

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 **19 to 22 October 2010**. The US Financial Accounting Standards Board (FASB) joined the IASB for some sessions. The topics discussed were:

- Annual improvements
- Conceptual framework
- Effective dates
- Emissions trading schemes
- Extractive activities
- Fair value measurement
- Financial instruments: amortised cost and impairment
- Financial instruments: hedge accounting
- Financial statement presentation
- Financial instruments with characteristics of equity
- Offsetting
- Other comprehensive income
- Leases
- Post-employment benefits

Annual improvements

The IASB discussed three issues that the IFRS Interpretations Committee (the Interpretations Committee) had recommended that the Board should include within the next *Improvements to IFRSs* exposure draft to be published in November 2010.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* - Repeat application of IFRS 1

The Board discussed a proposed amendment to clarify the guidance relating to the repeat application of IFRS 1. The question arose from an entity that had previously reported in accordance with IFRSs to

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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:

10-12 November (joint with FASB)
15 - 19 November (Norwalk, US)

To see all Board meetings for 2010, [click here](#).

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meet foreign listing requirements, and had applied IFRS 1. However, the entity then delisted and no longer presents its financial statements in accordance with IFRSs, instead reporting only in accordance with its national GAAP. In a subsequent reporting period, the reporting requirements in the entity's local jurisdiction change from national GAAP to IFRSs, and the entity is again required to present its financial statements in accordance with IFRSs.

The Board agreed with the Interpretations Committee that the scope of IFRS 1 lacks clarity relating to the requirement that an entity should apply IFRS 1 for a second time in the circumstances described above. Consequently, the Board tentatively decided that IFRS 1 should be amended to clarify that an entity is required to apply IFRS 1 when preparing and presenting IFRS financial statements in the circumstances described, even if the entity has applied IFRS 1 in a previous reporting period.

The Board tentatively decided to include the proposed amendment within the next *Improvements to IFRSs* exposure draft.

IFRS 3 *Business Combinations* - Regrouping and consistency of contingent consideration guidance

The Board discussed a proposed amendment to remove existing inconsistencies in classification, measurement and disclosures relating to contingent consideration associated with business combinations.

The proposed change would be to delete references to other IFRSs in paragraphs 40 and 58 of IFRS 3. All guidance on the accounting for contingent consideration arising from business combinations would therefore be regrouped within IFRS 3. The proposed amendment would also explicitly exclude contingent consideration arising from business combinations from the scopes of IAS 39 *Financial Instruments: Recognition and Measurement* and of IFRS 7 *Financial Instruments: Disclosures*.

The Board expressed concerns about the effects of the proposed changes that might go beyond an annual improvement. The Board asked for analyses of practical examples of contingent consideration that would fall under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The Board also asked the staff whether the proposed amendment was consistent with US GAAP requirements. Discussions will continue at a future meeting.

IAS 24 *Related Party Disclosures* - Key Management Personnel (KMP)

The Board discussed a proposed amendment to the definition of a related party in IAS 24. The amendment would clarify that a management entity that provides KMP services to a reporting entity is deemed to be identified as the relevant related party in respect of those KMP services. Consequently, the service fees paid by the reporting entity to the management entity would be disclosed.

The amendment also proposes that the individuals who are employees or directors of the management entity and who are acting as KMP of the reporting entity should not be identified as a related party (unless they qualify as related parties for other reasons). The revised definition would apply to the management entity's parent, its subsidiaries and its fellow subsidiaries.

The Board expressed concerns about unintended consequences of the proposed improvement to the definition of a related party. They asked the staff to perform further work to ensure consistency of the proposal with the objective of IAS 24 and to bring to the Board examples of the

Assessment of issues already approved by the Board at earlier meetings against newly proposed criteria for inclusion within *Annual Improvements*

The Board agreed with the staff's assessment that issues they had approved for inclusion within *Annual*

Improvements at an earlier meeting met the newly proposed criteria set out in the *Proposed Amendments to the Due Process Handbook* published for public comments in August 2010. The proposed amendments related to:

- IFRS 1: Clarification of the borrowing costs exemption
- IAS 1: Clarification of requirements for comparative information
- IAS 16: Classification of servicing equipment
- IAS 32: Accounting for the income tax consequences of distributions
- IAS 34: Reporting segment information for total assets in interim reports

Issues not recommended for inclusion within the *Annual Improvements* cycle for 2009-2011

Following the IFRS Interpretations Committee's recommendation, the Board agreed that the two issues listed below did not meet the criteria for inclusion in *Annual Improvements*:

- IAS 1 *Presentation of Financial Statements* - Encouraged versus required disclosures
- IAS 21 *The Effect of Changes in Foreign Exchange Rates* - Repayments of investments and foreign currency translation reserve. The Board was advised that the Interpretations Committee recommended that the issue should be considered within a broad review of IAS 21 as a potential item for the Board's future agenda.

Issue carried forward from the last *Improvements to IFRSs* exposure draft published in August 2009

At its March 2010 meeting the Interpretations Committee recommended the Board should not finalise the proposed amendment to IAS 40 *Investment Property* included in the exposure draft of *Improvements to IFRSs* published in August 2009. At its March 2010 meeting the Board referred this recommendation back to the Interpretations Committee for further deliberation. The Interpretations Committee re-deliberated the proposed amendment at its July 2010 meeting. The proposed amendment would remove the requirement to transfer investment property to IAS 2 *Inventory* at the commencement of development with a view to sale. As a result of this re-deliberation the Interpretations Committee re-confirmed its recommendation not to finalise the proposed change to IAS 40.

At its meeting on 19 October 2010, the Board accepted the Interpretations Committee's recommendation not to finalise the proposed amendment based on the analysis presented to them.

Conceptual framework

The staff presented to the IASB and FASB a summary of the comments received on the exposure draft *Conceptual Framework for Financial Reporting: The reporting entity* whose comment period ended on 16 July 2010.

The boards decided that:

- a. the staff has appropriately identified the issues to be discussed at future meetings; and
- b. the staff should prepare a paper that discusses the possible time required to address these issues and the revised target issue date of the final Chapter.

Effective dates

The IASB discussed a draft document seeking views from constituents on whether or how to sequence effective dates of several new IFRSs that it expects to issue next year. The IASB will use that

information to develop an implementation plan for the new IFRSs to help interested parties to manage the pace and cost of change. The Board provided comments on the draft and asked the staff to proceed with publication, reflecting the comments provided.

The document was published on 19 October and is available by [clicking here](#).

Emissions trading schemes

The IASB and FASB discussed the measurement of allowances (assets) and liabilities in a cap and trade scheme.

IASB Agenda Paper 5A/FASB Agenda Paper 7A presented four measurement models for measuring the allowances. The boards tentatively decided that the measurement of the allocated allowances and the liability for the allocation should be consistent. Board members expressed support for the model that measures the allocated allowances and liability for the allocation initially at fair value, and also subsequently measures those allocated allowances at fair value.

The boards also discussed how an entity should determine the quantity of allowances that would be returned under the liability for the allocation, as well as when an entity should recognise an obligation for emissions in excess of the liability for the allocation. The boards expressed support for an approach that determines the quantity of allowances to be returned based upon an entity's expectations of emissions, or emissions reductions. However, the boards expressed different views as to when the liability for excess emissions should be recognised. The boards requested additional analysis, including quantitative examples that outline the effect of different measurement models.

Next Steps

At future board meetings, the boards will discuss quantitative examples that illustrate measurement issues, and when a liability is incurred for emissions in excess of the liability for the allocation. The boards will also discuss the issues of presentation (including netting) and whether a right to future allocations can be recognised as an asset.

Extractive activities

The staff presented a summary of the feedback received in response to the discussion paper *Extractive Activities*. The discussion paper was the result of a research project that was conducted for the IASB by a project team of national standard-setters from Australia, Canada, Norway and South Africa. The IASB also received an analysis of possible alternatives for defining the scope of a potential future project on extractive activities, based on feedback received in response to the discussion paper.

The Board did not make any decisions at this meeting. Furthermore, because the extractive activities research project is now complete, any subsequent decisions on extractive activities will be made only within the context of developing a possible future agenda proposal.

Fair value measurement

Disclosures about fair value measurements

The IASB and FASB tentatively decided:

- that when a non-financial asset is measured subsequently at fair value and the highest and best use of the asset differs from its current use, an entity must disclose that fact and the reasons

why the asset is being used in a manner that differs from its highest and best use. The boards also tentatively decided to require that disclosure whether the asset is recognised at fair value in the statement of financial position or the fair value is disclosed and not to limit the scope of that disclosure to particular non-financial assets

- to require an entity to disclose any transfers between Level 1 and Level 2 of the fair value hierarchy
- for assets and liabilities for which disclosure of fair value is required, to require an entity to disclose the level in which a fair value measurement would be categorised within the fair value hierarchy (Level 1, 2 or 3), even if those assets and liabilities are not subsequently measured at fair value in the statement of financial position. The other disclosure requirements for fair value measurements would not be required for such assets or liabilities.

The unit of account for fair value measurements

The boards tentatively decided that clarifying the unit of account for assets and liabilities measured at fair value in particular situations (eg investments in associates, subsidiaries and jointly controlled entities accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*) is outside the scope of the fair value measurement project because the project focuses on 'how' to measure fair value, not on 'what' is being measured at fair value or 'when' fair value should be used.

The boards tentatively decided to clarify that although the concepts of highest and best use and valuation premise are not relevant for financial instruments, the notion of value maximisation is fundamental to the fair value measurement of financial instruments because market participants would enter into transactions that maximise the fair value of financial instruments.

Financial Instrument: Amortised Cost and Impairment

At this meeting, the IASB continued its redeliberations on phase II of the project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

The mechanics of various approaches were discussed at the last meeting. This meeting focused on a discussion of what the amounts in the statement of financial position and profit or loss would represent for both the time-proportionate (ie 'partial' catch-up) and single period allocation (ie 'no' catch-up) approaches. The Board also discussed the advantages and disadvantages of each of those approaches. Although there were no specific decisions requested at the meeting, the Board directed the staff to develop the time-proportionate approach further. They asked the staff to explore how such an approach might be modified to obtain outcomes more similar to the approach proposed in the exposure draft *Amortised Cost and Impairment*.

Joint Education Session

At this education session, the FASB provided feedback received from constituents regarding the proposed impairment and interest income recognition guidance in the proposed Accounting Standards Update, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities: Financial Instrument (Topic 825) and Derivatives and Hedging (Topic 815) (the ED).

The IASB and FASB also discussed some of the main components of an expected loss credit impairment model and the interdependencies among those components. On 10-12 November, the Boards will meet jointly and further discuss:

- what information should be considered in determining an expected loss;



- the necessity, treatment, and definition of a 'good' book and 'bad' book; and
- the timing of recognition of credit impairment losses (ie upfront recognition or allocation over some time period).

No decisions were made at this meeting.

Financial instruments: hedge accounting

Hedges of credit risk using credit derivatives

The IASB discussed how financial institutions manage credit exposures arising from their lending activities and the resulting accounting implications, as well as possible alternative approaches.

During the outreach activities, the Board learnt that many users of financial statements believe that IAS 39 *Financial Instruments: Recognition and Measurement* does not reflect the economic outcome of the credit risk management activities of financial institutions.

Accounting mismatches exist today when IFRSs are applied. The fair value changes of the credit derivative that is economically hedging the credit exposure are presented in profit or loss every period but are not offset by the fair value changes of the loans or loan commitments. The Board noted that when applying IAS 39 it is operationally difficult to isolate and directly measure the credit risk component of a financial item in a way that meets the hedge accounting requirements. The Board also noted that the fair value option under IFRS 9 *Financial Instruments* is not available for most loan commitments that are within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The Board tentatively decided not to allow elective fair value accounting for part of the nominal amount of loans and loan commitments because of its complexity. The Board tentatively decided to explore other possible ways to avoid the accounting mismatch (eg to account for the premium on the credit derivatives in way that it is allocated over time by using other comprehensive income or accounting similar to insurance contracts).

Discontinuation of hedging relationships

The Board discussed the discontinuation of hedge accounting. The Board considered a series of staff papers outlining the following issues:

- discontinuation of a hedging relationship;
- rebalancing and reassessment of the hedge ratio; and
- interaction between rebalancing and discontinuation (illustrative examples).

Discontinuation of a hedging relationship

The Board noted that discontinuation of hedge accounting occurs when the hedging relationship ceases to meet the qualifying criteria and therefore hedge accounting should be discontinued prospectively from the moment that such qualifying criteria are no longer met. It was additionally noted that entities may choose to re-establish the hedging relationship if that reflects the risk management strategy. This has been referred to as discontinuation and restart.

The Board also noted that allowing entities to dedesignate hedging relationships when all the qualifying criteria (including the risk management objective) are still met is inconsistent with the objective of hedge accounting. Hence, the Board tentatively decided that dedesignation should not be permitted in those circumstances.

As a result, the Board tentatively decided that:

- a. Mandatory discontinuation occurs when the hedging relationship ceases to meet the qualifying criteria. However, entities can start a new hedging relationship that uses the items that were previously part of the discontinued hedging relationship.
- b. Adjustments to the hedging relationship would only require a discontinuation and restart if there is a change in the risk management objective of the hedging relationship.
- c. Adjusting a continuing hedging relationship should only be allowed when the risk management objective remains the same but other qualifying criteria have failed or are about to fail (for example the effectiveness testing). Specific facts and circumstances should be considered when distinguishing mandatory discontinuation from dedesignation and redesignation.
- d. Dedesignation when all the qualifying criteria (including the risk management objective) are still met would not be permitted, because no qualifying criteria have failed and the hedge accounting still reflects risk management.
- e. Documentation supporting the hedging relationship must be updated to reflect changes to the hedging relationship irrespective of the type of scenario.

Rebalancing and reassessment of the hedge ratio

The Board considered a paper on the role of rebalancing and how it relates to the issue of discontinuation of hedge accounting.

The Board noted that rebalancing occurs when some of the variables affecting the hedging relationship change so that the qualifying criteria (particularly the effectiveness assessment test) are no longer met. The Board tentatively decided that rebalancing is the continuation of an existing hedge in specific circumstances, and does not depend upon the type of unexpected sources of ineffectiveness, but rather upon whether the risk management objective of the hedge still applies. The Board noted that this tentative decision reflects the risk-management link in the hedge accounting approach being developed.

Interaction between rebalancing and discontinuation

The Board considered examples of the application of rebalancing and its interaction with discontinuation.

On the basis of the examples presented, the Board tentatively decided that provided that the risk management strategy remains the same:

- The measurement of the changes in fair value of the hedged item would be unaffected by the adjustment to the hedge ratio.
- Changes to the hedge ratio may require partial discontinuation if those changes are above the expected levels of ineffectiveness.
- If entities fail to predict their volume of highly probable forecast transactions accurately with the result that the expected volume is lower than the originally forecast volume, partial discontinuation is appropriate provided that the entity does not have a history of such downward adjustments of its forecasts.

Eligibility of net positions as hedged items

This Board session was the final discussion on the eligibility of net positions for hedge accounting (in the context of the general hedge accounting model). The staff presented the Board with various examples of net position hedges to help them to decide if any restrictions should be required. The Board tentatively decided that net positions should be eligible hedged items for all fair value hedges and some cash flow hedges.

For cash flow net position hedges, the Board tentatively decided that there should be restrictions to prevent recognition of value changes of anticipated transactions in profit or loss or in other comprehensive income. The effect of this restriction is that a net position of hedged items, in a cash flow hedge, would not be eligible for hedge accounting, if the offsetting cash flows would affect profit or loss in different periods.

The Board also considered whether hedge accounting should be permitted for a nil net position of hedged items that arises in an entity that manages and hedges risk on a net basis.

The Board tentatively decided that a nil net position of hedged items should be eligible for hedge accounting provided that the entity manages risks on a net basis. The Board noted that nil net positions arising in practice at such entities would happen very infrequently, if ever. It was proposed that clear application guidance would be required to explain the restricted circumstances in which this would apply.

Financial statement presentation

At the October joint meeting, the staff updated the boards on their outreach activities related to the July 2010 staff draft of an exposure draft on *financial statement presentation*. The IASB and FASB discussed how to proceed with the project.

The boards acknowledged that they do not have the capacity currently to devote the time necessary to consider the information learned during outreach activities and modify their tentative decisions. Consequently, the boards decided to not issue an exposure draft in the first quarter 2011 as originally planned.

Next Steps

The staff and board advisors will meet with the project working group in December 2010 to discuss the cost and benefit information received during outreach activities and possible ways to move forward. The boards will return to this project when they have the requisite capacity. This is expected to be after June 2011.

Financial instruments with characteristics of equity

The IASB and FASB discussed how to proceed with the project.

The boards acknowledged that they do not have the capacity currently to devote the time necessary to deliberate the project issues. Consequently, the boards tentatively decided to not issue an exposure draft in the near term as originally planned.

Next Steps

The boards will return to this project when they have the requisite capacity. This is expected to be after June 2011.

Offsetting

The IASB and FASB discussed factors that may be helpful in determining whether financial assets and liabilities should be presented net (either on the face of the financial statements or in the notes). This was an education session and no decisions were made. The boards will discuss possible offsetting approaches at future meetings.

Other comprehensive income

The IASB and FASB discussed the comment letters received on the FASB's Exposure Draft of proposed amendments to Topic 220, Comprehensive Income, and the IASB's Exposure Draft of Presentation of Items of Other Comprehensive Income, proposed amendments to IAS 1. The comment letter deadline was 30 September 2010.

The boards instructed the staff to focus on the matter of whether profit or loss (net income) and OCI should be presented in one or two statements.

Leases

The staff provided the IASB with an update on the lease outreach activities performed, as well as a summary of feedback received on the proposals to date.

No decisions were made. The detailed feedback received on individual issues will be included in the relevant board papers during the Board's redeliberations.

Post-employment benefits

The IASB discussed a summary of comment letters received for the exposure draft *Defined Benefit Plans* and began re-deliberating the proposals relating to recognition and disaggregation.

The Board tentatively confirmed the proposals in the exposure draft that:

- an entity should recognise all changes in the net defined benefit liability (asset) when they occur.
- an entity should recognise unvested past service cost when the related plan amendment occurs.
- an entity should disaggregate changes in the net defined benefit liability (asset) into service cost, finance cost and remeasurement components. The Board will discuss at a future meeting whether an entity:
 - a. should present those components in profit or loss or in other comprehensive income.
 - b. should distinguish those components on the statements of profit or loss and other comprehensive income, or whether disclosure in the notes would be sufficient.
- the service cost component should exclude gains and losses arising from changes in the assumptions used to measure the service cost.
- the finance cost component should comprise net interest on the net defined benefit liability (asset), determined by applying the same rate used to measure the defined benefit obligation to the net defined benefit liability (asset).

Next steps

In November, the Board intends to discuss among other topics:

- presentation of the service cost, finance cost and remeasurement components;
- disclosures for defined benefit plans;
- classification of employee benefits; and
- accounting for settlements and curtailments.

Termination Benefits

In the light of its tentative decision on unvested past service cost, the Board confirmed its previous tentative decision to include in the definition of termination benefits only benefits provided in exchange for termination of employment.

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