



# On the Horizon for IFRS

March 2, 2009

## **IASB issues January 2009 meeting highlights**

- IASB responds to the global financial crisis
- Board discusses annual improvements
- IASB continues discussions of conceptual framework
- Board continues deliberations on financial instruments with characteristics of equity
- IASB continues redeliberations of proposed IFRS for non-publicly accountable entities
- Income taxes discussed by the Board
- Leases discussed by the IASB and FASB
- IASB discusses post-employment benefits
- IASB discusses recent IFRIC agenda items
- Technical plan
- Future Board meetings

## IASB issues January 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 January 2009 [IASB Update](#) which summarizes the Board meeting in London on January 19-23, 2009. 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 the global financial crisis issues is available on the [IASB's financial crisis page](#).

### **Derecognition**

The IASB continued its discussion of two derecognition approaches.

### Approach 1

Approach 1 focuses solely on whether a transferor has access to all or some of the cash flows of a transferred financial asset. The IASB reached the following tentative decisions:

- To modify the derecognition test in order to focus on whether the transferor presently has access to the cash flows or other future economic benefits of the previously recognized financial asset. An accounting outcome of applying the derecognition test is that a transfer of a component of an equity investment may qualify for derecognition.
- To treat a retained component of a transferred financial asset or group of financial assets as a new financial asset (rather than as a retained component of the previously recognized financial asset)
- To treat an investment that a transferor purchases from a transferee securitization vehicle as a new asset

### Approach 2

Approach 2 includes 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 the following tentative decisions:

- To assess a transfer of a component part of a derivative, a hybrid instrument with an embedded derivative that requires bifurcation, or an equity instrument, an entity would assess the component for derecognition (rather than the entire instrument) only if the component has specifically identified and/or proportionate cash flows. Accordingly, a transferred component of a financial instrument will not qualify for derecognition if it could be either an asset or a liability at different times over its life (e.g. an

interest rate swap) or it involves future economic benefits other than cash flows (e.g. an equity investment).

- To allow the group to be the unit of account for evaluation of a group of transferred financial assets for derecognition, provided none of those assets are instruments that can be either assets or liabilities over their life (e.g. interest rate swaps) or instruments that involve future economic benefits other than cash flows (e.g. equity investments)
- To treat the retained component of a transferred financial asset or group of financial assets as a retained financial asset (rather than as a new financial asset)
- To treat an investment that a transferor purchases from a transferee securitization vehicle as a new asset
- To disclose in the notes (rather than in the statement of financial position) the relationship between a transferred financial asset that does not qualify for derecognition and an associated liability when the transferee's only recourse is to the transferred asset rather than to the transferor

The IASB will continue derecognition discussions at its meeting in February 2009. The IASB expects to issue an exposure draft in March or April 2009.

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.

### Scope assessment

The fair value measurement project has proposed guidance that defines fair value as current exit price. Currently, share-based payment transactions,

reacquired rights in a business combination, and financial liabilities with a demand feature are described as being measured at fair value, but do not use current exit price as their measurement objective. Therefore, the IASB reached a tentative decision not to retain the term *fair value* for such measurements and asked the staff to draft new terms that are consistent with the intended measurement objective in each case.

The IASB noted that IAS 40, *Investment Property*, paragraph 46, refers to measuring fair value on the basis of rental cash flows from existing leases and other contracts. The staff will consider whether this is consistent with the proposed fair value measurement guidance.

The IASB discussed the initial measurement of financial instruments that are subsequently measured on a basis other than fair value through profit or loss. The IASB reached a tentative decision to amend IAS 39, *Financial Instruments: Recognition and Measurement*, to specify that an entity would not recognize a gain or loss on initial recognition. Instead, the gain or loss would be deferred and accounted for in the same way as transaction costs and as other adjustments made in determining the effective interest rate.

#### **Fair value disclosures**

The IASB reached a tentative decision to require the following disclosures:

- Fair value measurements by level of the fair value hierarchy (Level 1, Level 2, or Level 3)
- The methods used and assumptions applied in the determination of fair value, including any changes in valuation techniques during the period
- A reconciliation from the beginning balances to ending balances for Level 3 fair value measurements

- The amount of gains or losses recognized in profit or loss that relate to Level 3 assets and liabilities held at the end of the reporting period
- A sensitivity analysis for Level 3 fair value measurements

The proposed disclosures are similar to the disclosure requirements proposed for financial instruments (see summary below).

**Note:** These disclosures would go beyond the disclosures currently required by FASB Statement 157, *Fair Value Measurements*; however, a new FASB project will discuss adding these to U.S. GAAP.

#### **Day 1 gains – service contracts**

The IASB discussed the presumption that the transaction price is generally the best evidence of the fair value of an asset or liability at initial recognition and how that presumption applies to contracts to provide services. The Board reached the following tentative decisions:

- The only true exit market for the service provider is the secondary (wholesale) market with other service providers, not the primary (retail) market with customers
- The exit price for the service provider reflects the perspective of the service provider rather than the perspective of the customer
- At initial recognition, the exit price for the service provider is likely to differ from the transaction price since the service provider will typically price the transaction to recover its direct and indirect origination costs and to provide a reasonable return on the originating activity. In contrast, a transferee would not require payment for the origination activity performed by the original provider.

### Transition

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

- An entity would retrospectively adjust retained earnings on initial application of the proposed IFRS in order to recognize any gain or loss previously deferred on initial recognition of a financial instrument classified at fair value through profit or loss
- An entity would, in all other respects, apply the proposed measurement requirements prospectively
- An entity would not provide the proposed disclosure requirements for periods before it initially applies the proposed IFRS

### Comment period

The IASB expects to issue the exposure draft by the end of March 2009 and tentatively decided that it would have a 120-day comment period.

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

### Financial instruments: disclosures

The IASB discussed the comments received on the Exposure Draft, *Improving Disclosures about Financial Instruments*, issued in October 2008, and reached the following tentative decisions:

- Fair value disclosure hierarchy
  - To require a three-level fair value disclosure hierarchy in IFRS 7, *Financial Instruments – Disclosures*
  - To use the same hierarchy that is required by FASB Statement 157, *Fair Value Measurements*

- To not require disclosures about the fair value hierarchy for financial instruments that are not measured at fair value. However, the existing disclosure requirements for those instruments would still apply.
- To emphasize the existing requirement to provide summary data about each type of risk arising from financial instruments based on information provided internally to key management personnel
- To require disclosure of separate maturity analyses for derivative and non-derivative financial liabilities
- To retain the existing minimum contractual liquidity risk disclosures for non-derivative financial liabilities
- Not to require the existing minimum contractual liquidity risk disclosures for certain types of derivative financial liabilities

The effective date of the final amendments would be for annual periods beginning on or after January 1, 2009, with earlier application permitted. Comparative disclosures would not be required on transition.

The IASB asked the staff to draft the final amendments for written ballot.

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

### Investments in debt instruments

The IASB also discussed comments received for the Exposure Draft, *Investments in Debt Instruments*, issued in December 2008, and decided not to proceed with the proposed amendments at this time. The IASB will consider the issues addressed in the Exposure Draft and other issues in its broader project on improving the accounting for financial instruments.

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

### Board discusses annual improvements

The Board approved the project plan for the current proposed improvements to IFRS and a timetable for issuance in April 2009. The proposed amendments were included in an Exposure Draft issued in August 2008.

The Board reaffirmed seven of the proposed amendments as follows:

- Scope of IFRS 2, *Share-based payment*, and revised IFRS 3, *Business Combinations* (an amendment of IFRS 2)
- Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations (an amendment of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*)
- Classification of expenditures on unrecognized assets (an amendment of IAS 7, *Statement of Cash Flows*)
- Determining whether an entity is acting as a principal or as an agent (an amendment of IAS 18, *Revenue*)
- Unit of account for goodwill impairment test (IAS 36, *Impairment of Assets*)
- Additional conforming amendments arising from revised IFRS 3 (an amendment of IAS 38, *Intangible Assets*)
- Measuring the fair value of an intangible asset acquired in a business combination (an amendment of IAS 38)

The staff will present an analysis of comment letters received for the following proposals at the February 2009 meeting:

- Disclosure of information about segment assets (an amendment of IFRS 8, *Operating Segments*)
- Scope exemption for business combination contracts (an amendment of IAS 39, *Financial Instruments: Recognition and Measurement*)

- Cash flow hedge accounting (an amendment of IAS 39)

The Board will defer redeliberations of the remaining two proposals:

- Application of the fair value option (an amendment of IAS 39)
- Bifurcation of an embedded foreign currency derivative (an amendment of IAS 39)

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

### IASB continues discussions of conceptual framework

The IASB discussed phases A, C and D of the conceptual framework project.

#### Phase A – qualitative characteristics and constraints of financial reporting

The IASB discussed comments received on the Exposure Draft, An improved Conceptual Framework for Financial Reporting: Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information, and tentatively reconfirmed the following proposals from the Exposure Draft:

- The term *faithful representation* will replace the characteristic labeled as *reliability* in the existing Framework
- Relevance and faithful representation will be classified as fundamental characteristics. In addition, the IASB will clarify that the components of faithful representation (neutrality, completeness, and freedom from error) are not absolutes.
- Verifiability, comparability, timeliness, and understandability will be classified as enhancing characteristics
- Materiality and cost will be described as constraints on financial reporting

#### Phase C – measurement

The IASB discussed which measurement bases would be included in the Framework and how they might be grouped. In addition, the IASB discussed possible simplifications to such measurement bases in order to improve the use of a mixed-basis measurement system. No decisions were made.

#### Phase D – reporting entity

The IASB discussed comments received on the Discussion Paper, Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity.

#### Reporting entity

The IASB reached the following tentative decisions with respect to the reporting entity:

- To revise the description of a reporting entity to indicate that a reporting entity is “a circumscribed area of economic activity whose financial information has the potential to be useful to present and potential equity investors, lenders, and other capital providers for decisions in their capacity as capital providers”
- To update the list of capital providers in the reporting entity description when changes are made to the list of the primary users of financial information in Chapter 1, *The Objective of Financial Reporting*
- To clarify that an entity may be a reporting entity even if it is currently inactive

The IASB tentatively affirmed the following are implications of the description of a reporting entity:

- A reporting entity need not be a legal entity

- A legal entity (or a branch or segment of a legal entity) could, but would not necessarily, meet the description of a reporting entity

#### Group reporting entity

The IASB reached the following tentative decisions with respect to the group reporting entity:

- If a reporting entity controls other entities, then consolidated financial statements would be presented using the controlling entity model
- When the controlling entity is not a reporting entity, then it may be useful to present combined financial statements of entities under common control
- An assessment of risks and rewards may be useful for implementing the controlling entity model in certain circumstances; however, it would not replace control as the basis for identifying the entities to be consolidated
- Parent-only financial statements may provide useful information when they are presented together with consolidated financial statements; however, parent-only financial statements should not be mandatory.

#### Next steps

The IASB and the FASB will continue their discussions at the joint meeting in March 2009.

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

#### Board continues deliberations on financial instruments with characteristics of equity

The Board discussed the classification of puttable and mandatorily redeemable instruments and asked the staff to analyze further an approach

that would identify the different types and classifications of such instruments. The Board discussed instruments that are puttable or mandatorily redeemable either on a specified date or dates or upon the occurrence of an event that is certain to occur.

The Board also discussed the conceptual definitions of a liability and equity and asked the staff to develop an approach that separates the objectives of determining:

- What items qualify for potential recognition (a conceptual definition)
- How those items would be classified (a standards-level principle or principles)

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

### **IASB continues redeliberations of proposed IFRS for non-publicly accountable entities**

The IASB continued its redeliberations of the proposals in the Exposure Draft of a proposed *IFRS for Non-publicly Accountable Entities* (formerly the *IFRS for Private Entities* and prior to that, the *IFRS for Small and Medium-sized Entities*), and reached the following decisions:

#### **Title of the standard**

The title of the final standard would be International Financial Reporting Standard for Non-publicly Accountable Entities (*IFRS for NPAs*).

#### **Complex accounting policy options**

The IASB reached the following tentative decisions on complex accounting policy options for NPAs:

- *Investment property*: If an NPAE can measure the fair value of an item of investment property reliably without undue cost or effort, then it would use

the fair value model. Otherwise, it would use the cost model. The measurement model used would therefore be determined by the relevant facts and circumstances and not be an accounting policy choice.

- *Property, plant and equipment*: The revaluation model in IAS 16, *Property, Plant, and Equipment*, paragraph 31, would not be an option.
- *Intangible assets*: The revaluation model in IAS 38, *Intangible Assets*, paragraph 75, would not be an option.
- *Borrowing costs*: All borrowing costs would be recognized as an expense; the capitalization model in IAS 23, *Borrowing Costs*, would not be an option.
- *Development costs*: All research and development costs would be recognized as an expense; the capitalization model in IAS 38 would not be an option.
- *Presenting operating cash flows*: Operating cash flows would be presented by either the indirect method or the direct method in the cash flow statement.
- *Financial instruments*: An NPAE would apply either Section 11 of the IFRS for NPAs or all the requirements of full IFRS (IAS 32, Financial Instruments: Presentation, IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and related interpretations.) The option to use full IFRS will be available by cross-reference (the only cross-reference to full IFRS.)
- *Jointly controlled entities and associates*: The options proposed in the Exposure Draft would all be allowed with the exception of the proportionate consolidation method for jointly controlled entities.

Therefore, NPAEs would be able to choose from the cost method, equity method, or fair value through profit or loss method.

#### **Consolidation**

Consolidated financial statements would be required for all NPAE groups, with limited exceptions, as proposed in the Exposure Draft.

#### **Goodwill and other indefinite-life intangible assets**

As proposed in the Exposure Draft, goodwill and other indefinite-life intangible assets would be considered to have finite lives and be amortized over their estimated useful lives, with a maximum amortization period of 10 years. There will not be an annual impairment test but rather a requirement to assess whether there are indicators of impairment at each reporting date.

#### **Financial instruments**

The staff presented a revised draft of Section 11A and an initial draft of Section 11B. The IASB had decided to restructure Section 11 into two parts:

- Section 11A: To include simple payables and receivables and other basic financial instruments
- Section 11B: To include more complex instruments and transactions

The Board was supportive of the revised draft of Section 11A; however, the Board made the following changes:

- Commitments to make a loan would be included in Section 11B, not Section 11A
- Clarify certain of the draft criteria to establish whether a debt instrument is in Section 11A
- On initial measurement, Section 11A would require that if payment is deferred, the instrument would be measured at the present value of future payments discounted at a market rate of interest. The standard would

specify that the market rate of interest is a rate commensurate with the risks and terms of the instrument in question.

- The initial measurement of short-term financial instruments that have no stated interest rate would be consistent with the requirements in full IFRS.
- The effective interest method would be based on the weighted average amount of the receivable or payable outstanding during the period, not the carrying amount at the beginning of the period.
- The proposed guidance on factoring of receivables would be replaced by examples of applying general derecognition principles to factoring transactions.

The IASB was supportive of the initial draft of Section 11B; however, a few minor drafting issues were highlighted.

#### **Special purpose entities**

The guidance in SIC-12, Consolidation – Special Purpose Entities, would be incorporated into Section 9, Consolidated and Separate Financial Statements of the Exposure Draft.

#### **Measurement of post-acquisition income**

An investor that chooses to apply the cost model to its investments in associates or joint ventures would not separate pre- and post-acquisition retained earnings of the investee for purposes of determining whether future dividends should be considered a return of capital or recognized in profit or loss. The investor would recognize all future dividends received in profit or loss.

### Outstanding issue

At its meeting in February 2009, the IASB will discuss the simplification of defined benefit pension accounting, which is the only substantial issue outstanding.

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

### Income taxes discussed by the Board

The Board reached a tentative decision that the exposure draft on income taxes would be silent on the matter of whether entities should discount current taxes refundable or payable.

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

### Leases discussed by the IASB and FASB

The IASB at the January 2009 meeting, and the IASB and the FASB (the Boards) at a joint videoconference meeting, discussed the content and timing of the proposed discussion paper on lease accounting. The Boards reached a decision to include a high level discussion of lessor accounting issues in the proposed discussion paper. The Boards plan to issue the discussion paper in March 2009.

Also, the IASB reached a tentative decision not to exclude contracts that are *in-substance purchases* from the scope of the project on leases.

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

### IASB discusses post-employment benefits

The IASB reached a tentative decision that it would use the proposed guidance in the Discussion Paper, *Preliminary Views on Amendments to IAS 19 Employee Benefits*, and the comment letters received to prepare two exposure drafts:

- The first exposure draft would discuss recognition and presentation of changes in the defined benefit obligation and plan assets, disclosures, and other comment letter issues that can be addressed expeditiously.
- The second exposure draft would discuss contribution-based promises, potentially as part of a comprehensive review of pension accounting.

The IASB reached the following tentative decisions for the first exposure draft:

- Entities would disaggregate changes in the defined benefit obligation and plan assets into employment, financing, and remeasurement components, and recognize those components in the income statement. At a future meeting, the IASB will consider how to define the components.
- Entities would disclose the employment and financing components either in the income statement or in the notes, and present the remeasurement component in the income statement distinct from other items of profit or loss.

The IASB will continue its discussions at its meeting in February 2009.

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

### IASB discusses recent IFRIC agenda items

#### IFRIC 9 and IFRIC 16 – proposed amendments

- *IFRIC 9*: The IASB decided to propose an amendment to paragraph 5 of IFRIC 9, *Reassessment of Embedded Derivatives*. The proposed amendment would exclude embedded derivatives in contracts acquired in a combination of entities or business entities under common control or acquired in the formation of a joint venture from the scope of IFRIC 9.

The proposed amendment is a conforming amendment that became necessary as a result of the change in the definition of a business combination in IFRS 3 (revised 2008), *Business Combinations*. The revised definition caused embedded derivatives acquired during the formation of a joint venture to be within the scope of IFRIC 9. The IASB noted that common control transactions may also be within the scope of IFRIC 9 depending on which level of the group reporting entity is assessing the combination.

- *IFRIC 16*: The IASB decided to propose an amendment to paragraph 14 of IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, to remove the restriction on which entity can hold the hedging instrument. The proposed amendment would allow any entity within the group, including the foreign operation whose net investment is being hedged, to hold the hedging instrument. The IASB asked the staff to present an analysis of the comment letters received at the March 2009 IFRIC meeting.

**Note:** On January 30, 2009, the IASB issued an [Exposure Draft](#), *Post-implementation Revisions to IFRIC Interpretations (Proposed amendments to IFRIC 9 and IFRIC 16)*, which has a 30 day comment period. The IASB expects to finalize the amendments to IFRIC 9 and IFRIC 16 at its meeting in March 2009.

#### **IFRIC 14 – voluntary prepayments**

The IASB discussed a proposal to amend IFRIC 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, to eliminate an unintended consequence in how to treat voluntary prepaid contributions under a minimum funding requirement. The IASB tentatively decided to amend IFRIC 14 so that an entity recognizes an asset for a prepayment that will reduce

future contributions by the entity. The IASB asked the staff to prepare an exposure draft for written ballot.

#### **IFRIC 18 – approval of interpretation**

The IASB approved the issuance of IFRIC 18, *Transfers of Assets from Customers*, and decided that

- IFRIC 18 would be applied prospectively to transfers of assets received from customers on or after July 1, 2009
- An entity may apply IFRIC 18 earlier if it obtained the valuations and other information needed to apply the guidance to past transfers at the time those transfers occurred
- The date from which an entity applies IFRIC 18 would be disclosed

**Note:** See the [February 21, 2009 On the Horizon for IFRS](#) for a summary of IFRIC 18.

#### **Technical plan**

The IASB discussed its quarterly Technical Plan, which includes the expected timetable over the next 36 months for projects on the IASB's active agenda and research agenda. The [IASB Work Plan as of January 25, 2009](#) is available on the IASB website.

#### **Future Board meetings**

The IASB held a subsequent meeting on February 17-20, 2009. The next IASB meeting is March 16-20, 2009 and the next IASB/FASB joint meeting is March 23-24, 2009.