting and the qualitative characteristics of decision-useful information would be an appropriate starting point for developing a discussion paper. The IASB will continue its discussions at a future meeting with the objective of issuing a discussion paper in the fourth quarter of 2009.

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

Consolidation

At its May 2009 meeting, the IASB discussed the consolidation project plan and an overview of the comments received on the Exposure Draft, *Consolidated Financial Statements*. The session was educational and the IASB did not reach any decisions.

At its July 2009 meeting, the IASB commenced redeliberation of the proposals included in the Exposure Draft, considering the comments received from respondents to the exposure draft and from participants at the roundtable meetings that were held in June 2009.

The IASB reached the following tentative decisions:

- Control, which is defined to require a reporting entity to have both the power to direct the activities and the ability to benefit from that power, is the only basis for consolidation
- Exposure to risks and rewards alone does not constitute control; however, it is an indicator of control

- Reputational risk does not give a reporting entity the power to direct the activities of an entity. However, the existence of reputational risk can give a reporting entity an incentive to control another entity.
- If a reporting entity holds less than half of the voting rights of an entity, the reporting entity can have the power to direct the activities of that entity, depending on the circumstances
- If a reporting entity holds options or convertible instruments to obtain voting rights in an entity, the reporting entity can have the power to direct the activities of that entity

In September 2009, the IASB will continue to discuss the control model, power with less than half of the voting rights, power from options or convertible instruments, and control of structured entities.

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

Discontinued operations

At its July 2009 meeting, the IASB continued its discussion of matters resulting from comments received on the Exposure Draft, *Discontinued Operations*, and reached the following tentative decisions:

- To retain the current requirement in IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, that an entity should present discontinued operations on the face of the statement of comprehensive income
- To define a discontinued operation as either:
 - A reportable segment disposed of or classified as held for sale
 - A business that meets the criteria to be classified as held for sale on acquisition

- That re-exposure of these proposals is unnecessary

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

Financial instruments: recognition and measurement

The IASB discussed the following issues relating to the financial instruments project.

May 2009 IASB meeting

The IASB continued its discussion on classification criteria and impairment of financial assets with respect to replacing IAS 39, *Financial Instruments: Recognition and Measurement*.

Classification criteria

The IASB adopted a working premise to consider two remeasurement categories: fair value (as defined in FASB Statement 157, *Fair Value Measurements*) or amortized cost. Another remeasurement category was discussed at an education session held on May 5, 2009; however, no decisions were reached by the IASB.

The IASB reached a tentative decision to use as a starting point the classification approach for financial instruments that is included in the IFRS for small and medium-sized entities (SMEs). The IASB indicated that under this working premise it would:

- Retain a fair value option so that entities could elect to measure financial instruments that qualify for amortized cost measurement at fair value
- Prohibit reclassification between the fair value and amortized cost categories

- Allow presentation of changes in fair value for particular financial instruments in other comprehensive income, but without any subsequent recycling to profit or loss on realization of the gains or losses
- Eliminate existing tainting rules that limit the further use of amortized cost after disposal of other financial instruments measured at amortized cost

The IASB plans to issue a standard in time for 2009 year-end financial statements.

Impairment of financial assets

The IASB held an educational session on the impairment of financial assets remeasured at amortized cost, discussing expected loss, incurred loss, and fair value approaches to impairment.

The IASB reached a tentative decision that, following an education session in June 2009, it would ask for views from interested parties through a website posting. The IASB plans to issue proposals on the impairment of financial assets in October 2009.

Credit risk in the measurement of liabilities

The IASB discussed a staff draft of a discussion paper with respect to the role of credit risk in current measurements of liabilities. The IASB asked the staff to finalize the draft as a staff document.

Note: On June 18, 2009, the IASB issued a [Discussion Paper, Credit Risk in Liability Measurement](#). The comment period ended September 1, 2009.

June 2009 IASB meeting

The IASB indicated that it would issue an exposure draft in July 2009 on the classification and measurement of financial instruments as part of the project to replace IAS 39. (Note: On July 14, 2009, the IASB issued an [Exposure Draft, *Financial Instruments: Classification and Measurement*](#). The comment period ended September 14, 2009.) The IASB plans to issue additional exposure drafts on the impairment of financial assets (see below) and hedge accounting later in 2009.

The classification and measurement approach being developed would measure almost all financial assets and financial liabilities at either amortized cost or fair value. If financial instruments have only basic loan features and are managed on a contractual yield basis, they would be measured at amortized cost. Other financial instruments would be measured at fair value, except for some items discussed below under other issues. The existing categories of loans and receivables, held-to-maturity investments, and available-for-sale financial assets would no longer exist.

The IASB reached the following tentative decisions:

- If the host contract of a hybrid contract is within the scope of IAS 39, the proposed classification approach would apply to the entire hybrid contract and the host contract would not be separated from the embedded derivative(s). If the hybrid contract contains only an embedded derivative that is a basic loan feature, such as an interest rate cap, floor or collar that combines a fixed interest and variable interest rate, that hybrid contract (as a whole) would qualify for amortized cost classification.
- Application guidance would address how to apply the classification approach to investments in structured investment vehicles with a waterfall feature

- If the host contract of a hybrid contract is not within the scope of IAS 39, it would be measured using the existing requirements for embedded derivatives in IAS 39, pending a review of the scope of IAS 39 in a later phase of this project
- A fair value option would be retained. Entities could elect to measure financial instruments that qualify for amortized cost measurement at fair value if the use of that option eliminates or significantly reduces a measurement or recognition inconsistency.

Entities could elect to present changes in fair value for an investment in equity instruments that are within the scope of IAS 39 (other than those investments that are held for trading) in other comprehensive income (OCI). The amounts recognized in OCI would not be recycled to profit or loss on disposal or in any other circumstances. Thus, there would be no impairment testing for these assets. Entities could make this presentation election at initial recognition for each holding of an instrument and the election would be irrevocable for that holding. An entity need not make the same election for each holding of an instrument. Dividends on those investments would also be recognized in OCI, with no subsequent recycling.

Transition

The IASB reaffirmed its tentative decision to propose retrospective application but reached a tentative decision to propose specific transition provisions in certain areas.

Other issues

The IASB reached a tentative decision not to propose changes in the treatment of *day 1 differences* or the measurement requirements in IAS 39 for

financial guarantee contracts, loan commitments, and financial liabilities with demand features in the forthcoming exposure draft.

The IASB also considered the interaction between this project and the annual improvements project. The IASB tentatively decided to defer finalizing an amendment of IAS 39 on the effective interest rate but to finalize an amendment on the separation of an embedded foreign currency derivative.

The IASB also discussed two other approaches for the classification and measurement of financial instruments that have basic loan features and are managed on a contractual yield basis. The IASB reached a tentative decision that the exposure draft would describe these other approaches and ask questions about them. In addition, the IASB reached a tentative decision that the exposure draft would also refer to any proposed classification and measurement model that the FASB develops.

Impairment of financial assets

The IASB conducted two educational sessions on the impairment of financial assets. No decisions were reached by the IASB. On June 25, 2009, the staff posted on the IASB website a request for information on the feasibility of an expected cash flow approach to impairment. The IASB will use the input received in developing the exposure draft on impairment, which is expected to be issued later in 2009.

Joint IASB/FASB July 2009 meeting

The Boards presented updates on their respective proposed classification and measurement approaches for financial instruments.

The IASB reached a tentative decision to hold three public roundtables during September to obtain feedback on its Exposure Draft, *Financial Instruments: Classification and Measurement*. The FASB will participate in those roundtables.

The FASB expects to issue one exposure draft that addresses the measurement, classification, and impairment of financial instruments, as well as hedge accounting, by the end of 2009 or early 2010. The FASB will post to its website a detailed description of its tentative approach to classification and measurement of financial instruments as a way of informing interested constituents and obtaining early input from them. The FASB will continuously update that description as it makes additional decisions. The FASB will consider input received on its tentative model as well as feedback received on the IASB's exposure draft as it develops its own exposure draft.

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

Financial instruments with characteristics of equity

At its May 2009 meeting, the IASB continued to discuss an approach for determining whether a financial instrument should be classified as equity.

The IASB expressed support for a set of draft principles to distinguish between equity and non-equity instruments and a related set of decision rules to operationalize those principles. The decision rules to produce results consistent with the principles are as follows:

- An entity would classify retained earnings and capital contributed without the contributor receiving a claim against the entity in exchange as equity, even if that entity has issued no equity instruments
- An issuer would classify an instrument as a liability if the instrument has a fixed settlement date or must be settled on the occurrence of an event that is certain to occur, excluding those described in the bullet directly below

- An issuer would classify the following instruments as equity:
 - Instruments that the issuer cannot be required to settle before winding up its operations and distributing all of its assets, regardless of the amount of the claim
 - Instruments that the holder is required to own in order to do business with, or otherwise actively engage in activities of, the issuer and are redeemable only if the holder dies, retires, resigns, or otherwise ceases to actively engage in the activities of the issuer. This would include holdings which vary in amount according to the volume of business transacted by the holder.
- An instrument would be separated into liability and equity components if the instrument has two separate or alternative outcomes

At its June 2009 meeting, the IASB discussed measurement requirements for free-standing equity, liability and asset instruments, and hybrid equity instruments (instruments with an equity component and a liability or asset component). The IASB reached the following tentative decisions:

- Recognize all transaction costs or fees resulting from the issue of an equity instrument or equity hybrid instrument as expenses
- Initially measure a free-standing equity instrument at its transaction price
- Initially measure components of a separated equity hybrid instrument as follows:
 - The liability or asset component would be measured at fair value as if it were a free-standing liability or asset
 - The remainder of the transaction price for the hybrid instrument as a whole would be allocated to the equity component

- Subsequently measure a free-standing equity instrument or an equity hybrid instrument:
 - Do not remeasure a free-standing equity instrument or equity component of a hybrid instrument that the entity cannot be required to redeem
 - Remeasure an equity instrument or a separated equity component of a hybrid instrument that has a redemption requirement at current redemption value at each reporting date. The current redemption value is the amount that would be due if redemption were required at the measurement date. Changes in current redemption value would be presented as a transfer between the redeemable equity instrument or equity component and another equity account.
 - Remeasure the liability or asset component of a separated hybrid instrument on the basis of the requirements of IFRS that would apply if it were a freestanding instrument
- Present a physically settled forward contract and written put options on a net basis in the statement of financial position and remeasure those instruments at fair value. Changes in fair value would be recognized in profit or loss.

At the joint IASB/FASB meeting in July 2009, the Boards discussed the cost of capital approach to displaying changes in the fair value of a liability instrument in the statement of comprehensive income. The Boards reached a tentative decision not to pursue this approach.

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

Financial statement presentation

At the joint IASB/FASB meeting in July 2009, the Boards reviewed a summary of the responses to the Discussion Paper, Preliminary Views on Financial Statement Presentation, and affirmed the objective of the project is to develop a single presentation model for IFRS and U.S. GAAP that can be applied consistently across all types of business entities.

The Boards reached the following tentative decisions:

- To rewrite the objectives of financial statement presentation as core presentation principles
- To explain how the core presentation principles relate to the conceptual framework for financial reporting
- To retain cohesiveness as one of the core presentation principles and modify its application so that cohesiveness is not necessarily required at the line-item level
- To retain disaggregation as one of the core presentation principles and provide guidance on when an entity may present disaggregated information in the notes to the financial statements rather than on the face of the financial statements
- To consider liquidity and financial flexibility in the context of the disaggregation principle, rather than as a separate core presentation principle

The Boards also noted that the FASB had reached a tentative decision in its recent work on financial instruments to require a single statement of comprehensive income. The IASB plans to consider that issue at its meeting in September 2009.

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

First-time adoption of IFRS

At its May 2009 meeting, the IASB discussed the comments received on the Exposure Draft, *Additional Exemptions for First-time Adopters: Proposed amendments to IFRS 1*, and reached the following tentative decisions:

- The proposed exemption for operations subject to rate regulation would apply to operations within the scope of the IASB's project on rate-regulated activities. However, the finalization of the proposed exemption would be deferred pending deliberations on the IASB's rate-regulated activities project.
- The exemption for operations subject to rate-regulation would also apply to qualifying intangible assets
- An entity may use either the proposed exemption for operations subject to rate regulation or the existing exemption for borrowing costs, but not both
- The exemption from determining whether an arrangement contains a lease should apply whether the previous GAAP standard was applied prospectively or retrospectively
- Clarify that the exemption from determining whether an arrangement contains a lease would require that application of previous GAAP produced the same result as IFRS, rather than requiring the words of the standards to be identical.

The IASB asked the staff to draft the final amendments to IFRS 1 with respect to the issues on oil and gas assets and leases.

Note: On July 23, 2009, the IASB issued *Additional Exemptions for First-time Adopters: Amendments to IFRS 1*.

Insurance contracts

At its May 2009 meeting, the IASB continued its discussion on measurement of insurance contracts and reached the following tentative decisions:

- The measurement would include the expected (i.e. probability-weighted) cash flows from those contracts, including those cash flows whose amount or timing depends on whether policyholders exercise options in the contracts
- To identify the boundary between existing contracts and new contracts, the starting point would be to consider whether the insurer can cancel the contract or change the pricing or other terms

At its June 2009 meeting, the IASB discussed candidates for measurement approaches for insurance contracts and reached a tentative decision to include in the list of candidates a measurement approach based on the updated model being developed in the project to amend IAS 37 (modified to exclude day one gains). The IASB reached a tentative decision to perform targeted field testing of the proposals being developed.

At its July 2009 meeting, the IASB discussed whether to select a measurement approach based on the approach being developed in the project to amend IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or a current fulfillment value that includes a composite margin. No clear consensus was reached by the IASB.

The IASB also discussed whether to use an unearned premium approach for pre-claims liabilities of short-duration insurance contracts as a simplified version of the approach being developed for all insurance contracts. The IASB reached the following tentative decisions:

- That an unearned premium approach would provide decision-useful information about pre-claims liabilities of short-duration insurance contracts
- To require rather than permit the use of an unearned premium approach for those liabilities

At the joint IASB/FASB meeting in July 2009, the Boards discussed the two remaining measurement approaches for insurance contracts. The FASB tentatively affirmed that the objective of the liability measurement is to report a value based on the insurer's fulfillment of its contractual obligations to its policyholders over time. The IASB did not reach a clear consensus.

The Boards also tentatively affirmed that an insurer would recognize all acquisition costs as an expense when incurred. In addition, the FASB tentatively affirmed that the insurer would not recognize any revenue (or income) at inception to offset those costs incurred. The IASB tentatively affirmed that the insurer would recognize as revenue at inception the part of the premium that covers acquisition costs.

The IASB indicated the importance of issuing an exposure draft by the end of 2009.

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

Joint ventures

At its May and June 2009 meetings, the IASB continued its discussion of comments received on the Exposure Draft, *Joint Arrangements* and reached the following tentative decisions:

- To replace the term shared decision-making with joint control

- To combine the terms joint operations and joint assets into a single type of joint arrangement called joint operation
- To not include a rebuttable presumption that a joint arrangement established in a separate entity is a joint venture. All relevant facts and circumstances must be considered in order to assess whether the arrangement is a joint operation or a joint venture.
- To introduce a term investor in a joint arrangement to designate parties to joint arrangements that do not have joint control in the arrangement
- An investor in a joint arrangement that is a joint operation would account for its assets, liabilities, revenues and expenses, including its share of any assets, liabilities, revenues and expenses arising from the joint operation
- An investor in a joint arrangement that is a joint venture would account for its interest in accordance with IAS 39 or, if it has significant influence in the joint venture, in accordance with IAS 28
- Parties with interests in a joint asset would directly recognize their share of the joint asset, classified according to the nature of the asset
- The IASB plans to issue an IFRS during the third quarter of 2009.

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

Leases

At its May 2009 meeting, the IASB discussed how a lessor would apply the right-of-use accounting model that is proposed in the Discussion Paper, *Leases: Preliminary Views*. The IASB reached a tentative decision to develop an approach whereby the lessor retains the leased item in its statement of financial position and would recognize:

- An asset for its right to receive rental payments from the lessee
- A liability for its performance obligations under the lease

At the joint IASB/FASB July 2009 meeting, the Boards discussed how such assets and liabilities would be measured. The Boards reached the following tentative decisions:

- Initial measurement of the lessor's right to receive rental payments would follow existing literature for the accounting for financial assets under either IFRS or U.S. GAAP (IAS 39 for IFRS and Section 310-10-30 of the FASB Accounting Standards Codification™ for U.S. GAAP)
- Initial measurement of the lessor's performance obligation would equal the customer consideration received
- Subsequent measurement of the lessor's performance obligation would reflect decreases in the entity's obligation to permit the lessee to use the leased item over the lease term

The Boards also discussed subsequent measurement of the lessor's right to receive rental payments and presentation of the lessor's assets and liabilities. However, no decisions were reached.

The tentative decisions were reached on the basis of a model that would result in the lessor's recognizing a performance obligation. However, the Boards asked the staff to provide additional analysis on an accounting model for lessors that would result in partial derecognition of the leased item. The Boards will revisit those tentative decisions following discussion of this additional analysis.

At its June 2009 meeting, the IASB discussed unresolved issues with respect to the Discussion Paper and reached the following tentative decisions:

- The seller/lessee in a sale and leaseback transaction would
 - Consider whether the entire asset qualifies for derecognition

- Apply a control-based approach consistent with the revenue recognition project to determine when an asset has been sold and would be derecognized
- Recognize any gain arising on a transaction that qualifies as a sale. The amount of the gain would be adjusted as appropriate if the sale proceeds or the terms of the leaseback are not at market value.
- Lessees would refer to existing applicable impairment requirements in IAS 36, Impairment of Assets, when considering impairment of right-of-use assets
- The standard applicable to the underlying leased asset would determine whether, and how, a lessee may revalue right-of-use assets
- Lessees would recognize costs incurred when negotiating and arranging leases (initial direct costs) as an expense when incurred
- Lessees would recognize and measure all existing lease contracts on the date of initial application of the new standard as follows:
 - The obligation to pay rentals would be measured at the present value of the lease payments, discounted using the lessee's incremental borrowing rate
 - The right-of-use asset would be measured on the same basis as the liability, subject to any adjustments required to reflect impairment
- Litigation liabilities: The IASB considered concerns that defendants in legal proceedings might encounter practical problems applying the proposed recognition and measurement requirements and reached a tentative decision not to make any changes to the proposals
- Reimbursement rights: The IASB discussed the measurement of reimbursement rights and reached a tentative decision to remove the asset cap from IAS 37. The asset cap limits the amount recognized for a reimbursement right to the amount recognized for the related liability. In addition, the IASB reached a tentative decision not to specify a measurement objective for reimbursement rights. The final standard would state explicitly that the assumptions used to measure a reimbursement right would be consistent with those used to measure the related liability.
- Disclosure of possible obligations: The IASB discussed what an entity should disclose when it is uncertain whether it has a present obligation, but has judged that it does not. The IASB reached a tentative decision to require certain disclosures with respect to possible obligations.
- Stand-ready obligations: The IASB tentatively approved an analysis of the attributes of stand-ready obligations and the circumstances in which such obligations arise.

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

Liabilities – project to amend IAS 37

At its June 2009 meeting, the IASB discussed the following with respect to comments received on the exposure draft to amend IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

At its July 2009 meeting, the IASB continued discussion of the proposed amendments to the measurement requirements in IAS 37 and reached the following tentative decisions:

- The amount that an entity would rationally pay to be relieved of the present obligation is the lower of the value to the entity of not having to fulfill the obligation and the amount that the entity would have to pay to cancel the obligation or transfer it to a third party

- If there is no evidence that the entity could cancel the obligation or transfer it to a third party, the entity measures the obligation at the value of not having to fulfill it

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

Post-employment benefits

The IASB discussed post-employment benefit obligations and disclosures for defined benefit plans.

Post-employment benefit obligations

At its May 2009 meeting, the IASB continued its discussion on post-employment benefit obligations and reached the following tentative decisions:

- To align the disclosure requirements for post-employment benefit obligations with those in IFRS 4, Insurance Contracts, and IFRS 7, Financial Instruments: Disclosures
- To require additional disclosures for participants in multi-employer plans
- Not to include guidance on materiality for disclosures in IAS 19, Employee Benefits
- To delete from IAS 19 the references to curtailments (now negative past service cost) and settlements (now included in remeasurement)
- To require disclosure of the effect of plan amendments, including a narrative description of the amendments
- To require disclosure of non-routine settlements

At its July 2009 meeting, the IASB reached a tentative decision with respect to the discount rate for post-employment obligations:

- To remove from paragraph 78 of IAS 19 the requirement to use a government bond rate when there is no deep market in high quality corporate bonds. Instead, entities would be required to estimate the rate for high quality corporate bonds in all cases.
- To refer entities to IAS 39, Financial Instruments: Recognition and Measurement, for guidance on how to estimate a high quality corporate bond rate (with a footnote that the Exposure Draft, Fair Value Measurement, proposes to replace this guidance)

At its additional August 2009 meeting, the IASB discussed the transition requirements for its proposed exposure draft of amendments to the discount rate for post-employment benefit obligations and reached the following tentative decisions:

- To apply the proposed amendments prospectively
- To recognize the amount resulting from the change in accounting policy directly in retained earnings
- To apply the proposed amendment from the beginning of the period in which the entity changes its accounting policy
- Not to amend the present treatment of accumulated unrecognized gains or losses
- Not to amend IFRS 1

Note: On August 20, 2009, the IASB issued an Exposure Draft, *Discount Rate for Employee Benefits: Proposed amendments to IAS 19*. The comment period ended September 30, 2009. The IASB intends to finalize any amendments to the discount rate in time for 2009 year-ends.

Disclosures for defined benefit plans

At its July 2009 meeting, the IASB reached a tentative decision that an entity would disclose the following with respect to defined benefit plans:

- Information with respect to the net benefit asset or liability by applying the requirements of IFRS 7, Financial Instruments: Disclosures. If it is not feasible to disclose information about the net asset or liability, an entity should provide that information separately for the defined benefit obligation and for the plan assets, together with an explanation of how the risks relating to the defined benefit obligation and the plan assets are linked.
- Limitations in the methods used to provide the risk disclosures
- Best estimates of the contributions that are expected to be paid during the next annual period, distinguishing required contributions, discretionary contributions, and non-cash contributions
- Accumulated benefit obligation (i.e. the defined benefit obligation, excluding projected growth in salaries)

The IASB reached a tentative decision that entities would apply the proposed amendments to IAS 19 with respect to recognition, presentation, disclosures, and other issues retrospectively.

As a result of developments relating to financial statement presentation in other projects, the IASB intends to review in September 2009 the publication timetable for an exposure draft of amendments to IAS 19 relating to recognition, presentation, disclosures, and other issues.

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

Rate-regulated activities

At its May 2009 meeting, the IASB discussed regulatory assets and liabilities and reached the following tentative decisions:

- Determine the discount rate to be used in measuring regulatory assets and regulatory liabilities on the same basis as in IAS 36, Impairment of Assets and IAS 37, Provisions, Contingent Liabilities and Contingent Assets
 - Recognize a regulatory asset for all identifiable costs of self-constructed assets the regulator specifically permits to be included in the determination of rates
 - Present some of the required numerical disclosures in a tabular format
- At its June 2009 meeting, the IASB finalized its discussion of issues to be included in the proposed exposure draft on regulatory assets and liabilities and reached the following tentative decisions:
- Apply the IFRS to regulatory assets and liabilities existing at the beginning of the first comparative period presented in the annual financial statements in which the entity first applies the IFRS. Any adjustments arising on transition would be recognized in the opening balance of retained earnings.
 - First-time adopters of IFRS could elect to recognize certain regulatory assets in the carrying amount of property, plant and equipment, or intangible assets
 - The cost of self-constructed property, plant and equipment or internally generated intangible assets would include all the amounts the regulator permits to be included in their cost, as an exception to the requirements in IAS 16, Property, Plant and Equipment; IAS 23, Borrowing Costs; and IAS 38, Intangible Assets.
 - Consider the recoverability and impairment of regulatory assets generally based upon the requirements in IAS 36

Note: On July 23, 2009, the IASB issued an [Exposure Draft, Rate-regulated Activities](#). The IASB also issued a proposed [Basis for Conclusions](#) and [Illustrative Examples](#). The comment period ends November 20, 2009.

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

Related party disclosures

At its July 2009 meeting, the IASB discussed comments received on the Exposure Draft, *Relationships with the State*, and reached the following tentative decisions:

- That the proposed exemption for state-controlled entities would apply in all cases of common state control, even if the entities in question are related for other reasons
- That when the exemption applies, an entity would disclose the nature and extent of individually significant transactions and of transactions that are significant collectively but not individually
- To replace the definition of state that appeared in the 2007 Exposure Draft, State-controlled Entities and the Definition of a Related Party, with the definition of government that appears in IAS 20, Accounting for Government Grants and Disclosure of Government Assistance
- That two entities are related to each other whenever a person or a third entity has joint control over one entity and that person (or a close member of that person's family) or the third entity has joint control or significant influence over the other entity
- To delete references to significant voting power from the definition of a related party

- That the amendments would apply prospectively for periods beginning on or after January 1, 2011, with early adoption permitted
- That the amendments do not require re-exposure

The IASB asked the staff to draft the amendments to IAS 24, with a planned issuance for later in 2009.

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

Revenue recognition accounting

The IASB discussed the following issues with respect to revenue recognition accounting.

May 2009 IASB meeting

Renewal options

The IASB reached the following tentative decisions:

- A renewal option would be accounted for as a performance obligation if the stand-alone selling price of that option can be determined without undue cost
- The accounting for other options (e.g. options for additional goods and services as in a customer loyalty program) would be the same as for renewal options

Customer's credit risk

The IASB reached the following tentative decisions:

- The measurement of an entity's net contract position would reflect the customer's credit risk and would therefore affect the amount of profit or loss recognized when a performance obligation is satisfied, rather than whether profit or loss is recognized

- An entity would report in the financial statements the invoiced amount of the consideration (i.e. excluding adjustments for the effects of credit risk) allocated to satisfied performance obligations

Uncertain consideration

At a joint session with the FASB, the IASB discussed how an entity would measure its net contract position and revenue when the customer promises an uncertain (variable) amount of consideration. The Boards reached a tentative decision that revenue recognition would be constrained only if the consideration amount cannot be reliably estimated. The staff was asked to develop proposed application guidance.

June 2009 IASB meeting

Revenues for performance by other parties

The IASB reached the following tentative decisions:

- The amount an entity recognizes as revenue depends on the identification of performance obligations. The entity must determine whether its performance obligation is:
 - To provide goods and services, in which case the entity recognizes gross revenue; or
 - To arrange for another party to provide those goods and services, in which case the entity recognizes revenue for the fee or commission
- For the same line of business, an entity would disclose revenues recognized from providing goods and services separately from arranging for the provision of goods and services
- An entity would disclose the basis for its assessment and any significant judgment in identifying performance obligations when other parties are involved in providing goods and services to the entity's customer

- If an entity legally transfers a performance obligation to another party the entity would not recognize revenue for that performance obligation

Combination and modification of contracts

The IASB reached the following tentative decisions:

- Two or more contracts with the same customer would be accounted for as a single net contract position if the prices of those contracts are interdependent. An entity would consider various indicators and exercise judgment when determining interdependence.
- When an entity modifies an existing contract, it would account for the modification as a separate contract if the modification is priced independently from the original contract. If the prices are interdependent, an entity would account for the original contract and modification as a single net contract position, recognizing the effect of the modification on a cumulative catch-up basis.

Non-monetary exchanges

The IASB reached a tentative decision that an entity would not recognize revenue from a non-monetary exchange contract, even if it has commercial substance, if its purpose was to facilitate a sale to another party.

July IASB meeting

The IASB reached the following tentative decisions:

- The unit of account is the remaining rights and obligations in the contract with a customer and that the contract position would be presented net in the statement of financial position
- No exceptions would be made for contracts requiring specific performance

- For a portfolio of contracts with customers, an entity would present
 - Net contract assets separately from net contract liabilities
 - Short-term contract assets and liabilities separately from long-term contract assets and liabilities

July 2009 joint IASB/FASB meeting

The Boards considered a summary of the comments received on the Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers*. The Boards affirmed the objective of the project to develop a single revenue recognition model for IFRS and U.S. GAAP that can be applied consistently across various industries and transactions. They agreed to focus on developing the model proposed in the Discussion Paper and clarifying how that model would apply to continuous delivery contracts (e.g. some construction contracts). The Boards will then decide whether to exclude any specific industries from the scope of that model.

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

Technical plan

The IASB reviewed the Technical Plan for the 24 months to June 30, 2011. The IASB plans, when possible, to link more closely the comment periods on related projects. Such an approach would help constituents think about the projects together.

The IASB also decided to defer publication of the Extractive Activities discussion paper. The paper prepared for the IASB by the staff of national standard-setters will be made available on the IASB website but an invitation to comment on the paper will not be published until early in 2010. The IASB also decided not to consider earnings per share until at least the second quarter of 2010.

See the [IASB work plan](#).

Future Board meetings

The IASB held subsequent meetings on September 14-18, 2009, September 22, 2009, and September 29, 2009. The next IASB meetings are October 6, 2009 and October 19-23, 2009.