

AGENDA PAPER

IFRS Foundation Trustees' meeting—Due Process Oversight Committee

Washington DC

11 July 2012

Agenda paper 4D

To: David Sidwell, Chairman—Due Process Oversight Committee

From: Sue Lloyd

Date: 25 June 2012

Re: Update on technical activities

Overview

This report covers updates on the following technical activities:

- Work plan projects
 - (a) endorsement
 - (b) current projects
- Agenda consultation
- Post-implementation reviews
- XBRL: IFRS Taxonomy 2012

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 April, the IASB has:

- issued *Annual Improvements 2009–2011 Cycle*, in response to the issues addressed during the 2009–2011 cycle;
- continued discussions about the feedback received on the IASB's first formal public agenda consultation;
- began discussions about the feedback received on its first post-implementation review; and

- received recommendations from the Trustees of the IFRS Foundation (the Trustees) on the efficiency and effectiveness of the IFRS Interpretations Committee (the Interpretations Committee).

In addition:

- the Interpretations Committee published proposed guidance on the accounting for put options written on non-controlling interests and on levies charged by public authorities on entities that operate in a specific market; and
- the Trustees have proposed enhancements to its due process handbook.

Endorsement

On 1 June 2012 the European Accounting Regulatory Committee (ARC) voted to endorse IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, with a mandatory date of 1 January 2014. Early application will be permitted. The actual Standards have a mandatory application date of 1 January 2013. The ARC also voted to endorse IFRS 13 *Fair Value Measurement* which has a mandatory application date of 1 January 2013.

Current projects

A list of the reports submitted to the DPOC on due process issues since the April 2012 meeting is attached at Appendix A. Subject to the views of the Committee, we plan to make them available on the website with the papers for this meeting. In the future, if the Committee agrees, we plan to post the reports on the website as they are submitted.

Below is a high level summary of the status of the projects currently under way with a focus on due process considerations.

Financial crisis related projects

Financial Instruments

Classification and Measurement: limited review

As discussed in the April 2012 meeting, the IASB has agreed to consider limited modifications to IFRS 9 *Financial Instruments*. As a result, in May 2012 the IASB and the FASB (the boards) made tentative decisions that further align the boards' classification and measurement models. The resulting models are not identical but are much more closely aligned. The majority of these decisions did not change the current IFRS 9 model but instead reaffirmed the model with additional application guidance.

The most significant change has been to propose reintroducing a 'fair value through other comprehensive income' (FVOCI) category for debt investments. While this is a positive step

for improving convergence and will address some of the volatility concerns raised in the Insurance Contracts project, some banks are concerned that more assets may be measured at fair value as a result.

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.

Impairment

The IASB has twice exposed impairment proposals for comment. 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 impairment discussions are now substantially complete.

The tentative model is more forward-looking and thus addresses the criticisms of an incurred loss model. It also addresses many of the operational concerns raised previously by stakeholders. However, because the model would require the impairment allowance to vary depending on whether an asset's credit quality has deteriorated in order to provide information about changes in credit quality, the model is not fully aligned with credit risk management systems and would therefore necessitate systems changes. In addition, as the current level of provisions varies significantly by jurisdiction, a range of views is likely to be expressed by stakeholders. The boards plan to issue exposure drafts in the fourth quarter of 2012 and aim to finalise the new requirements in the first half of 2013.

Hedge Accounting

General

As discussed in the April 2012 meeting, the IASB has asked the staff to prepare a review 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. We do not request comments in response to a review draft. However, the review draft will provide the IASB with the opportunity to undertake an extended fatal flaw process. The IASB also wishes to give the FASB the opportunity to consider the planned requirements.

The IASB plans to finalise the requirements once this review is complete, subject to confirming that all due process steps have been complied with.

Accounting for macro hedges

In May 2012, because of the complexity of accounting for macro hedges, the IASB decided to first publish a discussion paper (DP) as the next due process document before moving on

to an exposure draft. In general, stakeholders have agreed with the IASB's decision to first issue a DP, because it provides an opportunity to obtain more extensive feedback. The IASB is targeting the publication of the DP in 2012.

Memorandum of Understanding projects

Leases

The Leases project continues to attract 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. In May and June 2012 the boards discussed the feedback received during outreach meetings held in April and May, mainly related to lessee accounting and the profit and loss profile. In June 2012 the boards reached a common solution on the profit and loss profile that addresses the concerns that many stakeholders previously had, namely that the profile did not reflect their view of the economic effect of some leases.

The boards aim to complete deliberations and issue 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 the issues raised, the boards expect a final Standard in mid-2013.

Revenue Recognition

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 comment 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.

Other technical projects

Insurance Contracts

The boards have reached different conclusions on several basic matters in the Insurance Contracts project. In addition, some concerns about volatility have been addressed by the IASB, but not all. We will receive additional input from the Insurance Working Group on the 25 and 26 June 2012. The IASB estimates that it will conclude the major technical discussions on the project in the second half of 2012, but is yet to determine whether it should publish another exposure draft or proceed to a final IFRS.

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 relating to the disclosures required in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when there is a change in accounting policy. In May 2012 the IASB made tentative decisions in relation to that feedback and will discuss this further in the July 2012 meeting. An exposure draft proposing amendments to IAS 8 is expected to be published in the second half of 2012.

Annual Improvements 2010-2012

The 2010–2012 Annual Improvements ED was published in May 2012. The comment period ends in September 2012, at which time the IASB will review the feedback received.

Investment Entities

In 2011 the boards published proposals that would require investment entities to measure investments in controlled entities at fair value through profit or loss (rather than consolidating such investments). In April 2012 the boards discussed the feedback received on such proposals. In May 2012 they agreed on a general definition of an investment entity and additional factors to consider. At the June 2012 meeting the IASB decided that a non-investment entity parent of an investment entity should not retain its subsidiary's fair value accounting for controlled investees (the so-called 'roll up') in its consolidated financial statements. The FASB reached the opposite conclusion¹. This will be met with mixed views from our stakeholders.

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 plan to issue final Standards during 2012.

Transition guidance-proposed amendments to IFRS 10

As I mentioned in the April 2012 meeting, in December 2011 the IASB published a very short exposure draft to clarify the transition requirements for IFRS 10 *Consolidated Financial Statements*. The comment period ended in March 2012. As a result of the feedback received, the IASB agreed to restrict the requirement to restate comparatives in IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. In addition, the IASB agreed to provide relief from certain comparative requirements in IFRS 12. The changes will meet many of the stakeholders' concerns. The

¹ This difference was also reflected in the proposals in the exposure drafts issued by the boards.

IASB agreed to finalise these proposals expeditiously because of the mandatory effective date of IFRS 10 (1 January 2013).

IFRS for SMEs

Comprehensive Review 2012-2014

In June 2012 the IASB agreed to issue a Request for Information seeking public views on whether there is a need to make any amendments to the *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs). This is the initial comprehensive review that the IASB had agreed to perform after the Standard had been in use for at least two years. 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.

Draft Interpretations

NCI Puts

On 31 May 2012 the Interpretations Committee published a draft Interpretation proposing clarifications to the accounting for puts over non-controlling interests. The comment period will end on 1 October 2012.

Levies

On 31 May 2012 the Interpretations Committee also published a draft Interpretation proposing clarifications to when a liability to pay certain levies should be recognised. The comment period will end on 5 September 2012.

Educational material: IFRS 13 *Fair Value Measurement*

The IASB will be publishing educational material related to IFRS 13 *Fair Value Measurement* later this year (2012). We propose that it be reviewed by three IASB members before publication. This is consistent with the procedures in the due process handbook that is currently out for comment.

Agenda Consultation

As previously discussed, 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 our strategic direction and on the broad overall balance of the work plan. The agenda consultation will provide the IASB with important input when considering possible agenda items.

In May 2012 the IASB discussed the proposed responses to the key messages received from the agenda consultation and the IASB staff presented their recommendations on the future agenda. The IASB tentatively agreed to steps to move forward with the future agenda. These steps include publishing a feedback statement explaining how the IASB has responded to the agenda consultation.

Post-implementation reviews

In May 2012 the IASB further discussed the planned approach for the post-implementation review of IFRS 8 *Operating Segments*. In June 2012 the IASB 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 as the next step in the post-implementation review in June 2012. The RFI will have a 120 day comment period.

XBRL: IFRS Taxonomy 2012

The final version of the IFRS Taxonomy 2012 was published on 29 March 2012. As we have previously mentioned, 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.

The US SEC is currently considering whether to allow entities to file their financial reports by electronically tagging them using XBRL, with the IFRS Taxonomy 2012. There remain some issues related to the ability of the SEC to consume IFRS data into its electronic system. The IASB staff are working with the SEC staff to address those issues.

Apart from continued work on the taxonomy, the main focus in the short term is the development of a strategic plan for XBRL.

Appendix A

List of reports submitted to the DPOC since the April 2012 meeting

Date	Subject
2 May	Exposure Draft ED/2012/1 <i>Annual Improvements to IFRSs 2010-2012 Cycle</i>
15 May	<i>Annual Improvements to IFRSs 2009-2011 Cycle</i>
30 May	Draft IFRIC Interpretation <i>Put Options Written on Non-controlling Interests</i>
30 May	Draft IFRIC Interpretation <i>Levies charged by public authorities on entities that operate in a specific market</i>
25 June	Finalisation of IFRS 10 (Proposed amendments to transition guidance)