



IASB Update

From the International Accounting Standards Board

This IASB *Update* is a staff summary of the tentative decisions reached by the Board at a public meeting. As a project progresses, the Board can, and sometimes does, modify its earlier tentative decisions. Tentative decisions do not change existing requirements until those decisions are incorporated in a new or amended standard.

The International Accounting Standards Board met in London on 14 - 18 December 2009, when it discussed:

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Financial crisis

Consolidation (education session)

This session was held jointly with the FASB.

The boards held an education session on their joint consolidation project. In particular, the boards discussed the definition of control, control with less than a majority of the voting rights and agency relationships. No decisions were made.

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Derecognition

In March 2009 the Board published the exposure draft (ED) *Derecognition* to replace the derecognition requirements in IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) and to improve the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* relating to the transfer of financial assets and liabilities. At the IASB meeting in September 2009, the Board discussed the feedback received from respondents to the ED and also from the extensive outreach programme undertaken by the staff.

At this meeting the Board discussed comments received from respondents on the derecognition requirements in IAS 39 for financial liabilities, and the changes to those requirements proposed in the ED. The Board made the following tentative decisions:

Extinguishments

A financial liability is extinguished and hence should be derecognised when the contract giving rise to that liability is substantially modified. The contract is substantially modified if the contract is altered in such a manner that

1. the timing, amounts or uncertainty of the cash flows under the new or modified contract are substantially different from those under the original contract, or

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2. it changes the nature of the debtor's obligation or the nature of the investment that the contract represents - for example:

- (a) A change in the currency in which the principal or interest is denominated
- (b) Addition or removal of contingent interest rate or shared appreciation features
- (c) A change in liquidation preference or ranking of the instrument
- (d) A change from variable interest rate to fixed rate or vice versa
- (e) A change that requires the consent of other class of creditors of the entity
- (f) Addition or deletion of cross collateralization provisions
- (g) Addition of repayment provisions or prepayment premium clauses

Extinguishment accounting

An entity should account for an extinguishment of a financial liability in accordance with the current guidance in IAS 39. Any transaction costs or fees incurred related to the extinguishment of the original liability should be included in the gain or loss recognised on extinguishment, unless any part of that cost can be directly attributed to the new liability. The accounting for any transaction costs or fees directly attributable to the new financial liability should follow the current guidance under IAS 39 for initial measurement of financial liabilities.

Modifications

When there is a modification to a financial liability that does not qualify as an extinguishment, the entity should account for the modification in accordance with the guidance under IAS 39.

Partial extinguishment

When an entity partially extinguishes a financial liability by repurchasing a part of that financial liability, it must follow the partial extinguishment guidance in IAS 39. However, the assessment as to whether a contract has been substantially modified should be on contract by contract basis. Hence, an entity shall not apply the substantial modification guidance to a part of a financial liability.

Debt for equity swaps

The Board agreed to incorporate the decisions reached in IFRIC *Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments* into the derecognition ED for the extinguishment of an entire financial liability, with one clarification. If there is a difference between the fair value of the liability that has been extinguished and the fair value of the equity instruments issued as consideration, the difference should adjust the gain or loss to be recognised to the extent that the difference qualifies as an asset or liability.

Symmetry in liability derecognition requirements between debtor and creditor

The Board agreed that derecognition accounting by the borrower and lender, if an amendment to a contract meets the substantial modification criteria, should be symmetrical.

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Financial instruments: classification and measurement

Financial liabilities are not within the scope of IFRS 9 *Financial Instruments*, issued in November 2009 but the Board committed to addressing the issue of classification and measurement of financial liabilities expeditiously. At this meeting, the Board discussed feedback received during outreach activities related to several possible approaches to address the issue of 'own credit risk' in the remeasurement of financial liabilities.

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Financial instruments: hedge accounting

This session was held jointly with the FASB.

The boards discussed the feedback received from recent outreach activities conducted by IASB staff, and outreach performed by FASB staff during development of the FASB Exposure Draft, *Accounting for Hedging Activities*. The boards also discussed the relationship between risk management and financial reporting and the interaction between the two in relation to the reporting of hedging activities. No technical decisions were made.

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Financial instruments with characteristics of equity

This session was held jointly with the FASB.

of equity. The Boards tentatively decided:

- Not to change the current reporting requirements for instruments currently accounted for in accordance with *FASB Accounting Standards Codification*TM Topic 718, Stock Compensation, and IFRS 2 *Share-based Payment*, regardless of any other decisions in this project.
- To report on the statement of financial position physically settled forward purchase contracts as offsetting debit and credit instruments. The credit instrument would be a liability for the total future payment discounted to its present value using a market interest rate that the issuer would have had to pay if it had issued a cash-settled debt instrument with similar term to maturity. That liability would be reported at accreted cost. The debit would be reported as an offset to equity, but the Boards did not decide whether the offset would be considered a reduction in the number of outstanding shares.
- To continue to consider principles or exceptions for determining which types of share-settled instruments would be classified as equity.

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Fair value measurement

This session was held jointly with the FASB.

At this meeting the boards discussed the project plan for developing converged fair value measurement guidance. The boards agreed to work toward eliminating the differences between the IASB's exposure draft on fair value measurement and *FASB Accounting Standards Codification*TM Topic 820 (Fair Value Measurements and Disclosures). Both boards plan to have converged fair value measurement requirements by September 2010.

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Conceptual framework: phase C

This session was held jointly with the FASB.

The boards discussed an updated staff paper that outlined measurement concepts that might be included in a discussion paper. The boards decided not to proceed with drafting a discussion paper yet, however they provided additional suggestions to improve the staff paper.

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Discontinued operations

Possible annual improvements

The Board considered issues relating to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. These matters had been discussed by the Board at its meeting in July 2009, when it had asked the staff to perform further work, including discussing with the FASB staff alignment of IFRS 5 with US GAAP on these issues.

The issues considered by the Board were:

- how an impairment loss should be recognised when the impairment is greater than the carrying amount of non-current assets in the disposal group.
- whether to clarify the presentation of other comprehensive income (OCI) relating to discontinued operations in the statement of comprehensive income.
- whether to require additional disclosures of accumulated other comprehensive income (AOCI) relating to discontinued operations.

Also considered were other concerns noted by constituents subsequent to the July 2009 Board meeting relating to the reversal of impairment losses.

The Board decided not to add a project to its agenda to address the impairment measurement and reversal issues at this time. The Board also noted that any amendments to reflect the presentation and disclosure issues relating to OCI and AOCI should be considered as part of the Board's project on Financial Statement Presentation.

Discontinued operations

This session was held jointly with the FASB.

The boards discussed the definition of a discontinued operation and disclosures about discontinued operations and other disposals. The boards made the following tentative decisions.

Definition of a Discontinued Operation

The boards decided that a discontinued operation is a component that has either been disposed, or is classified as held for sale, and

(a) represents a separate major line of business or geographical area of operations,

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or

(c) is a business that meets the criteria to be classified as held for sale on acquisition.

Disclosures

Disposal of a component of an entity that meets the definition of a discontinued operation

An entity would provide the following disclosures about a disposal of a component of an entity that meets the definition of a discontinued operation for current and prior periods:

- The profit or loss, together with major income and expense items constituting that profit or loss, including impairments, interest, depreciation, and amortisation;
- The major classes of cash flows (operating, investing, and financing);
- A reconciliation of the major classes of assets and liabilities classified as held for sale in the notes to the financial statements to total assets and total liabilities classified as held for sale that are presented separately on the face of the statement of financial position income;
- A reconciliation of the profit or loss for disposals presented in the notes to the financial statements to the after-tax profit or loss from discontinued operations presented in the statement of comprehensive income; and
- If the component includes a non-controlling interest, the profit or loss attributable to the parent.

Disposal of a component of an entity that does not meet the definition of a discontinued operation

An entity would provide the following disclosures about a disposal of a significant component of an entity that does not meet the definition of a discontinued operation for current and prior periods:

- The pre-tax profit or loss;
- A reconciliation of the major classes of assets and liabilities classified as held for sale in the notes to the financial statements to total assets, and total liabilities classified as held for sale that are presented separately in the statement of financial position income;
- A reconciliation of the profit or loss for disposals presented in the notes to the financial statements to the after-tax profit or loss from discontinued operations presented in the statement of comprehensive income; and
- If the component includes a non-controlling interest, the pre-tax profit or loss attributable to the parent.

Disposals of long-lived assets that are not components of an entity

If major classes of assets and liabilities included as part of the disposal group are not presented separately in the statement of financial position, the entity would disclose those classes of assets and liabilities in the notes to the financial statements. Additionally the entity would reconcile the amounts provided in the notes to the financial statements to total assets and total liabilities classified as held for sale that are presented separately in the statement of financial position, respectively.

Continuing involvement and continuing cash flows

If an entity retains continuing involvement with the discontinued operation and/or continuing cash flows between the discontinued operation and the remaining entity after the disposal date, the entity would provide the following disclosures:

- The nature of the activities that give rise to continuing involvement and/or cash flows;
- The period of time for which the continuing involvement and/or cash flows is expected to continue;
- The amount of the continuing cash flows, if applicable; and
- The amounts presented in continuing operations after the disposal transaction that prior to the disposal transaction were eliminated in consolidated financial statements as intra-entity transactions.

Re-exposure and comment period

The boards decided that the proposed guidance would be re-exposed. The boards directed the staff to proceed to the draft of the Exposure Draft for vote by written ballot. The length of the comment period for the Exposure Draft would be discussed at a future meeting.

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Effective dates

The Board discussed the effective dates of new requirements. The Board is concerned that those using IFRSs need time to plan and prepare for adoption of new requirements. The Board decided that it would use its best endeavours to ensure that:

- New requirements should become effective for annual periods beginning on or after a specified date (ie not for periods *ending* on a specified date);
- The dates specified should be limited to 1 January and 1 July;
- The assessment of the effective date for major projects completed in 2010 should be on the basis that it will not be earlier than 1 January 2012; and
- The assessment of the effective date for major projects completed in 2011 should be on the basis that it will not be earlier than 1 January 2013.

The staff is also examining the way transitional provisions are developed and written.

The Board will seek feedback on these guidelines for effective dates.

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Emissions trading schemes

The Board discussed the accounting for the right to receive allowances in an emissions cap & trade scheme *before* the related allowances have been issued. The Board addressed the issue in relation to (a) schemes with voluntary participation (voluntary schemes), which involve contracts between knowledgeable and willing parties and (b) statutory schemes with mandatory participation.

Many emissions trading schemes split the commitment period into annual compliance periods. That means an entity:

- receives allowances under its allocation in yearly instalments at the beginning of each compliance year, and
- surrenders allowances at the end of each compliance year to offset its emissions in that compliance year.

The Board discussed two views on when an entity controls a resource related to its future instalments:

- According to View 1, an entity does not control a resource until the contingencies related to the right to receive allowances are resolved.
- According to View 2, an entity controls a resource when the entity holds a right that will result in the entity receiving allowances if the entity takes specified actions (typically, continuing to emit at a specified level). That right is an option and the entity exercises it by undertaking the specified actions.

The staff did not ask the Board to make any decisions at this meeting but asked the Board for direction in developing accounting guidance for emissions trading schemes.

Next steps

The boards will discuss accounting models for emissions trading schemes (both voluntary and statutory) in the first quarter of 2010.

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Financial statement presentation

This session was held jointly with the FASB.

At their December joint meeting, the boards continued their deliberations on the proposals in the discussion paper *Preliminary Views on Financial Statement Presentation*. Specifically, the boards considered

- application of the cohesiveness principle (agenda paper 8A)
- presentation on the statement of financial position (agenda papers 8B and 8C)
- the definition and presentation of remeasurements (agenda paper 8D)
- presentation of the effects of basket transactions and foreign currency transaction gains and losses (agenda paper 8E).

Application of the cohesiveness principle

In July, the boards tentatively decided to retain the discussion paper proposal that an entity should present information in its financial statements in a manner that portrays a cohesive financial picture of its activities. The boards agreed that cohesiveness should be a core presentation principle.

At the December joint meeting, the boards tentatively decided:

- to require an entity to apply the cohesiveness principle at the category level in the statement of financial position (SFP), the statement of comprehensive income (SCI) and the statement of cash flows (SCF).
- to indicate that, generally, an entity will classify items in the financial statements by reference to how the related assets and liabilities are classified on the SFP.
- to add an additional category to the business section in the SFP and the SCI labelled *financing arising from operating activities*. The boards will discuss the definition of that category at a future meeting, but indicated it should include long-term liabilities tied to operating activities such as a net pension liability (or asset) and an asset retirement obligation (ARO). An entity should present cash flows related to items in that new category in a category on the SCF labelled *operating activities and financing arising from operating activities* on the SCF.

Presentation on the statement of financial position

The boards also addressed proposals in the discussion paper that are specific to the statement of financial position, and tentatively decided:

- to retain the proposal that management is best placed to determine whether to present a classified SFP or a presentation of assets and liabilities in order of liquidity.
- to retain the proposal that an entity presenting a classified SFP must present its assets and

- to require an entity to display total assets and total liabilities on the SFP.
- to require an entity that presents its assets and liabilities in short-term and long-term subcategories to display subtotals for short-term assets, short-term liabilities, long-term assets and long-term liabilities on the SFP.
- to drop the discussion paper proposal that an entity should be required to disclose information about the maturities of short-term contractual assets and liabilities in the notes to financial statements (as part of the financial statement presentation project).
- to specify that an entity must classify its cash balance at the reporting entity level, rather than at the reportable segment level, which had been proposed in the discussion paper. The effect of this decision is that cash will be presented in one category on the SFP.
- to retain the proposal to present and classify items formerly considered to be cash equivalents as short-term investments in the SFP, thereby eliminating the concept of cash equivalents from IFRS and US GAAP.
- to specify that an entity is required to present its bank overdrafts in the debt category of the financing section of the SFP.
- to retain the requirement that, if assets and liabilities are of the same nature and are measured differently, the measurement basis should be used for further disaggregation on the SFP. At a future meeting, the boards will consider aggregation criteria for the SFP.

In a split decision, the IASB voted to include in the exposure draft the minimum line item requirements for the SFP from IAS 1 Presentation of Financial Statements. The FASB voted not to include minimum line item requirements in the FASB exposure draft.

Presentation of remeasurements

The boards continued their discussion from the October joint meeting on presentation of remeasurement information. The FASB confirmed its prior tentative decision to disaggregate remeasurements in a two-column format on the SCI. Further, the FASB clarified that the two columns will be labelled total comprehensive income and remeasurements. Earlier in the week, the IASB decided that its exposure draft will present remeasurement information in the notes to financial statements.

Presentation of the effects of basket transactions

The discussion paper defines a basket transaction as a single acquisition or disposal transaction that recognises or derecognises assets and liabilities that an entity has classified in more than one section or category. The income or expense items, together with the cash flows arising from a basket transaction, are collectively referred to as the effects of basket transactions. In current practice, the effects of basket transactions are often presented in a single line item in the SCI and in the SCF.

At the December meeting, the boards tentatively decided to require an entity to present the effects of a basket transaction in a distinct section in the SCI and the SCF.

Presentation of foreign currency transaction gains and losses

The boards tentatively decided to retain the proposal from the discussion paper to present foreign currency transaction gains and losses-including the components of the net gain or loss on remeasuring the financial statements of an entity into its functional currency in the same section or category as the assets and liabilities that give rise to the gains or losses.

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IAS 37 - limited re-exposure comment deadline

The Board decided in October 2009 to re-expose for further comment one section of a proposed new standard to replace IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The section contains revised proposals for clarifying the measurement requirements in IAS 37.

The Board aims to publish the exposure draft around the first week of January 2010. It also aims to post a working draft of the entire new standard on its website in February 2010. The working draft will allow interested parties to see the proposed measurement requirements in the context of the proposed new standard as a whole.

At this meeting, the Board decided that the deadline for comments on the exposure draft should be 12 April 2010.

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Insurance contracts

This session was held jointly with the FASB.

The staff provided the boards with a summary of reasons why this project has been pursuing an approach that measures insurance liabilities by reference to future cash flows, rather than an approach that applies the principles being developed in the project on revenue recognition.

The boards then discussed the measurement approach and tentatively decided that it should portray a

- the unbiased, probability-weighted average of future cash flows expected to arise as the insurer fulfils the obligation;
- the time value of money;
- a risk adjustment for the effects of uncertainty about the amount and timing of future cash flows; and
- an amount that eliminates any gain at inception of the contract.

The boards also tentatively decided that:

- the risk adjustment should measure the insurer's view of the uncertainty associated with the future cash flows. The Board discussed various sources of information that an insurer might use to estimate this amount (eg the price the insurer would charge if it were taking on identical obligations with the same remaining risk exposure, or reinsurance prices) and asked the staff to investigate this question further.
- the measurement of an insurance liability should not be updated for changes in the risk of non-performance by the insurer.

Next steps

The boards will continue their discussion of this project on 5 January at an additional meeting.

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Joint ventures

The Board discussed the inconsistency between IAS 27 *Consolidated and Separate Financial Statements* and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. The inconsistency relates to the accounting for gains and losses resulting from contributions of non-monetary assets to jointly controlled entities. The Board tentatively decided not to resolve the inconsistency within the Joint Ventures project, but to deal with it separately. The Board tentatively decided to incorporate the requirements in SIC-13 and any guidance relating to the equity method for joint ventures as a consequential amendment to IAS 28 *Investments in Associates*.

The Board discussed the comments received on the section of ED 9 relating to the accounting for transactions between the parties and their joint arrangements. The Board tentatively decided:

- not to incorporate the requirements in SIC-13 that significant risks and rewards of ownership have been transferred to the arrangement and that gain or losses need to be measured reliably for the recognition of gains or losses arising from contributions of non-monetary assets. The condition relating the reliability in the measurement has not been considered necessary to be carried over because this is a statement already included in the *Framework* when discussing recognition.
- to incorporate the requirement that the transaction should have commercial substance for the recognition of gains and losses arising from contributions of non-monetary assets.
- to incorporate from IAS 31 *Interests in Joint Ventures* the requirement of full recognition of losses when the contribution, sale or purchase provides evidence of a reduction in the net realisable value or recoverable amounts of the assets contributed, sold or purchased.
- to clarify in the final standard that when a joint operation is structured through an entity, transactions between the parties and the joint operations are, in essence, transactions between the parties themselves.

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Leases

This session was held jointly with the FASB.

The boards discussed:

- How to account for leases that include contingent rental arrangements and residual value guarantees
- The scope of the proposed new requirements for leases.

Contingent rentals

The boards tentatively decided that:

- The obligation to pay rentals recognised by the lessee, and the receivable recognised by the lessor, would include amounts payable under contingent rental arrangements.
- A lessor would only recognise a receivable for amounts due under contingent rental arrangements if the receivable could be measured reliably, which is consistent with the boards' tentative decisions on revenue recognition.
- The obligation/receivable would be measured using an expected outcome technique. The final requirements would clarify that not every possible scenario would need to be taken into account when measuring the obligation/receivable.

rates. If forward rates are not available, the rates at the inception of the lease would be used.

- The carrying amount of the obligation/receivable would be reassessed at each reporting date if any new facts or circumstances indicate that there is a material change in the obligation.

The boards instructed the staff to provide additional analysis on how to account for changes in the obligation/receivable arising from reassessments of the amounts payable under contingent rental arrangements.

The boards also tentatively decided that lessees should account for residual value guarantees in the same way as for contingent rental arrangements.

Scope

The boards tentatively decided to exclude the following from the scope of the proposed new requirements:

- Leases of intangible assets
- Leases to explore for or use natural resources, such as minerals, oil and natural gas
- Leases of biological assets.

The boards tentatively decided not to provide a scope exclusion for leases of non-core assets.

The boards discussed whether to provide a scope exclusion for short-term leases and instructed the staff to provide additional analysis on this issue.

Next steps

The boards will continue their discussion of this project on 5 January at an additional meeting.

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Post-employment benefits

In previous meetings, the Board tentatively decided that entities should disaggregate changes in the net defined benefit asset or liability into service cost, interest cost and rereasurement components, and recognise the rereasurement component in the other comprehensive income section of the statement of comprehensive income. At the December meeting, the Board discussed two aspects of the definition of the rereasurement component and tentatively decided that the rereasurement component:

- includes changes in the estimate of service costs.
- excludes net interest income or expense, determined by applying the high quality corporate bond rate to the net defined benefit asset or liability.

The Board will consider at the January meeting the disclosure requirements to be proposed in the exposure draft.

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Revenue recognition

This session was held jointly with the FASB.

The boards discussed three topics:

- warranties and product liability
- rights of return
- estimates of uncertain consideration.

Warranties and product liability

The boards:

- reconsidered whether all product warranties give rise to separate performance obligations, as proposed in the Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers*;
- considered whether product liability laws give rise to performance obligations.

The boards decided tentatively that:

If the objective of a warranty is to provide a customer with cover for latent defects (ie those that exist when the asset is transferred to the customer but which are not yet apparent), that warranty does not give rise to a separate performance obligation. Instead it acknowledges the possibility that the entity has not satisfied its performance obligation to transfer the asset specified in the contract. Therefore, on the basis of all the available evidence, the entity would determine at the end of the reporting period the likelihood and extent of defects in the assets it has sold to customers and, hence, the amount of unsatisfied performance obligations with respect to those assets. Consequently:

(a) if the entity will be required to replace defective assets, it does not recognise revenue for those assets;

that can be attributed to components that need to be replaced in the repair process.

If the objective of a warranty is to provide a customer with cover for faults that arise after the product is transferred to the customer, that warranty gives rise to a separate performance obligation. Therefore, the entity allocates part of the transaction price to that warranty performance obligation.

If the law requires an entity to pay compensation if its products cause harm or damage, that requirement does not give rise to a performance obligation. The entity accounts for such obligations in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or FASB Accounting Standards Codification Subtopic 450-20 Loss Contingencies.

Rights of return

The boards considered how an entity should account for the sale of goods with a right of return. The boards decided tentatively that:

- An entity should not recognise revenue for the goods that are expected to be returned, but instead should recognise a refund liability for the expected (probability-weighted) amount of refunds to customers.
- Subsequently, an entity should update the refund liability for changes in expectations about the amount of refunds and make a corresponding adjustment to the amount allocated to the performance obligations.
- An entity should recognise an asset (and corresponding adjustment to cost of sales) for its right to recover goods from customers on settling the refund liability, initially measured at the original cost of the goods (that is, the former carrying amount in inventory).
- The promised return service should not be accounted for as a separate performance obligation in addition to the refund obligation.

Estimates of uncertain consideration

The boards considered when an entity should include estimated amounts of uncertain consideration in the transaction price and hence recognise those amounts as revenue when it satisfies performance obligations in a contract. The boards decided tentatively that:

An entity should include an estimated amount of uncertain consideration in the transaction price only if it can identify the possible outcomes of a contract (ie consideration amounts) and reasonably estimate the probabilities of those outcomes.

In the context of revenue recognition, an entity can identify the possible outcomes of a contract and reasonably estimate the related probabilities only if it:

- (a) has experience with identical or similar types of contracts, and
- (b) does not expect circumstances surrounding those types of contracts to change significantly.

The Exposure Draft should provide some factors for an entity to consider when assessing whether to include estimated consideration amounts in the transaction price.

Next steps

At their January joint meeting, the boards plan to consider disclosure and scope.

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Future Board meetings

The Board will meet in public session on the following dates in 2010. Meetings take place in London, UK, unless otherwise noted.

- 5 January
- 18 - 22 January
- 15 - 19 February
- 15 - 19 March
- 22 - 24 March (joint meeting with FASB)
- 19 - 23 April
- 17 - 21 May
- 14 - 18 June
- 19 - 23 July (22/23 joint meeting with FASB)
- 13 - 17 September
- 18 - 22 October
- 15 - 19 November
- 13 - 17 December

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Past issues of IASB *Update*

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Forthcoming comment deadlines

There are no comment deadlines up to the January 2010 Board meeting. For a full list of comment deadlines, visit the [Open to Comment](#) section of the IASB website.

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