AGENDA PAPER

IFRS Foundation Trustees meeting

London	13 April 2012	Agenda ref	2B

The Technical Agenda

Project	Status
IFRS 9— replacement of IAS 39 *Phase 1: Classification and measurement*	The IASB completed Phase 1 of IFRS 9 *Financial Instruments* in October 2010. Financial assets: The classification and measurement requirements for financial assets were finalised in November 2009 and included significant simplifications to the classification and measurement of financial assets. Measurement categories are reduced to two (amortised cost and fair value) with a single impairment model. Tainting rules are eliminated and embedded derivatives are no longer required to be separated from their financial asset host contract. Financial liabilities: The new classification and measurement requirements address stakeholders' concerns about the volatility in profit or loss resulting from fair value measurement of a company's own debt. Resulting gains and losses are now required to be recorded within Other Comprehensive Income (OCI). The mandatory effective date of IFRS 9 was moved from 1 January 2013 to 1 January 2015 with the intention of enabling all phases to be mandatory as of the same date.
IFRS 9— replacement of IAS 39 *Limited modifications*	After the IASB completed Phase 1 of IFRS 9, the FASB separately developed a preliminary model for the classification and measurement of financial instruments. The FASB have reached different answers from the IASB model on matters such as the number of classification categories, which assets should be measured and reported at fair value, where fair value changes should be recognised and the bifurcation of embedded derivatives. In addition there are important legacy differences, such as whether items measured through OCI should be recycled to net income

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	when they are sold. The IASB and the FASB have consistently received feedback from stakeholders that every effort should be made to converge their respective financial instruments accounting standards. In November 2011 the IASB agreed to consider making limited modifications to IFRS 9, primarily to consider whether adjustments could be made to bring the two models closer together, to address some known application issues with IFRS 9 and to consider whether changes could assist in addressing some of the volatility concerns in the insurance contracts project. The Board has agreed to a limited scope and noted the need for timely completion. The Board also noted that we need to be cognisant that some have already adopted IFRS 9 so the Board needs to try to minimise disruption for these people. In January 2012 the IASB and the FASB decided to jointly redeliberate the following aspects of their respective models with an aim to reduce differences: • the contractual cash flow characteristics of an instrument; • the need for bifurcation of financial assets and, if pursued, the basis for bifurcation; • the basis for and scope of a possible third classification category (debt instruments measured at fair value through other comprehensive income); and • any knock-on effects from the above (for example, disclosures or the model for financial liabilities in the light of the financial asset decisions). The boards plan to discuss each issue jointly and then to make changes, if any, to their separate models. Any proposed changes to IFRS 9 are planned to be exposed for comment in the second half of 2012.
IFRS 9—replacement of IAS 39 *Phase 2: Impairment of financial assets*	The IASB and the FASB are continuing to address the main criticism of an incurred loss impairment model highlighted during the financial crisis. The boards are jointly developing a more forward-looking ‘expected loss’ approach to impairment. The IASB published an initial exposure draft of proposals in 2009. The IASB and the FASB subsequently published supplementary joint proposals in 2011. These proposals were not well received and the boards have since been jointly developing a new expected loss

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	impairment model. The boards are working towards publishing a joint proposal for comment in the second half of 2012. The boards have been consulting widely with, among others, prudential supervisors and members of the IASB's Expert Advisory Panel of credit risk experts who provide guidance on the operational considerations of proposals. This project is of the highest importance and reaching a converged solution is also paramount. The boards have had to balance the urgency of the project with the need to ensure that any new requirements are operational, will be applied consistently and will produce high quality information.
IFRS 9—replacement of IAS 39 *Phase 3: Hedge Accounting* *General hedge accounting*	In December 2010, the IASB published an exposure draft of a proposed general hedge accounting model that more closely reflects risk management activities and improves the information provided about those activities. There was strong support for the proposals, with respondents welcoming the Board's approach of addressing hedge accounting comprehensively. The exposure draft did not address portfolio hedge accounting. In September 2011 the Board completed its redeliberations and asked the staff to prepare a draft of the final requirements, including application guidance and a Basis for Conclusions. A review draft will be posted on the IASB's website in the first half of 2012 for a 90 day period. A final standard should be issued in the second half of 2012.
Macro hedge accounting	The objective of this project is to address risk management strategies for open portfolios (macro hedging) that are not dealt with by the general hedge accounting model. The Board expects to publish a discussion paper or an exposure draft of the proposals in the second half of 2012.

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Revenue recognition	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 range of 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 importance of the revenue line item. The boards published revised proposals in November 2011 that responded to the extensive consultation undertaken. The comment period ended in the middle of March 2012. The boards expect to complete redeliberations in 2012.
Leases	Lease obligations are widely considered a significant source of off - balance sheet financing. The objective of this project is to improve financial reporting by lessors and lessees. The boards published a joint exposure draft in August 2010 and during 2011 and 2012 have considered the comments received. In July 2011 the boards decided that, although they had not completed all of their deliberations, they had sufficient information to be able to conclude that they would re-expose the proposals. The re-deliberations are substantially complete but the boards are aware of remaining concerns about the profit and loss profile for lessees. The boards have directed the staff to undertake further outreach to consider alternative approaches to address this issue. The boards plan to publish revised proposals in the second half of 2012 that respond to the extensive consultation undertaken.

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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. The boards have reached different conclusions on several important aspects of the project and are currently identifying ways to address those differences. The decision in January 2012 to redeliberate some aspects of the boards' classification and measurement models also aims to address specific concerns that have arisen from stakeholders in the insurance project. The boards expect to proceed to their next publications in the second half of 2012. The IASB is yet to determine whether it will publish an exposure draft or a review draft.

Narrow-scope improvements

Project	Update
Annual Improvements	<u>2009-2011 cycle</u> In June 2011 the IASB published for public comment an exposure draft of seven proposed amendments to five IFRSs under its annual improvements project. The project provides a streamlined process for dealing efficiently with a collection of narrow-scope amendments to IFRSs. The comment period for those proposals closed on 21 October 2011. In January 2012 the Interpretations Committee confirmed six of the proposed amendments and submitted the proposed amendments to the Board for approval at a future Board meeting. The amendments in the Improvements to IFRSs have been approved by the Board and are expected to be issued in the second quarter of 2012.

Project	Update
	<u>2010-2012 cycle</u> The Board has also been considering proposals for the next package of annual improvements. Those proposals are expected to be published in an exposure draft in the second quarter of 2012. <u>2011-2013 cycle</u> The Board has commenced deliberations on issues for inclusion in this package of annual improvements.
IFRS 10 Transition Clarifications	In December 2011 the IASB published for comment a proposal to clarify the transition requirements for IFRS 10 *Consolidated Financial Statements*. The proposal is designed to allay fears by confirming the extent of relief be provided on transition which some had misunderstood as being more narrow than the Board intended. The exposure draft had a 90 day comment period. The Board expects to start its redeliberations in April 2012 based on the feedback received.
Investment entities	On 25 August 2011 the IASB published proposals that would exempt a class of entities called *investment entities* from the accounting requirements in IFRS 10 *Consolidated Financial Statements*. Such entities would not consolidate investments in entities that they control. Instead, they would be required to measure those investments at fair value, with any changes in fair value recognised in profit or loss. The FASB has published similar proposals. The comment period for the IASB's exposure draft closed on 5 January 2012. There are some differences between the IASB and FASB proposals, which the boards highlighted in their joint public roundtables in February and March 2012. Redeliberations are expected to commence in April 2012.j

Agenda Consultation

Agenda Consultation	On 26 July 2011 the IASB launched its first formal public agenda consultation on its future work plan. The comment period closed on 30 November 2011. Through the agenda consultation the IASB sought input from all interested parties on its strategic direction and the broad overall balance of the work plan. The agenda consultation will provide the Board with important input when considering possible agenda items. In January 2012 the Board discussed the staff's summary of feedback received on the agenda consultation. The Board expects to publish a feedback statement in the second quarter of 2012 and develop their strategy going forward in the second half of 2012.

Post-implementation reviews

IFRS 8 *Operating Segments*	In 2012 the IASB commenced its first post-implementation review (PIR), on IFRS 8 *Operating Segments.* In January 2012 the IASB reported to the DPOC on the development of the PIR methodology and the planning for the IFRS 8 review. This included a discussion of similar processes being undertaken by the US Financial Accounting Foundation (FAF). In March 2012 the Board agreed the planned approach for the PIR of IFRS 8. The Board decided that the investigation phase of this PIR should include a public consultation process through a Request for Views which would solicit comment letters. The Board plans to discuss the topics for inclusion in the Request for Views in its May 2012 meeting.

IFRSs and amendments to IFRSs published in 2012

IFRS	Description	Effective Date
Amendment to IFRS 1 (prospective application of IAS 20)	In October 2011 the Board published a proposal to amend IFRS 1 *First-time Adoption of International Financial Reporting Standards* that would allow for the prospective application of paragraph 10A of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* for first-time adopters. The amendment would provide the same relief granted to existing preparers. Comments were due by 5 January 2012. In January 2012 the Board deliberated on the comments received. In response to concerns raised, and to make the Board's intention clear, the Board agreed to limit the scope of the proposed exemption to matters of recognition and measurement. The Board published the final amendments in March 2012.	The amendments have an effective date of 1 January 2013, with early application permitted.