IASB Update

From the International Accounting Standards Board

February 2011

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 IASB met in London on Tuesday 15 February. At that meeting the Board considered the transitional provisions for the project to improve the reporting by an entity of defined benefit schemes that it sponsors. The Board also revisited its earlier decision about where to present changes in the plan obligations. The Board will consider the effective date in conjunction with its wider consultation on effective dates, with a view to issuing the new requirements in late March.

The IASB also discussed effective dates for the new consolidation, joint arrangements, and related disclosure requirements. The Board plans to issue these requirements in March. Finally, the Board discussed some aspects of the impairment project.

The IASB and FASB met jointly in London for three days, from Wednesday 16 February to Friday 18 February.

Most of the discussions focused on their three major MoU projects: revenue recognition, leases and insurance contracts. The boards only had limited discussions on financial instruments because documents on impairment, hedging and offsetting are still open for comment.

The boards also discussed cross-cutting issues, starting with a paper on measurement.

The topics discussed at the joint IASB/FASB board meeting were:

- Cross-cutting issues
- Financial instruments: impairment
- Insurance contracts
- Insurance contracts - education session
- Leases
- Revenue recognition.

The topics discussed at the IASB Board meeting were:

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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 2011 are:

1-2 March (joint meeting)
14-18 March
21-23 March (joint meeting in Norwalk, US)
28-29 March

To see all Board meetings for 2011, click here.

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Podcast summaries

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

- Consolidation and joint arrangements
- Financial instruments: impairment
- Post-employment benefits.

Sessions held jointly with the FASB

Cross-cutting issues

The IASB and FASB discussed a paper dealing with measurement uncertainty. The paper was designed to provide the boards with analysis to help them when they need to make decisions about measuring assets and liabilities in the revenue recognition, leases and insurance contracts projects.

The session was for education purposes only and the boards were not asked to make any decisions.

Financial instruments: impairment

The IASB and the FASB discussed the definition of 'write-off' and tentatively decided that it will be defined as 'a direct reduction of the amortised cost of a financial asset resulting from uncollectibility'.

In addition, the standard will indicate that:

> 'A financial asset is considered uncollectible if the entity has no reasonable expectation of recovery. Therefore, an entity shall write off a financial asset or part of a financial asset in the period in which the entity has no reasonable expectation of recovery of the financial asset (or part of the financial asset)'.

All IASB and FASB members supported the decision.

Next steps

In March, the boards will continue to discuss issues from their original exposure draft that are not integral to the supplementary document *Financial Instruments: Impairment*.

Insurance contracts

The IASB and FASB continued their discussions on insurance contracts by considering project axioms and assumptions, the discount rate for non-participating contracts, the cash flows included in the model, explicit rate adjustment, the recognition of gain or loss at inception, unlocking the residual or composite margin and a refresher on the presentation models.

Project axioms and assumptions

The boards tentatively confirmed the axioms and assumptions (listed below) that will underlie the development of the project's future direction. Those axioms and assumptions will provide a common understanding of the factors that will influence the staff in their analysis and will be a starting point for further decisions. (The observer notes for this session list some areas in which the staff plan specific follow-up work in some areas covered by the assumptions.) In addition, the IASB noted that the model would be developed on the assumption that the financial assets backing the insurance contracts would be measured in accordance with IFRS 9 *Financial Instruments*. The IASB has no current plans to change the classification and measurement requirements in IFRS 9. (Note: for a more detailed description of the project to replace IAS 39 see the project summary by clicking here.

Axioms

- An ideal measurement model would report all economic mismatches (including duration mismatches) that exist and would not cause any accounting mismatches.
- An ideal accounting model should reflect both the intrinsic value and time value of options and guarantees embedded in insurance contracts.
- Money has a time value and an entity more faithfully represents its position when it measures its liabilities in a way that includes the time value of money.

Assumptions

- The boards will develop a standard for insurance contracts, rather than requiring current or proposed generic standards that might otherwise apply.
- The standard will deal with the accounting for insurance contracts from the perspective of the insurer, and not for the assets backing the contracts or for the entities that issue those contracts. For the IASB, the financial assets backing the contracts would be measured in accordance with IFRS 9.
- The boards will develop a standard based on an accounting model that regards insurance contracts as creating a bundle of rights and obligations that work together to generate a package of cash inflows and outflows.
- In general, the final standard will measure insurance contracts at the portfolio level.
- The accounting model should be based on current estimates, rather than carrying forward estimates made at contract inception and inputs that are consistent with observable market data, where available.
- The cash flows incorporated in the measurement of the insurance liability are those that will arise as the insurer fulfils the insurance contract.
- The model will use the expected value of future cash flows rather than a single, most likely outcome.
- The measurement of the liability will not reflect changes in the insurer's own credit standing.

All IASB and FASB members supported these axioms and assumptions, noting that the axioms and assumptions will be revised if necessary.

Discount rate for non-participating contracts

The boards tentatively decided to confirm the approach in the IASB's exposure draft (ED) *Insurance Contracts* and the FASB's discussion paper (DP) *Preliminary Views on Insurance Contracts* that the objective of the discount rate is to adjust the future cash flows for the time value of money and to reflect the characteristics of the insurance contract liability.

The boards tentatively decided not to prescribe a method for determining the discount rate and that the discount rate should:

- be consistent with observable current market prices for instruments with cash flows whose characteristics reflect those of the insurance contract liability, including timing, currency and liquidity, but excluding the effect of the insurer's non-performance risk;
- exclude any factors that influence the observed rates but that are not relevant to the insurance contract liability (eg risks not present in the liability but present in the instrument for which the market prices are observed, such as any investment risk taken by the insurer that cannot be

passed to the policyholder); and

- reflect only the effect of risks and uncertainties that are not reflected elsewhere in the measurement of the insurance contract liability.

All IASB and FASB members supported those decisions.

The boards plan to explore in a future meeting whether a practical expedient should be allowed for determining the discount rate in specific circumstances.

Cash flows included in the model

The boards discussed the proposed requirement that an insurer should measure an insurance contract using an explicit, unbiased and probability weighted estimate (ie expected value) of the future cash outflows, less future cash inflows that will arise as the insurer fulfils the insurance contract.

In relation to expected value, the boards tentatively decided to clarify:

- that the measurement objective of expected value refers to the mean that considers all relevant information; and
- that not all possible scenarios need to be identified and quantified, provided that the estimate is consistent with the measurement objective of determining the mean.

All IASB and FASB members supported the decision.

In relation to costs included in fulfilment cash flows the boards tentatively decided:

- to clarify that all costs that an insurer will incur directly in fulfilling a portfolio of insurance contracts should be included in the cash flows used to determine the insurance liability, including:
  - costs that relate directly to the fulfilment of the contracts in the portfolio, such as payments to policyholders, claims handling, etc (described in paragraph B61 of the ED);
  - costs that are directly attributable to contract activity as part of fulfilling that portfolio of contracts and that can be allocated to those portfolios; and
  - such other costs as are specifically chargeable to the policyholder under the terms of the contract.
- to confirm that costs that do not relate directly to the insurance contracts or contract activities should be recognised as expenses in the period in which they are incurred;
- to provide application guidance based on IAS 2 *Inventories* and IAS 11 *Construction Contracts*; and
- to eliminate the term 'incremental' from the discussion of fulfilment cash flows that was proposed in the ED / DP (ie paragraph B61 of the ED).

The majority of IASB members (one voted against) and the majority of FASB members (one voted against) supported this decision.

Explicit risk adjustment

The IASB's ED proposed to include an explicit risk adjustment in the measurement of an insurance liability. The FASB's DP did not include an explicit risk adjustment in the measurement of an insurance liability.

The boards tentatively decided that, if there are techniques that could faithfully represent the risk inherent in insurance liabilities, the inclusion of an explicit risk adjustment in the measurement of those liabilities would provide relevant information to users. The majority of IASB members (one voted against) and all FASB members supported this decision. The boards plan to consider in a future meeting:

- how insurers have determined a risk adjustment in practice;
- whether to recognise an explicit risk adjustment; and
- whether the residual or composite margin should be unlocked in a way that reflects changes in the insurance risk being borne by an insurer.

The recognition of gain and loss at inception

The boards tentatively confirmed the proposal in the ED and the DP that an insurer should not recognise any gain at inception of an insurance contract. The majority of IASB members (two voted against) and all FASB members supported this decision.

The boards tentatively confirmed the proposal in the ED and the DP that an insurer should recognise any loss on day one immediately when it occurs, in profit or loss (net income). All the IASB and FASB members supported this decision.

Unlocking the residual or composite margin

The ED / DP proposed that the residual / composite margin would be locked in at inception and released in a profit and loss over time. The boards considered whether and how the residual or composite margin might be unlocked.

The boards were not asked to make any decisions on this topic.

Refresher on presentation models

The boards considered a refresher on the approaches to presentation that were considered when the ED and the DP were being developed, in order to provide background information for future board discussion.

The boards were not asked to make any decisions on this topic.

The boards will continue their discussion on insurance contracts at an additional meeting on 1 and 2 March 2011.

Insurance contracts - education session

The IASB and FASB invited guest speakers to provide an education session on separating insurance contracts into insurance and non-insurance components. This is referred to as 'unbundling'. The IASB's exposure draft *Insurance contracts* and the FASB's discussion paper *Preliminary views on insurance contracts* proposed that an insurer should account separately for the investment or service components of an insurance contract that are not closely related to the insurance coverage. The purpose of this education session was to give the boards information on the effect, costs and benefits of unbundling. The external presenters were Gail Tucker and Sam Gutterman from PricewaterhouseCoopers and Leonard Reback from MetLife. Because this was an education session the boards were not asked to make any decisions.

Leases

The IASB and FASB discussed the definition of a lease, types of leases, definition of 'specified asset', assets that are incidental to the delivery of specified services, a portion of a larger asset, right to control the use of a specified asset, variable lease payments, residual value guarantees, and term option penalties.

The IASB and the FASB tentatively decided that the lease term should be defined, for both lessees and lessors, as follows:

> The lease term is the non cancellable period for which the lessee has contracted with the lessor to lease the underlying asset, together with any options to extend or terminate the lease when there is a significant economic incentive for an entity to exercise an option to extend the lease, or for an entity not to exercise an option to terminate the lease.

This definition was supported by the IASB (13 members supporting with 2 disagreeing) and the FASB (4 members supporting with 1 disagreeing).

The boards tentatively decided that a lessee and a lessor should reassess the lease term only when there is a significant change in relevant factors such that the lessee would then either have, or no longer have, a significant economic incentive to exercise any options to extend or terminate the lease. This decision was supported by 14 members of the IASB and all members of the FASB.

Definition of a lease

A lease is defined as a contract in which the right to use a specified asset is conveyed, for a period of time, in exchange for consideration. The *Leases* exposure draft included two principles relating to that definition to help to assess whether a contract contains a lease:

a. the fulfilment of the contract depends on providing a specified asset or assets; and
b. the contract conveys the right to control the use of a specified asset for an agreed period of time.

At this meeting, the boards discussed how those principles might be clarified to address comments received from respondents to the exposure draft and through other outreach activities.

Types of leases

The FASB and the IASB tentatively decided to identify a principle for identifying two types of leases for both lessees and lessors, with different profit and loss effects, as follows:

- a finance lease with a profit or loss recognition pattern that is consistent with the proposals in the exposure draft, and
- an other-than-finance lease with a profit or loss recognition pattern that is consistent with an operating lease under existing IFRSs/US GAAP.

The boards directed the staff to seek input through targeted outreach on the approaches detailed below. The purpose of the outreach is to:

- obtain a better understanding of the implications of any proposed changes to the *Leases* exposure draft;
- understand whether a principle for identifying two types of leases for both lessees and lessors would provide more useful information; and
- test whether the proposed changes would provide a better basis on which to determine whether a contract contains a lease.

The feedback received will provide the boards with input to help make final decisions at a future meeting about the definition of a lease and about types of lease.

Definition of 'specified asset'

The boards expressed support for defining a 'specified asset' as an asset of a particular specification. The boards also discussed an alternative approach that defines a 'specified asset' as a uniquely identified or identifiable asset, which is closer to the application of current requirements in IFRSs and US GAAP. The boards will seek input on both of those approaches.

Assets that are incidental to the delivery of specified services

The boards expressed support for specifying that a contract would not contain a lease if an asset is incidental to the delivery of specified services.

A portion of a larger asset

The boards expressed support for clarifying that both physical and non-physical portions of a larger asset can be specified assets. The boards tentatively decided that such a clarification would be made only in conjunction with revising the definition of the right to control the use of an asset. This is to maintain consistency with how control is articulated in the revenue recognition exposure draft *Revenue from Contracts with Customers*. The boards also discussed an alternative approach of clarifying only that physically distinct portions of a larger asset can be specified assets. The boards will seek input on both approaches.

Right to control the use of a specified asset

The exposure draft proposed that the right to control the use of an asset is conveyed if any one of three particular conditions is met. Comments received from respondents suggested that the third condition (set out in paragraph B4(c) of the *Leases* exposure draft) raised a number of questions about its application. Some respondents also questioned why 'control' was defined differently in the *Leases* exposure draft to how it is defined in other publications. The boards expressed support for an approach that defines the right to control the use of an asset consistently with how control is articulated in the revenue recognition exposure draft *Revenue from Contracts with Customers*. This approach would state that a customer has the right to control the use of a specified asset if it has the ability to direct the use, and receive the benefit from use, of the asset throughout the lease term. The boards also discussed an alternative approach of retaining the three conditions in paragraph B4 of the exposure draft but to clarify the principle underlying condition (c) of paragraph B4. The boards will seek input on both approaches.

Variable lease payments

The FASB and the IASB considered which variable lease payments should be included in the lessee's liability to make lease payments and the lessor's right to receive lease payments. Variable lease payments include any lease payments that arise under the contractual terms of a lease because of changes in facts or circumstances occurring after the date of inception of the lease, other than the passage of time.

The boards tentatively decided that:

a. The lessee's liability and lessor's receivable should include:
    i. lease payments that depend on an index or rate. All of the members of both the IASB and FASB supported this.
    ii. lease payments for which the variability lacks commercial substance (all the members of both the IASB and FASB supported this);
    iii. lease payments that meet a high recognition threshold (such as reasonably certain) (8 members of the IASB supported this, with 7 against, while all of the members of the FASB supported it).
b. Variable lease payments that depend on an index or a rate should be measured initially based on the spot rate (12 members of the IASB supported this, with 3 against, while 3 members of the FASB supported it with 2 against).
c. Recognition of variable lease payments by a lessee and lessor should be subject to the same reliable measurement threshold. However, the need for such a threshold will depend on the basis for recognising variable lease payments. All of the members of both the IASB and FASB

supported this.

The boards will continue their discussion of initial and subsequent measurement of variable lease payments at a future meeting.

Residual value guarantees (RVGs)

The boards tentatively decided to clarify that the lease payments should include amounts expected to be payable under residual value guarantees, except for amounts payable under guarantees provided by an unrelated third party. All of the members of both the IASB and FASB supported this.

Term option penalties

The boards tentatively decided that the accounting for term option penalties should be consistent with the accounting for options to extend or terminate a lease. That is, if a lessee would be required to pay a penalty if it did not renew the lease and the renewal period has not been included in the lease term, then that penalty should be included in the recognised lease payments. All of the members of both the IASB and FASB supported this.

Revenue recognition

The FASB and IASB discussed identification of separate performance obligations, revenue recognition for services, combining contracts, contract modifications, definition of a performance obligation, breakage and prepayments for future goods or services, and onerous performance obligations.

Identification of separate performance obligations

The boards continued their discussions from January 2011 on identifying the separate performance obligations in a contract with a customer. The boards tentatively decided that:

a. An entity should account for a bundle of promised goods or services as one performance obligation if the entity provides a service of integrating those goods or services into a single item that the entity provides to the customer.
b. An entity should account for a promised good or service as a separate performance obligation if:
    i. the pattern of transfer of the good or service is different from the pattern of transfer of other promised goods or services in the contract, and
    ii. the good or service has a distinct function.
c. A good or service has a distinct function if either:
    i. the entity regularly sells the good or service separately, or
    ii. the customer can use the good or service either on its own or together with resources that are readily available to the customer.

This approach for identifying separate performance obligations was supported by all members of both boards.

Revenue recognition for services

The boards continued their discussions from January 2011 on how an entity would recognise revenue for services. The boards tentatively decided that to recognise revenue for a service, an entity must determine that a performance obligation is satisfied continuously and must then select a method for measuring progress toward complete satisfaction of that performance obligation.

The boards tentatively decided that an entity satisfies a performance obligation continuously if at least one of the following two criteria is met:

a. The entity's performance creates or enhances an asset that the customer controls as the asset is being created or enhanced, or
b. the entity's performance does not create an asset with an alternative use to the entity and at least

one of the following conditions is met:

i. the customer receives a benefit as the entity performs each task, or
ii. another entity would not need to reperform the task(s) performed to date if that other entity were to fulfil the remaining obligation to the customer, or
iii. the entity has a right to payment for performance to date even if the customer could cancel the contract for convenience.

These decisions were supported by all members of both boards.

To clarify how an entity should measure progress toward complete satisfaction of a performance obligation, the boards tentatively decided that the final revenue standard should:

a. emphasise that the objective of measuring progress is to faithfully depict the entity's performance (ie the pattern of transfer of goods or services to a customer), and
b. clarify the descriptions in the exposure draft of output and input methods.

This decision was supported by all members of both boards.

The boards also discussed some issues that arise when an entity uses an input method of measuring progress toward complete satisfaction of a single performance obligation. In some cases, an entity merely procures goods that are transferred at a different time from related services (eg materials that the customer controls before the entity installs the materials). In those cases, the boards tentatively decided that an entity should measure progress by recognising revenue for the transfer of those goods in an amount equal to the costs of the transferred goods.

This decision was supported by 14 members of the IASB with 1 disagreeing and 4 members of the FASB with 1 disagreeing.

Combining contracts

The boards tentatively decided that an entity should combine, and account for as a single contract, two or more contracts that are entered into at or near the same time with the same customer (or related entities) if one or more of the following criteria are met:

- the contracts are negotiated as a package with a single commercial objective,
- the amount of consideration in one contract depends on the other contract, and
- the goods and services in the contracts are interrelated in terms of design, technology, or function.

All the IASB and FASB members supported this decision.

The staff will consider further the implications of limiting the combination of contracts to contracts with the same customer (or related entities).

Contract modifications

The boards tentatively decided that if a contract modification results only in the addition of a separate performance obligation or obligations at a price that is commensurate with that additional performance obligation, the entity should account for the contract modification as a separate contract. Otherwise, the entity should re-evaluate the performance obligation and reallocate the transaction price to each separate performance obligation.

No formal vote was taken because the boards have not yet redeliberated how an entity would determine and allocate the transaction price. However, no board members objected to the tentative decision.

Definition of a performance obligation

The boards decided to amend the definition of a performance obligation by deleting the word 'enforceable'.

All the IASB and FASB members supported this decision.

Breakage and prepayments for future goods or services

The boards discussed the accounting for a customer's non-refundable prepayment for future goods or services and the portion of the customer's rights that is not exercised (often referred to as breakage). The boards tentatively decided that if an entity can reasonably estimate the amount of expected breakage, the entity should recognise the effects of the expected breakage as revenue in proportion to the pattern of rights exercised by the customer. Otherwise, the entity should recognise the effects of the expected breakage when the likelihood of the customer exercising its remaining rights becomes remote.

This decision was supported by 10 members of the IASB. Only 2 FASB members supported this approach as their preferred method. However because 4 FASB members said that they would not object to this approach, the FASB agreed to support the decision.

Onerous performance obligations

The boards began discussing issues in applying the test to assess whether performance obligations are onerous. The boards tentatively decided that the unit of account for the onerous test should be the contract, specifically the remaining performance obligations in the contract.

This decision was supported by 12 members of the IASB with 3 disagreeing and by 3 members of the FASB with 2 disagreeing.

Next steps

At their meetings in March, the boards will discuss onerous contracts, determining the transaction price (including variable consideration, collectibility, and the time value of money), allocating the transaction price, and contract costs.

IASB-only sessions

Consolidation and joint arrangements

The staff presented a summary of the comment letters received on the Request for Views *Effective Date and Transition Methods* (RFV) that was published in October 2010, focusing on the effective date and transition requirements of the forthcoming IFRSs on consolidations and joint arrangements [IFRS 10 *Consolidated Financial Statement*s, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests with Other Entities*, IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011) and IAS 27 *Separate Financial Statements* (as revised in 2011) (hereafter referred to as 'the five IFRSs'].

On the basis of the comment letter analysis, the IASB unanimously decided to:

- require an effective date of 1 January 2013 for all five IFRSs. In reaching this decision the Board considered that:
  a. the consolidations and joint arrangements projects were either identified as low-impact projects in terms of the time and resources that the implementation of the consolidation and joint arrangement IFRSs will require, or were not mentioned at all by the constituents commenting on the RFV;
  b. the consolidations project is a financial crisis-related project that justifies an IFRS with an

earlier effective date than the other IFRSs to be issued in 2011; and

c. relatively few respondents specifically requested that the consolidation and joint arrangement IFRSs should be linked to other IFRSs to be issued in 2011 and their suggestions as to which other IFRSs they should be linked was not consistent.

- permit early application of the five IFRSs but only if all five IFRSs are applied at the same time. This decision reflects the views of the majority of respondents to the RFV. The Board decided that IFRS 12 should make it clear that providing some of the disclosure requirements in IFRS 12 would not compel the entity to comply with all of IFRS 12 or to adopt IFRS 10, IFRS 11, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011) early.
- not to change the Board's previous tentative decisions regarding the transition requirements in IFRS 10 and IFRS 11. This decision reflects the views of the majority of the respondents to the RFV, who agreed with limited retrospective application when making the transition to those IFRSs.

Next steps

The staff are preparing the IFRSs for ballot. A publication plan will be placed on the project pages so that the entities can see the likely publication date.

Financial instruments: impairment

The IASB discussed disclosure requirements related to an entity's write-off policy, stress testing, the credit quality of financial assets and vintage information. These disclosures were originally proposed in the November 2009 exposure draft *Financial Instruments: Amortised Cost and Impairment* (the original ED).

Write-off policy

The Board tentatively decided by a majority of 10 votes to 5 that an entity should disclose its write-off policy, including discussion related to whether assets written off are still subject to enforcement activity and the nominal amount of assets written off, but for which the entity is still pursuing collection. Ten Board members supported this decision.

In addition, recoveries of previously written-off assets should be included as a separate line item in the reconciliation of changes in the allowance account. Fourteen Board members supported the decision.

Stress testing

The original ED proposed disclosure of stress testing information if an entity prepares such information for internal risk management purposes. The Board tentatively decided that this disclosure would not be required in the final standard. All Board members supported the decision.

Credit quality of assets

For financial assets measured at amortised cost the Board tentatively decided to require a reconciliation of changes in non-performing financial assets during the period for assets that are 90 days past due, but not included in the 'bad book'.

The Board tentatively decided to remove the definition of 'non-performing' proposed in the original ED because it is no longer needed for the proposed disclosures.

Fourteen Board members supported the decision to require the disclosure, and all the Board members supported the decision to remove the definition of 'non-performing'.

Vintage information

The original ED proposed disclosure of information showing the year of origination and the year of maturity (vintage information). The Board tentatively decided by a majority of 11 votes to 4 that this disclosure would not be required in the final standard. Eleven Board members supported the decision.

Next steps

In March, the Board will continue to discuss issues from the original ED that are not integral to the supplementary document *Financial Instruments: Impairment*.

Post-employment benefits

The IASB continued its discussion of the proposals in the exposure draft *Defined Benefit Plans* (the ED). At this meeting the Board discussed:

- the presentation of remeasurements;
- disclosure and administration costs; and
- the effective date and transition requirements.

Presentation of remeasurements

In December 2010 the Board tentatively decided to allow an entity to present remeasurements in profit or loss. In January 2011 the Board confirmed that decision but added some restrictions, such as making the election irrevocable, and asked the staff to assess whether the option should be restricted further. At this meeting the Board decided, in the light of that initial assessment, to revert to, and confirm, the proposal in the ED that remeasurements should be presented in other comprehensive income. The decision was supported by eight Board members. The remaining seven Board members would have preferred either to confirm the decision reached in January or to allow a free choice.

Disclosure and administration costs

At the November and December 2010 Board meetings the Board asked the staff to obtain input from the Employee Benefits Working Group on particular aspects of the tentative decisions to date on disclosure and administration costs.

On the basis of this feedback the Board tentatively decided unanimously:

- to require the disclosure of the weighted-average duration of the defined benefit obligation, and that the amendments should include examples of the types of additional information that could be provided about the maturity analysis to meet the disclosure objective; and
- that administration costs related to the management of plan assets should be deducted from the return on plan assets.

The Board also decided, by a vote of nine to six, not to proceed with a requirement to disclose a disaggregation of the defined benefit obligation. Instead, the amendment should include an example of the type of disclosure that may meet the disclosure objectives.

Effective date and transition requirements

The Board decided to defer its decision on the effective date but tentatively agreed that it should not be earlier than 1 January 2013. The Board will discuss the effective date as well as early application as part of the broader consideration of the feedback received from the consultation on the *Request for Views on Effective Dates and Transition Methods*.

Subject to the Board's broader consideration of transition, the Board tentatively decided unanimously:

- that for entities already applying IFRSs, the amendments to IAS 19 should be applied retrospectively in accordance with the general requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except that:
    - the carrying amount of assets outside the scope of IAS 19 need not be adjusted for changes in employee benefit costs that were included in the carrying amount before the beginning of the financial year in which this standard is first applied (ie previously unrecognised actuarial gains and losses and past service cost should be recognised by adjusting equity, not by adjusting the carrying amount of assets that include employee benefit costs); and
    - comparatives need not be presented for the disclosures for the sensitivity of the defined benefit obligation for the year of initial application of the amendments to IAS 19;
- that for entities adopting IFRSs for the first time, the amendments to IAS 19 should be applied retrospectively in accordance with the general requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, except that the Board will allow a temporary exemption for entities adopting IFRSs with a date of transition to IFRSs before the effective date of the amendments to IAS 19. That exemption would mean that comparatives need not be presented for the disclosures for the sensitivity of the defined benefit obligation.
- to confirm the proposal in the 2010 exposure draft to delete paragraphs 153-156 of IAS 19 and paragraph D10 of Appendix D of IFRS 1.

Next steps

All the Board members agreed that, subject to balloting, the Board has satisfactorily completed all the steps required in the IASB *Due Process Handbook*.

The Board instructed the staff to begin the balloting process for the amendment to IAS 19. The Board plans to issue the amendment by the end of March 2011.

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