Topic **The Work Plan**

Overview

1. Our work programme continues to be dominated by our response to the global financial crisis and our commitment to the projects in the Memorandum of Understanding (MoU) we have with the FASB.

2. The global financial crisis has served to emphasise the importance of our goal of one set of high quality financial reporting standards. Without one set of standards entities, or jurisdictions, will seek regulatory arbitrage by trading off the differences between competing models.

International adoption

3. Canada, India, Japan and Korea, have announced plans to adopt or converge with IFRSs in 2011. Mexico has announced plans to adopt IFRSs for all listed entities from 2012. Several South American countries have also recently announced a move to IFRS. The two largest economies not currently mandating IFRS are Japan and the United States.

4. Japan has a roadmap for the adoption of IFRSs in Japan, which was approved by the Japanese FSA in June this year. The roadmap permits early adoption of IFRSs by listed companies for fiscal years beginning 1 April 2009. We understand that at least one major Japanese company will do so for the year to 31 March 2010 with many others planning to move to IFRS in the following year. The roadmap proposes mandatory adoption of IFRSs from 2016, subject to a final decision being taken by 2012.

5. The US SEC also has a roadmap, which 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. Although the comment period for the road map was extended and the SEC has said little publicly about the roadmap since it was published in November 2008, the SEC Chief Accountant recently stated that turning back to the roadmap is a priority.

IASB-FASB Memorandum of Understanding

6. Our Memorandum of Understanding (MoU) with the FASB underpins our efforts to secure adoption of IFRS by the United States. Each time we complete an MoU project we improve financial reporting and we eliminate differences between IFRSs and US GAAP and make it easier for US entities to move to IFRS if the SEC decides that such a step is appropriate.

7. The MoU is equally important to our efforts to develop one set of global standards because it is the catalyst for making significant improvements to financial reporting. Unfortunately our goal of improving financial reporting is sometimes forgotten by outsiders when we discuss convergence. The FASB and the IASB are both committed to delivering the greatest possible improvements to financial reporting. By combining our resources and having the boards challenge each other we strive to create more robust and sustainable solutions.

The importance of 30 June 2011

8. Our objective is to have the major projects on our Technical Agenda completed by 30 June 2011. That date is important for several reasons. These projects are important components of our MoU with the FASB and our MoU with the ASBJ and those agreements are essential milestones for US and Japanese adoption. Setting a deadline of 30 June 2011 also ensures that the major changes to IFRSs will be in place in time for the many jurisdictions moving to IFRS and will

avoid the need for them to make major changes shortly after they have adopted IFRSs.

9. The Board is considering making 1 July 2013 the effective date of all IFRSs completed between July 2010 and June 2011. Early adoption would be encouraged. This proposal would give jurisdictions switching to IFRSs in 2011 the option of either early adopting the new IFRSs and having only one change or having the certainty of knowing the IFRSs that will be in use in 2011 and changing a few of them for accounting periods beginning after 1 July 2013.

The post-MoU agenda

10. We are committed to delivering the improvements embedded in, and promised by, our MoU with the FASB. Now is not the time to abandon our MoU projects. It has never been more important to protect our current technical agenda and allow us to complete the MoU projects. We must resist adding any major projects to the agenda at the present time. To do so would divert resources and distract us from completing the current programme.

11. The Constitutional review highlighted that some respondents have a concern about a lack of involvement in the agenda setting process. We think that any review of our agenda should focus on projects for the period starting on 1 July 2011 for which we anticipate making major agenda decisions in December 2010. This gives us an opportunity over the next year or so to engage with the IFRS community and gather their views on what they think should be our priorities. We have already started that due process, by asking you, the members of the Standards Advisory Council to think about, at this meeting, what strategic direction our agenda should take.

The Technical Agenda

Financial crisis projects

Financial Instruments: Replacement of IAS 39

12. The Board and the US Financial Accounting Standards Board (FASB) are seeking to improve and simplify the reporting for financial instruments. IAS 39 Financial Instruments: Recognition and Measurement sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

13. The Board is replacing IAS 39 in three phases:

    (a) Phase 1: Classification and measurement. The Board published an exposure draft in July 2009. The Board has been considering the comments it received on the proposals and expects to publish a final IFRS in November 2009.

    (b) Phase 2: Impairment (methodology). The Board plans to publish an exposure draft proposing a change to the incurred loss impairment methodology in IAS 39 in October 2009.

    (c) Phase 3: Hedging. The Board expects to publish an exposure draft in December 2009.

14. The relevant part of IAS 39 will be replaced as each phase is completed. SAC members will be sent an additional agenda paper (2B), in the week before the SAC meeting containing an update on that project.

Consolidation and Derecognition

15. The consolidation project is proceeding well. The FASB requirements for what US GAAP calls variable interest entities are very similar to the proposals we have for similar entity structures (these are the types of structures that drew attention in the initial credit crisis). Nevertheless, there are some differences between how those requirements are reflected in US GAAP and how they are

worded in our proposals. The joint meeting with the FASB will include a public session in which we will highlight the similarities and start to understand why we reached different conclusions on in some cases. Our expectation is that the FASB will publish our new IFRS as an exposure draft.

16. Our proposals for derecognition included a primary model, which was supported by a majority of the Board, and an alternative model which a minority of the Board supported. Our initial assessment from round-table meetings, comment letters and other outreach activities indicate that there is more support for the alternative model (or a modified version of the alternative approach) than the primary model. We think it will be helpful to assess the effect of the new US GAAP requirements in relation to derecognition by reviewing the first quarter financial reports in 2010 before we move to the next due process document.

Fair value measurement

17. In May 2009 we published an exposure draft of an IFRS on fair value measurement guidance. The exposure draft is open for public comment until the end of September. The exposure draft is largely consistent with the FASB Statement of Financial Accounting Standards No. 157 Fair Value Measurements, including related guidance published by the FASB and is consistent with the report published by the IASB's Expert Advisory Panel on measuring fair value in inactive markets. We made available a marked up text showing wording differences between the exposure draft and SFAS 157.

18. We are working closely with the FASB on this project. We know how important it is for IFRSs to have the same words as the FASB requirements. However, this does not mean that we are constrained to using the words in FAS 157. As we finalise the standard, the FASB is considering whether any proposal we have that uses different wording is an improvement over FAS 157 and whether it should amend FAS 157.

Other MoU projects

19. Our assessment is that the success of the MoU depends on publishing any proposals (ie exposure drafts) by the end of March next year if we are to complete the projects by 30 June 2011.

20. This is achievable from the perspective of our resources. We are completing projects and as we do so more Board time becomes available and we are able to shift staff to these critical projects. However, an equally important ingredient is the willingness of the FASB and the IFRS community to work with us to deliver these much needed improvements by 30 June 2011.

21. Some in the IFRS community think that we are compromising quality to meet this deadline. Others think that we are simply importing US GAAP into IFRS. Neither belief reflects the commitment the Board and our staff have to improving the quality of financial reporting by entities applying IFRS.

22. The current state of the major MoU projects, other than the financial crisis projects, is outlined below.

Financial statement presentation

23. We have been considering the comments contained in the 220 letters we received in response to the discussion paper we published in 2008. We have also been considering the results of field tests and experiments conducted over the last year. The proposals are intended to provide a clearer presentation in financial statements and so make it easier for users of financial statements to follow the flow of information through the statements.

24. At the Standards Advisory Council meeting in June we 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. The feedback we received from SAC

members was that it would be very difficult to reach agreement quickly on a re-shaping of OCI.

25. In July we decided, in our joint meeting with the FASB, to ask our staff to assess the benefits of withdrawing the option of being able to present OCI on a separate schedule. The FASB has already tentatively decided to do so as part of its financial instruments project. Such a step would improve the comparability of financial statements.

26. We will be considering presentation of OCI at our joint meeting with the FASB in October—the staff's initial proposal is not to undertake a systematic reassessment of OCI until the current phase of the financial statement presentation project has been completed. (ie not until after 1 July 2011).

Revenue recognition

27. We received 221 comment letters in response to the discussion paper we published, with the FASB, in December 2008.

28. The discussion paper contains 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.

29. This project is particularly important to the successful completion of the MoU because many commentators believe that there is not sufficient application guidance in the current IFRS requirements. Those commentators say that they rely on US GAAP to supplement IFRS. In contrast, it is widely accepted that the equivalent US GAAP requirements are cumbersome, prescriptive and internally inconsistent.

Leases

30. The objective of the project is to develop a new improved accounting model for 2011. 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 and received 295 comment letters. A summary of the comments received was presented to the Board in September.

31. Most respondents and the leases working group, which met in London in September, told us that we should develop proposals for accounting for leases from the perspective of both the lessor and the lessee. The boards decided to do just that and we have revised our project plan and staffing accordingly.

Financial Instruments with characteristics of equity (liabilities and equity)

32. The project team is working on a proposal to replace IAS 32 Financial Instruments: Presentation and the extensive literature in US GAAP. The plan is to publish the proposals in the first quarter of 2010.

33. In the current economic climate many financial institutions are raising additional capital from their existing shareholders using rights issues. Application of our current requirements can lead to large accounting losses for a successful capital raising when the rights are issued in a foreign currency. The IFRIC concluded that this accounting treatment is misleading appropriate and asked the Board to amend IAS 32 urgently. The Board agreed and published proposals in August. The Board has already considered the comment letters received we expect to finalise the proposals in October.

Post-employment benefits (including pensions)

34. Having considered the 150 comment letters we received in relation to our Discussion Paper Preliminary Views on Amendments to IAS 19 Employee Benefits we tentatively decided to publish an exposure draft which would propose eliminating the smoothing of gains and losses in relation to pension obligations (known as the corridor method). We also tentatively decided that any such gains or losses should be presented as part of the profit or loss for the period.

35. However, we have delayed publishing the proposals while we re-examine the matter of presentation. As I noted above, in October we will be considering with the FASB how best to present other comprehensive income. In November we will reconsider whether some components of post employment benefits should be presented in other comprehensive income rather than in profit or loss.

36. In the interim, we have published a proposal to change the way the discount rate used to measure pension obligations is determined. Feedback we received from our Employee Benefits Working Group, the Pensions and Employee Benefits Committee of the International Actuarial Association and other interested parties indicated that the current requirements are causing entities with similar employee benefit obligations to report them at very different amounts. Given the narrow scope of the proposal and our assessment that the proposal is uncontroversial we have a shortened exposure period, which will enable us to make the improvements available by the end of this year.

Short term projects

37. The 2006 MoU with the FASB identified a few focused areas that the boards thought could be eliminated through one or more short-term projects. We have two such projects remaining to be completed.

Income taxes

38. We have been working with the FASB 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. We published a proposal to replace IAS 12 in March this year and by the end of the comment period had received 167 comment letters.

39. An informal assessment by the staff of the comment letters suggests that the proposals have not been well received. However, until the Board considers a comprehensive analysis of comments in October it will not be in a position to assess whether it should continue with the proposals, suspend the project or

continue the project with a reduced scope. We are cognisant of the need to address what many perceive to be weaknesses in the current requirements in relation to those jurisdictions that do not tax capital gains on the disposal of real property.

40. The FASB will assess our comment letter analysis before it decides whether to expose the proposals.

Joint ventures

41. The objective of the project is to improve the accounting for, and the quality of the information being reported about, joint arrangements—which include joint ventures and joint operations. We expect to publish a final standard towards the end of the year.

Conceptual framework

42. In October we expect to finalise the first two chapters of the new Conceptual Framework, dealing with the objective and qualitative characteristics. Also in October, we expect to publish an exposure draft of the chapter addressing the reporting entity.

43. Little progress has been made since June on the chapter in which the elements (assets, liabilities, equity, revenue and expenses) will be defined. We are still hopeful of publishing a discussion paper in 2010 on this subject.

44. Early drafts of a discussion paper on measurement have been considered by both boards. It is likely that we will publish a discussion paper for this chapter early next year.

Other improvements

Insurance contracts

45. The FASB joined us on this project in October last year. We are working to publish an exposure draft by the end of this year. Agreeing on a measurement

basis has been a particularly difficult matter, but our Board made considerable progress at its September meeting.

Emissions trading schemes

46. The project focuses on the accounting for emissions trading schemes. We are aiming to publish an exposure draft jointly with the FASB in 2010.

Liabilities (revision to IAS 37)

47. This is a project to revise IAS 37, our general standard on uncertain liabilities (sometimes known as provisions). 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. We have still to assess whether we will need to re-expose the proposals. Depending on the outcome of that assessment we expect to publish a revised standard or exposure draft at the end of this year.

Management commentary

48. In June we published proposed guidance that sets out a framework for the preparation of management commentary and establishes principles for its structure, content and presentation. Although it will not be mandatory, we think such guidance will benefit those jurisdictions that do not have any requirements or guidance for the preparation of management commentary (or MD&A as it is called in some jurisdictions).

Other improvements

49. In July we published an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards to provide relief for entities previously accounting for oil and gas assets using full cost accounting, and for some aspects of operations subject to rate regulation.

50. We have completed assessing the feedback we received on our proposal 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. We are on track to publish amendments to IAS 24 Related Party Disclosures by the end of this year.

51. We plan to finalise an amendment to IFRIC 14 Prepayments of minimum funding contributions by the end of this year. This will eliminate an unintended consequence that arises in IFRIC 14 when the entity makes a payment and minimum funding contributions are greater than the service cost.

52. In July we published a proposal to clarify the circumstances in which rate regulated entities should recognise a liability (or an asset) as a result of rate regulation by regulatory bodies or governments.

53. In July we also decided, in conjunction with the FASB, to defer until at least the second half of 2010 any more work on the proposal to simplify the calculation of earnings per share. It was clear from the comments we had received that a significant amount of additional work would be required to complete the project and we assessed that other projects had greater priority.

54. In August we published the exposure draft for the 2009-2010 cycle of annual improvements.

Research projects

55. A project team with representatives from the national standard-setters of Australia, Canada, Norway and South Africa has developed a discussion paper outlining ways that we could develop an IFRS to supersede IFRS 6 Exploration for and Evaluation of Mineral Resources. We initially intended to publish the discussion paper in August 2009. However, we decided to delay making a request for comments until February 2010, giving potential respondents some breathing space. The draft discussion paper has been placed on our website.

56. The plan was always to develop an agenda proposal for consideration in December 2010. The delayed comment period does not affect this plan.

IFRSs for SME

57. On 9 July 2009 we published an IFRS designed for use by small and medium-sized entities (SMEs), which are estimated to represent more than 95 per cent of all companies. The standard is a result of a five-year development process with extensive consultation of SMEs worldwide.

58. The complete IFRS for SMEs (together with the basis for conclusions, illustrative financial statements, and a presentation and disclosure checklist) is available to be downloaded free of charge from our website.

59. Paul Pacter, Director of Standards for SMEs, became Chairman of a group to support international adoption of the standard.

International Financial Reporting Interpretations Committee (IFRIC)

Meetings

60. The IFRIC met on 9 July, as scheduled, and additionally on 4 August via teleconference. The meeting scheduled for September was cancelled due to a lack of agenda items.

Requests for interpretation

61. Over the last three months the IFRIC has considered 19 requests. The IFRIC decided that 14 of those requests should not be taken onto its agenda—four of those decisions are tentative with final decisions planned for its November meeting. Of the remaining five requests, three were referred to the Board, one is pending and one was taken onto the agenda.

62. The item taken onto the agenda is the question of whether an entity should measure equity instruments issued in a debt for equity swap at fair value or at the carrying amount of the liability that is extinguished. Draft interpretation, D25 Extinguishing Financial Liabilities with Equity Instruments proposes that

such instruments be measured at fair value. The comment deadline is 5 October and the responses will be considered at the IFRIC meeting in November.

63. Agenda Paper 2A provides a summary of the topics considered by the IFRIC.

Additional Board meetings

64. The financial crisis projects have caused us to review our Board meeting schedule. We have held additional meetings on several occasions between our regular monthly meeting weeks. We hold additional meetings every week between the regular September and October meetings and expect to hold additional meetings for the remainder of the year.

Working with National Standard-setters

65. The National Standard-setters are our partners in seeking to remove differences in accounting, worldwide. In July we held a two day joint meeting in London with the FASB, as part of our regular Board week. We are now meeting with the FASB three times per annum, in March and July in London and in October in Norwalk. Additionally, from November we will have a regular four hour joint public session in our monthly Board meeting, via videoconference. FASB Board members are also on project advisory teams, and meet with IASB Board and staff regularly through videoconference or teleconference.

66. We hold two joint meetings with the ASBJ each year, one each in London and Tokyo.

67. In September Bob Garnett and senior staff attended a meeting of national standard-setters in Frankfurt. On 10 and 11 September 2009 we hosted, in London, the annual meeting of world standard-setters. In addition, throughout the year Board members have been attending regular meetings of standard-setters.