

IASB Update

From the International Accounting Standards Board



June 2012

Welcome to IASB Update

The IASB met in public from 12-14 June 2012 at the IASB offices in London, UK. The FASB joined the IASB for some of the sessions, with some members participating in person and others via video from its offices in Norwalk.

The topics for discussion at the joint IASB/FASB meeting were:

- Financial instruments: classification and measurement
- Investment entities
- Insurance contracts
- Leases

The topics discussed at the IASB meeting were:

- *IFRIC Update*
- Review of the IFRS for SMEs
- Insurance contracts
- Investment entities
- Issues from the Interpretations Committee
- Post-implementation review of IFRS 8 *Operating Segments*
- Work plan

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Future Board meetings

The IASB meets at least once a month for up to five days.

The next Board meetings in 2012 are:

16-20 July
24-28 September
15-19 October

To see all Board meetings for 2012, [click here](#).

Archive of IASB Update Newsletter

[Click here](#) for archived copies of past issues of IASB *Update* on the IASB website.

Podcast summaries

To listen to a short Board meeting audio summary (podcast) of previous Board

IASB/FASB sessions

Financial instruments: classification and measurement

At this session, the IASB and FASB discussed the scope of the fair value through other comprehensive income (FVOCI) measurement category for debt instruments and the fair value option.

The scope of the FVOCI measurement category for debt instruments (joint IASB and FASB discussion)

The IASB and the FASB discussed the scope of the FVOCI measurement category for debt instruments and re-affirmed that a debt instrument will be measured at FVOCI only if:

- the debt instrument passes the contractual cash flow characteristics assessment (as discussed by the boards at the February 2012 joint board meeting); and
- the debt instrument is managed within the relevant business model (as discussed by the boards at the joint board meeting in May 2012).

Fair value option (IASB-only discussion)

The IASB discussed the fair value option for debt investments measured at FVOCI and tentatively decided to extend the current eligibility condition in IFRS 9 *Financial Instruments* for designating financial assets under the 'accounting mismatch' fair value option to debt investments that would otherwise be measured at FVOCI. These debt instruments may thus be measured at fair value through profit or loss (FVPL) if doing so would eliminate or significantly reduce an accounting mismatch.

Fair value option (FASB-only discussion)

The FASB discussed the fair value option for financial assets and financial liabilities. The FASB tentatively decided that an entity may, at initial recognition, irrevocably elect a fair value option for the following financial instruments:

- A hybrid financial liability may be designated at FVPL, unless
 - the embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract; or
 - it is clear with little or no analysis, when a similar hybrid instrument is first considered, that separation of the embedded derivative(s) is prohibited.
- A group of financial assets and financial liabilities may be designated at FVPL, if both of the following conditions are met:
 - the entity manages the net exposure relating to those financial assets and financial liabilities (which may be derivative instruments) on a fair value basis; and
 - the entity provides information on that basis to the reporting entity's management.

Investment entities

The IASB held a non-decision making education session on Investment entities on Tuesday 12 June in preparation for the decision-making session, which was held on Thursday 14 June.

In the decision-making session, the IASB and the FASB discussed:

- Accounting by an investment entity parent for an investment entity subsidiary
- Accounting by a non-investment entity parent for the investments of an investment entity subsidiary

Accounting by an investment entity parent for an investment entity subsidiary

The boards tentatively decided that an investment entity should be required to measure all controlling financial interests in another investment entity at fair value (including in both master-feeder and fund-of-funds structures), rather than consolidating those subsidiaries. However, the FASB will discuss at a future FASB meeting whether an investment company parent entity that is regulated under the SEC's *Investment Company Act* of 1940 should be required to consolidate its wholly-owned investment company subsidiaries.

For master-feeder structures, thirteen IASB members agreed and all FASB members agreed. For fund-of-funds structures all IASB members agreed and all FASB members agreed.

The IASB tentatively decided not to require an investment entity to attach the financial statements of its investees in any circumstances. Only seven IASB members supported requiring financial statements to be attached.

The FASB tentatively decided to require a feeder fund in a master-feeder structure to attach its master fund's financial statements along with its financial statements. All FASB members agreed. The FASB will discuss at a future FASB meeting whether a master-feeder structure should be defined.

Accounting by a non-investment entity parent for an investment entity subsidiary

IASB decisions

The IASB tentatively decided that a non-investment entity parent should not retain the exception from consolidation that is used for the controlled investees of an investment entity subsidiary. Twelve IASB members agreed.

FASB decisions

The FASB tentatively decided to retain the requirement in current US GAAP that a non-investment company parent should retain the specialised accounting used by an investment company subsidiary. All FASB members agreed.

Insurance contracts

The IASB and FASB continued their discussions on insurance contracts by exploring a method of measuring earned premiums for presentation in the statement of comprehensive income and considering how to attribute cash flows to the unbundled components of bundled insurance contracts in order to measure those unbundled components.

Method of measuring earned premiums

The boards discussed an approach to derive a measurement of earned premiums. The boards agreed to explore further the usefulness of the information and the extent of any operational difficulties. In particular, the boards would seek feedback from the Insurance Working Group, which includes users among its members. No decisions were made at this meeting.

The boards tentatively decided that:

- a. an insurer should attribute cash flows to an investment component and to an embedded derivative on a stand-alone basis. This means that an insurer would measure an investment component or embedded derivative as if it had issued that item as a separate contract. The insurer would thus not include the effect of any cross-subsidies or discounts/supplements in the investment component.
- b. after excluding the cash flows related to unbundled investment components and embedded derivatives:
 - i. The amount of consideration and discounts/ supplements should be attributed to the insurance component and/or service component in accordance with proposals in paragraphs 70-80 of the exposure draft *Revenue from Contracts with Customers*.
 - ii. Cash outflows (including expenses and acquisition costs) that relate directly to one component should be attributed to that component. Cash outflows related to more than one component should be allocated to those components on a rational and consistent basis, reflecting the costs that the insurer would expect to incur if it issued that component as a separate contract. Once cash outflows are attributed to components, the insurer would account for those costs in accordance with the recognition and measurement requirements that apply to that component.

Leases

Lessee accounting

The IASB and the FASB discussed lessee accounting, and whether there should be different lease expense recognition patterns for different leases. The boards tentatively decided that a lessee should account for:

- a. some leases using an approach similar to that proposed in the 2010 *Leases* exposure draft; and
- b. some leases using an approach that results in a straight-line lease expense (straight-line approach).

Twelve IASB members and six FASB members agreed.

The boards also tentatively decided that a lessee should distinguish between these two different types of lease on the basis of whether the lessee acquires and consumes more than an insignificant portion of the underlying asset over the lease term. That principle should be applied by using a practical expedient based on the nature of the underlying asset as follows:

- a. Leases of property (land or a building—or part of a building—or both) should be accounted for using the straight-line approach, unless:
 - i. the lease term is for the major part of the economic life of the underlying asset; or
 - ii. the present value of fixed lease payments accounts for substantially all of the fair value of the underlying asset.
- b. Leases of assets other than property should be accounted for using an approach similar to that proposed in the 2010 *Leases* exposure draft, unless:
 - i. the lease term is an insignificant portion of the economic life of the underlying asset; or
 - ii. the present value of the fixed lease payments is insignificant relative to the fair value of the underlying asset.

Lessor accounting

The boards discussed lessor accounting, and tentatively decided to change the tentative decisions on the lessor accounting model that is used to determine when the receivable and residual approach would apply. All FASB members and 12 IASB members agreed to change the tentative decisions.

The boards tentatively decided that a lessor should distinguish between leases to which the receivable and residual approach applies and leases to which an approach similar to operating lease accounting applies. The distinction would be made by using the same criteria as noted above for lessee accounting. Consequently, a lessor would apply the receivable and residual approach to leases for which the lessee acquires and consumes more than an insignificant portion of the underlying asset over the lease term. Four FASB members and eleven IASB members agreed.

IASB sessions

IFRIC Update

The IASB received an update from the May 2012 meeting of the IFRS Interpretations Committee. Details of the meeting were published in *IFRIC Update*, which is available by [clicking here](#).

Review of the IFRS for SMEs

The IASB considered the proposed timing of the forthcoming initial comprehensive review of the *IFRS for Small and Medium-Sized Entities* (SMEs) and discussed a final draft of an Request for Information (note, this document was called an 'Invitation to Comment' in the Board papers for the meeting and has been retitled). Issue of the Request for Information will be the first step in the initial comprehensive review of the *IFRS for SMEs*.

The IASB's SME Implementation Group (SMEIG) worked closely with IASB staff to develop the Request for Information. The objective of the document is to seek public views on whether there is a need to make any amendments to the *IFRS for SMEs*, and, if so, what amendments should be made. The SMEIG approved and submitted the final draft of the Request for Information to the Board for review at this meeting with a recommendation for issue. The document does not contain any preliminary views of the IASB or the SMEIG.

The IASB approved the publication of the Request for Information with a deadline for responses of 30 November 2012.

Insurance contracts

At their joint session, the IASB and FASB discussed three approaches for determining how much premium would be recognised in each accounting period, focusing on an earned premium approach. At this session, the IASB considered the implications of those approaches for the presentation of acquisition costs expenses and related premium. In particular, the IASB discussed whether an insurer would recognise those expenses and the related premium when the insurer incurs those acquisition costs or whether it would recognise them over the life of the contract. The purpose of the discussion was to explore the best form of presentation, not to change the measurement of the insurance contracts liability or to change the profit that the insurer would report. No decisions were made at this meeting.

Investment entities

The IASB discussed the consequential amendments to IAS 28 *Investment in Associates and Joint Ventures* proposed in the *Investment Entities* exposure draft.

The IASB tentatively decided to require an investment entity to measure:

- a. its investments in associates and joint ventures that provide services to the investment entity using the equity method of accounting; and
- b. its other investments in associates and joint ventures at fair value through profit or loss.

Thirteen IASB members agreed and one IASB member was absent.

The IASB also tentatively decided to retain the fair value option in IAS 28 for venture capital organisations, mutual funds, unit trusts, investment-linked insurance funds and similar entities that are not investment entities.

All Board members agreed.

Issues from the Interpretations Committee

The IASB discussed two issues from the IFRS Interpretations Committee.

IAS 28 *Investments in Associates and Joint Ventures*

The IASB discussed a proposed amendment to IAS 28 relating to the equity method of accounting when there are changes in an associate's net assets that are recognised by the associate directly in equity, i.e. outside comprehensive income. There is currently a lack of guidance in IAS 28 and consequently there is diversity in practice.

The aim of the proposed amendment is to give guidance on whether and where an investor should account for its share of the changes in the net assets of the associate that are not recognised in profit or loss or other comprehensive income of the associate (ie, 'other net asset changes').

Several of the Board members disagreed with the proposed amendment because it would not address all of the types of other net asset changes that might occur in practice, in particular share-based payments in an associate.

The IASB will consider this issue again at a future meeting.

Meaning of 'effective' in paragraph 7 of IFRS 1 *First-time Adoption of IFRSs*

The IASB discussed a proposed amendment to clarify the meaning of "effective IFRSs at the end of an entity's first IFRS reporting period" in paragraph 7 of IFRS 1.

The proposed change would amend the Basis for Conclusions by adding a new paragraph to clarify that an entity has the choice between applying an existing and currently effective IFRS or applying early a new IFRS that is not yet mandatorily effective, provided that the new IFRS permits early application. In such circumstances, a first time adopter is permitted to apply the new or revised IFRS in its first IFRS financial statements, provided the same version of the IFRS is applied throughout the periods covered by those first IFRS financial statements.

The IASB tentatively decided to include the proposed amendment in the next *Annual Improvements to IFRSs* exposure draft. All Board members agreed.

Post-implementation review of IFRS 8 *Operating Segments*

The IASB discussed the post-implementation review (PIR) of IFRS 8 *Operating Segments*.

The IASB discussed a request from the staff for permission to publish a Request for Information (RFI) on the effect of implementing IFRS 8. As tentatively agreed at the May 2012 meeting, the structure of the proposed RFI would be based on the key decisions that were made when the IASB developed IFRS 8. These decisions were:

- a. to identify segments based on the management approach;
- b. to measure disclosed line items on the basis used for internal reporting; and
- c. to disclose only those line items regularly reviewed by the chief operating decision maker.

The staff also proposed including further questions in the RFI on the identification of implementation issues and unexpected costs; the disclosure requirements of IFRS 8; and information about respondents. The IASB discussed, and gave comments on, the content and style of the questions proposed.

The IASB agreed to the staff's request to publish an RFI, structured in accordance with the staff's proposals.

The IASB also discussed the preliminary findings of a review of academic literature to May 2012 on the effect of applying IFRS 8. In those discussions the IASB identified some areas in which future academic research would be welcome, such as the effect of the implementation of IFRS 8 on interim reporting.

The IASB plans to discuss this topic again when it has received information in response to the RFI and as a result of planned outreach activities-on the effect of implementing IFRS 8.

Work plan

The work plan reflecting decisions made at this meeting will be updated on the IASB website in the week beginning 18 June 2012.

Projected targets as at 18 June 2012	2012 Q2	2012 Q3	2012 Q4	2013 Q1	MoU	Joint
Next major project milestone						
Agenda consultation						
Three-yearly public consultation	Feedback Statement	Development of strategy				
Next major project milestone						
Financial Crisis related projects						
IFRS 9: Financial instruments (replacement of IAS 39)						

- Classification and measurement (review)			Target ED			
- Impairment			Re-exposure			
Hedge accounting						
- General hedge accounting	Review draft		Target IFRS			
- Macro hedge accounting			Target DP or ED			
Next major project milestone						
Memorandum of Understanding projects						
Leases			Re-exposure			
Revenue recognition	Consider comments received					
Next major project milestone						
Other Projects						
Insurance contracts			Review draft or revised ED			
IAS 8 Effective date and transition methods			Target ED			
Annual improvements 2010-2012				Target completion		
Annual improvements 2011-2013			Target ED			
Consolidation–Investment entities						
Transition Guidance (Proposed amendments to IFRS 10)	Target amendment					
Next major project milestone						
Post-implementation reviews						
IFRS 8 Operating Segments	Request for Views					
IFRS 3 Business Combinations			Initiate review			

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