IASB Update

From the International Accounting Standards Board

March 2010

Welcome to IASB Update

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 15-24 March 2010. The US Financial Accounting Standards Board (FASB) joined the IASB for some sessions. The boards discussed:

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Future board meetings

The IASB meets at least once a month for up to five days.
The next Board meetings in 2010 are:

19 - 23 April
17 - 21 May

To see all Board meetings for 2010, **click here**.

Archive of IASB Update Newsletter

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Podcast summaries

To listen to a short Board meeting audio summary (podcast)or previous Board meetings, **click here**.

Annual improvements

The Board discussed eight of the proposed *Improvements to IFRSs* from the exposure draft published in August 2009. On the basis of the comments that the Board received from respondents and the recommendations of the IFRIC, the Board tentatively decided to finalise six of the improvements.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* **- Accounting policy changes in the year of adoption**

The amendment clarifies that if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 *Interim Financial Reporting* for part of the period covered by its first IFRS financial statements, it will be required to explain those changes and update the reconciliations to IFRS from previous GAAP of its equity and total comprehensive income.

IFRS 3 *Business Combinations* **- Un-replaced and voluntarily replaced share-based payment transactions**

The amendment clarifies the accounting for replaced and un-replaced share-based payments in connection with a business combination. The Board also tentatively decided how the transition provisions apply and to reflect in the Basis for Conclusions the rationale for the distinction in accounting for replaced share-based payment transactions of the acquiree depending on whether they expire or not as a result of the business combination.

IAS 1 *Presentation of Financial Statements* **- Clarification of statement of changes in equity**

The amendment states that an entity shall present the changes in components of equity either in the statement of changes in equity or in the notes to the financial statements. The Board also tentatively decided to retain the current wording of paragraph 107 of IAS 1 - subject to minor edits - to emphasise that dividends recognised as distributions need be disclosed separately.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* **- Change in terminology to the qualitative characteristics**

The Board conditionally decided to finalise the amendment to enhance consistency with the terminology changes made in the forthcoming conceptual framework that will replace the Framework. This tentative decision is subject to the relevant chapters of the forthcoming conceptual framework being issued before finalisation and issue of *Improvements to IFRSs*.

IAS 27 *Consolidated and Separate Financial Statements* **- Transition requirements for amendments made as a result of IAS 27 (as amended in 2008) to IAS 21, IAS 28 and IAS 31**

The amendment clarifies that the consequential amendments made to IAS 21, IAS 28 and IAS 31 as a result of the 2008 amendment of IAS 27 require prospective application.

IFRIC 13 *Customer Loyalty Programmes* **- Fair value of award credits**

The Board tentatively decided to clarify that the fair value of awards in paragraph AG2(a) reflects, for example, the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale. In addition, the Board amended the Illustrative Examples to extend the examples to the possible redemption in goods rather than in cash only.

Review of illustrative examples to previously recommended proposed amendment

The Board considered the illustrative examples relating to the proposed amendment for IFRS 3 *Business Combinations - Measurement of non-controlling interests* and asked the staff to revise these in the light of some concerns that had been raised.

Revision to proposed improvement to IFRS 1

The Board discussed a revision to the proposed IFRS 1 amendment relating to the extension of the 'deemed cost' exemption in paragraph D8 of IFRS 1.

At its meeting in February 2010, the Board decided to finalise the original amendment that extends the 'deemed cost' exemption to event-driven revaluations that occurred during the period covered by the entity's first IFRS financial statements. The amendment also states that entities that had previously applied IFRS 1 could apply the amendment retrospectively in the first annual period after the amendment is effective.

However, some entities that had the type of event-driven revaluations described in the amendment adopted IFRS before IFRS 1 was issued. At this meeting, the Board tentatively decided to extend the proposed amendment to paragraph D8 of IFRS 1 to be available for such entities.

Proposed amendments recommended for removal, without finalisation, from Annual Improvements

The Board also tentatively decided to remove from the Annual Improvements process, without finalisation, two proposed amendments that had been included in the Improvements to IFRSs exposure draft in August 2009:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* - Application of IFRS 5 to loss of significant influence over an associate or loss of joint control over a jointly controlled entity. Following the Board's February 2010 tentative decisions relating to the *Joint Arrangements* project and the definition of 'significant economic events', the Board tentatively decided to bring the issue back as a sweep issue at a future meeting.
- IAS 40 *Investment Property* - Change from fair value model to cost model. The Board asked the IFRIC to reconsider this issue as part of the next *Annual Improvements* cycle in light of the

comments received.

Go to the project page on the IASB website

Consolidation

The Board discussed consolidations in three separate sessions, all of which were held jointly with the FASB.

The *control* model

The IASB and the FASB continued to deliberate the control model being developed for the purposes of determining when one entity should consolidate another, and discussed the following topics:

- When assessing control of an entity controlled by voting rights when are a reporting entity's voting rights sufficient to give it the ability to direct the activities of the entity ?
- How to determine whether a decision maker is an agent or a principal.
- Whether the involvement and interests of related parties should be considered to be those of the reporting entity.
- The description of a structured entity.

The boards tentatively decided:

- A reporting entity has the power to direct the activities of another entity when it has the current ability to direct the activities of the entity that significantly affect the returns.
- The reporting entity can have that current ability to direct the activities by different means:
    - By having the contractual ability to direct the activities, which can arise from having:
        i. More than half of the voting rights in an entity controlled by voting rights
        ii. Contractual rights within other contractual arrangements that related to the substantive activities of the entity
        iii. A combination of contractual rights within other contractual arrangements and holding voting rights in the entity.
    - By holding less than half of the voting rights in an entity considering relevant facts and circumstances.
- The assessment of whether a reporting entity has the current ability to direct the activities of an entity includes an assessment of both the reporting entity's rights (and whether they are sufficient to give the reporting entity power), and whether the rights held by other parties could prevent the reporting entity from having the ability to direct.
- In situations in which a reporting entity does not have the contractual ability to direct the activities (eg when it holds less than half of the voting rights in an entity), a reporting entity may need to rely on other indicators of power to provide evidence of having the ability to direct, such as whether it can obtain additional voting rights from holding potential voting rights or whether the entity's operations are dependent on the reporting entity. In some situations, considering the size of the reporting entity's holding of voting rights relative to the size and dispersion of holds of other vote holders, together with voting patterns at previous shareholders meetings, could provide sufficient evidence of having the ability to direct.

The FASB tentatively decided that the guidance for variable interest entities in Codification Topic 810 (specific to US GAAP), except for the implementation guidance, would be replaced by the control principles established within this project with the expectation that the guidance established in this project will produce consolidation results consistent with those reached under the Variable Interest Entity subsections of Topic 810.

Principal-Agency relationship

The boards tentatively decided that:

a. when assessing whether a decision-maker is an agent or a principal, the assessment should be made on the basis of the overall relationship between the decision-maker, the entity being managed and the other interest holders, and should consider all of the following factors:
    i. Scope of decision-making authority

    ii. Rights held by other parties
    iii. Remunerations of the decision-maker
    iv. The decision-maker's exposure to variability of returns because of other interest that it holds in the entity.
b. when assessing control, the involvement and interests of a related party should be considered to be those of the reporting entity when the nature of the reporting entity's relationship with that related party is such that the related party is acting on behalf of the reporting entity. The boards tentatively agreed that this would also be the case where those that direct the activities of the reporting entity also have the ability to direct another entity to act on behalf of the reporting entity. The boards also tentatively decided that the final standard will include a list of potential related parties. The boards tentatively agreed to include guidance in the final standard that is similar to that in ASC Paragraph 810-10-25-44 to address situations in which a reporting entity, together with its related parties, as a group, meets the control requirements.
c. a description of a structured entity should be included in the next due process document. That description would incorporate some of the factors that describe a *variable interest entity* in US GAAP (ASC Topic 810-10, as amended by FASB Statement No.167), but the description would not include all of the current guidance that is in Topic 810-10.

Disclosures

The boards discussed a reporting entity's disclosures for subsidiaries. The boards tentatively decided that, subject to wording changes, as a general disclosure principle, a reporting entity should disclose information that help users of financial statements to understand:

a. the composition (and changes in the composition) of the group;
b. the effect of legal structures within the group, and changes to those structures, on the reporting entity's ability to access and use assets and resources of consolidated entities;
c. the nature of, and changes in, the risks associated with the reporting entity's involvement with structured entities.

The boards also tentatively decided that a reporting entity could provide the disclosures on an aggregated basis, unless separate disclosure would provide more decision-useful information. The final disclosure requirements will contain application guidance on how the information could be aggregated.

The boards tentatively decided that, to comply with the general disclosure principle, a reporting entity should disclose:

a. all significant judgements and assumptions in determining whether it controls another entity and any changes in its control assessments that require significant judgement and the reasons for those changes; and
b. the nature of restrictions that are a consequence of assets and liabilities by the parent or its subsidiaries.

The boards asked the staff to conduct further research on disclosures relating to:

a. summarised financial information on subsidiaries;
b. the interest that the non-controlling interests have in the group; and
c. a reporting entity's risk exposure from its involvement with subsidiaries.

The boards discussed reputational risk in the context of requiring disclosures for implicit obligations of support that a reporting entity may have with another entity. The boards tentatively decided to require disclosures regarding the provision of support to another entity when there was no contractual or constructive obligation to do so and whether it has any current intentions to provide support or other assistance in the future.

The boards will continue to deliberate disclosures for consolidated and unconsolidated entities at the April 2010 joint board meeting.

Go to the project page on the IASB website

Derecognition

At this meeting, the Board continued its discussions of the new derecognition approach for financial assets. The Board also discussed the feedback received on the disclosures proposed in the *Derecognition* Exposure Draft.

Sale and repurchase agreements and similar transactions

At this meeting, the Board tentatively decided to make an exception to the derecognition approach to require that a sale of a financial asset that is accompanied by an agreement that entitles and obligates the seller to repurchase the same, or substantially the same, asset before maturity of the asset, should be accounted for as a secured borrowing.

The Board tentatively decided that for a financial asset to meet the 'substantially the same asset' requirement, it must have all of the following characteristics:

- the same primary obligor (except for debt guaranteed by a sovereign government, central bank, government-sponsored enterprise or agency thereof, in which case the guarantor and the terms of the guarantee must be the same);
- identical form and type so as to provide the same risks and rights;
- the same maturity (or in the case of mortgage backed pass-through and pay-through securities, similar remaining weighted-average maturities that result in approximately the same market yield);
- identical contractual interest rates;
- similar assets as collateral; and
- the same aggregate unpaid principal amount or principal amounts within accepted 'good delivery' standards for the type of security involved.

The Board also tentatively decided to provide the following application guidance for the 'same primary obligor' and 'similar assets as collateral' conditions:

- *The same primary obligor*: the exchange of pools of single-family loans would not meet this criterion, because the mortgages comprising the pool do not have the same primary obligor, and would therefore not be considered substantially the same.
- *Similar assets as collateral*: mortgage-backed pass-through and pay-through securities must be collateralised by a similar pool of mortgages, such as single-family residential mortgages, to meet this characteristic.

Pass-through arrangements, non-recourse loans and accounting for assets and liabilities of SPEs

The Board also discussed how the derecognition approach for financial assets would apply to pass-through arrangements, non-recourse loans and SPEs that issue beneficial interests in the 'assets' of the SPE. The Board tentatively decided the following:

- The derecognition approach will not include the pass-through criteria in IAS 39.19 because the approach addresses the issues that the pass-through criteria are designed to address. However, the next due process document will include application guidance on how the derecognition approach addresses the pass-through requirements.
- The application of the derecognition approach will not necessarily result in special-purpose entities (SPEs) becoming 'empty shells'. The Board concluded that whether an SPE will be empty depends on the nature of the beneficial interests issued (ie whether the beneficial interests entitle the holders of such instruments to the cash flows of an asset or a to portfolio of assets or to an interest in the entity).
- For non-recourse loans that are effectively pass-through arrangements, the debtor should not recognise the securing asset and nor should it recognise a liability. Rather, the parties involved (creditor and debtor) should only recognise their related interests in the underlying asset, or in parts of the underlying asset. Non-recourse loans are in effect pass-through arrangements if the primary source from which the debtor is expected to obtain cash to pay the principal and interest on the loan is the securing asset. In these arrangements, the debtor effectively promises or agrees to pass the cash flows of the asset to the creditor.

Disclosures

The Board tentatively decided that the next due process document would incorporate the derecognition disclosures, and related objectives, proposed in the ED, with the clarification that for assets that are derecognised and in which the entity has more than one type of continuing involvement, the disclosures should be aggregated.

Go to the project page on the IASB website

Fair value measurement

Scope

The Board tentatively decided to exclude the following IFRSs from the scope of an IFRS on fair value measurement:

- IFRS 2 *Share-based Payment*. In some situations, IFRS 2 requires that vesting conditions, other than market conditions, and reload features are not be taken into account when measuring the value of share-based payment transactions. This means that fair value in some contexts in IFRS 2 is actually 'fair value based'. To amend IFRS 2 to distinguish between measures that are fair value and those that are fair-value-based, new measurement guidance would need to be created for the fair-value-based measures. Such measurement guidance might result in an unintended change in practice with regard to measuring the value of share-based payment transactions.
- IAS 17 *Leases*. Applying the proposed fair value measurement guidance might significantly change classifications of leases and the timing of recognising gains or losses for sale and leaseback transactions. The IASB, jointly with the FASB, is currently reviewing the accounting for lease agreements. Both boards plan to replace IAS 17 within the first half of 2011. If the IASB includes IAS 17 in the scope of an IFRS on fair value measurement, this might require entities to make significant changes to their accounting systems, first for the IFRS on fair value measurements and secondly for the IFRS on lease accounting.

The Board also tentatively decided:

- in IFRS 3 *Business Combinations*, to retain the term 'fair value' when referring to the measurement of reacquired rights.
- in IAS 39 *Financial Instruments: Recognition and Measurement*, to retain the term 'fair value' for measuring financial liabilities with a demand feature.
- in IAS 19 *Employee Benefits*, not to describe the measurement of the reimbursement rights as the present value of the related obligation as a practical expedient for determining fair value.
- not to exclude the measurement of award credits in IFRIC 13 Customer Loyalty Programmes from the scope of an IFRS on fair value measurement.

The Board tentatively decided that each of the IFRSs that are excluded from the scope of an IFRS on fair value measurement will state the reasons for that decision and why the term 'fair value' was nevertheless retained in that standard.

Recognition of day 1 gains or losses of financial instruments

In January 2010, the IASB tentatively decided to address the recognition of day 1 gains or losses separately from the fair value measurement project. Although the issue will not be addressed in the fair value measurement project, that project team will prepare an analysis on the basis of which the IASB will consider amending IAS 39 *Financial Instruments: Recognition and Measurement*. The project team plans to bring this issue to the IASB at a future meeting. No decisions were made on this issue.

Disclosures about fair value measurements

The Board deliberated disclosures about fair value measurements jointly with the FASB.

The boards tentatively decided:

- to define 'class' on the basis of the following principles:

  - an entity should determine the appropriate classes of assets and liabilities based on the nature, characteristics and risks of the assets and liabilities, and their classification in the fair value hierarchy
  - a class of assets and liabilities will often require greater disaggregation than the entity's line items in the statement of financial position
  - judgment is needed to determine the appropriate classes of assets and liabilities.
- not to require an entity to disclose information about the change in the nonperformance risk of a non-financial liability
- to require an entity to disclose its policy for determining when transfers between levels of the fair value hierarchy are recognised
- to require an entity to disclose information about fair value measurements only after initial recognition
- for assets and liabilities that are recognised at fair value at each reporting period, to require an entity to disclose a reconciliation of activity within Level 3 of the fair value hierarchy and information about transfers between Levels 1 and 2. For assets and liabilities reameasured at fair value only in specific circumstances, an entity does not need to disclose this information.
- to require an entity to disclose fair value information by level in the fair value hierarchy for items that are not measured at fair value in the statement of financial position
- not to include guidance for assessing the significance of an input or of significant changes in fair value.

The boards also tentatively decided to require a sensitivity analysis disclosure for all Level 3 fair value measurements unless another standard does not require such a disclosure. The objective of the sensitivity analysis disclosure is to provide users of financial statements with information about measurement uncertainty for Level 3 fair value measurements. That is, the disclosure does not represent a worst-case scenario and is not forward looking. In addition, the boards tentatively decided that the sensitivity analysis disclosure should consider the effect of the correlation between inputs when relevant.

The IASB tentatively decided to require entities to disclose information about fair value measurements for financial instruments in an entity's interim financial statements.

Go to the project page on the IASB website

Financial instruments: classification and measurement

At the February meeting, the Board tentatively decided to retain the existing classification and measurement requirements in IAS 39 for financial liabilities. However, the Board also tentatively decided to propose changes to the fair value option (FVO) in order to address widespread concerns about recognising gains or losses arising from changes in an entity's own credit risk.

Fair value option

At this meeting, the Board confirmed the tentative decisions about the FVO, but agreed to describe alternatives for particular aspects of the decisions and ask respondents for feedback.

In addition, the Board tentatively decided to propose full retrospective application for the proposals on the FVO.

Cost exception for particular derivative liabilities

The Board confirmed its previous decision that there will not be a cost exception for any derivative liabilities on investments in unquoted equity instruments.

The Board also decided that the transition for such derivative liabilities previously measured at cost should be the same as the requirements in IFRS 9 *Financial Instruments* for any derivative asset on investments that were in unquoted equity instruments previously measured at cost.

Other issues

The Board tentatively decided to carry forward the subsequent measurement requirements in IAS 39 for loan commitment liabilities and financial guarantee contracts.

Go to the project page on the IASB website

Financial instruments: updates

Amortised cost and impairment

The Board discussed the feedback received from the outreach efforts with preparers, auditors, regulators and users of financial statements. The staff also presented a summary of discussions to date from the Expert Advisory Panel. No decisions were made.

Hedge accounting

The Board discussed the feedback received to date from the outreach efforts with users of financial statements. No decisions were made.

Go to the project page on the IASB website

IFRIC update

The Director of Implementation Activities reported on the IFRIC's meeting on 4 and 5 March 2010. Details of the meeting were published in IFRIC Update, available here.

Income taxes

The Board discussed possible revisions to the objective and the scope of the income tax project. The Board decided that the objective of the project is to resolve problems in practice under IAS 12, without changing the fundamental approach under IAS 12, and preferably without increasing divergence from US GAAP. The Board also decided that the scope of the project would include the following:

a. Uncertain tax positions, but only after the Board completes its current deliberations on IAS 37
b. Deferred tax on remeasurement of investment property at fair value
c. Introduction of the proposals in the ED *Income Tax* on:
    i. the introduction of an initial step to consider whether the recovery of an asset or settlement of liability will affect taxable profit
    ii. the recognition of a deferred tax asset in full and an offsetting valuation allowance to the extent necessary
    iii. guidance on assessing the need for a valuation allowance
    iv. guidance on the meaning of substantive enactment
    v. the allocation of current and deferred taxes within a group that files a consolidated tax return.

In addition, the Board indicated that it would explore the possibility of resolving the issue of the tax effect of dividends by entities, such as real estate investment trusts and co-operative societies.

The Board also discussed the issue of deferred tax on remeasurement of investment property at fair value. The Board directed the staff to explore the possibility of an exception for investment property measured using the fair value model under IAS 40, based on the lower of tax consequences of sale or of use.

Next steps

The staff will bring proposals on the above issues to Board meetings starting in the third quarter of 2010.

Go to the project page on the IASB website

Insurance contracts

The Board discussed Insurance Contracts in six separate sessions, all of which were held jointly with the FASB.

Measurement

The proposed measurement model for insurance contracts includes a residual margin, determined at inception as the difference between (a) the expected premiums and (b) the expected claims and expenses plus a risk adjustment. At this meeting, the boards discussed how the insurer should subsequently release the residual margin to profit or loss.

The boards tentatively decided that the insurer should release the residual margin over the coverage period in a systematic way that best reflects the exposure from providing insurance coverage, as follows:

- on the basis of passage of time; but
- if the insurer expects to incur benefits and claims in a pattern that differs significantly from passage of time, the residual margin should be released on the basis of the expected benefits and claims.

The boards also discussed risk adjustments in the proposed measurement of insurance contracts, including a brief analysis of methodologies that could be used to calculate risk adjustments. To support this discussion on risk adjustment, the boards also discussed the role of risk adjustments in option pricing models.

The purpose of this discussion was educational. Consequently, no decisions were taken.

The boards will discuss at a future meeting whether the residual margin should accrete interest.

Acquisition costs

The boards discussed acquisition costs for insurance contracts.

FASB tentatively affirmed its previous tentative decision that an insurer:

- should recognise all acquisition costs as an expense when incurred; and
- should not recognise any corresponding amount of the premium as revenue (or income) at inception.

The IASB tentatively decided to exclude from the initial measurement of the residual margin an amount equal to the incremental acquisition costs. The staff will investigate whether that tentative decision is best implemented by:

(a) excluding the acquisition costs from the premium to which the contract liability is calibrated; or
(b) including the acquisition costs in the contract cash flows at the inception of the contract.

The boards noted that some acquisition costs may be recoverable in some circumstances either from the policyholder or from third parties. The boards asked the staff to consider whether investigating those circumstances would make it easier for the boards to reach a common approach to acquisition costs.

Definition

The boards tentatively decided to use the current definition of an insurance contract in IFRS 4 Insurance Contracts and the related guidance in Appendix B of IFRS 4 in the exposure draft. Specifically:

- that compensation rather than indemnification be used in the definition of an insurance contract in describing the benefit provided to the policyholder;
- that the guidance in IFRS 4 be used in determining whether insurance risk is significant, subject to matters discussed below.

The boards asked that when the staff bring back the topic of unbundling , they should consider the notion of significant insurance risk in the context of multiple-element contracts.

The boards discussed the role of timing risk in defining insurance risk and tentatively decided:

- to change the factors considered in evaluating the significance of insurance risk from absolute amounts to present values; and
- to amend the guidance in IFRS 4 to explain that contractual terms that delay timely reimbursement to the policyholder can significantly reduce insurance risk, so that some contracts containing such terms might not meet the definition of an insurance contract.

The boards also discussed how to assess possible outcomes when determining whether insurance risk exists:

- the IASB expressed an initial preference for considering the range of possible outcomes.

- the FASB expressed an initial preference for considering whether there are outcomes in which the present value of the net cash outflows can exceed the present value of the premiums.

The boards will reconsider these initial preferences at a future meeting.

Scope

The boards tentatively decided that the scope of a standard on insurance contracts will exclude:

- warranties issued directly by a manufacturer, dealer or retailer
  ;
- residual value guarantees embedded in a lease
  ;
- residual value guarantees provided by a manufacturer, dealer or retailer
  ;
- employers' assets and liabilities under employee benefit plans and retirement benefit obligations reported by defined benefit retirement plans
  ; and
- contingent consideration payable or receivable in a business combination.

The boards expressed an initial preference that the scope of the standard should exclude fixed-fee service contracts, but noted that it would be undesirable to exclude contracts merely because they pay benefits in kind rather than in cash. The boards will consider this initial preference at a future meeting at which they will they discuss whether to include health contracts within the scope of the standard.

The boards will also discuss at a future meeting whether financial guarantee contracts should be within the scope of the standard.

Go to the project page on the IASB website

Joint arrangements

The Board continued its deliberations on the proposals in the exposure draft ED 9 *Joint Arrangements*.

Transitional provisions

The Board tentatively decided that Jointly Controlled Entities (JCEs) will transition from proportionate consolidation to the equity method, by aggregating at their respective carrying values the proportionate consolidated assets and liabilities into a single line item. The investment will need to be tested for impairment in accordance to IAS 36 *Impairment of Assets* at the date at which the standard is applied, and at the corresponding comparative periods.

The Board also had a preliminary discussion relating to the transitional provisions for JCEs that will have to transition their accounting from the equity method to the accounting for shares of assets and liabilities. The Board reached no decisions on this issue, but, they stated that the objective for these transitional provisions should be for an entity to account for the (shares of) assets and liabilities retrospectively.

Disclosures

The Board tentatively decided:

- to align the disclosure objectives for joint arrangements and associates;
- not to require disclosure of the basis of joint control;
- to require a list and description of investments in individually-material joint arrangements and associates;
- to require that an entity discloses commitments relating to its joint arrangements, including its share of commitments incurred jointly with other parties;
- to require an entity to disclose contingent liabilities relating to its joint arrangements and associates, including its share of contingent liabilities incurred jointly with other parties or investors;

- not to require summarised financial information for joint operations;
- that the summarised financial information to be presented for joint ventures and associates should be the same, independently of the measurement method by which the joint venture or associate is being accounted for; and
- to align the disclosure of information relating to the fact that a joint venture or associate is not accounted for using the equity method, and to provide the fair value of investments in joint ventures and associates for which there are published price quotations.

The Board also had a preliminary discussion relating to the aggregation and level of detail of the summarised financial information required for joint ventures and associates. The Board reached no decisions on this issue.

The Board will continue its discussion at future meetings, with the aim of publishing an IFRS in the second quarter of 2010.

Go to the project page on the IASB website

Leases

The Board deliberated leases in three separate sessions, all of which were held jointly with the FASB.

Lessee disclosure requirements

The boards tentatively approved a set of disclosure requirements for the forthcoming exposure draft.

An entity should disclose the quantitative and qualitative financial information that identifies and explains the amounts recognised in its financial statements arising from lease contracts. That disclosure should include:

- A general description of the lessee's leasing activities, including disaggregated information about its leasing activities (eg by nature or function).
- If a lessee applies a simplified form of lease accounting for short-term leases, that fact should be disclosed. The lessee should also disclose the amounts recognised in the financial statements under the simplified model.
- If a lessee enters into a sale and leaseback transaction, the lessee should disclose that fact, any material terms and conditions related to that transaction, and any gains or losses arising from that transaction, separately from other types of sales of assets
- A lessee should provide a reconciliation between opening and closing balances for its right-of-use assets and its obligation to pay rentals.
- A lessee should provide a narrative disclosure of its assumptions and estimates on the amortisation method used, options, contingent rentals, residual value guarantees, and the discount rate used.
- A lessee should disclose a maturity analysis of the gross obligation to pay rentals showing the remaining contractual maturities and total obligations. The lessee would also have to reconcile the total gross obligation to the total obligation to pay rentals presented in the financial statements. In addition, the lessee would disclose a maturity analysis on an annual basis for the first five years and a lump sum figure for the remaining amounts.
- A lessee should disclose the quantitative and qualitative financial information that helps users to evaluate the nature and extent of the amount, timing and uncertainty of future cash flows arising from lease contracts, and the way in which the lessee manages those uncertainties.

The boards also tentatively decided not to require the fair value disclosures of a lessee's obligation to pay rentals.

Lessor transitional provisions

The boards tentatively decided:

- To require the lessor to recognise and measure all outstanding leases as of the date of initial application of the proposed new leases requirements, using a simplified retrospective approach. Under that approach, the lessor's receivable would be measured at the present value of the remaining lease payments. The performance obligation should be measured on the same basis as the receivable.

- The original rate that the lessor is charging the lessee should be used to discount the lease payments.
- A lessor should reinstate previously derecognised leased assets at depreciated cost, adjusted for impairment and revaluation (IFRS preparers only).
- For IFRS preparers, transition disclosures should be required in accordance with the guidance in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* without the disclosure of adjusted basic and diluted earnings per share.

Measurement at initial recognition

The boards tentatively decided that initial measurement of assets and liabilities arising in lease contracts should be determined at the inception of the lease.

Lessor accounting for residual value guarantees

The boards tentatively decided that:

- The lease receivable recognised by the lessor would include amounts payable under a residual value guarantee, if the amount could be measured reliably.
- The receivable would be measured using an expected outcome technique; however, not every possible scenario would need to be taken into account when measuring the receivable.
- The carrying amount of the receivable would be reassessed at each reporting date if any new facts or circumstances indicate that there is a material change in the receivable.
- Any change in the receivable arising from a change in amounts payable under a residual value guarantee would be treated as an adjustment to the lessor's receivable and performance obligation, consistent with the boards' tentative decision on the accounting for contingent rentals.
- Residual value guarantees from an unrelated third party should be accounted for in accordance with the accounting for other guarantees.

Presentation by Lessees

The boards tentatively decided that:

- A lessee would present separately its obligation to pay rentals from other financial liabilities on the face of the statement of financial position.
- A lessee would present its right-of-use asset with property, plant, and equipment, but separately from other assets that are owned but not leased, on the face of the statement of financial position.
- Both amortization and interest expense arising in lease contracts would be separated from other amortization expense and other interest expense either on the face of the statement of comprehensive income or in the notes of financial statements.
- Both cash repayments of amounts borrowed and interest payments arising in lease contracts would be classified as financing activities separately in the statement of cash flows. The boards instructed the staff to consider how total cash rentals paid in the period should be presented or disclosed in the financial statements.

For the first three items described above, the boards will ask for comments in an Exposure Draft on leases about whether the lessee's asset, liability and expenses should be presented on the face of the financial statements or in the notes to the financial statements.

Presentation by Lessors

The boards tentatively decided that the lessor would present the leased asset, the lease receivable, and the performance obligation separately in the statement of financial position totaling to a net lease asset or a net lease liability.

The IASB tentatively decided that interest income, lease income, and depreciation expense would be presented separately in the statement of comprehensive income. The FASB tentatively decided that interest income, lease income, and depreciation expense would be presented separately in the statement of comprehensive income totaling to a net lease income or net lease expense.

The boards tentatively decided that:

- Repayments of the lease receivable would be classified as operating activities in the statement of cash flows.
- Interest income arising from the lease receivable would be classified as operating activities in the statement of cash flows.

Lessor Accounting Model

The IASB indicated that it would like to reconsider an alternative accounting model for lessors (the 'derecognition approach').

The boards will continue discussion of lessee and lessor accounting at the April 2010 meeting.

Go to the project page on the IASB website

Liabilities - IFRS to replace IAS 37

The Board decided to extend to 19 May 2010 the comment period for the exposure draft *Measurement of Liabilities in IAS 37*. The extension is to give respondents more time to understand the recognition requirements of the IFRS before they finalise their comments on the revised measurement proposals.

Go to the project page on the IASB website

Revenue recognition

The Board deliberated revenue recognition jointly with the FASB.

Disclosure

The boards tentatively approved a revised set of disclosure requirements for the forthcoming exposure draft, including requirements for an entity:

- to disaggregate the amount of revenue recognised, to make clear how that disaggregation relates to amounts presented or disclosed in accordance with other standards;
- to disclose the amount and expected timing of the satisfaction of its remaining performance obligations in contracts with an original duration of more than one year.

The revised disclosure proposal can be found in the observer notes for the meeting.

Contract costs

The boards tentatively decided that:

- an entity should recognise the following costs as expenses when incurred:

(a) the costs of obtaining a contract (eg selling, advertising and marketing costs);
(b) costs that relate to satisfied performance obligations in the contract (ie costs relating to goods and services already transferred); and
(c) abnormal amounts of wasted labour, material or other fulfilment costs.

- if the costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (eg inventory; property, plant or equipment; software), an entity should recognise an asset if the costs:

(a) generate or enhance a resource that the entity will use to satisfy performance obligations in a contract;
(b) relate directly to a contract (or anticipated contract); and
(c) are probable of recovery under a contract.

- an entity should amortise the asset as the goods or services to which the asset relates are transferred to the customer.
- an entity should test the asset for impairment by comparing its carrying amount to the amount

recoverable under the contract (ie the amount of consideration allocated to remaining performance obligations less the direct costs of satisfying those performance obligations).

The IASB tentatively decided to withdraw from IAS 2 *Inventory* the guidance on inventories of a service provider.

Components

The boards considered how an entity should account for a contract that includes some components that are within the scope of the revenue standard but that also includes other components that are within the scope of other standards.

The boards tentatively decided that if other standards specify how to separate or measure components of a contract, an entity should apply those requirements. Otherwise, the entity should apply the principles of the revenue standard.

Next steps

The boards plan to publish the exposure draft in the second quarter of 2010. They do not plan to discuss any further issues, except any issues arising from (a) consideration of consequential amendments and (b) their review of the draft exposure draft.

Go to the project page on the IASB website

SAC Update

Paul Cherry, the Chairman of the Standards Advisory Council of the International Accounting Standards Board, gave the Board an update via video from Toronto of the SAC meeting held in London in February. A recording of the meeting and a staff summary will be available on the IASB website shortly.