FASB and IASB Reaffirm Commitment to Memorandum of Understanding

A Joint Statement of the FASB and IASB

November 5, 2009

At our joint meeting in October 2009, we, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB), reaffirmed our commitment to improving International Financial Reporting Standards (IFRS) and US generally accepted accounting principles (US GAAP) and achieving their convergence. We also agreed to intensify our efforts to complete the major joint projects described in the 2006 Memorandum of Understanding (MoU), as updated in 2008.

We are issuing this statement together today to describe our plans for completing the major projects on the MoU. We have included those plans, which include milestone targets for each project, in Appendix A. To provide transparency and accountability regarding those milestones, we are committed to reporting quarterly on our progress on convergence projects and to making those reports available on our websites.

In issuing this statement, we note that:

- Our commitment to the improvement and convergence of IFRSs and US GAAP is consistent with the strong support for the goal of a single set of high quality global standards recently expressed by the Leaders of the Group of 20 nations at their Pittsburgh Summit, the Financial Crisis Advisory Group of the FASB and IASB, the Monitoring Board of the International Accounting Standards Committee Foundation, and many others.
- We are redoubling our efforts to achieve a single set of high quality standards within the context of our respective independent standard-setting processes.
- We aim to complete each major project by the end of June 2011, consistent with the milestones established by the 2008 update of the MoU. In establishing target dates, we took into account the fact that several major countries are adopting IFRSs in 2011 and that for some other countries, including the US, continued improvement and convergence is an important consideration in deciding the role of IFRSs in their capital markets.

- We aim to provide a high degree of accountability through appropriate due process, including wide engagement with stakeholders, and oversight conducted in the public interest. We are consulting widely and will continue to draw on expertise from investors, preparers, auditors, standard-setters, regulators, and others around the world.
- Our efforts to improve IFRS and US GAAP for financial instruments and to achieve their convergence have been complicated by the differing project timetables we established to respond to our respective stakeholder groups and other factors. We are committed to issuing standards by the end of 2010 that represent a comprehensive and improved solution to this complex and contentious area and that provide international comparability. We have developed strategies and plans to deliver on that commitment. As a first step, we reached agreement at our joint meeting last week on a set of core principles designed to achieve comparability and transparency in reporting, consistency in accounting for credit impairments, and reduced complexity of financial instrument accounting. Those principles are described more fully in Appendix A.

In issuing this statement, we are also expressing our commitment to:

- The goals and objectives of the 2008 Update of the MoU that set out priorities and milestones to be achieved on major joint projects.
- Fundamental first principles about the purposes of accounting standards and the process by which the standards are determined, as set out in the statement of the Monitoring Board of the International Accounting Standards Committee Foundation, issued on 22 September 2009. Appendix B to this statement describes more fully the goals, values and principles that underpin our standards-setting collaboration.

We continue to believe that capital markets and investor communities around the world will benefit from successful completion of the MoU projects, in light of the following:

- The MoU is focused on those standards for which changes to US GAAP and IFRSs will lead to the most significant improvements in information provided to investors.
- Successful completion of a project means improving financial reporting in jurisdictions that use IFRSs and in those using US GAAP and enhancing global comparability by eliminating differences between IFRSs and US GAAP to the fullest extent possible.

- We will create more robust and sustainable solutions by combining our resources, drawing on the expertise of the international standard-setting community, and challenging each other.
- Our goal is to develop together common standards that improve financial reporting in the US and internationally and that foster global comparability. Achieving such improvements is consistent with the objectives of the IASB that are set out in the Constitution of the IASC Foundation. It also fulfils the responsibility the FASB has under US law and the Securities and Exchange Commission's 2003 Policy Statement to consider, in developing standards, whether international convergence is necessary and appropriate in the public interest and investor protection.

Developing high quality global standards is challenging because of differences in the culture, laws and capital market needs of the various countries that apply them. We have successfully met those challenges in the past (Appendix C) and will continue to do so by working intensively and collaboratively together toward timely completion of the MoU projects.

Despite those past successes, we believe there is always room for improvement to our processes. At our joint meeting we also agreed to take steps to improve our efficiency and effectiveness, as follows:

- To facilitate mutual understanding and timely agreement, we are committed to meeting together each month. We recognise that it may be necessary to discuss some issues separately. When that happens, we will ensure that we identify, discuss and resolve any differences on a timely basis.
- To provide transparency and accountability regarding our milestones described in Appendix A, we will report quarterly on our progress on convergence projects.

We will strive to avoid creating timeline differences like those that have complicated our efforts to improve and align standards for financial instruments and other areas. If such differences do arise, we will work together to eliminate differences between standards as soon as practicable by drawing stakeholders' attention to each others' proposals and reviewing our own requirements with a view to addressing differences on a timely basis.

Appendix A: Pathway to Completion of MoU Projects

At their October 2009 joint meeting, the FASB and the IASB reviewed the status of joint projects described in the Memorandum of Understanding (MoU), agreed in February 2006 and updated in September 2008. The boards assessed the timelines and developed strategies to ensure timely completion of:

Financial Instruments

Consolidations

Derecognition

Fair Value Measurement

Revenue Recognition

Leases

Financial Instruments with the Characteristics of Equity

Financial Statement Presentation

Other MoU Projects

Other Joint Projects

A summary of the conclusions follow below.

Financial Instruments

The IASB and the FASB have been developing, with urgency, proposals to replace their current financial reporting requirements for financial instruments.

The IASB's project plan for the replacement of IAS 39 consists of three main phases—Phase 1: Classification and measurement (the IASB is publishing an IFRS in the week of 9 November 2009); Phase 2: Impairment methodology (the IASB published an ED on 5 November 2009); and Phase 3 – Hedge accounting (the IASB plans to publish an ED in early 2010).

The FASB has been developing proposals to replace the equivalent requirements in US GAAP, which it plans to publish for public comment in the first quarter of 2010.

The boards are concerned that the difference in timetables is creating a risk that they will develop different requirements for some financial instruments. Such an outcome is inconsistent with the goal of providing investors with information that is both of high quality and comparable irrespective of whether the entity reporting is applying IFRS or US GAAP.

The main focus of the discussions at the joint meeting was to develop a plan to enable the boards to achieve a converged solution.

At this meeting:

- The boards agreed on a set of core principles for working to achieve a converged solution on financial instruments accounting. The core principles are designed to achieve comparability and transparency as well as consistency of credit impairment models and reduced complexity of financial instruments accounting. The boards agreed that:
    - Any requirements the boards issue should enhance comparability of information for the benefit of investors.
    - Financial reporting of financial instruments should provide information that helps investors assess the risks associated with those instruments.
    - For financial instruments that have highly variable cash flows or that are part of a trading operation, prominent and timely information about the fair values of those instruments is important.
    - For financial instruments with principal amounts that are held for collection or payment of contractual cash flows rather than for sale or settlement with a third party information about both amortised cost and fair value is relevant to investors.
    - The classification and measurement requirements should be less complex to implement than are the current requirements.
    - Impairment principles should be consistent for all instruments held for collection of their contractual cash flows.

Classification and measurement

- The IASB confirmed that it will publish in the week beginning 9 November 2009 its requirements for the classification and measurement of financial assets.

- The IASB and FASB will discuss together proposals for the classification and measurement of financial liabilities, including how or whether to account for a change in the creditworthiness of the entity reporting.
- The FASB expects to publish its proposals for classification and measurement in the first quarter of 2010 in a comprehensive exposure draft that also addresses impairment and hedge accounting.

Impairment

- The IASB published on 5 November 2009 a proposed impairment model for those financial assets measured at amortised cost. The model uses expected cash flows. The period for comment is eight months.
- The FASB is developing a model for accounting for credit losses for financial assets that the FASB has tentatively decided should be measured at fair value through other comprehensive income. That model will, once it is fully developed, be included in the exposure draft the FASB expects to publish in the first quarter of 2010. The IASB will publish a request for views on the FASB's model at the same time that the FASB publishes its proposals. The boards will consider the comments received on the FASB model and the IASB model together.
- The boards agreed that the FASB's model and the IASB's expected cash flow approach should be discussed with the expert advisory panel that is being established to advise the boards on operational issues on the application of their credit impairment models and how those issues might be resolved.

Hedging

- The boards agreed to discuss together hedge accounting.
- The IASB decided to delay the publication of its hedge accounting proposals until the first quarter of 2010, so as to give the boards the opportunity to develop a common solution. The FASB plans to include hedging in the comprehensive exposure draft it expects to publish in the first quarter of 2010.

Presentation

- The boards discussed possible alternatives for presenting information about financial instruments so that investors have available to them cost and fair value information.
- The boards will continue to consider whether both cost based and fair value information should be required to be disclosed on the statement of financial position (for example, as supplemental information in parentheses). The boards will also consider whether and, if so, how information about recognised changes in fair value should be displayed within the statement of comprehensive income.

Joint consideration of comments

- The boards noted that, with the exception of the classification and measurement of financial assets, they will align the comment periods for all components of the financial instruments exposure drafts. By doing so, the boards will provide the IFRS and US GAAP communities with the opportunity to comment on the proposals of both boards.
- The boards agreed to consider together comments received on the IASB and FASB proposals with the objective of agreeing on a model that will enhance the international comparability of financial reporting.
- The IASB has pledged to undertake a post-implementation for each of its major projects. The IASB intends to undertake a preliminary post-implementation review, which it will discuss with the FASB, on the application of its classification and measurement of financial assets by those entities adopting the requirements.

Milestone targets for financial instruments	
November 2009	The IASB published an exposure draft on impairment of financial assets, proposing a model based on expected cash flows. The IASB will publish the first part of its new IFRS, addressing the classification and measurement of financial assets.

Milestone targets for financial instruments, continued	
Q1 2010	The IASB will publish its initial proposals on hedging of financial assets and liabilities with comments due by the end of June 2010. The IASB will publish any changes to its initial proposals on the classification and measurement of financial liabilities with comments due by the end of June 2010. (The IASB published proposals for the classification and measurement of financial liabilities in July 2009 but decided not to include financial liabilities within the scope of the first phase of the financial instruments project). The FASB will publish its comprehensive proposal covering classification and measurement, impairment and hedging with comments due by the end of June 2010. As part of that proposal, the FASB will solicit views on the IASB's proposals for recognition and measurement (of both assets and liabilities), impairment, and hedging. The IASB also will publish a request for views on the FASB's comprehensive Exposure Draft .
Q2 2010	The IASB will review the application of its requirements for classification and measurement of financial assets by those entities early adopting the requirements.
Q4 2010	The boards expect to publish their final standards.

Consolidations

The FASB has recently amended its requirements in relation to identifying when entities known as *variable interest entities* should be consolidated into the financial reports of the reporting group. Variable interest entities include the type of structure such as *structured investment vehicles* that attracted attention as the global credit crisis developed.

The IASB is currently finalising its proposals to revise its requirements for identifying when entities should be consolidated. The IASB's proposals would apply to entities that would be *variable interest entities* in US GAAP. However, the IASB's proposals are also broader and would apply to those entities that are normally controlled by way of voting interests.

At this meeting:

- The boards concluded that the objectives and principles for assessing control of structures that would be classified as variable interest entities are fundamentally the same under the recent amendments to US GAAP on consolidation and in the proposed IASB model.

- The boards identified some differences in the application of those principles and agreed to conduct their respective projects on consolidation jointly and deliberate issues relating to the consolidation guidance at monthly joint meetings.
- The boards concluded that ideally, their standards for consolidation would include objectives and principles for assessing control that would be applied consistently to all types of entities and would produce globally comparable results. Consistent with that conclusion, the IASB agreed to amend its project timetable to give both boards the opportunity to jointly deliberate the consolidation requirements. The FASB set a goal of publishing an Exposure Draft at the beginning of the second quarter of 2010 on consolidation.. The IASB will make available a staff draft of its proposed final standard and will also publish a request for views on the FASB proposals. After the public comment period for the FASB Exposure Draft ends, the two boards will jointly deliberate the issues with the expectation that they would produce improved and converged standards by the third quarter of 2010.

Milestone targets for consolidation	
Q2 2010	The FASB expects to publish an Exposure Draft on consolidations. The IASB will make available a staff draft of its proposed final standard and will also publish a request for views on the FASB proposals.
Q3 2010	The IASB and FASB are aiming to publish final, converged, standards on consolidation covering all entity types.

Derecognition

The FASB has recently amended its requirements in relation to the derecognition of some financial assets and liabilities. The main change is the elimination of a concept called a qualifying special purpose entities, or QSPE. Eliminating the QSPE requirements potentially could cause many entities applying US GAAP to retain more assets and liabilities in their statement of financial position. There remain many differences between the IFRS and US GAAP derecognition requirements. US GAAP relies on a notion of legal isolation. IFRS has a notion of retention or transfer of substantial risks and rewards relating to the asset transferred. The models also differ in the accounting for transfer of portions of assets and the accounting for retained interests.

In 2009 the IASB published an Exposure Draft proposing a derecognition model based on control. The proposal was not well received, although there was qualified support for an alternative model the IASB also included in the Exposure Draft. The IASB plans to continue developing derecognition requirements based on that alternative model.

The boards have agreed to assess in the first half of 2010 the differences between IFRS and US GAAP. The boards will then consider together the model that the IASB has been developing.

Milestone targets for derecognition	
Q2 2010	The IASB and the FASB will assess the differences between US GAAP and IFRS, based on the application of the modified US GAAP requirements.
Q2 2010	The IASB and FASB will consider together the suitability of a control based derecognition model, which the IASB will have developed over the preceding quarter.

The IASB and the FASB will provide further details on their plans to complete the project in their next project update. The boards are aiming to complete the project by mid 2011 so that it can have an effective date that is aligned with the proposed consolidation requirements.

Fair Value Measurement

The FASB published Statement 157, *Fair Value Measurements* in 2006. The FASB fair value measurement requirements have been effective since November 2007. In May 2009 the IASB published an exposure draft of an IFRS on fair value measurement. The exposure draft is largely consistent with the FASB requirements.

At this meeting:

- The boards agreed that their objective is to ensure that fair value has the same meaning in US GAAP and IFRSs.
- The boards agreed to a goal of making US GAAP and IFRS fair value measurement requirements the same other than minor necessary differences in wording or style. The FASB and the IASB will consider the comments received on the IASB's Exposure Draft together, and the FASB and will propose amendments to US GAAP fair value measurement requirements, if necessary, to achieve that goal.

- The boards also agreed that if they become aware of perceptions that the FASB and IFRS fair value measurement requirements are different they will work together to address those perceptions.

Milestone targets for fair value measurement	
November 2009	The IASB will hold public round-tables on *Fair Value Measurement* in Asia, Europe and North America, in conjunction with the FASB.
Q1 2010	The boards will consider together comments received on the IASB ED.
Q1 2010	The FASB will decide whether it will need to propose any amendments to US GAAP to improve its requirements for *Fair Value Measurement* and to also ensure that the requirements are in harmony with the proposed IFRS.
Q3 2010	After the close of the public comment period for the FASB Exposure Draft (if necessary), the boards will deliberate issues jointly. The IASB expects to publish its final standard on *Fair Value Measurement* and the FASB would finalise any related amendments to US GAAP, if required.

Revenue Recognition

The boards published a discussion paper together in December 2008. Both boards support developing a single revenue recognition model built on the principle that an entity should recognise revenue when it satisfies its performance obligations in a contract by transferring goods and services to a customer. That principle is similar to many existing requirements. However, the boards think that clarifying that principle and applying it consistently to all contracts with customers will improve the comparability and understandability of revenue for users of financial statements.

The boards have been considering the comments received on their discussion paper as well as feedback from their outreach programs.

At this meeting:

- The boards tentatively decided that an entity should allocate the transaction price to segments of a contract that may include a combination of previously identified performance obligations. This is a refinement and simplification of the concepts proposed in the discussion paper.
- The boards reaffirmed their plans to conduct a series of workshops to test the concepts proposed with different preparer types before the end of the year.

Milestone targets for revenue recognition	
Q4 1009	The boards are running a series of workshops with different industry representatives to assess the model against a variety of transaction types.
Q2 2010	The IASB and FASB expect to publish an ED on Revenue Recognition.
Q2 2011	The IASB and FASB are aiming to publish final standards on *Revenue Recognition*.

Leases

The boards published together a discussion paper on leases in March 2009. The boards have begun considering the comments received with a view to developing new requirements for accounting for leases.

At this meeting:

- The boards committed to continue to develop accounting requirements for leases by considering the accounting from the perspective of both the lessor and lessee.
- The boards tentatively reconfirmed the right-of-use approach for lessees. That approach, as described in the Discussion Paper Leases: Preliminary Views proposes that a lessee should recognise for all leases:
    - an asset representing its right to use the leased item for the lease term (the right-of-use asset)
    - a liability for its obligation to pay rentals.
- The boards tentatively decided to adopt the performance obligation approach to lessor accounting. Under that approach, a lessor would:
    - recognise an asset representing its right to receive rental payments (a lease receivable)
    - recognise a liability representing its performance obligation under the lease—that is, its obligation to permit the lessee the right to use one of its assets (the leased item). The lessor would recognise revenue as that performance obligation is satisfied over the lease term. That means that a lessor would not recognise revenue at the inception of a lease contract

Milestone targets for leases	
Q2 2010	The IASB and FASB will publish together exposure drafts proposing the accounting for leases, from the perspective of the lessor and the lessee.
Q2 2011	The IASB and FASB are aiming to publish together their final standards on accounting for a lease.

Financial Instruments with the Characteristics of Equity

The boards have been developing proposals to improve, and as a consequence simplify, the financial reporting requirements for financial instruments with characteristics of equity. Specifically, the purpose of this project is to develop a better way to distinguish instruments that are equity from those that are assets or liabilities. The current IFRS and US GAAP requirements have both been criticised for their complexity and inconsistency.

At this meeting:

- The boards decided to consider an approach that would classify as equity particular share-settled instruments. Under that approach, an issuer would classify as equity an instrument it must settle by issuing equity instruments unless the issuer is using the equity instruments as currency. Examples of circumstances in which the issuer is using its equity instruments as a form of currency are the following:
    - Either party has a cash settlement option;
    - The contract requires net settlement in shares or either party has a net settlement option.
    - The contract exposes either party to risks of changes in value other than those resulting from share price changes, time value of money, counterparty performance risk, and possibly foreign currency (if the counterparty is a foreign owner before the transaction

Milestone targets for financial instruments with characteristics of equity	
December 2010	The boards will consider together the feasibility of the approach identified at their joint meeting.
January 2010	The boards will provide an update on their plans, including more detailed milestone targets. The boards are aiming to complete the project by mid 2011.

Financial Statement Presentation

The boards published together a discussion paper in 2008 in which they set out the principles for presenting financial statements in a manner that portrays a cohesive financial picture of an entity's activities, disaggregates information so that it is useful in predicting an entity's future cash flows and helps users assess an entity's liquidity and financial flexibility.

At this meeting:

Statement of comprehensive income

- The boards agreed to publish together a proposal to remove the option in US GAAP and IFRS that allows entities to present some components of total comprehensive income either in a separate statement or directly in equity.

  Eliminating that choice will make it easier to compare income statements prepared in accordance with IFRS or US GAAP and will help identify points of difference between IFRS and US GAAP, allowing more transparent reconciliation whilst the boards address differences in the underlying accounting. The boards expect to publish their proposals in the first quarter of 2010 and finalise the amendments before the end of 2010.

Discontinued operations

- The boards discussed the definition of a discontinued operation. They asked the staff to explore the option of adopting, as the converged definition, the definition used in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. In addition the boards asked the staff to analyse the disclosures required by IFRS 5 and US GAAP (originally issued as FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*) and develop a proposal for converged disclosures.

Main Financial Statement Presentation Project

- The boards tentatively decided to replace the reconciliation schedule proposed in the discussion paper with a requirement to analyse the changes in balances of significant asset and liability line items.

- The boards tentatively decided to retain the discussion paper proposal that an entity be required to present line items for cash receipts and payments in each section (and category) in the statement of cash flows. However, the requirements would specify that an entity should only present separate line items for significant or material cash flows.
- The boards tentatively decided that the exposure draft should propose a disaggregation principle, with guidance for applying that disaggregation principle in each financial statement. For the statement of comprehensive income the boards tentatively decided to retain the proposals in the discussion paper that an entity should disaggregate income and expense items by function and by nature.

Milestone targets for financial statement presentation	
Q1 2010	The IASB and FASB expect to publish exposure drafts proposing the elimination of the option entities have of presenting other comprehensive income items in other than one statement of comprehensive income. The FASB expects to publish a proposal to adopt the IFRS definition of a discontinued operation.
Q2 2010	The IASB and FASB both expect to publish an ED on *Financial Statement Presentation*. The FASB is aiming to finalise the amendments to adopt the IFRS definition of a discontinued operation.
Q3 2010	The IASB and FASB are aiming to finalise the amendments to require entities to present comprehensive income in one statement.
Q2 2011	The IASB and FASB are aiming to publish final standards on *Financial Statement Presentation*.

Other MoU projects

The IASB expects to publish in the next few months a standard that will improve the financial reporting for joint arrangements, including **Joint Ventures**. In doing so, the IASB will remove the option of proportionately consolidated joint ventures.

The IASB issued its Discussion Paper *Preliminary Views on Amendments to IAS 19* **Employee Benefits** in March 2008. Among the matters discussed was a proposal to eliminate of deferred recognition (the corridor approach). The IASB expects to issue an Exposure Draft early in 2010 and to complete the improvements by mid 2011.

At this meeting the boards considered a summary of the comments received by the IASB in response to the proposals for a revised **Income Taxes** standard exposed by the IASB earlier this year. The boards agreed that the project should not proceed in its current form. In November the IASB will consider whether it should address any aspects of IAS 12 *Income Taxes* as part of a limited scope project of improvements.

Other joint projects

The boards are also working together on other projects that are not part of the MoU.

The boards have been developing together a new **Conceptual Framework**. The first two chapters of the Framework, which address the *objectives* and *qualitative characteristics* of financial reporting will be published towards the end of 2009. The boards are also publishing together an exposure draft for a chapter addressing the *reporting entity*.

Both boards understand the importance of **Emission Trading Schemes** as a mechanism to help manage $C0_2$ emissions. The financial reporting consequences of the many different allocation and trading systems will become increasingly important. The boards have been working together on this project and expect to publish an exposure draft together in 2010 with the aim of issuing a joint standard in mid 2011.

The IASB published in 2007 a **Discussion Paper Preliminary Views on Insurance Contracts** and has been developing proposals on the basis of that discussion paper, in the light of comments received. In 2007, the FASB issued an Invitation to Comment containing the IASB's discussion paper to solicit input on whether it should undertake a comparable project jointly with the IASB. In October 2008, the FASB added a project on insurance to its agenda and the boards agreed to undertake it jointly. The boards have begun discussing the project together and are aiming to publish together exposure drafts in Q2 2010 with a view to finalising a joint standard by mid 2011.

Appendix B: Shared Goals, Values and Principles

Public capital markets are predicated on trust and transparency. The quality of information that companies provide is essential to the confidence of investors and other capital providers in making investment decisions, and the quality of accounting standards directly affects the quality of company-reported financial information.

The global nature of financial markets gives rise to a need for high-quality, globally comparable financial information. Thus, it is critically important to achieve high-quality, globally converged financial reporting standards that provide relevant, transparent, neutral, and comparable financial information, regardless of the geographical location of the entity.

Recognizing those realities, we, the FASB and the IASB reaffirmed our commitment to the goal of developing high-quality, common accounting standards at our October 2009 joint meeting. At that meeting, we also agreed on values and principles that guide the conduct of our standards-setting collaboration, as described below.

Our Shared Goal

We will work together to develop the high-quality, common accounting standards that are necessary for high quality, globally comparable financial reporting.

- The primary objective of those standards is to produce financial information that is useful for decision making by present and potential investors, lenders, and other capital providers.
- High-quality accounting standards are those that foster the provision of relevant, transparent, neutral, and comparable financial information. They are based on an improved and consistently applied conceptual framework, include objectives and principles expressed in clear and unambiguous language, and provide the detail and structure needed to ensure consistent application.
- Convergence solely for the sake of convergence is not our goal. Changing IFRS or US GAAP solely to achieve comparability without improving the quality of financial reporting both internationally and in the US is not a good use of FASB and IASB resources.

Our Shared Values

We share the following values that guide the conduct of their standard-setting activities.

- *Relevance:* We will produce standards that meet the identified needs of the capital markets we serve.
- *Leadership:* We will lead in the development and improvement of standards, not just follow in the wake of others or codify the status quo.
- *Objectivity:* We will act in the public interest, following an open and orderly process that ensures the information resulting from our standards is unbiased.
- *Responsiveness:* We will strive to respond to capital market developments and demands in a timely manner.
- *Mutual Understanding:* We will strive for mutual understanding of differences in culture, laws, and capital markets around the world and how they affect views on financial reporting issues.
- *Transparency and Due Process:* We will set standards following our robust due process procedures that provide visibility into the standard-setting process and require proactive consultation to ensure communication of all points of view and the expressions of opinion at all stages of the process.

Shared Principles Underpinning Our Standard-Setting Collaboration

The following principles guide our collaborative standards-setting efforts and ensure that the shared goal of high-quality, compatible accounting standards is achieved.

- Improving and promoting convergence of our standards will require changes to both IFRS and US GAAP; it is not a unilateral undertaking.
- Convergence of accounting standards can best be achieved through the joint development of high-quality standards over time.
- Neither existing IFRS nor existing US GAAP results in financial information that fully meets the information needs of investors. Serving investors means seeking convergence by jointly developing high-quality new standards to replace our existing standards in need of improvement.
- We recognise that we serve different capital markets and those markets (and the participants in them) may have differing needs. We will strive to meet those differing needs judiciously in ways that maximise the global comparability of reported financial information. We will clearly and timely communicate any

differing needs and their financial reporting effects to each other and the constituents we serve.

- We recognise that serving different capital markets may sometimes make it difficult to respond in both a timely and coordinated way to capital market issues and developments. We will strive to avoid creating timeline differences like those that have complicated efforts to converge and improve standards for financial instruments and other areas. If such differences do occur, we will work together to eliminate any differences between standards as soon as practicable by drawing stakeholder attention to each others' proposals and by considering those proposals on a timely basis.
- To facilitate mutual understanding and timely agreement, we are committed to meeting jointly on a monthly basis beginning in 2010. We recognise it may be necessary to discuss some issues separately; when that happens, we commit to timely identification, discussion, and resolution of differences.
- The quality of our standard-setting decisions depends on the quality of the analyses on which we base those decisions. Our staffs will work together to provide a complete and well-reasoned analysis of all viable alternatives that consider both investor information needs and practical and cost constraints.
- We will communicate frequently to assure timely appreciation of environmental and other factors in the capital markets we serve, to discuss reasons for differences and means for resolving them, and to discuss policy and procedural changes that could make us more efficient and effective.

Appendix C: Shared Achievements

At a joint meeting on September 18, 2002 in Norwalk, Connecticut, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) each acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used worldwide. They solidified their commitment in a document that came to be known as **The Norwalk Agreement**, setting the stage for seven years of steady and significant progress toward the major goal of creating a common set of high-quality accounting standards.

Since the signing of the Norwalk Agreement, all of the boards' major agenda projects have been aimed at bringing about improving and converging standards that lead to better financial reporting for the benefit of investors worldwide. To that end, the IASB and the FASB have achieved a number of important milestones on the path to international convergence.

The boards use working groups as one way of ensuring they draw on relevant expertise. The boards have joint working groups for leases and financial statement presentation and are establishing an expert panel for assessing impairment models for financial instruments. The boards have also used each others working groups on other projects, such as fair value measurement and financial instruments.

Share-Based Payment

The IASB and the FASB took a major step toward international convergence by issuing standards intended to improve the accounting for share-based payment arrangements with employees. In February 2004, the International Accounting Standards Board (IASB) issued International Financial Reporting Standard (IFRS) 2, *Share-based Payment,* which required all entities to recognise an expense for all employee services received in share-based payment transactions, using a fair-value-based method. Later that year, the FASB issued FASB Statement No. 123 (revised 2004), *Share-Based Payment*, which also required that the compensation cost relating to share-based payment transactions be recognised in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. The standards were the result of a two-year effort to respond to requests from investors and many others that the IASB and the FASB improve the accounting for share-based payment arrangements with employees.

Business combinations

The Business Combinations project was the first major joint project completed by the IASB and the FASB. The FASB issued FASB Statements No. 141 (revised 2007), *Business Combinations,* and No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. The IASB issued its counterpart standards IFRS 3 (revised), *Business Combinations,* and IAS 27 (as revised in 2007), *Consolidated and Separate Financial Statements,* in early 2008. These standards were intended to improve reporting of these transactions while eliminating a source of some of the most significant and pervasive differences between IFRS and US GAAP.

Fair value measurement

The FASB published Statement No.157, *Fair Value Measurements,* in 2007 and those requirements have been effective since November 2007. In May 2009, the IASB published an Exposure Draft of an IFRS on fair value measurement that is largely consistent with the FASB requirements. At their October 2009 joint meeting, the boards agreed that their objective is to ensure that *fair value* has the same meaning in US GAAP and IFRS and that their goal is to make US GAAP and IFRS fair value measurement requirements the same other than minor necessary differences in wording or style. Furthermore, they agreed that if they become aware of perceptions that US GAAP and IFRS fair value measurement requirements are different they will work together to address those perceptions. Finally, the FASB also agreed to consider comments received on the IASB's Exposure Draft and to propose amendments to US GAAP fair value measurement requirements, if necessary, to achieve that goal.

Discussion Paper – Revenue Recognition

In their ongoing joint project on Revenue Recognition, the FASB and the IASB are working to clarify the principles for recognizing revenue while creating a joint revenue recognition standard for US GAAP and IFRSs that companies can apply consistently across various industries and transactions. In December 2008, the boards published a Discussion Paper entitled *Preliminary Views on Revenue Recognition in Contracts with Customers.* At their respective meetings in September 2009, the boards considered additional guidance in the proposed model to help an entity determine **when** to recognise revenue. At this joint meeting, the boards considered additional guidance to help an entity determine **how much** revenue to recognise. In November, the boards plan to consider issues related to the subsequent measurement of performance obligations and how an entity would apply the proposed model to licensing arrangements.

Discussion Paper – Financial Statement Presentation

The purpose of this joint project is to establish a standard that will guide the organization and presentation of information in the financial statements. The boards' goal is to improve the usefulness of the information provided in an entity's financial statements to help users make decisions in their capacity as capital providers.

The boards completed their deliberations on Phase A in December 2005. In their Phase B discussions, the boards developed two core principles for financial statement presentation based on the objectives of financial reporting and the input the boards received from users of financial statements and from members of their advisory groups. Those proposed principles state that information should be presented in the financial statements in a manner that portrays a cohesive financial picture of an entity's activities, and disaggregates information so that it is useful in predicting an entity's future cash flows. A Discussion Paper was issued in October 2008, and the boards continue to deliberate the issues based on comments received on the DP.

Discussion Paper – Leases

In 2007, the boards launched a project to create a common standard on lease accounting to ensure that the assets and liabilities arising from lease contracts are recognised in the statement of financial position.

On March 19, 2009, the boards published, for public comment, a Discussion Paper, *Leases: Preliminary Views* (Discussion Paper). Based on feedback received on the DP, the boards reaffirmed the right-of-use approach for lessees. The boards also decided to adopt the performance obligation approach to lessor accounting. In November, the boards will continue discussing lessee and lessor accounting issues.

Principles of Accounting for Financial Instruments

At their October 2009 joint meeting, the boards discussed and agreed on a set of core principles for working to achieve a converged solution on financial instruments accounting. The core principles are designed to achieve comparability and transparency as well as consistency of credit impairment models and reduced complexity of financial instruments accounting. The boards will be posting the principles to their websites shortly.

In addition to the core principles, the boards agreed to jointly discuss the accounting for credit losses of financial instruments and hedge accounting. The boards discussed the basic accounting for credit losses for financial assets in the fair value through other comprehensive income category that was tentatively agreed to by the FASB at its October 2009 meeting. Once the FASB model is fully developed, that model, along with the IASB's expected cash flow approach, will be discussed with an expert advisory panel that will advise the boards on operational issues on the application of their credit impairment models and how those issues might be resolved.

Other

In addition to our major projects, each Board has undertaken projects on their own to improve aspects of IFRSs or US GAAP in narrow areas. In some cases the boards concluded that the IFRS requirement was better than the US GAAP requirement and in other cases US GAAP was considered to be the better of the two. The boards also concluded that aligning the requirements by having, for example, the FASB adopt the IFRS requirements was the most cost effective way to achieve convergence while still improving financial reporting. The FASB amended US GAAP in relation to acquired research and development, post balance date events and the fair value option. The IASB amended IFRS requirements for borrowing costs and segment reporting and is finalising a change to accounting for joint ventures.