STAFF PAPER

25-26 June 2012

Insurance working group

Project	**Insurance contracts**		
Paper topic	IASB Work Plan		
CONTACT(S)	Joanna Yeoh	jyeoh@ifrs.org	+44 (0)20 7246 6481

Introduction

1. This paper provides a progress report on the IASB's work plan. It contains papers presented to the IFRS Advisory Council for their meeting on 18 and 19 June 2012, as follows:

   (a) Chairman’s Report (IFRS Advisory Council agenda paper 1)

   (b) Technical Agenda (IFRS Advisory Council agenda paper 1A)

   (c) IASB’s Work Plan as at 1 June 2012

2. We provide a more detailed progress report on the Insurance Contracts project in agenda paper 9.

IFRS Advisory Council

London
18-19 June 2012

Agenda paper 1

Memorandum

To: IFRS Foundation Advisory Council

From: Hans Hoogervorst

Date: June 2012

Re: Chairman's Report

Overview

Until the middle of June 2013, the IASB will be primarily occupied with completing the projects in the current agenda. This includes the four major projects being undertaken jointly with the FASB: financial instruments, revenue recognition, leases and insurance.

In response to the comments received on the Agenda Consultation, we will begin work on a Conceptual Framework project, and start developing standards-level proposals for potential amendments to IAS 41 *Agriculture* (in relation to bearer crops); rate-regulated activities; and the equity method in separate financial statements. We will also initiate a broader research programme focusing on up to ten financial reporting issues.

Since the Advisory Council last met in February 2012 the IASB has:

- issued amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* to provide relief related to loans received from governments at a below-market rate of interest for first-time adopters;
- issued *Annual Improvements 2009–2011 Cycle*, in response to issues addressed during the 2009–2011 cycle;
- continued discussions of feedback received on its first formal public agenda consultation and begun discussions of feedback received on its first post-implementation review; and
- received recommendations from the Trustees on the efficiency and effectiveness of the IFRS Interpretations Committee.

In addition:

- The IFRS 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.
- The Trustees of the IFRS Foundation have proposed enhancements to its due process handbook.

Accompanying this report you will find a copy of the work plan and a more detailed analysis of the work we have been undertaking since February.

Completing the MoU and convergence projects

By the end of 2012 we expect to issue due process publications in relation to three of the four main projects on the current agenda and to complete the substantive redeliberations on the fourth project, Revenue recognition.

The IASB and the FASB (the boards) are aiming at finalising deliberations on their joint proposals on impairment accounting and classification and measurement in the first half of 2012. To date these deliberations have resulted in substantially converged outcomes.

The joint deliberations on lease accounting are substantially complete[1].

The boards have reached different decisions on some important aspects of insurance contracts accounting. These discussions have been complicated by the very different starting points for insurance accounting faced by the two boards, because the IASB urgently needed to establish an insurance contracts accounting model.

In the next sections I provide more detail on the developments in these and other projects.

Financial instruments

Impairment

The objective of the impairment project is to increase the usefulness of financial statements by improving the transparency of information about the credit quality of financial assets, primarily by reflecting the general pattern of deterioration and improvement of 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 is being developed jointly with the FASB.

As I mentioned in the February meeting, the IASB and the FASB have focused on an approach that places financial assets into categories (or 'buckets') for the purpose of assessing expected losses, making use of credit risk management systems. The impairment allowance recognised would vary depending upon the category in which an asset is allocated.

[1] At the time of writing this report the boards had yet to discuss the appropriate profit and loss profile for the lessee accounting model. An oral update on that discussion will be provided at the Advisory Council meeting.

On origination (or purchase) of non-credit-impaired assets, financial assets would be placed into the first category, which would have an allowance balance recorded equal to 12 months of expected losses.

If the credit quality of a financial asset deteriorates *and* it is reasonably possible that the contractual cash flows will not be collected (the transfer criteria), the asset would be 'transferred' into another category and the entity would recognise an impairment allowance equal to the lifetime expected losses for those assets. The model is symmetrical in that if an asset's credit quality subsequently improves in such a way that it no longer meets the 'transfer' criteria, the asset would be moved back into the first category, reinstating a 12-month impairment allowance.

As I mentioned earlier, we have nearly finished the impairment discussions, with disclosures and transition requirements still open. The current plan is to complete joint deliberations and issue largely aligned exposure drafts in the second half of 2012, most probably in the fourth quarter. On the basis of the timetable, we would plan to finalise the new impairment requirements in the first half of 2013.

We are aware of the importance of finalising the impairment project expeditiously, because impairment accounting has been a primary area of concern during the financial crisis. However, impairment accounting has major implications for costs and systems, particularly for financial institutions, so we need to balance the need for timely completion against the importance of obtaining robust input from our constituents.

IFRS 9–Classification and measurement

Limited modifications to IFRS 9

As I discussed in the February meeting, in late 2011 the IASB agreed to consider modifying IFRS 9 *Financial Instruments*, particularly in view of certain issues raised by stakeholders, as well as in the light of the need for convergence and the insurance contracts project. However, the Board also agreed that any changes should be made in a manner that minimises disruption for those who have already started to apply, or were close to applying, IFRS 9.

Consequently, the Board decided to only reconsider:

- the contractual cash flow characteristics criteria;
- whether bifurcation for financial assets should be reconsidered; and
- whether an OCI (other comprehensive income) remeasurement should be used for some debt investments.

The IASB and FASB have made tentative decisions with respect to these areas. These decisions further align the classification models under IFRS 9 with the FASB's tentative approach and address some of the insurance community's concerns. The majority of these decisions did not change the current IFRS 9 model, but instead reaffirmed it, while agreeing to additional application guidance. The IASB did, however, tentatively agree to include a third measurement category in IFRS 9–fair value through other comprehensive income (FVOCI) for simple debt investments. This category would result in a fair value balance sheet and an amortised cost profit or loss statement, with one impairment model being used for all financial assets not at fair value through profit and loss.

The joint discussion on classification and measurement is now substantially complete. The circumstances in which an entity can elect to measure items at fair value (the fair value option) are still outstanding, along with several minor issues and the finalisation of transition and disclosure requirements. The boards plan to complete these discussions by mid-2012 and 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. (For example, the IASB exposure draft would focus on changes to IFRS 9.)

Hedge accounting

The general model

In September 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. That review draft will be made available on the IASB website for about 90 days. We expect this document to be published in the middle of 2012. 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 is complete. However, the Board has not yet completed its formal review of its due process steps. It will do so following the 90-day review period, 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 continues its public discussion of portfolio hedge accounting. In May 2012 the Board decided that, based on the different approach to macro hedge accounting and the complexity of the subject, it will first publish a discussion paper before moving on to an exposure draft. In the interim, the portfolio hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement* would be retained, enabling entities using those requirements to do so until any new model is put in place.

Leases

In May 2012 the boards discussed the feedback received during the leases outreach meetings held in April and May 2012. The feedback 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.

At the June 2012 meeting the boards will discuss the appropriate profit and loss profile for lessees. The boards are targeting completing deliberations and issuing exposure drafts in the second half 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, we expect a final standard in mid-2013.

Revenue recognition

The staff and both boards engaged in extensive outreach activities between September 2011 and May 2012. Those outreach activities followed on from the targeted outreach that was performed throughout the redeliberations phase that led to the development and publication of the revised exposure draft.

In the May 2012 meeting the joint staff provided a summary of the outreach activities performed, including the round-table meetings and discussion forums that had been 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.

Other projects

Insurance contracts

As I mentioned in February the boards have reached different decisions on several basic matters. While both boards have agreed to measure the insurance liability using a current measure of the estimated cost to fulfil the obligation, the boards have reached different decisions on several aspects of the model, including the recognition of changes in estimate, the inclusion of a risk margin in the measurement of the liability and the treatment of acquisition costs.

In addition, the IASB has already published an exposure draft, whereas the FASB has only published a discussion paper.

The other challenge is the relationship between the insurance contracts project and the financial instruments project. We have always made it clear that the IASB will need to ensure that the insurance contract standard and the financial instruments requirements (IFRS 9) work together.

As a result, in May 2012 the boards made tentative decisions to require the use of other comprehensive income (OCI) to present some changes in the measurement of the insurance contract liability. The staff and the boards understand that this decision, combined with the introduction of the FVOCI category for classification and measurement of simple debt investments, should address many of the concerns raised by various stakeholders about whether the insurance business model is properly reflected in the financial statements.

We continue to estimate that we 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.

Consolidation[2]

In May 2012 the IASB discussed the feedback from their short exposure draft clarifying the transition requirements for IFRS 10 *Consolidated Financial Statements*. Many preparers implementing IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* have raised concerns regarding the burden of restating comparative information. In response to this, the IASB agreed to restrict the requirement to restate comparatives in IFRS 10, IFRS 11 and IFRS 12 to one year on initial application. In addition, the IASB agreed to provide relief from the requirement to provide comparative information about the risks arising from involvement with unconsolidated structured entities on initial application of IFRS 12.

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

Investment entities

In April 2012 the boards discussed the feedback received on the related investment entity/investment company proposals. In May 2012 the boards discussed the issues that stakeholders had raised about the proposed investment entity and investment company criteria and the general approach that the guidance should take. The boards tentatively decided that they will provide a general definition of an investment entity with additional factors to consider. The important issue of whether a non-investment entity parent of an investment entity should retain its subsidiary's fair value accounting for controlled investees (the so-called 'roll up') will be discussed at the June 2012 meeting. The boards plan to issue final standards by the end of 2012.

Effective dates and transition

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 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when there is a change in accounting policy.

[2] On 1 June 2012 the European ARC (Accounting Regulatory Committee) endorsed 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.

In May 2012 the IASB made the following tentative decisions in relation to that feedback:

- to remove the requirement to disclose the current period effect of a new accounting policy when the change is a result of changes in IFRSs; and
- to retain the requirement to disclose the possible impact of forthcoming IFRSs that are not yet effective. However, the Board tentatively decided to modify IAS 8 to require this disclosure only for IFRSs that were issued by the end of the reporting period.

An exposure draft proposing these amendments to IAS 8 is expected to be published in the second half of 2012.

Beyond the MOU

Agenda consultation

In May 2012 the IASB discussed the proposed responses to the key messages received from the agenda consultation and the IASB staff presented its recommendations on the future agenda. The IASB tentatively agreed to the following steps to move forward with the future agenda:

(a) the IASB will host a public forum to assess strategies for improving the quality of financial reporting disclosures, within the existing disclosure requirements;

(b) the IASB will give priority to work on the Conceptual Framework project with a focus on elements, measurement, presentation, disclosure and reporting entity;

(c) the IASB staff should give priority to:

   i. developing standards-level proposals for potential amendments to IAS 41 *Agriculture* (in relation to bearer crops); rate-regulated activities; and the equity method in separate financial statements; and

   ii. recommencing research on emissions trading schemes and business combinations under common control;

(d) the IASB staff should initiate the research programme, focusing initially on discount rates; the equity method of accounting; extractive activities / intangible assets/R&D; financial instruments with the characteristics of equity; foreign currency translation; non-financial liabilities; and financial reporting in high-inflation and hyperinflationary economies; and

(e) the establishment of a consultative group to assist the IASB with matters related to Shariah law.

These proposals will be discussed in more detail later on during this Advisory Council meeting.

Post-implementation review

The goal of improving financial reporting underlies any new IFRS. The IASB carries out a post-implementation review (PIR) of each new IFRS or major amendment. This is normally carried out two years after the new requirements have become mandatory and been implemented. 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 post-implementation review of IFRS 8 *Operating Segments*. The Board agreed that:

- the review of IFRS 8 should also include investigating whether IFRS 8 has 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 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 Request for Information (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.

The Board plans to further discuss the PIR of IFRS 8 at its June 2012 meeting, when it will consider the preliminary findings of the review of academic literature. In June 2012 the staff will also request permission from the Board to issue the RFI.

IFRS Advisory Council meeting

18-19 June 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 only addressed financial assets and 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 *Financial Instruments: Recognition and Measurement* the existing requirements for financial liabilities and adding new requirements for the treatment of own credit. In November 2011 the Board 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 people. 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 following areas: • Amortised cost: contractual cash flow characteristics: to maintain the principal and interest criteria; • 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 an FVOCI measurement category for eligible debt instruments should be added to

Project	Status
	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 eligible debt instruments 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.
IFRS 9—replacement of IAS 39 *Amortised cost and impairment of financial assets*	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 improvement of the credit quality of financial assets by 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 loan loss provisions. The proposals followed an initial *Request for Information*, published in June 2009, on the practicalities of moving to an expected loss impairment model. Recognising the significant practical challenges of moving to an expected loss impairment 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 categories (or 'buckets') for the

Project	Status
	purpose of assessing expected losses, making use of credit risk management systems. 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 entity would then recognise the lifetime expected losses on these loans. In February 2012 the boards 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 the following tentative decisions: • 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 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. The Board expects to develop more fully its proposals related to portfolio hedge accounting before it finalises the more general hedge accounting requirements. 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 staff 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.
IFRS 9—replacement of IAS 39 *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. Due to the complexity of a macro hedge accounting model, 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.
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 2011 the boards concluded that, although their due process requirements made it clear that re-exposure was not required, they would re-expose the revenue recognition proposals because of the special nature of revenue. The comment period on the re-exposure draft ended in March 2012.

Project	Status
	The staff and boards have engaged in extensive outreach activities between September 2011 and May 2012. Those outreach activities followed on from the targeted outreach that was performed throughout the redeliberations phase that led to the development and publication of the revised exposure draft. 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	Lease obligations are widely considered a significant source of off balance sheet financing. The objective of this project 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 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 but the boards are aware of remaining concerns about the appropriate profit and loss profile for lessees. 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 on those two approaches. • May 2012: the boards further discussed the feedback

Project	Status
	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 will discuss the appropriate profit and loss profile for lessees. The boards are targeting completing deliberations and issuing exposure drafts in the second half 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 decisions on several basic matters. While both boards have agreed to measure the insurance liability using a current measure of the estimated cost to fulfil the obligation, the boards have reached different decisions on several aspects of the model, including the recognition of changes in estimate, the inclusion of a risk margin in the measurement of the liability and the treatment of acquisition costs. In May 2012 the boards made tentative decisions to require the use of other comprehensive income (OCI) to present some changes in the insurance contract liability. The staff and the boards understand that this decision, combined with the introduction of the FVOCI category for classification and measurement of financial assets, should address many of the concerns raised by various stakeholders The Board 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.

Narrow-scope improvements

Project	Update
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 Board 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.

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
Amendment to IFRS 1 *(Government Loans)*	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. In October 2011 the Board published an exposure draft proposing this narrow scope amendment to IFRS 1. In January 2012, 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 also agreed that the amendment should have an effective date of 1 January 2013, with early application permitted. In March 2012 the IASB published the amendment to IFRS 1.
Investment entities	In 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. There are some differences between the IASB and FASB proposals, which were highlighted in the joint public roundtables held in February and March 2012. In April 2012 the boards discussed the feedback received on the related investment entity/investment company proposals. In May 2012 the boards discussed the issues that stakeholders raised with the proposed investment entity and investment company criteria and the general approach that the guidance should take. The boards tentatively decided that they will provide a general definition of an investment entity with additional factors to consider. The boards plan to issue final standards by the end of 2012.

Project	Update
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	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. In May 2012 the Board made the following tentative decisions in relation to that feedback: • to remove the requirement to disclose the current period effect of a new accounting policy when the change is a result of changes in IFRSs; and • to retain the requirement to disclose the possible impact of forthcoming IFRSs that are not yet effective. However, the Board tentatively decided to modify IAS 8 to require this disclosure only for IFRSs that were issued by the end of the reporting period. An exposure draft proposing these amendments to IAS 8 is expected to be published in the second half of 2012.
Post implementation review- IFRS 8 Operating Segments	In March 2012 the IASB discussed the planned approach for the post-implementation review (PIR) of IFRS 8 *Operating Segments*. 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 Board 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

Project	Update
	a *Request for Information* 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 Request for Information (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. The Board plans to further discuss the PIR of IFRS 8 at its June 2012 meeting when it will consider the preliminary findings of the review of academic literature. In June 2012 the staff will also request permission from the Board to issue the RFI.

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 to the following steps to move forward with the future agenda: (a) the IASB will host a public forum to assess strategies for improving the quality of financial reporting disclosures, within the existing disclosure requirements; (b) the IASB will give priority to work on the Conceptual Framework project with a focus on elements, measurement, presentation, disclosure and reporting entity; (c) the IASB staff should give priority to: i. developing standards-level proposals for potential amendments to IAS 41 *Agriculture* (in relation to bearer crops); rate-regulated activities; and the equity method in separate financial statements and ii. recommencing research on emissions trading schemes and business combinations under common control; (d) the IASB staff should initiate the research programme, focusing initially on discount rates; the equity method of accounting; extractive activities / intangible assets / R&D; financial instruments with the characteristics of equity; foreign currency translation; non-financial liabilities; and financial reporting in high-inflation and hyperinflationary economies; and (e) the establishment of a consultative group to assist the IASB with matters related to Shariah law. These proposals will be discussed in more detail in this June 2012 Advisory Council meeting.

IFRSs and amendments to IFRSs published in 2012

IFRS	*Description*	*Effective Date*
Amendment to IFRS 1 (*Government Loans*)	On 13 March 2012 the IASB published amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. 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. The amendments provide the same relief to first-time adopters as is granted to existing preparers of IFRS financial statements when applying IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.	The amendments are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

IASB work plan - projected targets as at 1 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				
Financial Crisis related projects						
IFRS 9 *Financial instruments* (replacement of IAS 39)						
- Classification and measurement (review)			Target ED		✓	✓
- Impairment			Re-exposure		✓	✓
- General hedge accounting	Review draft	Target IFRS			✓	
- Macro hedge accounting		Target DP			✓	
Memorandum of Understanding projects						
Leases		Re-exposure			✓	✓
Revenue recognition	Consider comments received				✓	✓
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		Target IFRS				✓
Transition Guidance (Proposed amendments to IFRS 10)	Target amendment					
Post-implementation reviews						
IFRS 8 *Operating Segments*	Request for Information					
IFRS 3 *Business Combinations*		Initiate review				