October 2009

IASB Update

From the International Accounting Standards Board

Contact us

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Tel: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
E-mail: iasb@iasb.org
Website: www.iasb.org

This IASB *Update* is a staff summary of the tentative decisions reached by the Board at a public meeting. As a project progresses, the Board can, and sometimes does, modify its earlier tentative decisions. Tentative decisions do not change existing requirements until those decisions are incorporated in a new or amended standard.

The IASB held a joint meeting with the US Financial Accounting Standards Board (FASB) on 26 - 28 October 2009 in Norwalk, USA, when the boards discussed:

Other information

Financial crisis

Consolidation

The FASB has recently amended its requirements in relation to identifying when entities known as variable interest entities should be consolidated. Variable interest entities include the type of structure such as structured investment vehicles that attracted attention as the global financial crisis developed.

The IASB is deliberating its proposals to revise its requirements for identifying when entities should be consolidated. The IASB's proposals would apply to entities that would be variable interest entities under U.S. GAAP. However, the IASB's proposals are broader and would also apply to those entities that are normally controlled by way of voting rights. At this meeting:

- The boards concluded that the objectives for assessing control of structures that would be classified as variable interest entities under the recent amendments to U.S. GAAP on consolidation and in the proposed IASB model are fundamentally the same.
- The boards identified some differences in the application of those principles and agreed to conduct their respective projects on consolidation jointly and deliberate issues relating to the consolidation guidance at monthly joint meetings.
- The IASB agreed to amend its project timetable to give both boards the opportunity to deliberate the consolidation requirements, with the goal that the FASB would publish an exposure draft that is consistent with the consolidation standard issued by the IASB. The boards think that this approach increases the likelihood that the FASB and the IASB consolidation requirements will result in a converged solution.
- The FASB expects to be in a position to publish an exposure draft at the beginning of the second quarter of 2010. The IASB has tentatively decided that it should publish its final standard after it has considered, with the FASB, comment letters the FASB receives on its proposals.

Go to the project page on the IASB website

Go to the top of this page

Fair value measurement

The FASB published Statement 157, *Fair Value Measurements* in 2007 and those requirements have been effective since November 2007. In May 2009 the IASB published an exposure draft of an IFRS on fair value measurement that is largely consistent with the FASB requirements. At this meeting:

- The boards agreed that their objective is to ensure that fair value has the same meaning in US GAAP and IFRSs.
- The Boards agreed to a goal of making US GAAP and IFRS fair value measurement

requirements the same other than minor necessary differences in wording or style. The FASB agreed to consider comments received on the IASB's Exposure Draft and to propose amendments to US GAAP fair value measurement requirements, if necessary, to achieve that goal.
- The boards also agreed that if they become aware of perceptions that the FASB and IFRS fair value measurement requirements are different they will work together to address those perceptions.

Go to the project page on the IASB website

Go to the top of this page

Financial instruments

The FASB and the IASB discussed and agreed on a set of core principles for working to achieve a converged solution on financial instruments accounting. The core principles are designed to achieve comparability and transparency as well as consistency of credit impairment models and reduced complexity of financial instruments accounting. The core principles are a work in progress and will be posted to the FASB's website along with the FASB's updated work plan.

The Boards also discussed possible alternatives for presenting some financial instruments that are not measured at fair value through net income.

The Boards agreed that for financial instruments with principal amounts that are held for collection or payment of contractual cash flows rather than for sale or settlement with a third party both fair value and amortised cost are relevant information.

The FASB will continue to consider the financial statement presentation of financial instruments other than those carried at fair value through income.

The IASB will separately consider whether to require presentation of (1) fair value of financial instruments measured at amortised cost on the statement of financial position, (2) information about changes in fair value of financial instruments recognised at amortized cost on the performance statement, and (3) the components of other comprehensive income, including any fair value changes recognised in other comprehensive income, on the performance statement.

The Boards agreed to jointly discuss the accounting for credit losses of financial instruments and hedge accounting. The Boards discussed the basic accounting for credit losses for financial assets in the fair value through other comprehensive income category that was tentatively agreed to by the FASB at its October 21, 2009 meeting. Once the FASB model is fully developed, that model, along with the IASB's expected cash flow approach, will be discussed with an expert advisory panel that will advise the Boards on operational issues on the application of their credit impairment models and how those issues might be resolved.

The IASB expects to publish an exposure draft on impairment in November.

Go to the project page on the IASB website

Go to the top of this page

Discontinued Operations

The boards discussed the definition of a discontinued operation. They asked the staff to assess IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, to explore the option of adopting, as the converged definition, the definition of a discontinued operation in that standard.

In addition the boards asked the staff to analyse the disclosures required by IFRS 5 and Topic 205, *Presentation of Financial Statements*, of the *FASB Accounting Standards Codification*™ (originally issued as FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*) and develop a proposal for converged disclosures.

Go to the top of this page

Financial instruments with characteristics of equity

The Boards decided to consider an approach that would classify as equity particular share-settled instruments. Under that approach, an issuer would classify as equity an instrument it must settle by issuing equity instruments unless the issuer is using the equity instruments as currency. Examples of circumstances in which the issuer is using its equity instruments as a form of currency are the following:

- Either party has a cash settlement option.
- The contract requires net settlement in shares or either party has a net settlement option.
- The contract exposes either party to risks of changes in value other than those resulting from share price changes, time value of money, counterparty performance risk, and possibly foreign currency (if the counterparty is a foreign owner before the transaction).

Go to the project page on the IASB website

Go to the top of this page

Financial statement presentation

At their October joint meeting, the boards continued their deliberations on the proposals in the discussion paper *Preliminary Views on Financial Statement Presentation*. Specifically, the boards considered

- the reconciliation schedule (agenda paper 7B)
- the presentation of cash flow information (agenda paper 7A)
- the disaggregation of items of income and expense by function and nature (agenda paper 7C)
- the tentative decisions made in September 2009 on the definitions of the business and financing sections (agenda paper 7D).

The proposed reconciliation schedule

The discussion paper proposes that an entity include a schedule in the notes to financial statements that reconciles cash flows to comprehensive income on a line-by-line basis and disaggregates comprehensive income into four components: cash, accruals other than remeasurements, remeasurements that are recurring fair value changes or valuation adjustments and remeasurements that are not recurring fair value changes or valuation adjustments.

The boards tentatively decided:

- to replace the reconciliation schedule proposed in the discussion paper with an analysis of the changes in balances of all significant asset and liability line items. The analysis will explain the nature of the transactions and other events that gave rise to a change in the account balance. Each significant asset and liability line item analysis should separately distinguish the following components:
    a. changes due to cash inflows and cash outflows
    b. changes resulting from non-cash (accrual) transactions that are repetitive and routine in nature (eg credit sales, wages, material purchases)
    c. changes resulting from non-cash transactions or events that are non-routine or non-repetitive in nature (eg acquisition or disposition of a business)
    d. changes resulting from accounting allocations (eg depreciation)
    e. changes resulting from accounting provisions/reserves (eg bad debts, obsolete inventory)
    f. changes resulting from remeasurements.

The boards discussed modifying the definition of a *remeasurement* proposed in discussion paper as follows: a remeasurement is an amount recognised in comprehensive income that reflects the effects of a change in the carrying amount of an asset or liability to a current price or value (or to an estimate of a current price or value). The boards asked the staff to further refine the definition.

The boards tentatively decided that information about remeasurements should be presented in the financial statements. The FASB tentatively agreed to require disaggregation of remeasurements on the face of the statement of comprehensive income (SCI) in a columnar format. The IASB expressed a preference for presenting information about remeasurements in the notes to financial statements. The IASB agreed to reconsider the issue after the staff analyse current disclosures of remeasurement information and disclosures being considered in other projects.

Presentation of cash flow information

The discussion paper proposes that an entity present cash flows using a direct method. That direct method of presentation requires an entity to disaggregate its cash receipts and payments in a manner that helps a user of financial statements to understand how those cash flows relate to information presented in the SCI and the statement of financial position (SFP).

The boards tentatively decided:

- to retain the discussion paper proposal that an entity be required to present its cash flows directly in the statement of cash flows (SCF); that is, present line items for cash receipts and payments in each section (and category) in the SCF.
- to specify that an entity should disaggregate its SCF information such that significant or material cash flows are apparent to a user of the entity's financial statements.
- to require the presentation of an indirect reconciliation of operating income to operating cash flows in the notes to financial statements
- to retain the discussion paper proposal that an entity disclose all relevant information about its non-cash activities unless that information is presented elsewhere in the financial statements.

The boards also tentatively decided to require disclosure of information about repatriation limitations and other restrictions on cash (and short-term investments similar to cash) in the notes to financial statements.

Disaggregation of items of income and expense by function and nature

The discussion paper proposes that within each category on the SCI, an entity disaggregate its items of income and expense by function. Each of those functions should be further disaggregated by nature to the extent that information enhances the usefulness of the SCI in predicting an entity's future cash flows. If that by-nature presentation is impractical on the face of the SCI, an entity should present the information in the notes to financial statements.

The discussion paper also proposes that if, in the opinion of management, presenting disaggregated information by function does not provide relevant information an entity can disaggregate its items of comprehensive income by their nature within each category on the SCI.

The boards tentatively decided that the exposure draft should include an overall disaggregation principle that requires an entity to consider disaggregation by function, nature and measurement bases in the financial statements as a whole. Additionally, the boards tentatively decided that the exposure draft should include guidance for applying that disaggregation principle in each financial statement.

For the SCI, the boards tentatively decided to retain the proposals in the discussion paper that an entity should disaggregate income and expense items by function and by nature. Further, the boards tentatively decided that an entity that has only one reportable segment should present that disaggregated information on the face of the SCI and that an entity that has more than one reportable segment should present that disaggregated information in its segment note. The boards will discuss segment reporting at a future meeting.

Defining the business and financing sections

In September, the boards tentatively decided that there should not be an operating or investing category within the business section as proposed in the discussion paper. Rather, additional groupings of information within the business section (that is, categories) should reflect the facts and circumstances of that entity and should be left to management's discretion. Both boards expressed willingness to reconsider that decision after reviewing the proposed drafting of the business section definition for the exposure draft.

Also in September, the boards agreed that the financing section definition should be more specific than what was proposed in the discussion paper. Both boards tentatively decided to define the financing section as liabilities that arise as part of an entity's capital raising activities. However, the boards had different views as to whether treasury assets (specifically, cash) should be included in the financing section.

At this meeting, the boards tentatively decided the following:

- the business section should have two defined categories: operating and investing. Those categories require an entity to make a distinction between business activities that are part of a reporting entity's day-to-day business activities (and the business activity generates revenue through a process that requires the interrelated use of the net resources of the entity) [operating category] and business activities that generate non-revenue income (and no significant synergies are created from combining assets) [investing category]. As a result of that tentative decision, the definitions of the operating and investing categories will differ from what was proposed in the discussion paper.
- the financing section will include items that are part of an entity's activities to obtain (or repay) capital and consist of two categories: debt and equity.
    a. the debt category will include liabilities where the nature of those liabilities is a borrowing arrangement entered into for the purpose of raising (or repaying) capital.
    b. the equity category will include equity as defined in either IFRS or US GAAP.
- The financing section will not include a treasury category-that is, cash and short-term financial assets (or financial liabilities) used as a substitute for cash will be included in the business section.

Go to the project page on the IASB website

Go to the top of this page

Income tax

The IASB staff presented an analysis of the comment letters received on the its exposure draft *Income Tax*. The Boards indicated that they would consider undertaking a fundamental review of accounting for income taxes at some time in the future. In the meantime, the IASB staff plans to present options on how the IASB should proceed with the proposals in the exposure draft at the November IASB meeting.

Go to the project page on the IASB website

Go to the top of this page

Insurance contracts

The Boards discussed whether the scope of the insurance contracts project should address all policyholder accounting rather than only the accounting for the cedant in a reinsurance contract. As a result of those discussions, the Boards asked the staff to prepare an analysis of policyholder accounting with the goals of

- identifying possible issues arising from lack of symmetry between policyholder accounting and the accounting by the issuer of the insurance contract and
- any similarities with accounting for reinsurance contracts from the perspective of the policyholder.

The Boards also discussed the similarities and differences between their preliminary decisions on a measurement approach. At a high-level, the Boards agreed with a three building block approach (current estimates of expected, that is, probability-weighted future cash flows, incorporation of time value of money, and an explicit margin). The Boards asked the staff to analyse the potential remaining differences between the FASB's measurement approach (current fulfilment value) and the IASB's measurement approach (developed in its project to amend IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). In this analysis, the Boards asked the staff to draft language to clarify the measurement objective including the role of an uncertainty adjustment under both the IASB and FASB measurement approaches. The goal of the analysis is to arrive at a converged tentative decision on measurement.

The Boards also affirmed that an insurer should recognise all acquisition costs as an expense when incurred. In addition, both Boards agreed that the insurer should not recognise a part of the premium as revenue (or income) at inception equal to the acquisition costs incurred. The FASB Board unanimously agreed to this decision, while the IASB Board voted 8-6 in favour of the decision.

The Boards discussed the presentation of the performance statement (statement of comprehensive income). This discussion was intended to be educational in nature and the Boards were not asked to make a decision.

Go to the project page on the IASB website

Go to the top of this page

Leases

The boards discussed:

- reconfirmation of the right-of-use approach for lessees
- in-substance purchases/sales
- lessor accounting models
- timing of initial recognition.

The boards tentatively reconfirmed the right-of-use approach for lessees. That approach, as described in the Discussion Paper *Leases: Preliminary Views* proposes that a lessee should recognise for all leases:

- an asset representing its right to use the leased item for the lease term (the right-of-use asset)
- a liability for its obligation to pay rentals.

The boards discussed whether the scope of a leases standard should include a contract that represents the purchase (lessee) or sale (lessor) of the subject item. The boards tentatively decided to exclude such contracts from the scope of the leases standard. The boards directed the staff to develop criteria for an entity to use to determine whether an arrangement is the purchase or sale of an asset and is not a lease.

The boards considered the following models for how a lessor would apply a right-of-use approach:

- derecognition approach
- performance obligation approach
- operating lease approach
- dual model approach (derecognition and performance obligation).

The boards tentatively decided to adopt the performance obligation approach to lessor accounting. Under that approach, a lessor would:

- recognise an asset representing its right to receive rental payments (a lease receivable)
- recognise a liability representing its performance obligation under the lease-that is, its obligation to permit the lessee to use one of its assets (the leased item). The lessor would recognise revenue as that performance obligation is satisfied over the lease term. That means that a lessor would not recognise revenue at the inception of a lease contract.

The boards discussed whether an entity should recognise any assets or liabilities during the period between the signing of a lease contract and delivery of the leased item to the lessee. The boards tentatively decided that:

- assets and liabilities arise when a contract is signed.
- between contract signing and delivery, the unit of account is the contract as a whole and the contract position would be presented net in the statement of financial position of both the lessee and lessor.
- an entity would initially and subsequently measure the net contract asset or liability on a cost basis, subject to impairment (generally initial measurement of the contract asset would equal the initial measurement of the contract liability).
- an entity would provide disclosures about the assets and liabilities that arose upon contract signing.

In November, the boards will continue its discussion of lessee and lessor accounting issues.

Go to the project page on the IASB website

Go to the top of this page

Revenue recognition

Background

At their respective meetings in September 2009, the Boards considered additional guidance in the proposed model to help an entity determine when to recognise revenue. At this joint meeting, the Boards considered additional guidance to help an entity determine how much revenue to recognise.

In their Discussion Paper, the Boards proposed that an entity should allocate the transaction price, on a relative standalone selling price basis, to each performance obligation in the contract. When an entity satisfies a performance obligation, it should recognise revenue in the amount that was allocated to the performance obligation. Allocating the transaction price.

The boards decided tentatively:

- that to implement the concepts in the Discussion Paper, an entity should allocate the transaction price to segments of a contract rather than to individual performance obligations. A segment includes one or more performance obligations for which the entity has evidence of a market-that is, evidence that a segment of the contract could be sold separately.
- when segmenting a contract, an entity should consider when the promised goods and services are transferred to the customer, the margins for those goods and services, and materiality.
- an entity should estimate standalone selling prices if they are not observable, and an entity should maximise the use of observable inputs.
- the Exposure Draft should not prescribe or preclude any particular method of estimating a standalone selling price.

When goods and services in a contract segment are transferred at different times (or continuously), an entity must determine how much revenue to recognise as each performance obligation is satisfied. The Boards decided tentatively that:

- an entity should select a method of measuring performance that best depicts the transfer of goods and services to the customer. Acceptable methods include methods based on units of output, units of input, or the passage of time.
- an entity should select one method per segment and apply that method consistently throughout the contract and across segments with similar characteristics in other contracts.

Next steps

In November, the Boards plan to consider issues related to the subsequent measurement of performance obligations and how an entity would apply the proposed model to licensing arrangements.

Go to the project page on the IASB website

Go to the top of this page

Statement of Comprehensive Income

The IASB staff discussed the recent IASB decision to amend IAS 1 *Presentation of Financial Statements*, to require an entity to present all items of income and expense as a single statement of comprehensive income. The staff also explained the IASB decisions to provide additional guidance on how items reported in other comprehensive income must be presented within the single statement of comprehensive income. The staff noted that the FASB has made similar decisions during its deliberations in its ongoing projects on Financial Instruments and the joint IASB/FASB project on Financial Statement Presentation. As a result, the IASB staff asked the joint IASB/FASB boards to consider working together to develop guidance on a single statement of comprehensive income that would be as convergent as possible and would be issued in the near term.

The Boards unanimously decided to work together to develop guidance that requires an entity to prepare a single statement of comprehensive income.

Go to the top of this page

Technical Plan

The boards expect to update their technical plans on their websites at the end of next week.

Future Board meetings

The Board will meet in public session on the following dates in 2009. Meetings take place in London, UK, unless otherwise noted.

16-20 November

14-18 December

Go to the meetings section of the IASB website

Go to the top of this page

Past issues of IASB ***Update***

Click here for archived copies of past issues of IASB ***Update*** on the IASB website.

Go to the top of this page

ISSN 1474-2675