IFRS Advisory Council meeting

20-21st February 2012

Agenda paper 1a
Appendix

The Technical Agenda

Project	Status
IFRS 9— replacement of IAS 39 *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 that preceded 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 October 2010 the Board amended IFRS 9 by carrying forward from IAS 39 the existing requirements for financial liabilities and added new requirements for financial liabilities. In November 2011 the Board agreed to consider limited modifications to IFRS 9 to see whether differences with the FASB can be narrowed, to consider whether changes could assist in addressing some of the volatility concerns in the insurance contracts project and to address some known application issues in IFRS 9. 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. As a result of certain key differences in their respective classification and measurement models, in January 2012 the IASB and the FASB decided to jointly redeliberate the following aspects of their respective models with an aim to reduce such 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 tentatively plan to discuss each issue jointly and what

Project	Status
	changes, if any, they would propose to make to their separate models and incorporate in their respective exposure drafts.
IFRS 9— replacement of IAS 39 *Effective date*	In December 2011 the IASB issued *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, which defers the mandatory effective date of IFRS 9 until January 2015. The Board also amended the transitional provisions to provide relief from restarting comparative information and introduced new disclosures to help users understand the effect of moving to the IFRS 9 classification and measurement model.
IFRS 9—replacement of IAS 39 *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. Recognising the significant practical challenges of moving to an expected loss model, the IASB established an Expert Advisory Panel (EAP), in December 2009 that was made up of experts in credit risk management. 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 still 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. Since then, the IASB and the FASB have focused on an approach that places financial assets into three categories (or 'buckets') for the purpose of assessing expected losses, making the maximum use of credit risk management systems. On initial recognition, financial assets would be placed into the first category, which would have an allowance than is less than the lifetime losses. At the December 2011 meeting the boards tentatively agreed to recognise 12 months of expected losses for these loans. The boards also tentatively agreed to transfer loans out of bucket one when there is a meaningful deterioration in credit quality and the entity

Project	Status
	would recognise the lifetime expected losses on these loans.
IFRS 9—replacement of IAS 39 *General 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. In September 2011 the Board completed its deliberations and asked the staff to prepare a draft of the final requirements, including application guidance and a Basis for Conclusions. That draft would be made available on the IASB website for about 90 days. We expect this document to be published in the first quarter of 2012. This will provide the Board with the opportunity to undertake an extended fatal flaw process and to undertake additional outreach. The Board also wishes to give the FASB the opportunity to consider the planned requirements. The Board plans to finalise the requirements once this review has been completed.
Macro hedge accounting	The objective of this project is to address risk management strategies referring to open portfolios (macro hedging) that are not covered by the exposure draft that was issued in December 2010 for general hedge accounting. The deliberation considers the feedback received on the general hedge accounting model. The Board expects to publish a due process in 2012.
IFRS 9—replacement of IAS 39 *Offsetting financial assets and financial liabilities*	The accounting differences in balance sheet presentation that result from whether IFRSs or US GAAP is applied result in the single largest quantitative difference in reported numbers in balance sheets prepared in accordance with IFRSs and US GAAP. This reduces the comparability of these balance sheets, and is especially prominent in the presentation of derivative assets and derivative liabilities by financial institutions. As a result, users of financial statements requested that the boards should find a common solution for offsetting these items. In January 2011 the boards published an exposure draft on offsetting financial assets and financial liabilities. The exposure draft proposed that offsetting should apply only when the right of set-off is enforceable at all times, including default and bankruptcy, and when the ability to exercise this right is unconditional (ie, it does not depend on a future event). The companies must intend to net settle, or simultaneously settle, the

Project	Status
	gross amounts. Provided all of these requirements were met, offsetting would be required. Responses to the proposals were mixed. In June 2011 the IASB and FASB reached different conclusions on how to move forward. The IASB voted 15-0 to confirm the proposals, with some modifications, whereas the FASB voted 4-3 not to proceed as proposed. As a consequence, the boards decided to finalise the proposed disclosures. In December 2011 the boards finalised and issued common offsetting disclosure requirements. In addition, the IASB decided to provide additional application guidance in IAS 32 *Financial Instruments: Presentation*, to address issues identified during the redeliberations. The Board issued the final amendments to IAS 32 in December 2011.
Financial instruments with characteristics of equity	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 had originally been planned. After deciding not to proceed with a proposed amendment to IAS 32 to exclude put options over non-controlling interests the Board asked the Interpretations Committee to consider if there are arguments for remeasuring these instruments through equity. The Committee recommended that the Board propose an amendment to IAS 27 *Consolidated and Separate Financial Statements* and IFRS 10 *Consolidated Financial Statements* to confirm that the remeasurement of derivatives over non-controlling interests is not a transaction with owners in their capacity as owners.
Revenue recognition	The IASB is working to replace its very general revenue recognition 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 special nature of

Project	Status
	revenue. The re-exposed proposals constitute a new exposure draft. The Board has decided that the revised ED will have a 120-day comment period and, like any ED, will have a full Basis for Conclusions and any related application guidance and illustrative examples. The exposure draft was published on 14 November 2011 with comments due by 13 March 2012.
Leases	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. During 2011 the IASB and FASB 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 Board has not yet formally decided on the comment period, but the staff are recommending a 120-day comment period. In addition, like any ED, it will have a full Basis for Conclusions and any related application guidance and illustrative examples. The re-deliberations are substantially complete but the boards are aware of remaining concerns about the profit and loss profile for lessees. The staff are further considering this issue. In January 2012 the leases working group discussed various aspects of lessee accounting and the definition of an investment property. Using input received from the working group meeting the boards will further discuss lessee accounting in the February 2012 joint board meeting. The exposure draft is expected to be issued late in the second quarter of 2012.
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

Project	Status
	received on the IASB's exposure draft and the FASB Discussion Paper. The decision in January 2012 to redeliberate some aspects of the boards' classification and measurement models will also aim to address specific concerns that have arisen from stakeholders in the insurance project. *The IASB is considering whether to publish a revised exposure draft or a review draft as its next step in the second half of 2012. However, the boards have reached different conclusions on several important aspects of the project and are currently identifying ways to address those differences.*

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. Subject to the Board's approval, the amendments in the Improvements to IFRSs are expected to be issued in the first half of 2012. <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 first quarter of 2012.

Project	Update
IFRS 10 Transition Clarifications	In December 2011 the IASB published for public comment an exposure draft with a 90 day comment period that clarifies the transition provisions in IFRS 10 *Consolidated Financial Statements*. The Board expects to start its deliberations based on the feedback received in April 2012.
Amendment to IFRS 1 (prospective application of IAS 20)	In September 2011 the Board considered a request 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. The Board decided to propose this narrow scope amendment to IFRS 1. The related exposure draft was published on 20 October 2011 and the comment period closed on 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 asked the staff to modify the proposed illustrative example to illustrate this point. The Board also agreed that the amendment should have an effective date of 1 January 2013, with early application permitted. The Board expects to issue the amendment in February 2012.
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 measure those investments at fair value, with any changes in fair value recognised in profit or loss. The FASB has released similar proposals. The comment period for the exposure draft closed on 5 January 2012. There are some differences between the IASB and FASB proposals, which the boards will highlight in their joint public roundtables to be held in February and March 2012.

Agenda Consultation

Agenda Consultation	On 26 July 2011 the IASB launched its first formal public agenda consultation on its future work plan. Comments are requested by 30 November 2011. Through the agenda consultation the IASB is seeking input from all interested parties on the 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 feedback reported to the Board was developed on the basis of the 245 comment letters received, the results of an on-line survey of investors and feedback received from outreach activities undertaken by Board members and staff members. These papers will also be presented to the Advisory Council in February 2012. The staff did not make any recommendations and the Board was not asked to make any technical decisions. The Board requested that the staff should do further research to clarify some matters raised in the comment letters and suggested further ways in which the priorities for standards-level projects could be assessed. The Board expects to discuss a development plan in March 2012.

IFRSs and amendments to IFRSs published in 2011

IFRS	***Description***	***Effective Date***
IFRIC 20 Stripping Costs *in the Production Phase of a Surface Mine*	On 19 October 2011 the IASB issued IFRIC 20. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.	The Interpretation is effective for annual periods beginning on or after 1 January 2013 with earlier application permitted.
IFRS 10 Consolidated Financial Statements *IFRS 11 Joint Arrangements* *IFRS 12 Disclosure of Interests in Other Entities* *IAS 27 Separate Financial Statements* *IAS 28 Investments in Associates and Joint Ventures*	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 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 an amended and retitled IAS 27 *Separate Financial Statements* and an amended and retitled 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.
IFRS 13 Fair Value Measurement	On 13 May 2011 the IASB issued IFRS 13 *Fair Value Measurement.*	The new requirements are effective for annual periods beginning on or after

IFRS	*Description*	*Effective Date*
	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.	1 January 2013, with earlier application permitted.
IAS 19 Employee Benefits	On 16 June 2011 the Board issued amendments to IAS 19 *Employee Benefits*. The amendments will improve the recognition and disclosure requirements for defined benefit plans.	The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.
IAS 1 Presentation of Items of Other Comprehensive Income	On 16 June 2011 the Board issued amendments to IAS 1 *Financial Statement Presentation*. These amendments improve how we present components of other comprehensive income. The FASB issued equivalent requirements on the same day.	The new IASB requirements are effective for annual periods beginning on or after 1 July 2012.
IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) *Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*	On 16 December 2011 the Board published amendments to IAS 32 *Financial Instruments: Presentation* to clarify the application of the offsetting requirements. On the same date the Board published new disclosure requirements jointly with the FASB that enable users of the financial statements to better compare financial statements prepared in accordance with IFRSs and US GAAP.	The new IAS 32 amendments are effective for annual periods beginning on or after 1 January 2014, with earlier application permitted. The new IFRS 7 requirements are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods.

IFRS	***Description***	***Effective Date***
Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7)	On 16 December 2011 the Board deferred the mandatory effective date of IFRS 9 to 1 January 2015. The amendments also provide relief from restating comparative information and require disclosures (in IFRS 7) to enable users of financial statements to understand the effect of beginning to apply IFRS 9.	1 January 2015