



# On the Horizon for IFRS

February 2, 2009

## **IASB issues December 2008 meeting highlights**

IASB responds to the global financial crisis  
Board discusses annual improvements to IFRS  
Board continues discussions of conceptual framework  
Effective date of first-time adoption of IFRS is changed  
IASB continues redeliberations of proposed IFRS for private entities  
Proposed amendments to IAS 37 discussed  
Rate-regulated activities project added to agenda  
Board continues redeliberations of share-based payment

## **IASB issues November 2008 meeting highlights**

IASB responds to the global financial crisis  
Fair value measurement discussed  
Board continues discussions of financial instruments with characteristics of equity  
IFRIC issues discussed  
Board continues discussions of conceptual framework  
IASB continues redeliberations of proposed IFRS for private entities  
Lease accounting issues discussed  
IASB discusses post-employment benefits  
Proposed amendments to related party disclosures discussed  
Standards Advisory Council update

## **IASB issues October 2008 meeting highlights**

IASB responds to the global financial crisis

Board considers fair value measurement discussion paper  
IASB discusses financial instruments with characteristics of equity  
IASB continues redeliberations of proposed IFRS for private entities  
Annual improvements – definition of a derivative and effective interest rate  
Insurance contracts discussed  
Board discusses share-based payment

## **IASB issues IASB/FASB October 2008 joint meeting highlights**

IASB and FASB respond to the global financial crisis  
IASB and FASB consider common standards for consolidation  
Boards discuss proposed derecognition principle for financial assets  
Boards conduct educational session on fair value measurement  
Boards conduct educational session on reducing complexity of financial instruments  
Financial instruments with characteristics of equity discussed  
Boards discuss liabilities – uncertainties, and expected cash flows  
Boards discuss conceptual framework  
Educational session conducted for emissions trading schemes

## **Future Board meetings**

## IASB issues December 2008 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 December 2008 [IASB Update](#) which summarizes the Board's meeting in London on December 15-19, 2008. Highlights of the meeting are discussed below.

### IASB responds to the global financial crisis

The IASB discussed certain aspects 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

The IASB continued its discussion of two approaches to derecognition and reached the following tentative decisions:

- *Approach 1:* The Board decided to focus solely on whether a transferor has access to all or some of the cash flows of a transferred financial asset.
- *Approach 2:* The Board decided to continue to include economic constraints in the assessment of whether a transferee has the practical ability to transfer the purchased financial asset to a third party for its own benefit.

The IASB reached a tentative decision that an entity should derecognize a financial liability, or a component thereof, when it no longer qualifies as a liability of the entity (i.e. when the present obligation is eliminated and the entity is no longer required to transfer economic resources with respect to that obligation).

The IASB discussed secured borrowings with or without recourse, security lending arrangements, and repurchase agreements and reached the following tentative decisions:

- Secured borrowings with recourse and securing assets would be accounted for similarly to unsecured borrowings and unpledged assets
- Restrictions on a debtor's ability to benefit from the securing asset would be disclosed
- Security lending arrangements and repurchase agreements involving readily obtainable financial assets would qualify for derecognition

No tentative decisions were reached on the accounting for secured borrowings without recourse and the related securing assets. Further discussions will take place at the January 2009 meeting and an exposure draft is expected to be issued in March or April 2009.

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

#### Financial instruments

The IASB and the FASB conducted three public roundtable meetings in November 2008 and December 2008 – one each in Europe, North America and Asia – to identify accounting issues that might require their urgent and immediate attention to improve financial reporting and help enhance investor confidence in the financial markets.

At its December 2008 meeting, the IASB discussed some of the recommendations made by the roundtable participants and reached the following tentative decisions:

- Issue exposure drafts that would

1. Clarify that when an entity reclassifies a hybrid financial asset out of the fair value through profit or loss category, the entity must assess whether it should separate an embedded derivative from the host contract. (**Note:** On December 22, 2008, the IASB issued an [Exposure Draft](#), *Embedded Derivatives – Proposed amendments to IFRIC 9 and IAS 39*).
  2. Provide additional disclosure requirements for investments in debt instruments (other than those classified as at fair value through profit or loss). (**Note:** On December 23, 2008, the IASB issued an [Exposure Draft](#), *Investments in Debt Instruments – Proposed amendments to IFRS 7*).
- Consider as a matter of urgency with the FASB
    3. The accounting for impairments of financial assets, including impairment triggers and reversals of impairment losses, for available-for-sale equity instruments
    4. The fair value option, including its scope, the eligibility requirements in IAS 39 and the ability to reclassify financial instruments out of the fair value through profit or loss category
  - Not to issue additional IFRS guidance at this time for the definition of held for trading, accounting for investments in collateralized debt obligations, or measuring financial instruments when markets are no longer active

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

#### Fair value measurement

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

#### Defensive intangible assets

*Defensive intangible assets* are intangible assets that are acquired in a business combination where the acquirer does not intend to use them directly or does not intend to use them in the same way as other market participants.

The IASB confirmed its decision in IFRS 3, *Business Combinations* (revised 2008) that an acquirer should recognize defensive intangible assets and measure them at fair value.

The IASB tentatively decided to not provide or address

- Explicit guidance on measuring the fair value of defensive intangible assets
- Subsequent accounting for defensive intangible assets
- Additional disclosures about defensive intangible assets

#### Reference markets

The IASB reached the following tentative decisions:

- A fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the *most advantageous market*, which is the market in which the reporting entity would sell the asset or transfer the liability at a price that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, considering transaction and transportation costs in the respective market(s).
- An entity would not be required to undergo an exhaustive search of all possible markets when identifying the most advantageous market; instead, the entity may use the principal market for the asset or liability unless there is evidence that a more advantageous market exists. The *principal market* is the market with the greatest volume of activity for the asset or liability, provided that the entity would sell the asset or transfer the liability in this market.

- When an observable market does not exist, an entity would consider the characteristics of market participants with which the entity would transact to sell an asset or to transfer a liability.

#### **Valuation premise**

The IASB reached the following tentative decisions:

- A fair value measurement would consider whether market participants would maximize the value of an asset principally through its use in combination with other assets as a group (*in-use*) or on a stand-alone basis (*in-exchange*).
- The valuation premise and highest and best use concepts are not relevant for liabilities and financial assets.
- The exposure draft should highlight the fact that an exit price considers a market participant's ability to generate economic benefit by using an asset or by selling it to a third party. However, this will not be explicitly included in the definition of an exit price because the valuation premise relates only to nonfinancial assets.
- The exposure draft should not replace the terms *in-use* and *in-exchange*.

#### **Day 1 gains or losses**

The IASB discussed the appropriateness of recognizing a gain or a loss when IFRS requires or permits fair value at initial recognition and the related measurement is derived using unobservable inputs.

The IASB reached the following tentative decisions:

- The transaction price is the best evidence of the fair value of an asset or liability at initial recognition except in certain specified circumstances that indicate that the transaction was not at fair value.

- If there is evidence that the transaction price does not represent fair value at initial recognition, an entity would recognize a day 1 gain or loss, even when the initial fair value measurement is derived using unobservable inputs.
- When an entity recognizes a day 1 gain or loss, the entity would be required to make additional specified disclosures.

#### **Restrictions on assets and liabilities**

The IASB reached the following tentative decisions:

- If a restriction on the use or sale of an asset would transfer to market participants, the restriction is an attribute (characteristic) of the asset and affects the fair value of that asset. The existence of a restriction depends on the characteristics of the asset that the market participant buyer receives, and therefore would pay for, not on the characteristics of the asset in the hands of the existing holder.
- A restriction on the transfer of a liability does not affect the fair value of that liability, since the fair value of a liability is a function of performance and not of marketability.
- In the definition of a Level 1 input, *the ability to access* means that the entity will be able to access the market for a restricted asset when the restriction ceases to exist. The entity does not need to be able to sell the asset on the measurement date.

#### **Highest and best use change of use option**

The IASB reaffirmed a September 2008 tentative decision that an entity may need to split the fair value of an asset group into two components when the highest and best use of an asset differs from its current use.

- The value of the assets in the asset group assuming their current use

- A *change of use option* reflecting the difference between the value of the assets in their current use and the fair value of the asset group in its highest and best use

### **Credit standing**

In the Discussion Paper, *Fair Value Measurements*, the IASB proposed a preliminary view that the fair value of a liability reflects non-performance risk, including credit standing. At the December 2008 meeting, the IASB tentatively reaffirmed the preliminary view and also reached a tentative decision to clarify in the exposure draft how this conclusion relates to other conclusions in this project that exclude consideration of actions that are not legally permissible.

The IASB indicated that many commentators questioned whether decision-useful information results from including the effect of non-performance risk in the measurement of a liability. The IASB noted that this question is beyond the scope of the project on fair value measurement and asked the staff to develop for public comment a separate document on this issue.

### **The definition of fair value for liabilities**

The IASB tentatively reaffirmed its preliminary view that the fair value of a liability is “the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.” The exposure draft will describe what a transfer price represents, including how it relates to a settlement amount with a counterparty. In addition, the exposure draft will provide guidance on how to measure the fair value of a liability when an observable market price for the liability does not exist.

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

### **Board discusses annual improvements to IFRS**

#### **2007 annual improvements project**

The Board discussed three remaining issues from the Exposure Draft, *Proposed Improvements to International Financial Reporting Standards* that was issued in October 2007. The Board plans to issue the amendments related to these issues in April 2009, with an effective date of January 1, 2010.

#### **IAS 39, Financial Instruments: Recognition and Measurement – Treating loan prepayment penalties as closely related embedded derivatives**

The Board decided to proceed with the proposed amendment to revise paragraph AG30(g) of IAS 39, to clarify that a prepayment option is closely related to the host debt contract if the exercise price reimburses the lender for the present value of lost interest for the remaining term to maturity of the original contract.

#### **IAS 1, Presentation of Financial Statements – Current/non-current classification of convertible instruments**

The Board decided to amend IAS 1 to clarify that the potential settlement of a liability by issuing equity instruments is not relevant to the determination of the liability’s classification as current or non-current.

#### **IAS 17, Leases – Classification of land leases**

The Board discussed comments received on the proposal to address a perceived inconsistency in the classification guidance in IAS 17 for leases of land and buildings and reaffirmed the preliminary view that the proposed change would be an improvement.

The Board agreed with the additional revisions that the staff recommended finalizing the amendment, including a modified retrospective transition which would require an entity to reassess the classification of unexpired

land leases at the date the amendment is adopted. A lease newly classified as a finance lease on transition would be recognized at either:

- The fair value of the land component on the date of adoption
- The fair value of the land component reported in previously published financial statements, if available

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

#### 2009 annual improvements project

The Board decided not to include a request to improve consistency between the principles in IAS 18 and Example 17 of its Appendix in the annual improvements project.

The Board approved the following issues for possible inclusion in the 2009 annual improvements exposure draft, which is expected to be issued in August 2009.

#### IAS 40, Investment Property – Change from fair value model to cost model

A decision to develop or sell investment property previously measured using the fair value model in IAS 40 could result in the property being transferred to investors and accounted for under IAS 2, *Inventories*; accounted for as non-current assets held for sale under IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*; or continuing to be accounted for at fair value under IAS 40.

The Board reached the following tentative decisions:

- To delete the requirement to transfer investment property to inventories when it will be developed before sale
- To add a requirement that investment property held for sale would be displayed as a separate category in the statement of financial position

- To require disclosures consistent with those in IFRS 5

#### IFRS 3, Business Combinations – Customer-related intangible assets

The IFRIC previously received a request to provide guidance on a non-contractual customer relationship acquired in a business combination and at its meeting in November 2008, the IFRIC made certain recommendations for the IASB and FASB to consider. The IASB reached a tentative decision to consider a proposed amendment to IFRS 3 and asked the staff to work with the FASB to develop a project plan and prepare additional analysis for a future meeting.

#### IFRS 7, Financial Instruments: Disclosures

The Board discussed certain application issues related to IFRS 7 and reached a tentative decision to propose amendments to IFRS 7.

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

#### Board continues discussions of conceptual framework

The Board discussed a summary of comments received on the Exposure Draft, *An improved Conceptual Framework: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*. No decisions were reached.

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

#### Effective date of first-time adoption of IFRS is changed

The Board made a tentative decision to change the effective date of IFRS 1 (revised 2008), *First-time Adoption of International Financial Reporting Standards* from January 1, 2009 to July 1, 2009. The proposed amendment removes a potential technical problem arising from the interaction of IFRS 1 and the revised IFRS 3 (revised 2008), *Business Combinations* and IAS 27 (revised

2008), *Consolidated and Separate Financial Statements*, but does not affect the application of IFRS 1 by first-time adopters.

#### **IASB continues redeliberations of proposed IFRS for private entities**

The IASB continued its redeliberations of the proposals in the Exposure Draft, *IFRS for Private Entities* (formerly the *IFRS for Small and Medium-sized Entities*), discussing the following issues.

##### **Financial statement presentation**

The IASB had previously reached a tentative decision that the *IFRS for Private Entities* should include the requirements of IAS 1 (revised 2007), *Presentation of Financial Statements*. At the December 2008 meeting, the IASB reached the following tentative decisions with respect to the requirements of IAS 1:

- An entity would have the option to present either a single statement of comprehensive income or two separate statements – an income statement displaying components of profit or loss and a statement of comprehensive income beginning with profit or loss and displaying components of other comprehensive income.
- An entity that has no items of other comprehensive income would not include a subtotal for *profit for the period* in the statement of comprehensive income.
- An entity would not be required to apply the requirements of IAS 1 to present a statement of financial position as of the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

##### **Impairment of non-financial assets**

The IASB discussed a revised Section 26, *Impairment of Non-financial Assets*, which reflected the following tentative decisions reached at the July 2008 meeting:

- Modify the general approach for impairment of non-financial assets to include the *recoverable amount* and *value in use* concepts
- Simplify the requirements for assessing goodwill impairment
- Introduce the concept of cash-generating unit

The IASB was generally supportive of the revised Section 26 but highlighted a few inconsistencies and suggested certain modifications, including shortening the section to make it more manageable for private entities. The indicator approach to impairment proposed in the Exposure Draft was retained.

##### **Financial instruments**

At the June 2008 meeting, the IASB asked the staff to revise Section 11, *Financial Assets and Financial Liabilities* as follows:

- Restructure Section 11 into two parts:
  5. *Section 11A*: To include the simple payables and receivables and other basic financial instruments
  6. *Section 11B*: To include the more complex instruments and transactions
- Clarify that the cost model will be appropriate for the significant majority of financial instruments held by private entities by providing examples of the types of financial instruments that a private entity is likely to have so that a private entity with no other financial instruments would not need to consider Section 11B.

The Board discussed the Section 11A draft in December 2008 and decided that revisions should be made to the following areas:

- Initial measurement of a financial instrument
- Identification of those basic financial instruments that cannot be carried at amortized cost
- Derecognition, including factoring

The staff will present a revised Section 11A at the January 2009 meeting, along with a draft of Section 11B.

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

#### **Proposed amendments to IAS 37 discussed**

The IASB discussed the Exposure Draft to amend IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. Some respondents raised a concern that the proposed removal of the requirement to disclose possible obligations would result in a loss of useful information for users of financial statements. The IASB reached a tentative decision to revise the proposal to require entities to disclose information about possible obligations, such as those arising from legal, arbitration and governmental proceedings that are in progress, pending or threatened against the entity. In addition, the disclosure would include an estimate of the amounts involved.

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

#### **Rate-regulated activities project added to agenda**

The Board added a project to its agenda to address whether regulated entities could or should recognize an asset or a liability as a result of rate regulation imposed by regulatory bodies or governments.

#### **Board continues redeliberations of share-based payment**

The Board continued its redeliberations of the Exposure Draft, *Group Cash-settled Share-based Payment Transactions*, which addresses how an entity that receives goods and services from its suppliers should account in its separate financial statements for share-based payment arrangements that are settled in cash by a group entity on its behalf.

The Board reached a tentative decision that agreed with changes to the measurement proposals in the Exposure Draft recommended by the IFRIC and asked the staff to prepare a draft amendment to IFRS 2, *Share-based Payment*. At a future meeting, the Board will consider whether to re-expose the amendment.

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

#### **IASB issues November 2008 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 November 2008 [IASB Update](#) which summarizes the Board's meeting in London on November 18-21, 2008. Highlights of the meeting are discussed below.

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

The IASB discussed certain aspects 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](#).

## Consolidation

The IASB discussed certain issues that were identified by the staff when drafting the consolidation exposure draft and reached tentative decisions on the following:

- The general guidance on control with less than half the voting rights would apply to options and convertible instruments.
- When a reporting entity holds voting rights both directly and as an agent for other parties and it is difficult to identify whether the entity uses the voting rights of the other parties for its own benefit or for the benefit of those other parties, the reporting entity would include the voting rights it holds as an agent unless it is obligated to act in the best interests of those other parties and has policies and procedures to insure it is capable of acting independently.
- A reporting entity would assess power over a structured entity if it obtains returns that are potentially significant and are more than those received by any other party.
- A reporting entity would provide disclosures to help users evaluate the extent of the group's activities with respect to non-controlling interests, and information about restrictions that are a consequence of assets and liabilities held by subsidiaries.
- The accounting and disclosure requirements for separate financial statements would be retained in IAS 27.
- The guidance on consolidated financial statements would be applied prospectively.

(**Note:** On December 18, 2008, the IASB issued an [Exposure Draft](#), *ED 10 Consolidated Financial Statements*. The [Basis for Conclusions](#) and [Illustrative](#)

[Examples](#) were issued as separate documents. The comment period ends on March 20, 2009.)

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

## Derecognition

The IASB reached the following tentative decisions:

- *Transfers involving an entire asset:* Transferring the right to the cash flows of a financial asset is similar to transferring the asset itself
- *Transfers involving a part of a financial asset:* The following would be assessed for derecognition:
  7. *Approach 1:* Any cash flows that are generated by the financial asset or group of financial assets
  8. *Approach 2:* A part of a financial asset or group of financial assets as defined in paragraph 16 of IAS 39, subject to specific guidance about transfers of groups of similar financial assets, derivatives, embedded derivatives, and equity instruments
- *Meaning of continuing involvement:* Continuing involvement in a transferred financial asset or component thereof (the Asset) represents retention of any contractual rights or contractual obligations inherent in the Asset or the acquisition of any new contractual rights or contractual obligations relating to the Asset (e.g. any interest in the future performance of the Asset or a responsibility to make payments in the future in respect of the Asset under any circumstances). Continuing involvement may result from contractual provisions incorporated in the transfer agreement itself or a separate agreement with the transferee or a third party entered into in connection with the transfer. Continuing involvement would not include standard representations and

warranties, fiduciary/agency servicing, fair value forwards, and fair value options.

- *Practical ability:*
  9. Determining whether a transferee has the practical ability to transfer a financial asset to a third party unilaterally without having to impose additional restrictions requires judgment
  10. The transferor would not reassess practical ability in subsequent periods, except in certain cases when the transferee subsequently acquires the practical ability to transfer the asset to a third party (such as when an option is exercised or expires.)
- *Derecognition tests:* Derecognition tests would be applied from the perspective of the transferee, although the Board asked the staff to consider whether Approach 1 might be improved by adopting the perspective of the transferor.

The IASB will discuss related issues at the December 2008 meeting and expects to issue an exposure draft in the first half of 2009.

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

#### Financial instruments

The IASB reached a tentative decision to add to its active agenda a project on the recognition and measurement of financial instruments.

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

#### Fair value measurement discussed

The IASB discussed whether it is appropriate to recognize a gain or loss when IFRS require or permit fair value at initial recognition. The IASB asked the staff to research how entities obtain and evaluate evidence to support a conclusion

that fair value at initial recognition measured using unobservable inputs is different from the transaction price. No decisions were reached by the IASB.

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

#### Board continues discussions of financial instruments with characteristics of equity

In October 2008, the Board considered an analysis of the comment letters received on the Discussion Paper, *Financial Instruments with Characteristics of Equity*, and decided to begin future deliberations using the principles underlying the perpetual and basic ownership approaches. At the November 2008 meeting, the Board continued those discussions and reached the following tentative decisions:

- All perpetual instruments, including perpetual basic ownership instruments, would be classified as equity
- Derivatives on equity instruments of an issuer would be classified as non-equity. At a future meeting, the Board will discuss whether derivative instruments within the scope of IFRS 2, *Share-based Payment* would be subject to that classification principle.

The Board discussed other related issues however; no decisions were reached.

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

#### IFRIC issues discussed

##### IFRIC 15, Agreements for the Construction of Real Estate

The Board discussed comment letters on the effective date and transition provisions of IFRIC 15, which proposed that IFRIC 15 should be applied

prospectively instead of retrospectively and that the effective date should be delayed to give sufficient time for preparers to make the necessary changes to their financial reporting systems. The Board concluded that the effective date and transition provisions of IFRIC 15 should not be amended.

#### Approval of IFRIC 17

The Board approved the issuance of IFRIC 17, *Distributions of Non-cash Assets to Owners*.

(**Note:** On November 27, 2008, the IFRIC [announced](#) the issuance of IFRIC 17.)

#### Update on IFRIC activities

The staff reported on the November 2008 IFRIC meeting. Details of the meeting are available in the [IFRIC Update](#), which is posted on the IASB's Website. (**Note:** The November 2008 IFRIC meeting will be summarized in a forthcoming *IFRS Update*.)

#### Board continues discussions of conceptual framework

The Board continued its discussions of the measurement and reporting entity phases of the conceptual framework project.

##### Measurement

The Board discussed an approach to the measurement of assets and liabilities that would address both the theoretical merits and practical limitations of different types of measurements but would not lead automatically to a decision about measurement in particular instances. This approach would describe the circumstances and factors that should be considered when making decisions about measurement methods.

The Board discussed five factors that might be considered in selecting from among alternative measurement bases. The Board did not reach any decision on

the individual aspects of the approach discussed; however, the Board supported the general ideas and asked the staff to continue to develop the approach.

##### Reporting entity

The staff presented a summary of the comments received on the Discussion Paper, *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Reporting Entity* and explained the plans for redeliberations. No decisions were reached.

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

#### IASB continues redeliberations of proposed IFRS for private entities

The IASB continued its redeliberations of the proposals in the Exposure Draft, *IFRS for Private Entities* (formerly the *IFRS for Small and Medium-sized Entities*), discussing the following issues.

##### Income taxes

The Board reached the following tentative decisions to:

- Develop a temporary difference approach, as set out in the latest version of a forthcoming exposure draft of revisions to IAS 12, *Income Taxes*, but with simplifications
- Retain the requirements proposed in the Exposure Draft and contained in IAS 12 with respect to the measurement of deferred tax when a jurisdiction imposes different tax rates on distributed and undistributed income, rather than follow the forthcoming exposure draft of revisions to IAS 12
- Require all deferred tax assets and liabilities to be classified as non-current
- Prohibit discounting of current and deferred tax assets and liabilities

- Recognize deferred tax assets for unused tax loss and tax credit carry forwards, subject to the same criteria as in IAS 12
- Not require private entities to disaggregate the initial measurement of assets and liabilities that have a tax basis different from their initial carrying amount into (i) an asset or liability excluding entity-specific tax effects and (ii) any entity-specific tax advantage or disadvantage

#### Share-based payment

The Board reached a tentative decision that private entities would recognize an expense for equity-settled share-based payments, measured on the basis of observable market prices, if available, or, if not, using the directors' best estimate of the fair value.

For share-based payment transactions that give either the entity or the counterparty a choice of settlement in cash or equity instruments, the Board decided that the entity would account for the transaction as a cash-settled share-based payment transaction unless the entity has a past practice of issuing equity instruments or the option to settle in cash has no commercial substance.

The Board reached a tentative decision to simplify the disclosure requirements for share-based payments. However, the staff was asked to ensure that the disclosure requirements for private entities are sufficient for an understanding of how the amount recognized in profit or loss has been determined, including information on the key measurement assumptions.

#### Post-employment benefit plans

The Board rejected a staff proposal to require an entity to measure the defined benefit obligation of a defined benefit plan at the current termination amount (vested benefit obligation) in some circumstances. However, the Board indicated that the defined benefit accounting under IAS 19, *Employee Benefits*, should be simplified for private entities. The Board asked the staff to bring back

an approach at a future meeting more in line with the current IAS 19 approach (e.g. one that includes consideration of unvested benefits), that entities would generally be capable of applying without the use of external specialists. The Board also asked the staff to consider the suitability of the *accumulated benefit obligation* concept in FASB Statement 87, *Employers' Accounting for Pensions*.

The Board also reached the following tentative decisions:

- To retain the requirements for multi-employer plans as proposed in the Exposure Draft and contained in IAS 19
- To permit subsidiaries to recognize a charge based on a reasonable allocation of the group charge if the parent presents consolidated financial statements under the IFRS for Private Entities or full IFRS
- To allow two methods for recognizing actuarial gains and losses - immediate recognition in profit or loss (as proposed in the Exposure Draft) and immediate recognition in other comprehensive income
- To not require entities to divide the return on assets into an expected return and an actuarial gain or loss

#### IFRIC Interpretations

The Board reached a tentative decision to include the following IFRIC Interpretations within the proposed IFRS:

- IFRIC 4, *Determining whether an Arrangement contains a Lease*
- IFRIC 8, *Scope of IFRS 2*
- IFRIC 12, *Service Concession Arrangements*
- IFRIC 15, *Agreements for the Construction of Real Estate*

#### Name of standard

The Board reached a tentative decision that the title of the standard should describe the types of entities to which the standard would be applicable. However, the Board was divided on a specific title and decided to invite public comment via the IASB's website.

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

#### Lease accounting issues discussed

The Board continued its discussions on lease accounting issues to be included in the upcoming discussion paper.

#### Leases with options

The Board considered leases containing options to extend or terminate the lease term and whether the option is a measurement or recognition issue. The Board reached a tentative decision to treat uncertainty about the lease term as a recognition issue. For example, a lessee would recognize a 10-year lease with an option for an additional 5 years as either a 10-year lease or a 15-year lease, on the basis of an estimate of the most likely lease term and not try to establish a value for the 5-year renewal option. The lessee would account for purchase options in the same way as options to extend or terminate the lease, on the basis of the most likely outcome.

#### Contingent rentals or residual value guarantees

The Board reached the following tentative decisions:

- Contingent rentals would be included in the initial measurement of the lessee's obligation to pay rentals using a probability-weighted estimate of contingent rentals (an expected outcome technique)

- Amounts payable under a residual value guarantee would be included in the initial measurement of the assets and liabilities initially recognized by the lessee using an expected outcome technique

#### Subsequent measurement

The Board tentatively decided that the lessee would

- Amortize its right-of-use asset over the shorter of the lease term and the economic life of the leased asset, on the basis of the pattern of consumption of economic benefits embodied in the right-of-use asset
- Recognize interest expense on the outstanding obligation to pay rentals
- Reassess at each reporting date the lease term and the obligation to pay rentals
- Account for changes in cash flow estimates using a catch-up approach with an interest rate that would be revised to reflect current conditions. However, the Board did not reach a view on when to revise the interest rate.
- Recognize any change in the liability as a result of a change in the estimated rental payments by adjusting the carrying amount of the right-of-use asset

#### Presentation

The Board reached a tentative decision that lessees should

- Present the right-of-use assets based upon the nature of the underlying asset and separately from owned assets
- Present the obligation to pay rentals as a financial liability

### Subleases

The Board discussed possible approaches to accounting for subleases and asked the staff to include a description of the issues associated with subleases in the leases discussion paper. No decisions were reached.

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

### IASB discusses post-employment benefits

The IASB discussed an overview of the responses to its Discussion Paper, *Preliminary Views on Amendments to IAS 19 Employee Benefits*. No decisions were reached.

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

### Proposed amendments to related party disclosures discussed

The forthcoming exposure draft of proposed amendments to IAS 24, *Related Party Disclosures* will propose a revised exemption for entities controlled, jointly controlled or significantly influenced by the state (state-controlled entities.) The Board reached a tentative decision that when the exemption applies, an entity would disclose the extent of its transactions with the state or other state-controlled entities. Accordingly, the entity would disclose (a) the types of individually or collectively significant transactions with the state or other state-controlled entities and (b) a qualitative or quantitative indication of their extent. The types of transactions include those listed in paragraph 20 of IAS 24.

**Note:** On December 11, 2008, the Board issued an [Exposure Draft, Relationships with the State: Proposed Amendments to IAS 24](#). The comment period ends March 13, 2009.

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

### Standards Advisory Council update

The Director of Technical Activities reported on the last meeting of the Standards Advisory Council (SAC) and indicated that the SAC supported adding projects on the agenda for revising the financial instruments standards and addressing rate-regulated activities. He also summarized the feedback the SAC had provided on the *IFRS for Private Entities* project. The next SAC meeting is in February 2009, with a new chairperson and different composition.

### IASB issues October 2008 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 October 2008 [IASB Update](#) which summarizes the Board's meeting in London on October 14-17, 2008. Highlights of the meeting are discussed below.

### IASB responds to the global financial crisis

The IASB discussed certain aspects 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](#).

### Consolidation

The IASB continued its discussion of a staff draft of an exposure draft on consolidation. The discussion mainly related to structured entities, benefits, and the effects of holding options or convertible instruments when determining who has the power to direct an entity's activities.

The IASB also held an education session on the proposed amendments to FASB Interpretation 46(R), *Consolidation of Variable Interest Entities*, issued by the FASB in September 2008. No decisions were reached.

(**Note:** On December 18, 2008, the IASB issued an [Exposure Draft, ED 10 Consolidated Financial Statements](#). The [Basis for Conclusions](#) and [Illustrative Examples](#) were issued as separate documents. The comment period ends on March 20, 2009.)

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

#### Derecognition

The IASB discussed two possible approaches to derecognition of financial assets. The IASB and the FASB discussed this topic further at their meeting on October 20 and 21, 2008 (see summary below). No decisions were reached.

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

#### Financial instruments

In response to requests to address differences between the reclassification requirements of IAS 39, *Financial Instruments: Recognition and Measurement* and U.S. GAAP, the IASB approved amendments to IAS 39. The amendments would allow an entity to

- Reclassify some non-derivative financial assets out of the held-for-trading category in rare circumstances
- Reclassify some loans and receivables out of the held-for-trading or available-for-sale categories if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity

The proposed amendments would also amend IFRS 7, *Financial Instruments: Disclosures*, to require extensive disclosures for any financial asset reclassified per the provisions of these amendments.

In light of market conditions and after consultation with the Trustees of the IASC Foundation, the IASB decided to issue the amendments immediately without an exposure draft or comment period. On October 13, 2008, the IASB issued, *Reclassification of Financial Assets (Amendments to IAS 39 and IFRS 7)*.

In response to requests for clarification, the IASB subsequently specified that reclassifications made on or after November 1, 2008 take effect from the date of reclassification. However, reclassifications before November 1, 2008 may take effect as of July 1, 2008 or a subsequent date. The IASB also emphasized that the reclassification provisions cannot be applied retrospectively in periods before July 1, 2008.

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

#### Inactive markets

The staff reported on the activities of the IASB Expert Advisory Panel, including the meeting on October 10, 2008. At that meeting, the Panel emphasized that the objective of a fair value measurement is the price at which an orderly transaction would take place between market participants on the measurement date, not the price that would be achieved in a forced liquidation or distress sale. The Panel noted that even in times of market dislocation not all market activity arises from forced liquidations or distress sales. The Panel also emphasized existing guidance within IFRS regarding the acceptability of using the entity's own assumptions about future cash

flows and risk-adjusted discount rates when relevant observable inputs are not available.

The Panel reviewed comments received on a draft document summarizing the Panel's discussions and started the process for completing its guidance. (**Note:** On October 31, 2008, the Panel issued their [Final Report](#), *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*. In addition, the IASB issued a [Staff Summary](#), *Using judgment to measure the fair value of financial instruments when markets are no longer active*).

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

#### **Board considers fair value measurement discussion paper**

In June 2008, the Board had reaffirmed its preliminary view that a fair value measurement would be determined using the price within the bid-ask spread that is most representative of fair value in the circumstances.

At the October 2008 meeting, the Board tentatively decided:

- Not to preclude the use of mid-market pricing or another pricing convention as a practical expedient for determining a fair value measurement within a bid-ask spread
- To specify that the bid-ask spread guidance applies in all levels of the fair value hierarchy
- Not to include guidance on offsetting positions because the bid-ask pricing guidance allows entities to determine, for each position, the price within the bid-ask spread that is most representative of fair value in the circumstances

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

#### **IASB discusses financial instruments with characteristics of equity**

The IASB discussed an analysis of the comment letters received on the Discussion Paper, *Financial Instruments with Characteristics of Equity*. The IASB also discussed which approach for identifying equity instruments provides the best starting point for future deliberations. No decisions were made. The IASB and the FASB discussed this topic further at their meeting on October 20 and 21, 2008 (see summary below.)

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

#### **IASB continues redeliberations of proposed IFRS for private entities**

The IASB continued its redeliberations of the proposals in the Exposure Draft, *IFRS for Private Entities* (formerly the *IFRS for Small and Medium-sized Entities*), discussing the following issues.

##### **Consolidation - temporary control**

The Board reached a tentative decision to include an exemption from consolidation similar to full IFRS for subsidiaries where on acquisition there is evidence that control is intended to be temporary (i.e. there is an intention to dispose of the subsidiary within twelve months and management is actively seeking a buyer). If the condition for exemption is met, the investor would need to provide specified disclosure.

##### **Options as hedging instruments**

The hedge accounting provisions of Section 11 indicate that purchased options would not be permitted as hedging instruments. This decision would not prevent private entities from using purchased options to hedge risks or from disclosing the effect of doing so; it would only prohibit hedge accounting for those transactions.

### Operating leases

The staff presented a revised proposal that would modify lessee's application of the straight-line method of recognizing rent expense when minimum lease payments are structured to compensate the lessor for expected inflation. The Board agreed with the revised proposal but clarified that *expected inflation* means changes in general purchasing power based on published statistics, rather than a general estimate of the lessor's future cost increases.

### Classification of equity/liability

The Board reached a tentative decision to incorporate into the proposed *IFRS for Private Entities* the amendment to IAS 32, *Financial Instruments: Presentation* issued in February 2008 on puttable instruments and obligations arising on liquidation.

### Definition of a government grant

The Board reaffirmed the definition of a government grant that was included in the proposed *IFRS for Private Entities*.

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

### Annual improvements – definition of a derivative and effective interest rate

As part of its annual improvements project, the Board discussed two issues in IAS 39, *Financial Instruments: Recognition and Measurement*.

#### Definition of a derivative

The Board discussed comments received on the definition of a derivative proposed in the Exposure Draft, *Improvements to International Financial Reporting Standards* (issued in 2007). The definition of a derivative in IAS 39 excludes contracts that are linked to non-financial variables specific to a party to the contract. The Exposure Draft proposed to delete this exclusion. The Board reached a tentative decision not to proceed with the proposed amendment in

the annual improvements project but will consider addressing the proposal in a future project.

#### Effective interest method

The IFRIC had received a request for guidance on the application of the effective interest method to a financial instrument with future cash flows linked to changes in an inflation index. The IFRIC did not add the issue to its agenda but recommended that the Board should consider clarifying or expanding the relevant guidance in IAS 39.

At this meeting, the Board reached the following tentative decisions:

- With respect to the effective interest method, a floating rate financial instrument is an instrument with contractual variable cash flow amounts arising from changes in market variables. The Board indicated that it will not define the term *market variable*, however; it may provide examples.
- Expectations and changes in expectations of future cash flows are not considered when calculating the effective interest rate for floating rate instruments.

The Board asked the staff to prepare a draft of the proposed amendments.

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

#### Insurance contracts discussed

The IASB conducted an educational session to discuss measurement approaches that are possible candidates to be applied to insurance liabilities. No decisions were reached.

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

### **Board discusses share-based payment**

The Exposure Draft, *Group Cash-settled Share-based Payment Transactions*, addresses how an entity that receives goods and services from its suppliers should account in its separate financial statements for share-based payment arrangements that are settled in cash by a group entity on its behalf.

The staff presented a summary of the comment letters received on the Exposure Draft and of the IFRIC's discussions in May and July 2008. The Board tentatively confirmed the proposal in the Exposure Draft to include all forms of group share-based payments in the scope of IFRS 2, *Share-based Payment*. However, to achieve this objective the Board also reached a tentative decision to amend some of the defined terms in IFRS 2 rather than amending IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions*.

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

### **IASB issues IASB/FASB October 2008 joint 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 October 2008 [IASB Update](#) which summarizes the IASB/FASB joint meeting in Norwalk, Connecticut on October 20-21, 2008. Highlights of the meeting are discussed below.

### **IASB and FASB respond to the global financial crisis**

The IASB and FASB (the Boards) discussed certain aspects of its response to the global financial crisis. Additional information with respect to the global financial crisis issues is available on the [IASB's financial crisis page](#).

### **Global advisory group**

The Boards decided to create a global advisory group comprising regulators, preparers, auditors, investors, and other users of financial statements. The global advisory group will help to ensure that reporting issues arising from the global economic crisis are considered in an internationally coordinated manner.

The Boards will follow appropriate due process when developing their approaches on issues resulting from the discussions. The advisory group will meet in public sessions with webcasting facilities available to all interested parties.

### **Public round tables**

The Boards will organize three public round tables to gather input on reporting issues arising from the current global financial crisis - including responses by governments, regulators, and others.

### **Common long-term solutions**

In addition to considering the potential for short-term responses to the credit crisis, the Boards emphasized their commitment to developing common solutions aimed at providing greater transparency and reduced complexity in the accounting for financial instruments. The Boards will use their joint Discussion Paper, *Reducing Complexity in Reporting Financial Instruments*, the responses received to that paper, and the deliberations of the global advisory group as starting points for this longer term objective. The Boards will reconsider the composition of the existing IASB Financial Instruments Working Group to ensure that the working group provides appropriate and balanced advice to both Boards.

### **IASB and FASB consider common standards for consolidation**

The IASB and FASB considered the feasibility of developing common standards on consolidation by discussing the similarities and differences in the FASB's recently published exposure draft proposing amendments to FASB Interpretation 46(R) and the IASB staff's draft of an exposure draft on consolidation. The IASB and FASB agreed that a decision on a convergence strategy should be made after the IASB has issued its exposure draft and after the FASB has received comments on its proposals.

(**Note:** On December 18, 2008, the IASB issued an [Exposure Draft](#), *ED 10 Consolidated Financial Statements*. The [Basis for Conclusions](#) and [Illustrative Examples](#) were issued as separate documents. The comment period ends on March 20, 2009.)

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

### **Boards discuss proposed derecognition principle for financial assets**

The Boards discussed the following proposed derecognition principle for financial assets:

An entity should derecognize a financial asset or component thereof when it no longer qualifies as an asset of the entity (i.e. when the economic benefits no longer exist or the economic benefits exist but the entity ceases to have the ability to (a) obtain the future economic benefits inherent in the asset/component and (b) restrict others' access to those benefits).

The Boards also discussed two possible approaches to making the proposed principle operational and asked the staff to develop both approaches further. No decisions were reached.

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

### **Boards conduct educational session on fair value measurement**

The Boards received an update on the IASB's project on fair value measurement and the work of the IASB's Expert Advisory Panel on the measurement and disclosure of fair value when markets are no longer active. The session was educational and no decisions were reached.

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

### **Boards conduct educational session on reducing complexity of financial instruments**

The Boards discussed comment letters received in response to the IASB's Discussion Paper, *Reducing Complexity in Reporting Financial Instruments* and the FASB's Exposure Draft, *Accounting for Hedging Activities: an amendment of FASB Statement No. 133*. The session was educational and no decisions were reached.

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

### **Financial instruments with characteristics of equity discussed**

The Boards decided to begin future deliberations using the following approaches:

- *Perpetual approach*: An instrument would be classified as equity if it lacks a settlement requirement and entitles the holder to a share of the entity's net assets in liquidation
- *Basic ownership approach*: An instrument would be classified as equity if it is the most subordinated claim and entitles the holder to a share of the entity's net assets

However, the Boards indicated that they may decide to make exceptions to the basic principles in order to develop an approach to identify equity instruments.

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

#### **Boards discuss liabilities – uncertainties, and expected cash flows**

The Boards discussed the role of expected cash flows in recognition and measurement decisions and reached the following tentative decisions:

- Expected outcome approaches are a measurement tool to be used after the decisions about recognition. Decisions on measurement would be independent of decisions about recognition.
- In principle, measurements under conditions of uncertainty would take account of the range of possible outcomes and their relative probabilities (as in an expected outcomes approach). In general, the IASB members stressed the benefits of the principle and the FASB members stressed the practical concerns of applying this approach.

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

#### **Boards discuss conceptual framework**

The Boards tentatively adopted the working definitions of an asset and of a liability for Phase B (recognition and measurement) of their joint project on the conceptual framework. At a future meeting, the Boards will consider how the working definition of a liability interacts with the Boards' joint project on financial instruments with characteristics of equity.

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

#### **Educational session conducted for emissions trading schemes**

The Boards conducted an educational session on the accounting for emissions trading schemes. No decisions were reached.

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

#### **Future Board meetings**

The IASB held a subsequent meeting on January 19-23, 2009 and will hold the next meeting on February 16-20, 2009.