AGENDA PAPER

IFRS Foundation Trustees meeting

Washington DC	12 July 2012	**Agenda ref**	**2B**

The Technical Agenda

Project	Status
IFRS 9— replacement of IAS 39 *Classification and Measurement - Limited modifications*	The IASB completed Phase 1 of IFRS 9 *Financial Instruments* in October 2010. The FASB separately developed a preliminary model for the classification and measurement of financial instruments. The IASB and the FASB had reached different answers 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 other comprehensive income (OCI) should be recycled to net income 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 limited modifications to IFRS 9 to see whether differences with the FASB could 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 agreed to a limited scope and noted the need for timely completion. The Board also noted the need to be cognisant that some have already adopted IFRS 9 so the Board needed to try to minimise disruption for these entities. In conjunction with this, in January 2012 the IASB and the FASB (the boards) decided to jointly redeliberate certain aspects of their respective models to address key differences. As a result, in May 2012 the boards made the following tentative decisions in the

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Amortised cost-contractual cash flow characteristics: to maintain the principal and interest criteria in IFRS 9 (with some clarifications);
Bifurcation: to eliminate bifurcation for financial assets and maintain bifurcation for financial liabilities;
Fair value through other comprehensive income (FVOCI) category: the IASB decided that a FVOCI measurement category for eligible debt investments should be added to IFRS 9. The measurement of these assets would result in a fair value balance sheet and an amortised cost profit and loss statement.
FVOCI business model: financial assets should be measured at FVOCI if they are simple debt investments and are held within a business model whose objective is both to hold the financial assets to collect contractual cash flows and to sell the financial assets.

The majority of these decisions did not change the current IFRS 9 model but rather reaffirmed the model with additional application guidance. These decisions further align the boards’ classification and measurement models.
The classification and measurement limited review discussions are now substantially complete. The boards plan to issue exposure drafts in the fourth quarter of 2012. Owing to the different stages of development, the boards propose that any exposure drafts should be separate but achieve as converged an outcome as possible. </td></tr>
<tr><td> IFRS 9—replacement of IAS 39 Amortised cost and impairment of financial assets </td><td> The IASB and the FASB are continuing to address the main criticism of an incurred loss impairment model highlighted during the financial crisis. The IASB published an initial exposure draft of proposals in 2009 and the IASB and the FASB subsequently published supplementary joint proposals in 2011. Significant concerns were raised about these proposals.
Since then, the IASB and the FASB have focused on an expected loss model that places financial assets into categories (or ‘buckets’) for the purpose of assessing expected losses, making use of credit risk management systems. The objective of this project 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 to reflect the deterioration and </td></tr>
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Project	Status
	improvement of the credit quality of financial assets by the estimation and reporting of expected losses in a timely manner. On initial recognition, financial assets (other than purchased credit-impaired assets) would be placed into the first category, which would have an allowance of **12 months** of expected losses for these loans. Loans would transfer out of the first category when there is deterioration in credit quality and it is reasonably possible that the contractual cash flows will not be collected (the transfer criteria). The entity would then recognise the **lifetime expected losses** on these loans. In February 2012 the boards tentatively decided that the model would be symmetrical. Therefore if an asset no longer meets the original transfer criteria it would be moved back into the first category and a 12 month allowance would be re-established. In April and May 2012 the boards made tentative decisions about: • the treatment of trade receivables (short term and long term); • the treatment of lease receivables; and • how to treat modifications to financial assets. The IASB also tentatively decided the discount rate to be used in directly measuring expected losses. The impairment discussions are now substantially complete. The boards plan to issue exposure drafts in the fourth quarter of 2012 and target finalising the new requirements in the first half of 2013.

Project	Status
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 and to align it more closely with risk management. The exposure draft did not address portfolio hedges. In 2011 the Board completed its deliberations on general hedge accounting and asked the staff to prepare a draft of the final requirements, including application guidance and a Basis for Conclusions. The review draft is planned for mid-2012 and will be made available on the IASB website for about 90 days. This will provide the Board with the opportunity to undertake an extended fatal flaw process. 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 subject to confirming satisfaction of all due process steps.
IFRS 9—replacement of IAS 39 *Accounting for macro hedges*	The objective of this project is to address risk management strategies for open portfolios (macro hedging) that are not covered by the exposure draft that was issued in December 2010 for general hedge accounting. However, the deliberation considers the feedback received on the general hedge accounting model. Due to the complexity of accounting for macro hedges, in May 2012 the Board agreed to first publish a discussion paper before moving to an exposure draft. The Board is targeting publication of this document in 2012.

Project	Status
Revenue Recognition	The IASB and FASB published a joint discussion paper in December 2008 and an exposure draft in June 2010 on revenue recognition. In 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 comment period on the re-exposure draft ended in March 2012. In May 2012 the staff from both boards provided a summary of the outreach activities performed, including the round-table meetings and discussion forums held. The staff also summarised the feedback received from the comments letters and the outreach activities. Substantive redeliberations are expected to be completed in 2012 with a final standard expected to be issued in early 2013.
Leases	The boards published a joint exposure draft on accounting for leases in August 2010. During 2011 and 2012 the IASB and FASB considered the comments received on the exposure draft. 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 boards have not yet formally decided on the comment period, but the staff are recommending a 120-day comment period. In addition, like any exposure draft, it will have a full Basis for Conclusions and any related application guidance and illustrative examples. The re-deliberations are substantially complete. The following issues have been discussed to date in 2012: • January 2012: the leases working group discussed various aspects of lessee accounting and the definition of an investment property. • February 2012: the boards discussed different methods of amortising the right-of-use asset and any consequences that a change to the lessee accounting model would have on the tentative decisions for lessor accounting. The boards directed the staff to undertake further outreach and research

Project	Status
	on those two approaches. • May 2012: the boards further discussed the feedback received during the leases outreach meetings held in April and May 2012, related mainly to lessee accounting, and the related profit and loss profile. There was also some feedback on the lessor accounting proposals. The feedback confirmed strong user support for lessees to recognise leases on the balance sheet and mixed views on the related profit and loss profile. • June 2012: the boards decided that the profit and loss profile for lessees will depend on the consumption of the underlying asset. The boards are targeting completing deliberations and issuing exposure drafts in the fourth quarter of 2012. During the comment period, the boards plan to conduct additional outreach with users of financial statements and entities that undertake lease activities. Depending on the nature and extent of issues raised, the boards expect a final standard in mid-2013.
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 basic matters. The IASB estimates that it will conclude the major technical discussions in the second half of 2012. The IASB is yet to determine whether it should publish another exposure draft or proceed to a final IFRS.

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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 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 recommenced in May 2012. The IASB has consistently noted that it is important to finalise deliberations on this project expeditiously to confirm the scope of consolidation for those applying IFRS 10 (mandatorily effective 1 January 2013). The boards expect to issue final standards during 2012.
IFRS for SMEs – Comprehensive Review 2012-2014	When the IASB issued the *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs) in July 2009, it stated that it would undertake an initial comprehensive review of the Standard to enable the IASB to assess the first two years' experience in implementing the Standard and consider whether there is a need for any amendments. Because companies have now been using the IFRS for SMEs for two years (2010 and 2011), the review will commence in late June 2012. The IASB will issue a Request for Information seeking public views on whether there is a need to make any amendments to the IFRS for SMEs. The deadline for responses will be 30 November 2012. Depending on the comments received and the possible amendments to the Standard, the IASB targets publishing an exposure draft of the proposals in mid-2013.

Narrow-scope improvements

Project	Update
Transition guidance – Proposed amendments to IFRS 10	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*. In May 2012 the Board discussed the feedback received and agreed to make the following amendments: • add a definition of the date of initial application to IFRS 10; • clarify that an entity is not required to make adjustments to the accounting for its involvement with an entity that was disposed of in the comparative period(s); and • amend IFRS 10 to clarify how the investor shall retrospectively adjust comparative periods when the consolidation conclusion changes between prior IFRS requirements and IFRS 10. The Board also discussed whether similar transition relief should be provided for first-time adopters of IFRS. It was noted that the issues raised regarding retrospective application were not specific to IFRS 10 and should be considered more comprehensively. The Board asked the staff to examine the issue for future consideration by the Board. The Board also tentatively decided to provide additional transition relief in IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The Board agreed to finalise these proposals expeditiously due to the mandatory effective date of IFRS 10 (1 January 2013).

Project	Update
IAS 8 –Effective date and transition methods	In October 2010 the IASB published a *Request for Views* on when new financial reporting standards should become effective and related transition methods. Issues were raised in the feedback received and from the outreach performed relating to the disclosures required in accordance with the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when there is a change in accounting policy. An exposure draft proposing these amendments to IAS 8 is expected to be published in the second half of 2012.
Annual Improvements	<u>2009-2011 cycle</u> In May 2012 the IASB issued *Annual Improvements 2009–2011 Cycle*, a collection of amendments to IFRSs, in response to six issues addressed during the 2009–2011 cycle, as its latest set of annual improvements. The amendments reflect issues discussed by the IASB during the project cycle that began in 2009, and that were subsequently included in the exposure draft of proposed amendments to IFRSs, *Improvements to IFRSs* (published June 2011). The amendments are effective for annual periods beginning on or after 1 January 2013, although entities are permitted to apply them earlier. <u>2010-2012 cycle</u> On 3 May 2012 the IASB published for public comment an exposure draft of proposed amendments to IFRSs under its annual improvements project. The proposed amendments reflect issues discussed by the IASB in the project cycle that began in 2010. The ED includes eleven proposed amendments to IFRSs. Comments are due 5 September 2012. <u>2011-2013 cycle</u> The IASB has also been considering proposals for the next package of improvements. Those proposals are expected to be published in an exposure draft in the third quarter 2012.

Agenda Consultation

Agenda consultation	In July 2011 the IASB launched its first formal public agenda consultation on its future work plan to seek 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 feedback received on the agenda consultation. The feedback summary 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. In May 2012 the IASB discussed proposed responses to the key messages received from the agenda consultation and tentatively agreed on steps to move forward with the future agenda.

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). The Board's *Due Process Handbook* indicates that a PIR is an opportunity to assess the effect of the new requirements on investors, preparers and auditors. The review must consider the issues that were important or contentious during the development of the publication (which should be identifiable from the Basis for Conclusions, Project Summary, Feedback Statement and Effect Analysis of the relevant IFRS), as well as issues that have come to the attention of the IASB after the document was published. The IASB and its staff also consult the wider IFRS community to help the IASB identify areas in which possible unexpected costs or implementation problems were encountered.

In March 2012 the IASB discussed the planned approach for the PIR of IFRS 8 and agreed that:

- the review of IFRS 8 should also include investigating whether IFRS 8 had been effective at achieving its objectives of convergence with US GAAP and improving financial reporting; and
- that the transparency of the review process should be increased through soliciting comment letters in response to a Request for Information (RFI) published by the Board.

In May 2012 the Board further discussed the planned approach for the PIR of IFRS 8. The Board agreed the following:

- The structure of the investigation and reporting phases should reflect the main decisions made when the Board developed IFRS 8. These decisions were:
  (a) to identify segments on the basis of the management approach;
  (b) to measure disclosed line items on the basis used for internal reporting; and
  (c) to disclose only those line items that are regularly reviewed by the chief operating decision maker.
- The proposed structure of a RFI on the effect of implementing IFRS 8 that the Board expects to issue in July 2012. As part of that discussion, the Board discussed a list of preliminary issues identified for investigation and considered what other investigation tools, in addition to the RFI, could be employed in the PIR process.

In June 2012 the Board discussed the preliminary findings of the review of academic literature related to IFRS 8, and agreed that the staff should issue a Request for Information in June. The RFI will have a 120 day comment period.

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.