



On the Horizon for IFRS

October 14, 2009

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IASB issues amendment to IAS 32 on classification of rights issues

On October 8, 2009, the IASB [announced](#) the issuance of *Classification of Rights Issues: Amendment to IAS 32*, which addresses the accounting for rights issues (rights, options, or warrants) denominated in a currency other than the functional currency of the issuer. The Amendment to IAS 32, *Financial Instruments: Presentation*, states that rights issues to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own (non-derivative) equity instruments. Previously, rights issues denominated in a foreign currency were accounted for as derivative liabilities at fair value through profit or loss.

Background

In 2005, the IFRIC was asked whether the equity conversion option in a convertible bond denominated in a foreign currency met IAS 32's requirements to be classified as an equity instrument. IAS 32 states that a derivative instrument settled in an entity's own equity instruments is equity if, and only if, it results in the exchange of a fixed number of equity

instruments for a fixed amount of cash or other assets. The IFRIC concluded that when a conversion option is denominated in a currency other than the entity's functional currency, the amount of cash to be received in the functional currency would be variable. Consequently, the instrument would be a derivative liability that should be measured at fair value with changes in fair value included in profit or loss.

More recently, IFRIC received requests to consider whether the application of this 2005 conclusion applied to a rights issue in which the exercise price was fixed in a foreign currency. In a conventional rights issue, the entity issues rights pro rata to its existing shareholders that entitle the holder to purchase a fixed number of additional shares at a fixed price. Such rights issues are classified as equity in accordance with IAS 32. An entity may however issue the rights in a currency other than its functional currency because, for example, its shares are listed on an overseas stock exchange. Applying the IFRIC's 2005 conclusion would lead to these rights being derivative liabilities and remeasured through profit or loss until exercise or expiration. This would result in the entity's profit or loss being affected by changes in its own share price and exchange rates. The IFRIC referred the issue to the IASB, believing that the IASB should consider a narrow, targeted amendment to IAS 32 to address this question.

The IASB agreed that a contract with an exercise price denominated in a foreign currency would not result in the entity receiving a fixed amount of cash in its functional currency. However, the IASB also agreed that classifying rights issues as derivative liabilities does not reflect their substance. Rights are issued only to existing shareholders on the basis of their existing shareholdings. Accordingly, the IASB decided that a pro rata issue of rights, options or warrants to all existing shareholders to buy additional shares is a transaction with an entity's owners in their capacity as owners. Given that foreign currency rights issues are

more common in the current economic environment, and often involve substantial amounts of money, the IASB has made a narrow, targeted amendment to IAS 32.

Effective date

The Amendment to IAS 32 is effective for annual periods beginning on or after February 1, 2010. Earlier application is permitted.

IASB issues September 15-18, 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 September 15-18, 2009 [IASB Update](#) which summarizes the Board meeting in London. Highlights of the meeting are discussed below.

Financial crisis

The IASB discussed derecognition, replacement of IAS 39, credit risk in liability measurement, and classification of rights issues as part of its response to the global financial crisis. Additional information with respect to global financial crisis issues is available on the [IASB's financial crisis page](#).

Derecognition

In March 2009, the IASB issued an Exposure Draft, *Derecognition: Proposed amendments to IAS 39 and IFRS 7*. The proposals would replace the derecognition requirements of IAS 39, *Financial Instruments: Recognition and Measurement* and would improve the disclosure requirements in IFRS 7, *Financial Instruments: Disclosures*, relating to the transfer of financial assets and

liabilities. In June 2009, the IASB held public roundtables to discuss the Exposure Draft. In addition, the IASB staff conducted an extensive outreach program with users, preparers, auditors, trade associations, regulators, and others.

At its September 2009 meeting the IASB discussed the comments received on the Exposure Draft as well as the feedback received from the outreach program. The IASB did not reach any decisions. Future project plans will be discussed at its meeting in October 2009.

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

Financial instruments: replacement of IAS 39

As part of its project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, the IASB discussed the three main phases of the project.

Classification and measurement – phase 1

The IASB considered comments received on the Exposure Draft, *Financial Instruments: Classification and Measurement* (issued July 2009), the public roundtable meetings, and the recent meeting of the IASB's Financial Instruments Working Group. The IASB also considered feedback received from the outreach program. No decisions were reached.

Impairment – phase 2

The IASB considered feedback received on the *Request for Information on the feasibility of an expected cash flow approach*, with the objective of developing an exposure draft to be issued in October 2009. The IASB reached the following tentative decisions:

- To set up an expert advisory panel to provide input to the IASB on operational aspects of applying the expected cash flow approach

- To use a drafting design that articulates a clear objective and emphasizes principles reinforced by concise application guidance
- To include trade receivables, instruments quoted in active markets, and individually significant assets within the scope of the exposure draft
- To prohibit recognition of a loss on initial recognition of a loan (or similar financial asset) that bears interest sufficient to cover the expected credit losses
- To seek the expert advisory panel's input on possible ways to simplify application of the effective interest method

Hedge accounting – phase 3

The IASB reached the following tentative decisions with respect to hedge accounting:

- To simplify current hedge accounting requirements by replacing fair value hedge accounting with an approach that is similar to cash flow hedge accounting
- To further simplify the existing cash flow hedge accounting model to reduce complexity
- To address general hedge accounting before considering the implications on portfolio hedge accounting
- To consider separately any implications on hedge accounting for net investments in a foreign operation since there are also interactions with IAS 21, *The Effects of Changes in Foreign Exchange Rates*

Note: The financial instruments project to replace IAS 39 was also discussed at additional IASB meetings that were held on September 22, 2009, September 29, 2009, and October 6, 2009. See the separate sections below for those meeting highlights.

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

Credit risk in liability measurement

The IASB considered a preliminary summary of the comments on the Discussion Paper, *Credit Risk in Liability Measurement*. No decisions were reached.

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

Classification of rights issues

The IASB discussed comments received on the Exposure Draft, *Classification of Rights Issues: Proposed amendment to IAS 32*.

The IASB reached a tentative decision that the scope of the amendment would be restricted to include only instruments that are offered pro rata to all holders of a class of an entity's existing non-derivative equity instruments. The amendment will apply to rights whose exercise results in the entity receiving a fixed amount of cash in any currency for a fixed number of the entity's own equity instruments.

In addition, the IASB reached a tentative decision that the amendment would apply retrospectively with an effective date of February 1, 2010. Early application would be permitted.

(**Note:** On October 8, 2009, the IASB issued *Classification of Rights Issues: Amendment to IAS 32* (see summary, above). A copy of the Amendment is available on Accounting Research Manager.

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

Conceptual framework

The IASB discussed comments and questions raised in their review of the pre-ballot draft of Chapter 1, “Objectives of financial reporting” and Chapter 2, “Qualitative characteristics of, and constraints on, useful financial information”

of the proposed conceptual framework. The IASB also discussed the initial draft of the exposure draft on the reporting entity chapter.

The IASB provided suggestions as to how some of its tentative decisions made in prior meetings could be expressed more clearly; however, the IASB did not change any of its previous tentative decisions.

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

Financial instruments with characteristics of equity

The IASB discussed its decisions to date with respect to financial instruments with characteristics of equity. The IASB decided to modify its proposed classification approach to allow some instruments that are settled with the issuer's own shares to be classified as equity.

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

Financial statement presentation

The IASB considered the Discussion Paper, *Preliminary Views on Financial Statement Presentation*, which proposes that an entity would present information about the way it creates value (its business activities) separately from information about the way it funds those business activities (its financing activities).

The IASB reached the following tentative decisions:

- To retain the requirement to distinguish between business activities (value creating activities) and financing activities (funding of that value creation) in each of the financial statements
- To define the *financing section* as “financial liabilities used as part of an entity's capital raising activities that have an agreed-upon schedule of

repayments with an interest component (and that interest component is either explicit or implicit)". Items directly related to those financial liabilities, such as fees, and derivatives held as part of an entity's non-equity sources of funding, whether assets or liabilities, would also be presented in the financing section.

- To retain a management approach to classification within the business section that is based on how a reporting entity organizes its activities and how it uses its assets and liabilities. The organization of information within the business section (i.e. categories) would reflect the facts and circumstances of that entity. The staff will develop application guidance to help management determine meaningful groupings of information within an entity's business section. The IASB may revisit the decision not to require specific categories in the business section once it has reviewed the application guidance.
- To retain the requirement to present information about discontinued operations in a separate section in each of its primary financial statements (except the statement of changes in equity). However, the IASB decided not to prescribe how information about discontinued operations would be disaggregated, or whether that disaggregation would appear on the face of financial statements or be disclosed in the notes.

The IASB discussed whether an entity should present information about net debt in its financial statements and reached the following tentative decisions:

- To require information about net debt to be presented in the financial statements
- To define *net debt* to be "the financial liabilities that an entity classifies in the financing section together with the resources available to service those financial liabilities"

The presentation of net debt information will be reconsidered at the October 2009 joint meeting with the FASB as part of the discussion on the statement of cash flows.

As part of an education session, the IASB discussed the findings of two research projects designed to test the proposals in the Discussion Paper:

- The FASB's Financial Accounting Standards Research Initiative (FASRI) conducted an experiment designed to examine how changes proposed in the Discussion Paper affect user judgments and decisions. The FASRI experimental study and the findings from that study are available on the IASB website in [Agenda Paper 9A](#).
- The staff completed the field test on the proposals in the Discussion Paper. The results of the analyst portion of the field test are available on the IASB website in [Agenda Paper 9B](#).

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

Insurance contracts

The IASB discussed the two remaining measurement approaches for insurance contracts and reached the following tentative decisions:

- That the exposure draft will propose an approach being developed in the project to amend IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, modified by the inclusion of a residual margin that excludes day one gains. However, because a significant minority of IASB members supported a current fulfillment value approach that includes a composite margin, the exposure draft will discuss both approaches.

- That the driver selected for releasing the residual margins would result in recognizing those margins in income in a systematic way that best depicts the insurer's performance under the contract
- That the residual margin would be released over the period during which the insurer is standing ready to accept valid claims (the coverage period). The staff will consider further what drivers should be used for the release of that margin.
- That the insurer would not adjust the residual margin in subsequent reporting periods for changes in estimates

The IASB discussed discount rates for insurance liabilities and reached the following tentative decisions:

- The discount rate for an insurance liability would conceptually adjust estimated future cash flows for the time value of money in a way that captures the characteristics of that liability rather than using a discount rate based on expected returns on actual assets backing those liabilities
- The standard would not give detailed guidance on how to determine the discount rate

The IASB also reached a tentative decision not to address policyholder accounting in the exposure draft, but clarified that the exposure draft would address how both the cedant and the reinsurer would account for reinsurance contracts.

The IASB will continue its discussion of this project at its meeting in October 2009.

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

Leases

The IASB discussed a summary of the comments received on the Discussion Paper, *Leases - Preliminary Views*, and its future plans for the leases project. The IASB will continue its discussion of both lessor and lessee accounting issues at future meetings.

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

Liabilities – project to amend IAS 37

The IASB discussed the following with respect to the project to amend IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Measurement guidance

The IASB discussed proposed measurement guidance for obligations, such as asset retirement obligations, that an entity fulfils by carrying out a service at a future date. The IASB reached a tentative decision that the future outflow used to estimate the obligation would be the amount that the entity would rationally pay a contractor at the future date to carry out the service on its behalf:

- If a market exists for such services, the amount is the price that a contractor would charge
- If no market exists, the entity would estimate the amount

The staff will develop guidance explaining how an entity would use a building block approach to estimate the amount it would rationally pay a contractor to carry out the service, assuming no market exists.

Consequential amendments to IFRS 3

The IASB discussed the consequential amendments to IFRS 3, *Business Combinations*, for contingent liabilities.

Recognition

The IASB reached the following tentative decisions with respect to recognition:

- To eliminate the scope exception from IAS 37 for contingent liabilities in a business combination by replacing paragraphs 22 and 23 of IFRS 3 with a requirement for entities to recognize a liability within the scope of IAS 37 if the fair value can be measured reliably
- To clarify that, except in extremely rare cases, an entity will be able to determine a reliable measure of the fair value of such liabilities

Subsequent measurement

The IASB reached a tentative decision to delete the special requirements in IFRS 3 with respect to subsequent measurement of contingent liabilities. Accordingly, all liabilities within the scope of IAS 37 assumed in a business combination would be measured after the acquisition in accordance with IAS 37.

Disclosures

The IASB reached the following tentative decisions with respect to disclosures:

- To preserve the substance of the disclosure requirements for contingent liabilities assumed in business combinations during the period (i.e. those in paragraph B64(j) of IFRS 3)
- To continue to cross-reference to the disclosure requirements in IAS 37
- To apply the requirements to all liabilities and *possible obligations* within the scope of the revised IAS 37
- To delete the existing requirement in paragraph B67(c) of IFRS 3 for entities to disclose additional information about recognized contingent liabilities

Consequential amendments to IFRIC 5

The IASB reached a tentative decision to delete the requirement in paragraph 9 of IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, for contributors to measure a right to reimbursement from a decommissioning fund at the lower of

- The amount of the decommissioning obligation recognized by the contributor, or
- The contributor's share of the fair value of the net assets of the fund attributable to contributors

Instead, a contributor would recognize and measure a right to receive reimbursement for recognized liabilities in accordance with IAS 37 unless it has control, joint control, or significant influence over the decommissioning fund.

The IASB also reached a tentative decision to amend the requirements for obligations to make additional contributions to a decommissioning fund by:

- Allowing for the possibility that some of these obligations are financial liabilities within the scope of IAS 32 and IAS 39 rather than IAS 37
- Deleting the *probability recognition* criterion, i.e. the criterion that requires an entity to recognize an obligation only if it is probable that the entity will make additional contributions

Format of new standard

The IASB reached a tentative decision that IAS 37 would be replaced with an IFRS rather than with an amendment to IAS 37. The IASB plans to consider whether the revised proposals should be re-exposed.

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

Post-employment benefits

The IASB discussed the timetable for issuing an exposure draft of amendments to IAS 19 relating to recognition, presentation, disclosures, and other issues. The IASB reached a tentative decision that the staff should consider whether the IASB's conclusions on the presentation of other comprehensive income have any implications for the presentation of the remeasurement component of the post employment benefit obligation after the October 2009 joint IASB/FASB meeting. Any discussion of such implications would take place at the November 2009 meeting.

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

Related party disclosures

The IASB discussed the transitional requirements for its proposed amendments to IAS 24, *Related Party Disclosures*, and reached the following tentative decisions:

- The amendments to the definition of a related party would apply retrospectively with an effective date of January 1, 2011, with early application permitted
- The proposed partial exemption for government-controlled entities would apply retrospectively with an effective date of January 1, 2011, with early application permitted
- An entity would be permitted to apply the partial exemption for government-controlled entities before the effective date even if it chooses not to apply the new definition of a related party until a later date

The Board plans to issue a revised standard in November 2009.

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

Revenue recognition

The IASB discussed the definition of control for determining when goods and services are transferred to a customer and options to acquire additional goods and services.

Control

In the Discussion Paper, *Preliminary Views on Revenue Recognition in Contracts with Customers*, the IASB proposed that an entity has transferred a good or a service when the customer obtains control of it.

The IASB considered the working definition of control – control of a good or a service is an entity's present ability to direct the use of and receive the benefit from that good or service – and reached a tentative decision that an entity should assess the transfer of control from the perspective of the customer.

In addition, the IASB considered the indicators that the customer has obtained control of the promised asset together with examples applying those indicators. The staff will continue to refine the definition of control and the indicators for discussion at future meetings.

Options to acquire additional goods and services

The IASB considered how an entity would determine whether options to acquire additional goods and services are part of a present contract with a customer and, if so, how the entity would account for them.

The IASB reached the following tentative decisions:

- An entity would account for an option to acquire additional goods and services granted in a contract with a customer as a performance obligation in that contract if that option provides a material right to the customer that the customer would not receive without entering into

that contract. An entity would account for that performance obligation by allocating to it a portion of the transaction price relative to the standalone selling price of the option.

- An entity could estimate the standalone selling price of the option by reference to the discount the customer would obtain when exercising the option, adjusted for:
 - The discount that the customer could receive without exercising the option; and
 - The likelihood that the option would be exercised

The staff had proposed that an entity would apply this approach when the standalone selling price of the option is not directly observable. However, the IASB asked the staff to consider this further, noting that there may be circumstances in which the time value component of an option should not be ignored.

- The allocation of the transaction price would reflect the optional goods and services (and corresponding customer consideration) on an expected (i.e. probability-weighted) basis if a customer has an option to acquire additional goods and services, and those goods and services are:
 - Similar in nature to the other goods and services in the contract; and
 - Provided in accordance with terms and conditions (including pricing) in the contract

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

IASB issues additional meeting highlights on project to replace IAS 39

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 following *IASB Updates*, which summarize the additional Board meetings that were held to discuss the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*:

- September 22, 2009 [IASB Update](#)
- September 29, 2009 [IASB Update](#)
- October 6, 2009 [IASB Update](#)

Highlights of each of the additional meetings are combined by topic and are discussed below.

Classification and measurement – phase 1

The IASB continued its discussion of comments received on the Exposure Draft, *Financial Instruments: Classification and Measurement* that was issued in July 2009.

September 22, 2009 meeting

Cost exception

IAS 39 includes an exception that requires an entity to measure investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably determined (as well as derivatives that are linked to such equity instruments and which must be settled by delivery of them) at

cost. The Exposure Draft includes a proposal to remove that exception and require that such investments be measured at fair value.

The IASB reached a tentative decision to provide guidance for the use of a simplified current measurement for equity instruments if the determination of fair value is impracticable. In addition, the IASB reached a tentative decision to amend IAS 34, *Interim Financial Reporting*, to allow an entity to carry forward that measure if there is no evidence of a significant change in that measure since the last reporting date.

September 29, 2009 meeting

Scope

The IASB reached a tentative decision that the scope of phase 1 of the project would continue to include financial liabilities.

Classification conditions

The IASB tentatively confirmed that classification should be based on how an entity manages its financial instruments and the contractual terms of the instrument. In developing the condition related to how an entity manages its financial assets the IASB also reached a tentative decision to replace the phrase “managed on a contractual yield basis.” Many respondents expressed support for the way the IASB explained the business model in the basis for conclusions to the Exposure Draft. The basis stated that “the objective of an entity’s business model is to hold the instruments to collect (or pay) contractual cash flows rather than to sell (or settle) the instruments prior to their contractual maturity to realize fair value changes”. The IASB will consider using similar wording in the final standard. The staff also observed that this wording is very close to the wording currently being proposed by the FASB for this classification condition. The final standard will have more examples than were included in the Exposure Draft.

Cost exception

The IASB reviewed the tentative decision reached on September 22, 2009 (see highlights above) to replace the cost exception on the basis of practical difficulties the staff had identified with implementing such an approach. This issue will be discussed at a future IASB meeting at which a variation of the existing cost exception will be considered.

October 6, 2009 meeting

Interaction between the two classification conditions

The IASB reached the following tentative decisions with respect to the classification conditions that had been tentatively confirmed on September 29, 2009 (see highlights above):

- Confirmed that an instrument must meet both of the classification conditions in order to be measured at amortized cost
- Decided that the IFRS would address the business model condition first. For those instruments that meet the business model condition, the IFRS would then address the condition related to the contractual cash flow characteristics of the instrument. The IASB emphasized that the two conditions are equally important.

Amortized cost

The IASB tentatively confirmed that amortized cost provides relevant and decision-useful information if both of the classification conditions are met. The IASB reached a tentative decision not to require fair value information on the face of the statement of financial position. The IASB noted that it may explore this issue further at a later date, possibly as part of its convergence process with the FASB.

Fair value option

The IASB also confirmed the proposal in the Exposure Draft that an entity be permitted to designate an instrument at fair value through profit or loss by electing to use the fair value option if that designation eliminates or significantly reduces a measurement or recognition inconsistency.

Reflecting changes in own credit risk for financial liabilities not measured at amortized cost

The IASB discussed specific issues relating to own credit risk for financial liabilities not measured at amortized cost and reached the following tentative decisions:

- To require a frozen credit spread measurement method for all financial liabilities that are not eligible for amortized cost, but are managed as part of a contractual cash flow business model. This measurement method requirement would not apply to financial liabilities held for trading, including derivatives, or financial liabilities for which the entity uses the fair value option.
- To provide a default method for isolating the initial credit spreads for relatively simple financial liabilities, but not to prescribe a method
- To require disclosures about the method and inputs used to isolate the initial credit spread
- To continue to require fair value disclosures in accordance with IFRS 7, *Financial Instruments: Disclosures* for financial liabilities measured using a frozen credit spread method

Accounting for embedded derivatives

The IASB reached a tentative decision to eliminate separate accounting for embedded derivatives in hybrid contracts if the host is within the scope of IAS

39. The entire hybrid contract would be classified as a single accounting unit under the proposed model.

Unquoted equity instruments: elimination of cost exception

The IASB continued its discussion on the IAS 39 cost exception to fair value accounting for equity instruments (and related derivatives) that do not have a quoted market price, and for which fair value cannot be reliably determined. No decisions were reached.

Impairment – phase 2

The IASB continued its discussions on impairment of financial instruments with respect to drafting an exposure draft.

September 22, 2009 meeting

The IASB reached the following tentative decisions:

- That the exposure draft would provide principle-based guidance regarding cash flow estimates on a collective (portfolio) basis and an individual basis (including the interplay between those bases) that focuses on two aspects:
 - Using the approach that provides the best estimate
 - Ensuring that switching between the approaches does not result in double counting
- That the exposure draft would include concise application guidance for forecasting cash flows and the treatment of trade receivables
- That the exposure draft would provide clarification of several aspects of the model (point-in-time versus through-the-cycle-estimates, expected value versus most probable value and the use of entity specific versus market data)

- That the Expert Advisory Panel (EAP) would be used as a forum to explore further some other issues (determination of the initial expected spread, practical aspects of applying the effective interest method, and interaction with the requirements of the Basel II treaty)

The IASB reached a tentative decision not to propose either full retrospective or full prospective application on transition. The IASB asked the staff to further explore an alternative transition approach for financial instruments that were recognized before the date of transition. This transition approach would involve determining a new effective interest rate for the expected cash flows over the remaining life of the financial instrument subject to a floor (the risk free interest rate) and a ceiling (the contractual interest rate).

September 29, 2009 meeting

The IASB reached a tentative decision not to pursue the alternative transition approach (see September 22, 2009 highlights) because of its complexity and may generate anomalous outputs that would reduce the quality of the reported information. Instead, the IASB reached a tentative decision to propose a transition approach that:

- Adjusts the effective interest rate previously determined in accordance with IAS 39 so that it approximates the effective interest rate that would have been determined at inception using the expected cash flow approach
- Requires entities to make maximum use of historical data supplemented to the extent necessary with information for similar products originated or acquired near the date of transition

In addition, the IASB reached a tentative decision to include a question in the exposure draft for the impairment phase of the project that would solicit comments on a simplified transition approach using the original effective

interest rate previously determined in accordance with IAS 39 rather than an adjusted effective interest rate.

Effective date, comparatives and early adoption

The IASB reached a tentative decision to indicate in the exposure draft for the impairment phase of the project that the effective date is expected to be approximately three years from the date of issue. Generally, the IASB does not include an expected effective date in an exposure draft; however, comments received on the *Request for Information on the feasibility of an expected loss model for the impairment of financial assets* (issued June 2009) indicated that a longer than normal period would be necessary to allow preparers to modify their systems and collect the data required to estimate expected cash flows.

The IASB also reached tentative decisions to require restatement of comparative information and to permit early adoption.

October 6, 2009 meeting

Guidance for variable interest rates

The IASB discussed the application of the expected cash flow measurement approach to variable interest rate financial assets and reached a tentative decision to include application guidance requiring *catch-up* adjustments instead of effective interest rate adjustments as the means of unwinding differences between the carrying amount and changed cash flow estimates. The difference would be recognized in profit or loss.

Presentation and disclosures

The IASB discussed presentation and disclosure requirements to accompany the proposed expected cash flow approach in the exposure draft for the impairment phase of the project. The IASB reached a tentative

decision to propose the following presentation on the face of the statement of comprehensive income:

- Interest revenue before taking expected losses into account
- The reduction in interest revenue resulting from the allocation of initial expected losses
- Interest revenue based on the expected cash flow approach (the subtotal of the first two items)
- The gain or loss resulting from changes in expectations as a separate line item

The IASB reached a tentative decision to propose the following disclosures in the notes to the financial statements:

- The provision account for credit losses (the provision account is mandated and direct write off is prohibited)
- A reconciliation of the movements in the provision account
- Vintage information (year of origination and maturity) and loss triangle (a comparison of actual outcomes with previous estimates) disclosures
- Details on changes in expectations (distinguishing those changes that are credit-related from those that are not credit-related)
- Management's assumptions and methodology on the expected cash flow approach
- A high level explanation of the sensitivity to changes in key assumptions and stress testing information (if an entity performs stress testing)

The IASB noted that many of those disclosures would be relevant even if the IASB decided ultimately to retain the existing incurred loss model.

The IASB reached the following tentative decisions with respect to ways to enhance decision-usefulness for users of financial statements with respect to the credit quality of financial assets:

- To propose a definition for non-performing financial assets (90 days overdue)
- To propose disclosure of an explanation of the movements in the portfolio of non-performing financial assets held at amortized cost

Interaction with IAS 28 and IFRS 4

The IASB discussed the consequences of replacing the incurred loss model with the expected cash flow approach for the requirements in IAS 28, *Investment in Associates* and IFRS 4, *Insurance Contracts*. The IASB reached a tentative decision to use the impairment indicators in IAS 36, *Impairment of Assets* to determine whether additional impairment losses have to be recognized for investments in associates.

IFRS 4 refers to objective evidence of a loss event in its test for impairment of reinsurance assets but provides no further guidance. The IASB reached a tentative decision that the exposure draft on the impairment of financial assets will not propose amendments to that requirement. In accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, entities consider IAS 39 for guidance on loss events because it addresses a similar issue. The IASB did not believe that eliminating the impairment guidance in IAS 39 would affect an entity's accounting policy for recognizing impairments of reinsurance assets. The IASB will discuss whether to amend the requirement in IFRS 4 in its project on insurance contracts.

Hedge accounting – phase 3

October 6, 2009 meeting

Applying cash flow hedge accounting mechanics to fair value hedges

At its September 2009 meeting, the IASB reached a tentative decision to replace fair value hedge accounting. This would be done by permitting recognition outside profit or loss of gains and losses on financial instruments designated as hedging instruments (an approach similar to cash flow hedge accounting).

At its October 6, 2009 meeting, the IASB reached a tentative decision to retain the existing *lower of* test as required in IAS 39.96(a) for cash flow hedge accounting that ensures that cumulative fair value changes in hedged items that exceed cumulative fair value changes in the hedging instrument are not

recognized in profit or loss, but not to extend that test to fair value hedges.

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

Next steps

The Board tentatively expects to issue an exposure draft on impairment in the second half of October 2009 and a final IFRS on classification and measurement in November 2009.

Future Board meetings

The next IASB meetings are October 15-16, 2009 (to discuss replacement of IAS 39) and October 19-23, 2009 (regular meeting). The next joint IASB/FASB meeting is October 26-27, 2009.