Project **Technical Work Plan**

1. Our work programme so far this year has been dominated by our response to the global financial crisis. However, we have not abandoned our efforts to make improvements that also address differences between our standards and national standards, principally US GAAP, and nor have we been prevented from continuing to make necessary improvements to existing IFRSs.

2. Our priorities should be to complete projects that are related to the financial crisis as well as those projects in the Memorandum of Understanding (MoU) between the IASB and the FASB.

3. The financial crisis has added several projects to what many commentators think was already an ambitious agenda. Several constituents have expressed concerns to us that they are struggling to keep up with our projects and to provide quality feedback through comment letters.

4. This paper focuses on the technical work plan and suggests how we can create some breathing space for constituents without compromising the MoU projects.

Managing the agenda

5. The two strategies I am recommending are:

   (a) to align the publication timing of related projects; and

   (b) to defer less critical projects.

Aligning project publication

6. Until now, we have been publishing documents as soon as they are ready. It may be better to align the publication timing of related projects even if this involves delaying the publication of some documents.

7. The two most obvious candidates for such an approach are joint arrangements together with consolidations and liabilities (IAS 37) together with insurance.

8. There are many advantages to publishing related projects together. The reality is that the Board and staff have been developing their thinking on matters such as liability measurement across related projects. The problem is that publishing documents such as the insurance ED and revisions to IAS 37 separately gives the impression that we have developed the models independently. Publishing related documents also allows constituents to consider proposals with common themes at the same time.

9. I am also recommending that smaller amendments be released together rather than being spread out over time. For example, as long as related parties, discontinued operations and the amendments to IFRIC 14 are available for early adoption by 31 December it would seem better to publish them together, in much the same way that we publish annual improvements.

10. We will continue to assess additional projects for which publication can be aligned.

Deferring projects

11. We also assessed whether we should defer any projects. There are three obvious candidates: management commentary, extractive activities and EPS. Management commentary is already on an eight-month comment period. We had planned to publish the extractive activities discussion paper in August with a nine- or twelve-month comment period. I am recommending that we delay publication until early in 2010. In the interim, we should place the document that wasprepared by the staff of the National Standard Setters on our website. This publication delay will not delay us from making an agenda decision at the

end of 2010. In relation to EPS, we have stated previously that we will reassess this project later this year. We should defer this reassessment until 2010.

The work plan

The financial crisis

12. We have worked on a programme to address in a timely manner the issues raised by the Financial Stability Forum (now the Financial Stability Board (FSB)), the G20, the European Commission and other interested parties in the more than 100 countries using IFRSs. Our initial focus has been on the three topics identified by the FSF:

    (a) the application of fair value in illiquid markets;

    (b) accounting for off balance sheet items; and

    (c) disclosures related to risk.

13. On all three topics, we have met the time lines set out by the G20 and the FSF in 2008.

    (a) ***Fair value in illiquid markets:*** In October 2008 we published our expert advisory panel's report *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*. The FASB publications gave similar guidance. To make sure that global consistency was obvious, in May 2009 we published an exposure draft on fair value measurement that directly incorporates the relevant FASB guidance.

    (b) ***Off balance sheet items:*** We have published proposals related to off balance sheet items (both consolidation and derecognition). There is some evidence that the current requirements in IFRSs have held up relatively well, but we have now proposed tightening our requirements. In June we held round tables on the consolidation and derecognition proposals, in conjunction with the FASB.

(c) ***Disclosures related to risk:*** In March 2009 we issued improvements to the disclosure requirements for fair value measurements and reinforced existing principles for disclosures about the liquidity risk associated with financial instruments.

Response to European Union concerns

14. In October last year the European Commission wrote to us on behalf of Member States and EU interests, and asked us to respond to several concerns. We know, through our consultation with the Standards Advisory Council, that those concerns were shared by IFRS users outside the EU. Those issues were:

    (a) the need for guidance on fair value measurement in illiquid markets;

    (b) the desire for clarification of whether credit derivative obligations (CDOs) include embedded derivatives, to ensure consistency between IFRSs and US GAAP;

    (c) the existing impairment rules related to available-for-sale instruments; and

    (d) the possibility of reclassification out of the fair value option into other categories.

15. The first two of these were addressed quickly. We published guidance on valuations in illiquid markets (mentioned above) a few days after receipt of the Commission's letter. The second issue is being dealt with by the FASB, which has published proposals designed to bring US accounting more into line with IFRSs. Our original plan, which reflected input from Europe and elsewhere, was to resolve the last two issues through a comprehensive revision of IAS 39. This has always been a priority.

16. It was for this reason that, on 1 April, we announced that we would undertake an urgent six-month comprehensive project to produce a proposal aimed at a comprehensive revision of IAS 39 *Financial Instruments: Recognition and Measurement*.

17. The next day the G20, at its London summit, called on standard-setters 'to reduce the complexity of accounting standards for financial instruments'. This was shortly followed by the publication of the US FASB Staff Positions (FSPs) regarding fair value measurement and impairment. Those changes to US GAAP caused us to accelerate the timing of the approach announced on 1 April.

18. Rather than developing a replacement for IAS 39 in one step we have decided to replace IAS 39 in three stages. We are giving priority to the stage on classification and measurement. We have held specially-arranged extra Board meetings, and we shall continue to do so to ensure that the first stage is completed in time for 2009 financial statements.

Consultation and transparency

19. The crisis has highlighted the need for closer co-ordination among policymakers, standard-setters and securities and prudential regulators. It has also highlighted that any proposals must be developed with transparent and open consultation.

20. The exposure draft we shall publish in July will be open for public comment for two months to ensure that any conclusions follow a transparent and open due process that considers the views of all interested parties.

21. We are also establishing a more formal dialogue with prudential regulators on issues related to the interdependence of accounting and prudential standards. We want to develop a structure that will ensure that we do a better job of understanding the views of central banks and prudential supervisors as well as the political context in which we all operate.

The US FSPs

22. Many commentators have suggested that we should simply incorporate into IFRSs the changes the FASB made, through its FSPs. However, adopting the FSP approach to available-for-sale debt securities would neither create a level playing field nor bring to an end the level playing field issue.

23. Our impairment rules are very different from US GAAP and we know that financial institutions applying IFRSs would not want us to adopt the US approach on impairment. For example, IFRSs permit reversals of losses in a number of instances, where the US does not. The triggers for impairments in IFRSs are also not the same as those in US GAAP.

24. The arguments about a level playing field are also less clear than some would claim. The interactions between all of the differences between IFRSs and US GAAP mean that it is often very particular circumstances that cause financial assets to be measured differently. At the same time that many European institutions are concerned that US banks have a competitive advantage, the US banking association is arguing the converse. The only way to eliminate these perceptions is to develop identical requirements.

25. We believe that the approach we are taking is superior to trying to adapt the FSP on impairment for use in IFRSs. First and foremost, our work on impairment addresses directly the specific nature of concerns that users of IFRSs have expressed. Secondly, our approach responds directly to the G20's call for reduced complexity. The proposal will see a much-needed reduction in the number of categories of financial assets and will leave us with a single impairment method. Thirdly, the proposal anticipates future problems associated with reclassifications by replacing restrictive tainting rules affecting held-to-maturity securities with measures aimed at transparency. Lastly, a comprehensive solution avoids the confusion and cost that would arise from repeated changes in reporting requirements. In this economic environment we recognise that this unnecessary cost would not be welcomed by most financial and non-financial companies.

The work plan

FI Replacement

26. We are now publishing an exposure draft on the classification and measurement of financial instruments. In October we will publish an exposure draft on the accounting for provisions and by December 2009 an exposure draft on hedging.

On the basis of those proposals we aim to issue the new requirements on classification and measurement by December 2009, in time for 2009 year-end financial statements. We will replace all of the requirements of IAS 39 during 2010.

Credit risk in liability measurement

27. In June 2009 we published a staff paper prepared by Wayne Upton on credit risk in liability measurement, accompanied by a discussion paper. The staff paper analyses the role of credit risk in current measurements of liabilities, including the consequences of measuring an entity's own debt at fair value. This is a matter that has generated considerable debate, particularly when entities recognise gains as their creditworthiness deteriorates. We are seeking comments on this issue by 1 September 2009 and intend to consider the responses we receive as we develop the financial instruments models.

Fair value measurement

28. In May we published an exposure draft *Fair Value Measurement*, a proposal to establish a single source of guidance for all fair value measurements required or permitted by existing IFRSs. The exposure draft reflects our convergence work with the FASB, to ensure that the fair value requirements are the same in IFRSs and US GAAP. The FASB has recently issued amendments to SFAS 157 (by way of FSPs). We have incorporated those amendments into our exposure draft.

29. We have ensured that the FASB has been kept informed of any differences between our proposals and SFAS 157. If our differences are considered by the FASB to be improvements to the requirements, the FASB will consider amending SFAS 157 to ensure that the wording is the same.

Disclosure

30. The exposure draft on fair value measurement included enhanced disclosures designed to inform users of financial statements about the use of fair values and

the inputs used to derive those fair values, including their use in interim financial statements.

31. In addition, one of the proposed annual improvements due to be published in August is an amendment to IAS 34 *Interim Financial Reporting*. We are proposing clarifications to ensure that investors have updated information about fair value information, particularly when there are changes in the level of the fair value hierarchy used to measure a financial asset.

Off balance sheet activities

Consolidation and improved accounting for off balance sheet items

32. In December last year we published proposals to strengthen and improve the requirements for identifying which entities a company controls.

33. The use of special structures by reporting entities, particularly banks, to manage securitisations and other more complex financial arrangements was highlighted by the FSB and the G20 as a matter of concern. Some have questioned whether financial statements convey the extent to which reporting entities are exposed to risks from those types of structures.

34. The proposals address those concerns by presenting a new, principle-based definition of *control of an entity* that would apply to a wide range of situations and be more difficult to evade by structuring. The proposals also include enhanced disclosure requirements that would enable an investor to assess the extent to which a reporting entity has been involved in setting up special structures and the risks to which these special structures expose the entity. The proposals would apply not only to the banking sector but to any entity that uses legal entities to manage its activities.

35. We held public round tables in London in September 2008 to discuss early drafts of our proposals. In January we held webcasts outlining the proposals.

36. We received 148 comment letters, on which we had a preliminary discussion in May. In June we held round-table meetings in Toronto, Tokyo and London, in

conjunction with the derecognition project (below). On the basis of feedback received to date the Board intends to issue a revised standard at the end of 2009.

37. The FASB is intending to discuss our proposals and to publish our standard as an exposure draft. If the FASB's exposure process identifies any improvements to our requirements we will consider making similar changes to ensure that the requirements are the same.

Derecognition

38. In April we published proposals to amend IAS 39 in relation to the derecognition of financial assets and liabilities (including securitisations). We have been considering two models. Both are based on control but one, which the Board preferred, has a greater emphasis on continuing involvement. However, although the main proposals in the exposure draft reflect our preferred approach, we have also presented, in an appendix, the other model. This will ensure that potential respondents are presented with fully developed alternatives.

International adoption

United States

39. On 14 November 2008 the SEC published for public comment a proposal entitled *Roadmap for the Potential Use of Financial Statements Prepared in accordance with International Financial Reporting Standards by U.S. Issuers*. The proposed roadmap sets out milestones that, if achieved, could lead to the adoption of IFRSs in the United States in 2014. The roadmap also proposes to permit the early adoption of IFRSs from 2010 for some US entities. The comment period ended on 20 April 2009 and the SEC is currently considering the comment letters it received.

Japan

40. On 11 June 2009 the Business Accounting Council (BAC), a key advisory body to the Commissioner of the Financial Services Agency (FSA), approved a roadmap for the adoption of IFRSs in Japan. The roadmap still requires the formal approval of the FSA which is expected to take place by the end July. If

adopted, the roadmap would permit early adoption of IFRSs by listed companies for fiscal years beginning 1 April 2009. The roadmap proposes mandatory adoption of IFRSs from 2016, subject to a final decision being taken by 2012.

Other jurisdictions

41. Canada, India, Japan and Korea have also announced plans to adopt or converge with IFRSs in 2011. Mexico has announced plans to adopt IFRSs for all listed entities from 2012. Indonesia, Malaysia and Singapore have committed themselves to adopting IFRSs in 2012 while several South American countries have also recently announced a move to IFRSs.

IASB-FASB Memorandum of Understanding

42. The most widely adopted accounting reporting requirements around the world are IFRSs and US GAAP. That is why the Memorandum of Understanding (MoU) we have with the FASB is so important to our efforts to develop a single set of global standards. The MoU identifies the projects to which each of us is committed to complete, either on our own or together, in the short term. The purpose is to eliminate differences between our requirements.

43. Although we often characterise this as a convergence programme, a more appropriate description of the MoU is that it is an agreement that guides a collaborative effort by the IASB and the FASB to deliver the greatest possible improvements to financial reporting. We think that by combining our resources and having the boards challenge each other we will not only end up with identical standards but will also create more robust and sustainable solutions.

44. The successful completion of each MoU project eliminates differences between IFRSs and US GAAP. Of course, the more similar IFRSs and US GAAP become the easier it will be for US entities to move to IFRSs if the SEC decides that such a step is appropriate.

30 June 2011

45. Our objective is to have the major projects completed by 30 June 2011. Setting that date as a deadline ensures that the major changes to IFRSs will be in place in time for the many jurisdictions moving to IFRSs. It will also prevent the need for them to make major changes shortly after they have adopted IFRSs.

46. We are concerned that our work plan could overload some parties and affect their ability to provide us with comment letters and also to cope with implementing changes to IFRSs. Over the next 24 months we expect to publish 21 discussion papers and exposure drafts and to issue IFRSs for 13 major projects. Those numbers exclude unforeseen promulgations which, as the last 12 months have shown us, can be significant.

47. We are examining transitional provisions and extending the period before the published IFRSs become effective to help jurisdictions moving to IFRSs.

Memorandum of Understanding projects

48. The projects on consolidation, derecognition, fair value measurement and replacing the existing financial instruments standards are all part of the MoU. An overview of each of these projects is included in the previous sections, as part of the discussion of our response to the global financial crisis.

49. The next sections provide an overview of the MoU projects under three headings: Conceptual Framework, short-term improvements and major projects.

Conceptual Framework

50. Last year we published with the FASB an exposure draft on the objective and qualitative characteristics of financial reporting, and a discussion paper on the reporting entity. We expect to finish the phase dealing with the objective and qualitative characteristics, and to publish an exposure draft on the reporting entity, in the third quarter of this year.

51. At the June Board meeting we discussed an early draft of a discussion paper on measurement and we are currently assessing whether we should develop a discussion paper based on that draft.

52. The phase of the project to define the accounting elements (assets, liabilities, revenue and expenses) has not progressed well. Having said that, the projects on leases, derecognition and financial instruments with the characteristics of equity are providing helpful analysis. We are reassessing staffing assignments and still hope to publish a discussion paper on accounting elements in 2010.

Short-term projects

Joint ventures

53. The objective of the project is to improve the accounting for, and the quality of the information being reported about, joint arrangements. These comprise joint ventures and joint operations. We published an exposure draft in September 2007 and had planned to issue the ensuing IFRS early in 2009. However, in response to comments received we are ensuring that the joint arrangment requirements are aligned with the proposed new consolidation requirements. We are also examining the implications for associated companies. We expect to issue an IFRS in the second half of 2009.

54. We should complete the IFRS as planned. This is likely to be in October, with the last Board sessions scheduled for September. However, we should hold back publication until December and publish it with consolidations.

55. The issue of IAS 28 and the equity method has come up several times. I think ignoring IAS 28 is unavoidable. The main problem is how the equity method is defined. The joint arrangement papers are going to recommend consequential amendments to IAS 28, which are likely to require exposure. These amendments will not delay publishing a new joint arrangement standard.

Income taxes

56. We have been working with the FASB for several years on a joint project on income tax. The aim of the project is to improve the accounting for income tax

by eliminating exceptions from the basic model common to both IAS 12 *Income Taxes* and SFAS 109 *Accounting for Income Tax.* In March we published an exposure draft of a replacement for IAS 12.

Major projects

Financial statement presentation

57. In October 2008 we published with the FASB a joint discussion paper containing proposals for a clearer presentation in financial statements. The aim is to make it easier for users of financial statements to follow the flow of information through the statements. We have received more than 220 comment letters. During the 180-day comment period the project team has been field testing the proposals, which involves organisations that have volunteered to recast their financial statements into the new formats. During June and July the boards have been considering feedback from this exercise.

58. At the Standards Advisory Council meeting in June the staff asked Council members to consider whether the Board should give further consideration to other comprehensive income (OCI). The post-employment benefits and financial instruments projects are both challenging the earlier decision of the Board not to add any new components to OCI.

Revenue recognition

59. In December 2008 we published with the FASB a joint discussion paper containing proposals on when and how entities should recognise revenue arising from contracts with customers to provide goods and services. These proposals are intended to improve existing practice by clarifying the principles for revenue recognition and by ensuring that entities in different industries recognise revenue more consistently. The proposals should also greatly simplify the requirements in US GAAP.

Financial Instruments with characteristics of equity (liabilities and equity)

60. In February 2008 we published a discussion paper inviting comments on an FASB preliminary views document *Financial Instruments with Characteristics*

of Equity. The comment period ended on 5 September and we began discussing comments received in October 2008. We will continue to develop a model, with the goal of publishing an exposure draft in February 2010.

Leases

61. The objective of the project is to develop by mid-2011 a new improved accounting model for lessees. We published a discussion paper with the FASB in the first quarter of 2009, presenting preliminary views on the main components of a lessee accounting model. Comments are due by 17 July 2009.

62. We held webcasts in February to explain the proposals and respond to questions and have three meetings with the leases working group planned in the next 18 months. We are on schedule to publish an exposure draft in July 2010.

63. My concern is that we need to build in more flexibility and we need to settle on the scope of the project by September.

Post-employment benefits (including pensions)

64. We have been considering the comment letters we received in relation to our discussion paper *Preliminary Views on Amendments to IAS 19 Employee Benefits*. That discussion paper proposed the elimination of deferred recognition (the corridor method), discussed different ways to present changes in plan assets and defined benefit obligations, and explored new accounting for contribution-based promises.

65. We have now turned our attention to the discount rate used to measure pension obligations. We are also examining how best to present information about post-employment pensions.

Other improvements

Insurance contracts

66. In May 2007 we published a discussion paper *Preliminary Views on Insurance Contracts*, which attracted over 160 responses. We began to review the

responses in February 2008. In October 2008 the FASB joined us on this project. We are working to publish an exposure draft in late 2009.

Liabilities (revision to IAS 37)

67. This is a project to revise IAS 37, our general standard on uncertain liabilities (sometimes known as provisions). We published an exposure draft of proposed amendments in 2005. Most of the matters that the Board decided it needed to reconsider in the light of feedback on the exposure draft have now been resolved.

68. In July we will consider whether we will need to re-expose any aspects of the proposals, given the relatively lengthy redeliberation period.

Emissions trading schemes

69. The project focuses on the accounting for emissions trading schemes. We expect to address the accounting for all tradable emissions rights and obligations arising in emissions trading schemes. We also expect to address the accounting for activities that an entity undertakes in contemplation of receiving tradable rights in future periods, such as certified emissions reductions. We were aiming to publish an exposure draft in 2009, but we now do not expect to publish an exposure draft until 2010.

70. Australia has deferred its scheme by a year. However, the US is likely to pass into law a cap and trade scheme this year.

Management commentary

71. We published the MC exposure draft in the week of 22 June. The exposure is open for comment until 1 March 2010. We can assess staffing on this project at the end of March next year.

Earnings per share

72. In August 2008 we published, with the FASB, an exposure draft *Simplifying Earnings per Share*. The proposals would simplify the calculation of earnings per share and eliminate some differences between IFRSs and US GAAP.

73. In April we discussed a summary of the comment received. In the light of other priorities, we do not expect to discuss this project until at least the end of the year, when we will review the timing for this project.

74. I do not anticipate reactivating this project this year.

Amendments to IFRIC 14

75. In May we published *Prepayments of a Minimum Funding Requirement,* an exposure draft of proposals to eliminate an unintended consequence that arises in IFRIC 14 when the entity makes a payment and minimum funding contributions are greater than the IAS 19 service cost. Comments are due by 27 July 2009. We plan to issue the resulting amendment in December 2009.

Related party disclosures (relationships with the state)

76. In 2007 we proposed amendments to IAS 24 *Related Party Disclosures* to simplify the definition of a related party and clarify what related party disclosures are appropriate when the state has a controlling or significant investment in the reporting entity. After considering the comments we received we decided to publish a second exposure draft *Relationships with the State*. We expect to complete this project in the second half of 2009.

Discontinued Operations

77. We published exposure drafts in September 2008 and had expected to finalise the amendments in the second quarter of 2009. However, the staff have been asked to give further consideration to eliminating a requirement to present discontinued operations in the statement of comprehensive income.

First-time adoption of IFRSs

78. In September last year we published an exposure draft to amend IFRS 1 to address potential challenges for jurisdictions adopting IFRSs in the near future. These amendments propose relief for entities previously accounting for oil and gas assets using full cost accounting, and for some aspects of operations subject

to rate regulation. We expect to complete the amendments this month, for issue in July.

Rate-regulated activities

79. In December 2008 we took on a project on rate-regulated activities. The issue is whether rate-regulated entities could or should recognise a liability (or an asset) as a result of rate regulation by regulatory bodies or governments. For several countries adopting IFRSs in the next few years, this is a particular problem. The project has a limited scope designed to preserve good practice and eliminate unacceptable accounting rather than developing new requirements. We expect to publish an exposure draft this week.

Annual improvements

80. In April we completed the 2008-2009 cycle of improvements to IFRSs. However, we have been discussing candidates for the 2009-2010 cycle since September 2008 and will continue to consider additional issues until July 2009. We expect to publish an exposure draft of the approved proposals in August 2009.

Extractive industries

81. We have a project on extractive industries with the objective of developing an IFRS to supersede IFRS 6 *Exploration for and Evaluation of Mineral Resources*. A project team with representatives from the national standard-setters of Australia (leader), Canada, Norway and South Africa has developed a discussion paper for publication in August 2009. The discussion paper will be the initial due process document for our deliberations, if we decide to add this project to our active agenda.