To	David Sidwell, Chairman - Due Process Oversight Committee
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Subject	**General Update**
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This is a general update of matters relevant to Due Process Oversight Committee related to the development of IFRSs.

The update covers three areas

(a) Recently issued standards.

(b) Forthcoming IFRSs and exposure drafts: an update on the four publications expected to be released by the 30 June.

(c) The MoU projects: an update on deliberation plans.

Recently issued standards

The completion of IFRSs 10, 11, 12 and 13

On 13 May 2011 the IASB issued IFRS 13 *Fair Value Measurement*. IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The new requirements are effective for annual reporting periods beginning on or after 1 January 2013, with earlier application permitted.

Also on 13 May 2011 the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation— Special Purpose Entities*. IFRS 11 *Joint Arrangements* establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13—*Jointly Controlled Entities–Non-monetary Contributions by Venturers*. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the IASB also issued amended and retitled IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

Feedback Statements and Effect Analyses

We released Feedback Statements for each of the new IFRSs on 13 May. Links to these documents has been included in the covering email. We have drafted Effect Analyses for IFRS 10 and IFRS 11, which we expect to send to you shortly.

Forthcoming IFRSs and exposure draft

IFRSs

In June the Board is planning to issue amendments to IAS 1 *Presentation of Financial Statements*, to improve the presentation of other comprehensive income and IAS 19 *Employee Benefits* mainly in relation defined benefit plans.

In March I provided the DPOC with a summary of the steps the Board has taken to ensure that the forthcoming amendments have been developed in full compliance with the Board's due process requirements. I have also identified the steps the Board and staff have taken to address concerns raised during their development.

There are no matters that I am aware of that have changed since the last meeting of the Committee.

Exposure drafts

Annual Improvements

In June the Board is planning to publish a batch of Annual Improvements. A separate paper has been prepared in relation to that exposure draft because the amendments have been assessed against the new annual improvements criteria and because the planned comment period is shorter than the normal 120 days. We have always used a 90 day comment period for Annual Improvements. Our webpage for Annual Improvements describes the 90 day comment period as being part of the standard process for this project. We think that 90 days is appropriate because the amendments are relatively minor, and will be more straight-forward for constituents to be able to respond to. The criteria that the Trustees approved this year for assessing Annual Improvements help ensure that proposals included in annual improvements are straight-forward. Agenda Paper 3, Annual Improvements exposure draft, provides more information.

Investment Entities

In June the Board is also planning to publish an exposure draft proposing to create an exception to consolidation for *Investment Entities*. Some jurisdictions, including Canada and the US, have special reporting requirements for entities that only invest in other entities and do not participate in the operation of any of the businesses management. If the investing entity holds a controlling interest in the investee under IFRS10 the investee should be consolidated.

The project objective is to define an investment entity and to require that an investment entity should not consolidate investments in entities that it controls, but to measure those investments at fair value, with changes in fair value recognised in profit or loss.

This exposure draft is part of the consolidations project and is being undertaken with the FASB. If finalised, the accounting requirements for such entities will be aligned.

The exposure draft was originally scheduled for release in 2010 but we delayed publication while the Board focused on other priorities.

The Board has not published a discussion paper or established a working group for this project. The project focuses on a narrow set of entities and the accounting issues are well understood. However, it is a potentially controversial area because many jurisdictions considered but rejected this exception in their reporting requirements before they adopted IFRSs.

The planned comment period is 120 days and the Board will hold roundtables after the comment period ends.

As the project progresses I will keep the DPOC informed of relevant matters.

The MoU projects

Revenue recognition

The boards have completed their major decisions. The staff are developing a working draft which would be used for the additional review steps the boards announced earlier this year. We are aiming to have the staff draft ready by the end of June.

The board will be asked to consider transition, effective dates and re-exposure in June. However, please note that those discussions will be preliminary because our next step is a staff draft. Any decisions on these matters will need to be reviewed again in the light of feedback after our draft review process, which is not likely to be until September at the earliest.

I will be in a better position to report to the DPOC on the protocols for this additional consultation over the coming weeks. [Note. Subsequent to the DPOC meeting, the IASB and the FASB decided to re-expose their revenue recognition proposals].

Leasing

The boards have made several decisions recently that simplify the models. For example, the original proposals for a 'performance obligation' model for lessors have been rejected by both boards. However, the boards have reached different decisions with the FASB preferring to retain the current approaches to lessor accounting and the IASB preferring a partial derecognition model. We will revisit this in the coming weeks. If the derecognition model is selected, I expect re-exposure will have to be considered.

For lessees, the models have also been simplified. The boards have decided not to have two models for income recognition and are reverting back to the exposure draft proposals. However, boards are continuing to assess ways to provide relief from some, or all, of the accounting requirements for leases that either have relatively short terms or for which the financing component is not material.

We are aiming to have the staff draft ready in early July.

The board will be asked to consider transition, effective dates and re-exposure in late June. However, the same caveats that apply to revenue recognition also apply here.

I will be in a better position to report to the DPOC on the protocols for this additional consultation over the coming weeks.

Financial instruments

Offsetting of financial assets and financial liabilities

The IASB and FASB received 161 comment letters, a summary of which was presented to the boards in at their public meeting in the week of 16 May. The boards have also held public roundtables in London, Norwalk and Singapore. The feedback on the comment letters was mixed. As would be expected, those entities for which the proposed changes would have the most significant effect on their financial reports were not supportive of the proposals.

The boards are about to start their more detailed analysis of the specific issues in the project with the first such discussion planned for the board sessions from 31 May to 2 June.

The boards are aiming to finalise the decisions about the new requirements in the second quarter of 2011.

Impairment

The boards received 212 Comment Letters, a summary of which was presented to the boards in at their public meeting in April. Feedback was mixed, mainly split on geographical lines.

The most common and consistent message we received was that the IASB and FASB must reach a common solution. In the public meeting in the week beginning 16 May the boards considered four alternatives:

(a) finalise the approach developed by the IASB on the basis of deliberations before the convergence discussions (ie a time-proportional approach for a 'good book' and full lifetime expected losses for a 'bad book');

(b) finalise the approach developed by the FASB based on deliberations before the convergence discussions (ie recognise losses expected to occur in the 'foreseeable future' period);

(c) finalise the model in the Supplementary Documents taking into consideration feedback received; or

(d) develop a variation of the previous proposals, taking into account the feedback from the boards' original EDs and the Supplementary Documents.

The boards tentatively decided to pursue the fourth alternative. A small working group of board members and senior staff from both the IASB and FASB has been created to develop some specific suggestions, such as baseline models or objectives. This group will develop suggestions to be presented to the boards within a reasonably short time. Any need for re-exposure will be considered by the Board once there is more clarity on the model to be pursued and this model has been deliberated.

The goal is to have basic agreement on an impairment model by the end of June.

Hedge accounting

The Board has continued to consider the comments received from comment letters and outreach on the general hedge accounting model. The Board is working to finalise the amendments to IFRS 9 *Financial Instruments* in the third quarter of this year.

The Board has yet to consider whether re-exposure will be necessary. Over the next month we will assess whether we need to undertake additional outreach related to the drafting of the final requirements. I plan to update the DPOC at its meeting in July.

The Board resumed its public discussion of portfolio hedges in April and expects to develop further its proposals related to portfolio hedging before it finalises the more general hedging requirements. We therefore expect to publish an exposure draft for portfolio hedging later this year.

Other Project

Insurance contracts

The insurance contracts project is not as well advanced as revenue recognition or leasing. Accordingly it will be around the beginning of the fourth quarter before we need to make decisions about the next due process document.

The boards have reached different decisions on a fundamental matter. The IASB has tentatively decided that the measurement of an insurance contract should contain an explicit adjustment for risk. The adjustment would be determined independently from the premium and would be re-measured in each reporting period. The FASB tentatively decided that an insurance contract measurement model should use a single margin approach.

I will update the DPOC on progress in this project in July.