

# AGENDA PAPER

IFRS Foundation Trustees' meeting—Due Process Oversight Committee

London 12-13 April 2012

Agenda paper 3G

**To:** David Sidwell, Chairman—Due Process Oversight Committee

**From:** Sue Lloyd

**Date:** 26 March 2012

**Re:** Due Process Update

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## Overview

This report covers the following updates on technical projects:

- (a) Completed projects
- (b) Endorsement
- (c) Other due process matters/status of current projects

## Update on technical projects

This report focuses primarily on matters of due process/due process considerations that are related to IASB activities. Agenda Paper 2 for the public Trustee Meeting is the report by Hans Hoogervorst. That paper provides a more general update of the IASB projects.

Since the DPOC last met in January, the IASB has:

- Published amendments to IFRS 1 *First Time Adoption of International Financial Reporting Standards* to address accounting for government loans.
- Held round-tables with the FASB on the proposals for investment entities. Round tables were held in February and March in Canada, the UK, the US and Malaysia.
- Held round-tables and commenced discussions of feedback received on its first formal public agenda consultation.
- Continued discussions on the format of our post implementation review process with specific focus on IFRS 8 *Segment Reporting*.

## Completed projects

### **IFRS 1 *First time Adoption of International Financial Reporting Standards***

The exposure draft proposing amendments to IFRS 1 *First time Adoption of International Financial Reporting Standards* to address accounting for government loans had a 90 day comment period. This was notified and agreed with the DPOC prior to publication of that document.

On 13 March 2012 the IASB amended IFRS 1 for government loans. The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This is the same relief as was given to existing preparers of IFRS financial statements.

The amendments are mandatory for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

## Endorsement

On 20 December 2011 EFRAG wrote to the IASB and FASB requesting a deferral of the effective dates of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The request relates to difficulties in applying the new requirements and two exposure drafts that the EFRAG would prefer to see completed before IFRS 10, IFRS 11 and IFRS 12 become effective. These standards are interrelated and thus were considered by EFRAG for endorsement as a package.

Hans Hoogervorst replied to that request on 22 December 2011. We also asked EFRAG to provide us with the evidence of the type of difficulty that entities are encountering.

In early 2012 the Board discussed EFRAG's request. The Board noted that IFRS 12 in particular was an important financial crisis related project and that others (including some European constituents) did not feel deferral was appropriate given the resources committed to timely application. On balance the Board decided not to defer the mandatory effective dates.

At their March 2012 Technical Expert Group meeting EFRAG voted to recommend endorsement of these standards. However, the vote was in support of endorsement of the standards with a mandatory effective date of 1 January 2014 (with early application allowed). This mandatory date is 12 months later than the mandatory effective dates in IFRS 10, IFRS 11 and IFRS 12.

## **Other due process matters**

No project specific due process issues have been raised since the January 2012 meeting. Below is a high-level summary of the status of the projects currently underway with a focus on due process considerations.

### ***Financial Instruments***

#### **Classification and measurement**

As discussed in the January 2012 meeting, the Board has agreed to consider limited modifications to IFRS 9 *Financial Instruments*. No formal decision on re-exposure has yet been made. However, it is anticipated that changes will be made that will be exposed for comment in the second half of 2012.

#### **Impairment**

The Board has already exposed impairment proposals for comment twice. Since July 2011 the IASB and the FASB have been developing an expected loss model that is substantially different from the proposals previously exposed for comment. The boards will therefore most likely re-expose their proposals once deliberations are complete. It is anticipated that re-exposure will occur in the second half of 2012. However, no formal decision on re-exposure has yet been made.

#### **Hedge accounting**

##### *General*

The Board has asked the staff to prepare a review draft of the final requirements, including application guidance and a Basis for Conclusions. The review draft will be made available on the IASB website for about 90 days. We expect this document to be published early in the second quarter of 2012. The Board plans to finalise the general hedge accounting requirements once this review is complete. We do not request comments in response to a review draft. However, the review draft will provide the Board with the opportunity to undertake an extended fatal flaw process and additional outreach. The Board also wishes to give the FASB the opportunity to consider the planned requirements.

The Board has not yet completed its formal review of its due process steps. It will do so once the staff have completed the drafting review and reported back to the Board; after which the Board will review its due process steps and will assess whether re-exposure is necessary.

### *The macro hedge accounting model*

The Board resumed its public discussion of portfolio hedges in April 2011 and expects to publish a discussion paper or exposure draft during 2012. The model being explored by the Board is very different to the current hedge accounting model so the Board is likely to decide to issue a discussion paper rather than an exposure draft.

### **Insurance contracts**

The insurance contracts project continues to be controversial, particularly regarding concerns about volatility. The boards are looking at alternatives to address these concerns and are continuing outreach activities to obtain feedback from stakeholders.

A decision on whether the IASB will publish another exposure draft or move to a review draft will be made when deliberations are sufficiently finalised to enable the need for re-exposure to be assessed.

### **Revenue recognition**

The comment letter period of 120 days on the revised exposure draft closed on 13 March 2012. The boards will soon recommence redeliberations. The boards also intend to hold public discussions on their proposals in May 2012 in the UK, US and Japan and additional outreach meetings in South America and Malaysia.

### **Leases**

The Leases project has attracted a lot of attention. This is not surprising given that the proposals are likely to have a significant effect on how leases are presented in the financial statements, particularly of lessees.

The boards expected to complete their deliberations in October 2011. However, several Board members have asked the boards to revisit the accounting for lessees in longer-term leases, particularly for those that are related to property (ie tenanted buildings). This request arose as a result of feedback from constituents about decisions made during the redeliberations. The boards do not expect to publish the revised exposure draft until the second half of 2012.

In January 2012 the leases working group discussed various aspects of lessee accounting. In February 2012 the boards used input received from the working group to further discuss lessee accounting and, in particular, different methods of amortising the right-of-use asset recognised by lessees. The boards asked the staff to perform further outreach on those different methods to assess their operationality and usefulness for users of financial statements. The staff will report back to the boards in the second quarter of 2012. The expected timing of publication of the re-exposure document is the second half of 2012.

**2009-2011 Annual Improvements**

The 2009-2011 Annual Improvements ED included proposed amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* arising from the revisions to the *Conceptual Framework* that were finalised in 2010. The Board decided not to include these changes as part of the amendments finalised in Annual Improvements but to consider them separately. This issue was previously discussed by the DPOC in the January 2012 meeting.

**XBRL - 2012 IFRS Taxonomy**

The exposure draft of the IFRS Taxonomy 2012 was published in January 2012 and the comment period ended 17 March 2012. Approximately 100 comments have been provided, analysed, and, when relevant, integrated into the final version (targeted 29 March 2012) following a due process and according to a time line consistent with the previous four annual releases.

The 2012 Taxonomy is the first IFRS Taxonomy to include nearly 700 common practice elements. The taxonomy contains approximately 46 per cent more concepts (elements) than the 2011 version, reflecting new IFRS requirements and the common practice additions.

This taxonomy is likely to be the one that is considered for adoption by the US SEC. However, before that happens, we need to ensure that each concept has a definition. Because defined terms can affect how IFRSs are applied, the technical staff are involved in reviewing the definitions proposed.