

IASB Update is published as a convenience for the Board's constituents. All conclusions reported are tentative and may be changed or modified at future Board meetings.

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 met in London on 21 and 22 July, when it discussed:

- Classification of rights issues
- Consolidation
- Discontinued operations
- IFRIC update
- Insurance contracts
- Liabilities – amendments to IAS 37
- Post-employment benefits
- Related party disclosures
- Revenue recognition
- Technical plan
- Annual improvements

Advance notice

Among other things, the Board decided at this meeting to publish two urgent exposure drafts with a 30 day comment period. They will deal with:

- classification of rights issues (estimated publication in early August)
- post-employment benefits: discount rate (estimated publication in the second half of August)

The IASB also held a joint meeting with the US Financial Accounting Standards Board (FASB) on 23 and 24 July, when the boards discussed:

- Financial instruments
- Financial instruments with characteristics of equity
- Financial statement presentation
- Insurance contracts
- Leases
- Revenue recognition
- Technical plan

Classification of rights issues

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

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

The Board decided tentatively that if such rights are issued pro rata to an entity's existing shareholders for a fixed amount of cash, they should be classified as equity regardless of the currency in which the exercise price is denominated.

Consequently, the Board decided tentatively:

- to amend IAS 32 urgently to clarify the classification of these instruments.
- to publish an exposure draft for public comment as soon as possible.
- to set a comment period of 30 days.
- to propose that the amendment be applied retrospectively.
- to propose that the final amendment be effective 90 days after publication with early application permitted.

Consolidation

The Board began its deliberations of the proposals in ED 10 *Consolidated Financial Statements* considering comments and information received from respondents to the exposure draft and from participants at the round table

meetings held in Toronto, Tokyo and London in June 2009.

The Board decided tentatively that:

- control, defined to require a reporting entity to have both the power to direct the activities and the ability to benefit from that power, is the only basis for consolidation.
- exposure to risks and rewards alone does not constitute control. Exposure to risks and rewards is an indicator of control because the greater a reporting entity's exposure to risks and rewards from its involvement with an entity, the greater the incentive for the reporting entity to obtain rights sufficient to give it the power to direct the activities of an entity.
- reputational risk does not give a reporting entity the power to direct the activities of an entity. However, the existence of reputational risk can give a reporting entity an incentive to control another entity.
- if a reporting entity holds less than half of the voting rights of an entity, the reporting entity can have the power to direct the activities of that entity, depending on the circumstances.
- if a reporting entity holds options or convertible instruments to obtain voting rights in an entity, the reporting entity can have the power to direct the activities of that entity.

Copyright © IASB Update is published after every IASB meeting by the IASC Foundation, Publications Department, 30 Cannon Street, London EC4M 6XH United Kingdom
Tel: +44 (0)20 7332 2730
Fax: +44 (0)20 7332 2749
Website: www.iasb.org
Email: publications@iasb.org
ISSN 1474-2675

In September 2009, the Board will continue to discuss the control model, power with less than half of the voting rights, power from options or convertible instruments and control of what ED 10 describes as structured entities.

Discontinued operations

The Board continued its discussion of matters arising from responses to the exposure draft *Discontinued Operations*, published in September 2008, and decided tentatively:

- that the standard (IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*) should continue to require an entity to present discontinued operations on the face of the statement of comprehensive income.
- to define a discontinued operation as:
 - (a) a reportable segment disposed of or classified as held for sale; or
 - (b) a business that meets the criteria to be classified as held for sale on acquisition.
- that re-exposure of these proposals is unnecessary.
- that the staff should investigate further the disclosures requirements in US GAAP for components of an entity that have been disposed of or classified as held for sale.

IFRIC Update

The Director of Implementation Activities reported on the IFRIC's meeting on 9 July. Details of the meeting had been published in *IFRIC Update* available here <http://www.iasb.org/Updates/IFRIC+Updates/IFRIC+Updates.htm>. The Board was advised that the IFRIC had taken the unusual step of outlining in its agenda decision inappropriate applications of IAS 39 *Financial Instruments: Recognition and Measurement* in recognising impairment on available for sale equity instruments. This action was in response to the significant diversity that exists in practice on what constitutes a 'significant or prolonged' decline in value. The Board had no questions on the summary provided.

Insurance contracts

The Board discussed which of the two remaining candidate measurement approaches for insurance contracts should be selected:

- a measurement approach based on the approach being developed in the project to amend IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- a current fulfilment value that includes a composite margin.

Views diverged and no clear consensus was reached.

The Board also discussed whether to use an unearned premium approach for pre-claims liabilities of short-duration insurance contracts, as a simplified version of the approach being developed for all insurance contracts. The Board decided tentatively that:

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

The Board also discussed this project at the joint meeting with the FASB on 23 July. The Board will continue its discussions in September.

Liabilities – amendments to IAS 37

The Board discussed proposed amendments to the measurement requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

At a previous meeting, it had decided tentatively that an entity should measure a liability at the amount it would rationally pay at the end of the reporting period to be relieved of the present obligation. At this meeting, it decided tentatively that:

- the amount an entity would rationally pay to be relieved of the present obligation is the lower of:
 - (a) the value to the entity of not having to fulfil the obligation; and
 - (b) the amount that the entity would have to pay to cancel the obligation or transfer it to a third party.
- if there is no evidence that the entity could cancel the obligation or transfer it to a third party, the entity measures the obligation at the value of not having to fulfil it.

The Board discussed, but did not reach any decisions on, how an entity should measure the value of not having to fulfil an obligation. It directed the staff to undertake further work in this area. The following steps will be to consider:

- whether to re-expose the proposed amendments, and
- possible consequential amendments to other standards.

Post-employment benefits

The Board discussed the discount rate for post-employment benefit obligations, disclosures for defined benefit plans and transition.

Discount rate

The Board decided tentatively:

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

Transition

The Board will discuss the transition for the amendment to the discount rate at an additional meeting to be held by teleconference on 4 August. The Board decided tentatively that entities should apply the other proposed amendments to IAS 19 retrospectively. This is in accordance with the general requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Disclosures

The Board decided tentatively that an entity should disclose:

- the information set out in Agenda paper 5C for this meeting, except that it should apply the requirements of paragraphs 31- 42 of IFRS 7 *Financial Instruments: Disclosures* to the net benefit asset or liability. If it is not feasible to disclose information about the net asset or liability, an entity should provide that information separately for the defined benefit obligation and for the plan assets, together with an explanation of how the risks relating to the defined benefit obligation and the plan assets are linked.
- a description of the limitations of the methods used to provide the risk disclosures.
- information about its best estimates of the contributions it expects to pay to the plan during the next annual period, distinguishing required contributions, discretionary contributions and non-cash contributions.
- the accumulated benefit obligation (ie the defined benefit obligation, excluding projected growth in salaries).
- to delete references to significant voting power from the definition of a related party.
- that the amendments would apply prospectively for periods beginning on or after 1 January 2011, with early adoption permitted.
- that the amendments do not require re-exposure.

The Board instructed the staff to proceed to drafting the amendments to IAS 24, for issue later this year.

Revenue recognition

The discussion paper *Preliminary Views on Revenue Recognition in Contracts with Customers* proposes that revenue recognition should be based on a single asset or liability – an entity’s contract with a customer. The combination of the remaining rights and obligations in that contract gives rise to a (net) contract asset or a (net) contract liability.

At this meeting, the Board decided tentatively:

- to affirm the preliminary view expressed in the discussion paper that the unit of account is the remaining rights and obligations in the contract with the customer and that the contract position is presented net in the statement of financial position.
- to make no exceptions to that preliminary view for contracts requiring specific performance.
- that, for a portfolio of contracts with customers, an entity should present:
 - (a) net contract assets separately from net contract liabilities,
 - (b) short-term contract assets separately from long-term contract assets,
 - (c) short-term contract liabilities separately from long-term contract liabilities

The Board also discussed this project at its joint meeting with the FASB (see below).

Technical plan

The Board reviewed the Technical Plan for the 24 months to 30 June 2011. The Board acknowledged concerns some constituents have expressed about the intensity of the programme. In response, the Board plans, when possible, to link more closely the comment periods on related projects. Such an approach would help constituents think about the projects together.

The Board also decided to defer publication of the Extractive Activities discussion paper. The paper prepared for the IASB by the staff of national standard-setters will be made available on the IASB website but an invitation to comment on the paper will not be published until early in 2010. The Board also decided not to consider earnings per share until at least the second quarter of 2010. The Plan will be available soon at: <http://www.iasb.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm>. Project summaries are available on the IASB website at: <http://www.iasb.org/Current+Projects>.

Next steps

The Board intends to publish an exposure draft containing the proposed amendments on the discount rate as soon as possible, with a 30 day comment period. The Board intends to finalise any amendments to the discount rate in time for 2009 year-ends.

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

Related party disclosures

The Board discussed responses to the exposure draft (ED) *Relationships with the State*, published in December 2008, and decided tentatively:

- that the proposed exemption for state-controlled entities should, as proposed in the ED, apply in all cases of common state control, even if the entities in question are related for other reasons.
- not to limit the proposed exemption for transactions within a group headed by a publicly quoted entity or with an entity’s direct owner.
- not to require additional disclosure about direct related party transactions within a state-controlled sub-group.
- that when the exemption applies, an entity should disclose the nature and extent of individually significant transactions and of transactions that are significant collectively but not individually.
- to replace the definition of ‘state’ that appeared in the exposure draft *State-controlled Entities and the Definition of a Related Party* with the definition of ‘government’ that appears in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. The Board does not intend to give further guidance on how to interpret the meaning of ‘government’.
- that, as proposed in the ED, two entities are related to each other whenever a person or a third entity has joint control over one entity and that person (or a close member of that person’s family) or the third entity has joint control or significant influence over the other entity.

Annual improvements

The Board discussed six topics for possible inclusion in the exposure draft of proposed *Improvements to IFRSs* expected to be published in August 2009. The IFRIC had considered five of these topics earlier this month.

IFRS 3 Business Combinations – measurement of non-controlling interest

Paragraph 19 of IFRS 3 states that, for each business combination, the acquirer shall measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The Board tentatively decided to clarify that this choice applies only to instruments that are currently entitled to a proportionate share of the acquiree's net assets. Other equity instruments that are part of non-controlling interest should be measured at fair value or in accordance with applicable IFRSs.

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

IFRS 3 (as issued in 2008) contains requirements for share-based payment transactions of the acquiree that the acquirer is obliged to replace or that expire as a consequence of the business combination. However, IFRSs do not provide requirements for other share-based payment transactions of the acquiree. The Board tentatively decided to clarify that paragraphs B57 – B62 of IFRS 3 apply to all share-based payment transactions that are part of a business combination including share-based payment transactions of the acquiree that the acquirer chooses not to replace and those that the acquirer chooses to replace with its own share-based payment transactions, even though they would not expire as a consequence of the business combination.

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

IFRS 5 requires the impairment loss recognised for a disposal group be allocated to reduce the carrying amount of the disposal group's non-current assets that are within the measurement requirements of IFRS 5. When the write-down exceeds the carrying amount of non-current assets, a conflict exists between IFRS 5's requirement to recognise the disposal group at fair value less costs to sell and its limitation on the assets to which that loss can be allocated.

The Board agreed with the IFRIC's conclusion that the issue relates to the basic requirements of IFRS 5 and therefore it should not be included in the annual improvements project. However, the issue could be widespread in the current economic environment. Therefore, the Board decided tentatively to consider amending IFRS 5 as a matter of priority and to work with the FASB to ensure IFRS 5 remains aligned with US GAAP.

IFRS 5 – presentation of items of other comprehensive income

The Board decided tentatively to amend IFRS 5 so that other comprehensive income (OCI) items relating to discontinued operations are required to be presented separately from other OCI items, and may be presented as a single item net of tax. The Board asked the staff to consider whether additional amendments are needed to enhance the disclosures relating to accumulated OCI relating to discontinued operations. Any resulting proposals will be published with the proposals on

write-downs of a disposal group or in the next cycle of improvements to IFRSs.

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

The Board discussed how an entity should recognise its equity instruments when it issues them in settlement of debt in a restructuring (a 'debt to equity swap'). The Board noted that the IFRIC had decided to add the issue to its agenda and to develop a draft interpretation for public comment as soon as possible. Consequently, the Board decided not to include the issue in the annual improvements project.

IAS 23 Borrowing Costs – meaning of 'general borrowings'

IAS 23 requires an entity to determine a rate on its general borrowings for purposes of capitalising borrowing costs on qualifying assets. The issue was whether debt incurred specifically to acquire a non-qualifying asset could be excluded from general borrowings. The Board noted that IAS 23 excludes only debt used to acquire qualifying assets from the determination of the capitalisation rate. The Board decided not to include this issue in the annual improvements project.

Joint meeting – IASB and FASB

The IASB and the FASB met on 23 and 24 July and discussed:

- Financial instruments
- Financial instruments with characteristics of equity
- Financial statement presentation
- Insurance contracts
- Leases
- Revenue recognition
- Technical plan

Financial instruments

The boards updated each other on their respective proposed classification and measurement approaches for financial instruments.

The IASB decided tentatively to hold three public round tables during September in London, New York and Tokyo to obtain feedback on its exposure draft, *Financial Instruments: Classification and Measurement*. The FASB will participate in these roundtables.

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

Financial instruments with characteristics of equity

The boards discussed an approach to displaying in the statement of comprehensive income the changes in the fair value of a liability instrument. That approach—the cost of capital approach—would separate the total changes in the fair value of liabilities into:

- a line item in profit or loss that is similar to accrued interest but can be computed for many types of liability instruments, including derivative instruments with the issuer's own equity instruments as their underlyings, and
- the remainder of the change in fair value, which would be reported separately as a residual.

The Boards decided tentatively not to pursue the cost of capital approach.

Financial statement presentation

The boards considered a summary of the responses to the discussion *paper Preliminary Views on Financial Statement Presentation*. After reviewing those responses, the boards affirmed the objective of the project to develop a single presentation model for IFRSs and US GAAP that can be applied consistently across all types of business entities.

The boards decided tentatively:

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

The boards also noted that the FASB had decided tentatively in its recent work on financial instruments to require a single statement of comprehensive income. The IASB plans to consider that issue in September.

Insurance contracts

The boards discussed which of the two remaining candidate measurement approaches for insurance contracts should be selected:

- a measurement approach based on the approach being developed in the IASB's project to amend IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- a current fulfilment value without an explicit risk margin.

The FASB affirmed tentatively that the objective of the liability measurement is to report a value based on the insurer's

fulfilment of its contractual obligations to its policyholders over time. The IASB did not reach a clear consensus.

The boards also affirmed tentatively that an insurer should recognise all acquisition costs as an expense when incurred. In addition:

- the FASB affirmed tentatively that the insurer should not recognise any revenue (or income) at inception to offset those costs incurred.
- the IASB affirmed tentatively that the insurer should, at inception, recognise as revenue the part of the premium that covers acquisition costs [limited for this purpose, to the incremental costs of issuing (ie selling, underwriting and initiating) an insurance contract and not including other direct costs].

Leases

At their meetings in May 2009, the boards discussed lessor accounting and decided tentatively that a lessor should recognise:

- an asset for its right to receive rental payments from the lessee
- a liability for its performance obligations under the lease.

At this meeting, the boards discussed how such assets and liabilities should be measured. The boards made the following tentative decisions:

- Initial measurement of the lessor's right to receive rental payments would follow existing literature for the accounting for financial assets under either IFRSs or US GAAP (IAS 39 for IFRSs and Section 310-10-30 of the *FASB Accounting Standards Codification*TM for US GAAP).
- Initial measurement of the lessor's right to receive rental payments under US GAAP would be discounted using the interest rate implicit in the lease.
- Initial measurement of the lessor's performance obligation would equal the customer consideration received (ie on initial measurement the performance obligation would equal the lessor's receivable).
- Subsequent measurement of the lessor's performance obligation would reflect decreases in the entity's obligation to permit the lessee to use the leased item over the lease term.

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

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

In September, the boards will discuss an analysis of the comment letters received on the leases discussion paper.

Revenue recognition

The boards considered a summary of the responses to the discussion paper *Preliminary Views on Revenue Recognition in Contracts with Customers*. After reviewing those responses, the boards affirmed the objective of the project to develop a single revenue recognition model for IFRSs and US GAAP that can be applied consistently across various industries and transactions. They agreed to focus on developing the model proposed in the discussion paper and clarifying how that model would apply to continuous delivery contracts (eg some construction contracts). The boards will then decide whether to exclude any specific industries from the scope of that model.

Technical plan

The boards discussed the planning for the projects the boards are deliberating together. No technical decisions were reached.

Future Board meetings

The Board will meet in public session on the following dates in 2009. Meetings take place in London, UK, unless otherwise noted.

4 August (Extra Board meeting)

14-18 September

19-23 October

26-27 October (IASB and FASB joint meeting, Norwalk USA)

16-20 November

14-18 December