To	David Sidwell, Chairman - Due Process Oversight Committee
From	Alan Teixeira, Director of Technical Activities +44 (20) 7246 6442 ateixeira@ifrs.org
Subject	**Update on Enhanced Engagement**
Date	22 March 2011

1. Accompanying this note are three reports to the Due Process Oversight Committee (DPOC) relating to a new standard and amendments to two standards. These reports reflect discussions at the most recent meeting of the DPOC.

2. The next documents approaching completion are Financial Instruments (Impairment of financial assets; Hedge accounting; and Offsetting), Revenue Recognition, Leases, and Insurance contracts.

Impairment

In late January the Board published, jointly with the FASB, a supplement to the December 2009 exposure draft. The comment period closes on 1 April. The boards will be discussing the project in public in the coming weeks. The objective remains to complete this phase by 30 June 2011.

Hedge accounting

On 9 December 2010 the Board published proposals to revise hedge accounting, for both financial and non-financial exposures. Comments were due by 9 March. During the comment period, staff and Board members undertook outreach activities in six continents, meeting over 2,500 people in small group meetings and discussion forums. The Board received 233 comment letters, a summary of which was presented to the Board on 16 March.

3. There was strong support for the proposals, with respondents welcoming the Board's approach to address hedge accounting comprehensively. They also agree with the principle-based approach proposed in the exposure draft, with many commenting that

they thought the proposal would resolve many of today's practice problems in applying IAS 39 *Financial Instruments: Recognition and Measurement*.

Balance sheet netting of derivatives and other financial instruments

In late January the boards published a joint exposure draft proposing changes to IFRS and US GAAP that would align the reporting of offsetting financial assets and liabilities. Comments are due by 28 April. Feedback from our outreach indicates that there is broad support for our proposals in those jurisdictions that are applying or moving to IFRSs. The feedback from those that currently apply US GAAP is mixed, with many saying that they would prefer us to allow more netting (which would be closer to current US GAAP). The project itself is not difficult from a technical accounting perspective, but the financial reporting consequences of reaching a shared solution with the FASB will be significant for many entities.

Revenue recognition

The Board has now considered most of the significant issues in this project and confirmed the basic elements of the proposals. That is not to say that the Board is not making changes to the proposals. The IFRS will explain more clearly the principles that are fundamental to the revenue recognition model, to ensure that the standard will be capable of being applied consistently across a wide range of contracts. The sectors most affected by the proposals include the construction industry, pharmaceuticals (contingent consideration), and telecommunications. We have undertaken additional fieldwork in each of those sectors.

Leases

By the end of April the Board will have considered all of the major issues in the project. Our main focus has been on ensuring that the definition of a lease does not catch what are widely perceived to be service agreements. What remains important is that, for a lessee, the assets that they control as a result of the lease agreements, and also the related lease obligations, are recognised and presented in the statement of financial position.

We are assessing the feasibility of modifying the pattern of income and expense recognition for some leased assets—those for which the lease payments include premiums that give the lessee some operating flexibility. We remain confident that there are credible solutions to the concerns that have been raised, including those concerning contingent rentals and renewal options. The staff and Board members have already begun intensive fieldwork related to these matters.

We expect to consider lessor accounting over the next few weeks.

Insurance contracts

As with the other major projects, the Board will, by the end of April, have considered the main issues in the project.

For the issues considered so far, the IASB and FASB have reached the same decisions on all of the important matters. The boards have reached different conclusions on some matters, but we will return to those items again with the goal of developing common solutions. The most challenging issues are specifying the discount rate and income statement volatility. The Insurance Working Group is meeting with board members and staff from both boards in the week of 21 March to discuss the decisions reached so far.

There are two other challenges. The IASB has already published an exposure draft whereas the FASB has only published a discussion paper. The boards will need to assess how best to align the timetables so that the outcome is identical final standards.

The other challenge is the relationship between the insurance contracts project and the financial instruments project. The IASB will need to ensure that the insurance contract IFRS and the financial instruments requirements (IFRS 9) work together. The FASB will have the same challenge as it finishes its own financial instruments project.