OBSERVER NOTE

The Technical Agenda

This section provides an overview of the projects on our technical agenda. It is an agenda that has become much smaller over the past two years as the IASB has made it a priority to focus on completing projects responding to matters raised during the financial crisis and on completing the IASB-FASB Memorandum of Understanding (MoU) projects.

Financial-crisis related projects

As is well known, the financial crisis led to a reprioritising of the Board's work. In particular, questions were raised by politicians, regulators and other financial market participants about the complexity of IAS39 *Financial Instruments: Recognition and Measurement*; the effectiveness of the incurred loss model for loan provisioning; off-balance sheet risks in particular related to securitisations (derecognition) and special purpose vehicles (consolidation); and fair value measurement of assets especially when markets became illiquid.

The G20 leaders, at their summit meeting in April 2009, called for accounting standard-setters 'to reduce the complexity of accounting standards for financial instruments'. The IASB had already made a commitment to achieve that objective, but the call for a common global approach from the G20 provided impetus to those efforts.

The IASB's efforts to improve its requirements and to reach a common solution with the FASB have been complicated by differing imperatives that pushed the development timetables out of alignment—the IASB met its commitment to the EU Finance Ministers and other international stakeholders to issue a standard on the classification and measurement of financial instruments in time for use in 2009 year-end financial statements.

The broad strategy for addressing those differences remains the same—each board has been publishing its proposals while also soliciting comment on those of the other board, as a way of giving interested parties the opportunity to compare and assess the relative merits of both boards' proposals. All aspects of the project are being considered by the two boards together in an effort to reconcile any differences in ways that foster improvement and convergence.

Project	**Update**
Financial instruments	
Classification and measurement	The IASB issued IFRS 9 Financial Instruments in November 2009. At that time the IASB did not address the accounting for financial liabilities. Most respondents to the exposure draft preceding IFRS 9 said that the accounting for financial liabilities worked well except for one issue—the volatility in net income that arises when an entity's own debt is measured at fair value. In such cases, changes in the creditworthiness of the issuer cause net income volatility (the 'own credit issue'.). In May 2010 the Board issued an exposure draft proposing a solution to the own credit issue. In November 2010 the Board amended IFRS9 by carrying forward from IAS 39 the existing requirements for financial liabilities along with the new requirements for financial liabilities. Once the FASB has made its decisions about classification and measurement, the IASB will assess how best to expose the FASB's final conclusions to seek views on whether the IASB will need to consider how, or indeed if, it should bridge or reconcile any differences between IFRS 9 and US GAAP.
Amortised cost and impairment of financial assets	The objective is to increase the usefulness of financial statements by improving the transparency of information about the credit quality of financial assets. The main focus is the estimation and reporting of expected losses, in a timely manner. This phase of the project has been developed jointly with the FASB. In November 2009 the IASB published for public comment an exposure draft on provisions. The proposals followed an initial Request for Information, published in June 2009, on the practicalities of moving to an expected loss model. The exposure draft proposed to switch from an incurred loss model to an expected loss model. Extensive disclosure requirements were proposed to provide investors with an understanding of the loss estimates that an entity judges necessary. The IASB is aware of the significant practical challenges of moving to an expected loss model and has been assisted by an Expert Advisory Panel (EAP), comprising experts in credit risk management, which it established in December 2009. In January 2011 the IASB published, jointly with the FASB, a supplement to the December 2009 exposure draft. The supplement presented an impairment model that the boards believed would enable them to satisfy at least part of their individual objectives for impairment accounting while achieving a common solution to impairment. Feedback was mixed, with many respondents preferring the IASB's simplified proposals and others preferring aspect of the FASB's original model. In May 2011 the boards set up a task force of staff and board members to work on the model. Both boards recognise the importance of this phase of the financial instruments model and the need to reach a common solution. The boards expect to publish revised proposal s

Project	Update
Hedge accounting	In December 2010 the IASB published proposals to revise hedge accounting, for both financial and non-financial exposures. There was strong support for the proposals, with respondents welcoming the Board's approach, namely to address hedge accounting comprehensively. The exposure draft did not address portfolio hedges. The Board expects to develop more fully its proposals related to portfolio hedging before it finalises the more general hedging requirements.
Balance sheet netting of derivatives and other financial instruments	In January 2011 the boards published a joint exposure draft proposing changes to IFRSs and US GAAP that would align the reporting of offsetting financial assets and liabilities. Responses were mixed. In June 2011 the IASB and FASB reached different conclusions—the IASB voted 15-0 to affirm the proposals whereas the FASB voted 4-3 not to proceed as proposed. The boards are examining ways to reconcile those differences.
Other financial crisis related projects	
Consolidation	In May 2011 the IASB issued IFRS 10 *Consolidated Financial Statements* 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 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*.
Fair value measurement	In May 2011 the IASB issued IFRS 13 *Fair Value Measurement*, with the objective of establishing the same requirements in IFRSs and US GAAP for measuring fair value. IFRS 13 defines, and sets out a framework for measuring, fair value and sets out the related disclosure requirements. 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.
Derecognition	The IASB's proposals are aimed at addressing the complexity of the current requirements and at providing more useful information about the ongoing risks related to financial assets transferred off balance sheet assets. The IASB developed and exposed proposals aimed at improving the assessment of when a financial asset should be derecognised and also at providing users of financial statements with more and better information about an entity's risk exposure. The overwhelming preponderance of the feedback was that the existing requirements had stood up well during the crisis and that fundamental changes to the IASB derecognition criteria were not needed. However, the feedback highlighted the need for improved disclosure to assist investors. In March 2010 the IASB amended IFRS 9 by carrying forward from IAS 39 the requirements related to the derecognition of financial assets. In October 2010 the IASB issued amendments to IFRS 7 *Financial Instruments: Disclosures*. Those amendments improve the disclosure requirements in relation to transferred financial assets.

The IASB-FASB Memorandum of Understanding (MoU) projects

The MoU issued in 2006 (updated in 2008)sets out the projects the two boards agreed to develop together. The short-term projects identified for action in the MoU have been completed or are close to completion. Of the longer-term projects, only three of the priority convergence projects remain for which the boards have yet to finalise the technical decisions—financial instruments, revenue recognition and leasing.

Short-term (narrow scope) improvements

Most of the short-term projects required one of the boards to revise its requirements to align them with those of the other board. Other projects, such as share-based payment, required both boards to issue revised standards.

Project	Board	Status	Update
Share-based payment	Both	Completed	Substantially common standards issued in 2004.
Segment reporting	IASB	Completed	IFRS 8 *Operating Segments* issued in 2006.
Non-monetary assets	FASB	Completed	SFAS 153 *Nonmonetary Assets* issued in 2004. The FASB converged on the treatment of certain non-monetary exchanges to require recognition at fair value unless the transaction lacks commercial substance.
Inventory accounting	FASB	Completed	SFAS 151 *Inventory Costs* issued in 2004. The FASB converged on the treatment of excess freight and spoilage.
Accounting changes	FASB	Completed	SFAS 154 *Accounting Changes and Error Corrections* issued in 2005. The FASB converged on the treatment of voluntary changes in accounting policy by requiring retrospective application.
Fair value option	FASB	Completed	SFAS 159 *The Fair Value Option for Financial Assets and Financial Liabilities*, issued in 2007, introduced the fair value option into US GAAP.
Borrowing costs	IASB	Completed	Revised IAS 23 *Borrowing Costs* issued in 2007.
Research costs	FASB	Completed	SFAS 141R *Business Combinations*, issued in 2008, amending the accounting for acquired R&D.
Non-controlling interests	FASB	Completed	SFAS 160 *Noncontrolling Interests in Consolidated Financial Statements*, issued in 2008, eliminating the use of mezzanine presentation of non-controlling interests.

Project	Board	Status	Update
Joint ventures	IASB	Completed	In May 2011 the IASB issued IFRS 11 *Joint Arrangements*, which supersedes IAS 31 *Interests in Joint Ventures* and SIC-13—*Jointly Controlled Entities–Non-monetary Contributions by Venturers*.
Income tax	Both	Reassessed as a lower priority project.	The IASB published an exposure draft in 2009. Although the proposals were developed jointly, the FASB did not publish an equivalent exposure draft. As a result of the input received, the IASB decided not to proceed with the proposals in their current form. However, in December 2010 the IASB issued an amendment to IAS 12 *Income Taxes* providing a practical solution to the problem of determining whether assets measured using the fair value model in IAS 40 *Investment Property* are recovered through use or through sale.
Investment properties	FASB	In progress	The FASB plans to publish an exposure draft in July to propose bringing US GAAP closer to IFRSs.

Major projects and improvements

With the exception of the three remaining priority MoU projects, the following schedule details the progress of the IASB's and FASB's MoU projects:

Project	Status	Milestone
Business combinations	Completed	Joint requirements for business combination accounting and non-controlling interests issued in 2008—IFRS 3 *Business Combinations* and amended IAS 27 *Consolidated and Separate Financial Statements*.
Derecognition	Completed	Each board has introduced reforms substantially aligning the disclosure requirements, and as a result US GAAP has moved closer to IFRSs.
Consolidated financial statements	Completed	IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities* issued in May 2011. IFRS 12 in*cludes disclosure requirements about off balance sheet risks.*
Fair value measurement	Completed	SFAS 157 *Fair Value Measurements* issued in 2006. IFRS 13 *Fair Value Measurement* issued in May 2011.
Post-employment benefits	Completed	In April 2010 the IASB published an exposure draft *Defined Benefit Plans*. The IASB finalised amendments to IAS 19 *Employee Benefits* in June 2011.

Project	Status	Milestone
Financial statement presentation	Project scope reassessed.	The IASB and FASB published a joint discussion paper in October 2008. After considering the 220 comment letters and the results of field tests the boards published a working draft of an IFRS reflecting their tentative decisions. The boards used that draft as the basis for additional outreach. The outreach suggested that some participants had concerns about aspects of the proposals but supported others. The boards concluded that significant additional work would be required to develop a viable exposure draft. In the light of other priorities, the boards decided to consider returning to the project once the other MoU projects had been completed. The boards did, however, decide to align how other comprehensive income is reported. The boards published exposure drafts in May 2010 and issued amendments in June 2011.
Financial instruments with characteristics of equity	Reassessed as a lower priority project.	In February 2008 the IASB published a discussion paper *Financial Instruments with Characteristics of Equity*. The IASB and FASB used the responses to help them develop a working draft of a proposal to replace IAS 32, which they used to undertake focused outreach. In the light of comments received, the boards decided to focus on other projects and not to publish an exposure draft in the near term as originally planned. The boards will consider returning to this project later in 2011. In November 2010 the IASB asked the IFRS Interpretations Committee to explore potential solutions to address concerns that have been raised on the accounting for put options written over non-controlling interests.
Intangible assets	Reassessed as a lower priority project.	The IASB considered an agenda proposal to add a project on intangible assets in December 2007. The IASB decided not to proceed with the project, but will reconsider it when it sets its new agenda.
Revenue recognition	Re-exposure of proposals.	The IASB is working to replace its very general requirements that cause preparers to rely on US GAAP for specific guidance. The FASB is working to replace its wide-ranging, detailed and sometimes inconsistent industry-specific requirements with cohesive principles. The IASB and FASB published a joint discussion paper in December 2008 and an exposure draft in June 2010. In June 2011 the boards concluded that, although their due process requirements made it clear that re-exposure was not required, they would re-expose the proposals because of the special nature of revenue.
Leases	Redeliberation of exposure draft.	Lease obligations are widely considered a significant source of off balance sheet financing. The objective is to improve financial reporting by lessors and lessees. The boards published a joint exposure draft in August 2010. In July 2011 the boards will consider whether they should re-expose the proposals.
Financial instruments	See separate section above.	

Other joint projects

Project	Update
Insurance contracts	The IASB is developing an IFRS to replace the interim standard, IFRS 4 *Insurance Contracts*, to provide a basis for consistent accounting for insurance contracts. The FASB joined the IASB on the project in October 2008. The IASB published a discussion paper in 2007 and an exposure draft in 2010. The FASB published a discussion document in 2010, but has yet to publish an exposure draft. In 2011 the boards began considering together the feedback received on the IASB's exposure draft and the FASB discussion paper, aiming to complete their deliberations on the major issues by the end of 2011.
Emission trading schemes	The boards began to work together in 2009 and have been considering different accounting proposals. In October 2010 the boards decided to defer further consideration until they had completed their major MoU projects. Emission trading schemes are designed to achieve a reduction of greenhouse gases through the use of tradable emission permits. The IASB and the FASB are conducting a joint project to develop comprehensive guidance on the accounting for emission trading schemes.
Conceptual framework	The project aims to create a sound foundation for future accounting standards, to ensure that they are principles-based and internally consistent. In March 2010 the IASB and FASB published an exposure draft of a chapter on the reporting entity. In September 2010 the boards issued the first completed chapters of the Conceptual Framework for Financial Reporting (Objectives and Qualitative characteristics).

Other improvements and research projects

Project	Update
Liabilities (revision to IAS 37)	IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is the IASB's general standard on uncertain liabilities (sometimes known as provisions). The main focus is on clarifying when an entity has a liability in some cases of uncertainty and how to

Project	Update
	measure liabilities with an uncertain settlement amount. The IASB exposed its proposals in 2005. In January 2010 it re-exposed the proposals, inviting additional comments on this one aspect of the original proposals. In the light of comments received, including concerns some respondents had about the scope and limited nature of the re-exposure, the IASB resolved to re-expose in full any revised proposal.
Management commentary	The objective is to develop guidance for the preparation of management commentary (or MD&A), primarily for the benefit of those jurisdictions that do not have any requirements or guidance for the preparation of management commentary. In December 2010 the IASB issued IFRS Practice Statement *Management Commentary – a framework for presentation*. The Practice Statement provides a broad, non-binding framework for the presentation of narrative reporting to accompany financial statements prepared in accordance with IFRSs.
Extractive Activities	The objective is to develop an IFRS on accounting for extractive activities that would supersede IFRS 6 *Exploration for and Evaluation of Mineral Resources*. In April 2010 the IASB published a discussion paper prepared for it by a project team with representatives from the national standard-setters of Australia, Canada, Norway and South Africa. In October 2010 the considered a summary of the response to the discussion paper. The IASB plans to make a decision on whether the extractive activities project should be added to its active agenda when it undertakes its agenda consultation in 2011.
Narrow scope improvements	The IASB considers requests, mainly as a result of recommendations from the IFRS Interpretations Committee, to make limited, or narrow scope, improvements to IFRSs. Typically, these amendments address matters not anticipated by the IASB, or identified by respondents, when a standard was developed. The IASB issued narrow scope amendments: in January 2010, some exemptions from having to provide comparative information when a first-time adopter applies IFRS 7 *Financial Instruments: Disclosures*; in May 2010, clarification of the application of IFRS 1 *First-time Adoption of International Financial Reporting Standards* when an entity is unable to comply with IFRSs because of severe hyperinflation; and in May 2010, the removal of fixed dates for first-time adopters.