BOARD DECISIONS ON INTERNATIONAL FINANCIAL REPORTING STANDARDS

IASB UPDATE

April 2009

IASB Update *summarises the conclusions reached by the Board at its public meetings. All conclusions reported are tentative and may be changed or modified at future Board meetings.*

The International Accounting Standards Board met in public in London on 22-24 April, when it discussed:

- Global financial crisis
- Discontinued operations
- Earnings per share
- First-time adoption of IFRSs
- IFRS for small and medium-sized entities
- Insurance contracts
- Liabilities (amendments to IAS 37)
- Management commentary
- Post-employment benefits
- Rate-regulated activities
- Share-based payment
- Technical plan

Global financial crisis

The Board discussed various aspects of its work on fair value measurement and financial instruments:

Fair value measurement

The Board discussed:

- responses to the IASB *Request for views* on FSP FAS 157-4
- reference markets
- interim disclosures about fair value

IASB Request for views on FSP FAS 157-4

On 18 March the Board posted on its website a *Request for views* on the US Financial Accounting Standards Board's (FASB) FSP FAS 157-4 (FSP) *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly*.

At this meeting the Board discussed the responses received. Respondents reported that the guidance in the FSP is consistent with the guidance in the IASB's Expert Advisory Panel report *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*. Some respondents noted some differences in emphasis between the two documents, but indicated that these would not result in practical differences in fair value measurement between US GAAP and IFRSs.

At this meeting the Board tentatively decided to include the guidance from the FSP in its exposure draft (ED) on fair value measurement, largely using the same words.

Reference markets

The Board discussed one issue arising from its review of a draft of the ED on fair value measurement. In December 2008 the Board decided tentatively that a fair value measurement assumes a transaction to sell an asset or transfer a liability in the most advantageous market for the asset or liability. At this meeting, the Board reaffirmed that the most advantageous market is presumed to be the market in which the reporting entity would normally enter into a transaction for the asset or liability. In the absence of evidence to the contrary, an entity may assume that the principal market for the asset or liability is the most advantageous market, provided that the entity could sell the asset or transfer the liability in the principal market.

Interim disclosures about fair value

Earlier this month, the FASB amended its requirements for disclosures about fair value measurements in interim financial reports. Those amendments are in FSP FAS 107-1 and APB 28-*1 Interim Disclosures about Fair Value of Financial Instruments and FSP FAS 157-4*.

At this meeting, the Board noted that those disclosures might be relevant when an entity decides how to comply with the disclosure principles in IAS *34 Interim Financial Reporting*. The Board expects to discuss at its meeting in May staff proposals to develop an amendment that would emphasise the disclosure principles in IAS 34.

The Board also decided tentatively that its forthcoming ED on fair value measurement would propose additional disclosure requirements about fair value for interim financial reports, as follows:

- for financial instruments measured at fair value, the same disclosures that are required in annual financial statements by IFRS 7 *Financial Instruments: Disclosures.*
- for financial instruments not measured at fair value, the same disclosures that are required by IFRS 7 in annual financial statements, including the fair value of those instruments.
- for non-financial assets and non-financial liabilities, no additional specific requirements beyond the existing disclosure requirements in IAS 34.

The Board noted that FSP FAS 157-4 requires fair value disclosures by major type of security as defined in SFAS 115 *Accounting for Certain Investment in Debt and Equity Securities*. The Board reaffirmed its decision to require fair value disclosures for each class of financial asset or financial liability as described in IFRS 7.

Next steps

The Board expects to publish the ED on fair value measurement in May with a comment period of 120 days.

Financial instruments

The Board discussed:

- responses to the IASB *Request for views* on FSP FAS 115-2 and FAS 124-2
- the project to replace IAS 39

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IASB Request for views on FSP FAS 115-2 and FAS 124-2

On 18 March the IASB posted on its website a *Request for views* on the FASB's proposed FSP FAS 115-2 and FAS 124-2 *Recognition and Presentation of Other-Than-Temporary Impairments*.

At this meeting the Board discussed the views received. Overall, many respondents recommended that the IASB not make short-term piecemeal amendments to current impairment requirements, but instead focus its efforts on the broader joint IASB-FASB project to replace existing requirements for financial instruments (see below).

Some respondents suggested that the IASB should consider short-term amendments (different from those required by the FASB FSP) to current impairment requirements for financial assets held as available for sale. The IASB discussed those suggestions, noting that the suggested changes also form part of the project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The Board also noted that that project will result in proposals in a relatively short time (see below). In addition, respondents emphasised the importance of due process and the need for adequate public consultation time in the standard-setting process.

After considering the possible costs and benefits of the suggested piecemeal changes outside the broad project, the Board decided not to formulate any separate proposals for public comment in relation to the FASB's FSP at this time but to consider the views received in the project to replace IAS 39.

Project to replace IAS 39

At the IASB-FASB joint meeting in March, the boards tentatively decided to consider three possible measurement methods, with the aim of proposing an accounting model for financial instruments that uses two of those methods. The measurement methods the boards agreed to consider were:

- fair value - defined as an exit price in SFAS 157 *Fair Value Measurements* and in the forthcoming IASB exposure draft on fair value measurements;
- another remeasurement method, proposed by some FASB members, based on discounted cash flows; and
- amortised cost, (including an impairment approach for financial assets).

At this meeting the staff provided an update of how the project is progressing and its plans for the project. Under those plans, the Board will have decided on the basic measurement model by July 2009. Following that decision, the Board will then seek to complete the rest of the measurement model in the following two or three months.

The Board also discussed the amortised cost measurement method, including possible impairment approaches for financial assets. The session was educational. No decisions were made.

The staff also confirmed that they will hold a public education session of the Board on Tuesday 5 May to discuss the remeasurement method being proposed by some FASB members. Details of the meeting timing have been announced and are on the IASB website.

Discontinued operations

The Board discussed responses to the ED *Discontinued Operations* (proposed amendments to IFRS 5). The Board decided to explore the possibility of eliminating the requirement to present discontinued operations in the statement of comprehensive income except for businesses that meet the criteria to be classified as held for sale on acquisition. This information would be presented in the notes accompanying the financial statements. The Board instructed the staff to seek additional input from users and preparers for their views on this alternative.

Earnings per share

The Board reviewed a summary of responses to the ED *Simplifying Earnings per Share* (Proposed amendments to IAS 33). In the light of other priorities, the Board directed the staff to consider towards the end of this year when would be the best time for the Board to start reviewing the responses in more detail.

First-time adoption of IFRSs

The Board published the ED *Additional Exemptions for First-time Adopters: Amendments to IFRS 1* in September 2008. At this meeting the Board considered an analysis of the comments received on the ED proposals related to oil and gas assets. The Board tentatively decided that no substantive changes to the proposals are required, but acknowledged the need for some clarifications to the wording. The Board expects to consider the comments received in relation to the other exposure draft proposals in May.

IFRS for small and medium-sized entities

Name of the Standard

The letters of comment on the ED expressed a wide range of views on what the name of the standard should be. The Board has discussed the name on several occasions during its redeliberations. In March 2009 the Board decided to raise the issue with the National Standard-Setters (NSS) at their meeting earlier this month. After considering the various views it has received, the Board decided that the name of the standard will *be International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*, as proposed in the ED.

Issues arising in drafting the pre-ballot draft

The Board discussed three issues arising from the pre-ballot draft of the final *IFRS for SMEs* and decided tentatively:

- to add disclosure requirements similar to those in paragraph 41 of IAS 27 *Consolidated and Separate Financial Statements*.
- that if an entity elects to use IAS 39 *Financial Instruments: Recognition and Measurement* instead of the two financial instruments sections in the IFRS for SMEs, the entity should provide the disclosures required by the IFRS for SMEs rather than those required by IFRS 7 *Financial Instruments: Disclosures*. However, the Board asked the staff to prepare a comparison of the two sets of disclosures and circulate it to Board members. If Board members think there is a significant omission in the disclosures in the pre-ballot draft, that issue will be raised at the Board meeting in May.
- not to include in the appendix to the section on provisions an example that would illustrate a calculation of a provision for settlement of a lawsuit.

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Insurance contracts

The Board discussed the following aspects of a measurement approach for insurance contracts:

- margins, including subsequent measurement
- acquisition costs
- policyholder behaviour

Margins, including subsequent measurement

The Board decided tentatively that if the initial measurement of an insurance contract results in a day-one loss, the insurer should recognise that day-one loss in profit or loss.

The Board also discussed whether:

- a measurement approach for insurance contracts should incorporate a separate risk margin that is remeasured at each reporting date.
- a fulfilment notion should include a separate service margin.
- all margins identified for each of the candidate measurement approaches are part of the insurance liability rather than a separate liability outside the insurance liability.

Views diverged and no clear consensus emerged. The Board will return to the topic of margins at a future meeting.

Acquisition costs

The Board discussed an example in which two insurers issue identical insurance contracts but incurred different acquisition costs and, as a result, charged premiums that differ by the same amount. The Board decided tentatively that those contracts should have the same initial measurement

As a follow up, the Board decided tentatively that at inception an insurer should recognise as revenue the part of the premium that covers acquisition costs. For this purpose, acquisition costs should be limited to the incremental costs of issuing (ie selling, underwriting and initiating) an insurance contract and should not include other direct costs. Incremental costs are those costs that the insurer would not have incurred if it had not issued those contracts.

Policyholder behaviour

The Board discussed future premiums arising from existing insurance contract. The aim of the session was educational and no decisions were made.

Next steps

In May, the Board will continue its discussion of measurement.

Liabilities (amendments to IAS 37)

Measurement guidance

The Board previously decided tentatively that liabilities within the scope of IAS *37 Provisions, Contingent Liabilities and Contingent Assets* should be measured at the amount the entity would rationally pay at the end of the reporting period to be relieved of the present obligation, ie to settle it or to transfer it to a third party.

At this meeting, the Board discussed how an entity could estimate this amount using expected cash flow techniques. The Board decided tentatively to clarify that an entity would not automatically add a risk adjustment to the expected cash flows. A risk adjustment would be required only if, and to the extent that, uncertainty about the expected cash flows affects the amount that the entity would rationally pay to be relieved of its obligation.

The Board also discussed how an entity would use expected cash flow estimation techniques to measure an obligation to undertake a service, such as an asset retirement obligation. The Board decided tentatively that the relevant cash flows are the amounts that the entity would rationally pay a contractor to undertake the service on its behalf. In the absence of an efficient market for those services, the entity could estimate the amount it would rationally pay a contractor by estimating the amount it would itself charge another party to carry out the service. The latter amount would include the entity's estimates of the costs it expects to incur in fulfilling the obligation and the compensation it requires for providing the service inherent in the obligation.

Disclosure of restructuring activities

The Board discussed the contents and wording of a disclosure requirement for restructuring activities, which it had tentatively decided to add to the standard in April 2008.

The Board considered the equivalent US standard SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities* and decided tentatively to require disclosure of:

- a description of the restructuring activity, including the facts and circumstances leading to the expected activity and the expected completion date;
- for each reportable segment, the total amount of costs expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date;
- the expected timing of any resulting outflow of economic benefits.

The Board also decided tentatively to require the disclosure in the period in which an entity first implements a restructuring plan or announces its main features to those affected by it, and in any subsequent period until the restructuring is completed.

Next steps

The Board will consider in June whether the proposed recognition, measurement or disclosure requirements need to be adapted for liabilities relating to major litigation, and whether to add guidance on measuring reimbursement rights.

Management commentary

The Board discussed a staff draft of a proposed ED on management commentary and provided comments for staff to consider in drafting. Publication of the ED is planned for June 2009, with comments due by February 2010.

The proposals in the ED will not result in an IFRS. They are intended to provide a non-binding framework for preparing and presenting management commentary as well as some guidance on how to apply that framework.

Post-employment benefits

The Board continued its discussion of recognition and presentation of changes in the net defined benefit asset or liability.

Recognition of changes in the net pension asset/liability

The Board decided tentatively that entities should recognise:

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- all changes in the value of plan assets and changes in the post-employment benefit obligation in the period in which they occur.
- unvested past service cost in the period of the related plan amendment.

Classification of administration costs

The Board decided tentatively that entities should include the costs of administering the plan in the defined benefit obligation, unless they relate to the management of plan assets and the benefit promise does not depend on the return on those plan assets.

Next steps

The Board has completed its redeliberations on recognition and presentation of the net defined benefit asset or liability. The Board will discuss disclosure and transition requirements at a future meeting, with a view to publishing an exposure draft in the third quarter of 2009.

Rate-regulated activities

The Board discussed recognition and measurement, presentation and disclosure and the scope of the project.

Recognition and measurement

The Board decided tentatively that specific recognition criteria are not needed. Once an entity has determined its activities are within the scope of the project, the effects of rate regulation, if any, should be recognised in accordance with this standard. Consequently, the Board decided tentatively that assets and liabilities recognised as a result of rate regulation should be excluded from the scope of IAS 38 *Intangible Assets and IAS 37 Provisions, Contingent Liabilities and Contingent Assets*, respectively.

The Board generally agreed that the primary driver for recognition of assets and liabilities is the existence of future economic benefits or obligations. However, the Board directed the staff to provide further analysis to clarify the interaction of future economic benefits and previously incurred specific costs in the recognition of those assets and liabilities, the appropriate discount rate to be used and other matters.

The Board decided tentatively that a probability-weighted average of possible future cash flows should be used to measure assets and liabilities arising from the effects of rate regulation both on initial recognition and subsequently.

Presentation and disclosures

The Board decided tentatively that regulatory assets and liabilities should not be offset in the statement of financial position. Additionally, when an entity presents a classified statement of financial position, it should distinguish between current and non-current assets and liabilities recognised as a result of rate regulation.

The Board discussed how the effects of assets and liabilities recognised as a result of rate regulation should be presented in the statement of comprehensive income. The Board asked the staff to provide illustrative examples of the recommended presentation and note disclosures.

Scope

The Board decided tentatively:

- that the standard should include guidance on the application of the scope criteria.
- not to include in the standard examples illustrating the requirements, but to include examples in the exposure draft to help respondents provide feedback.

Next steps

The staff will present at a future meeting the additional analyses and examples the Board requested along with remaining issues concerning transition and first-time adoption.

Share-based payment

The Board considered several issues arising from drafting a standard resulting from the exposure draft *Group Cash-settled Share-based Payment Transactions*.

The Board decided tentatively that:

- replacing existing paragraph 3 to state clearly the intended scope of IFRS 2 *Share-based Payment* does not change the requirements with respect to 'shareholder transfers'.
- the final amendments should explicitly include transactions of a settling entity in the scope of IFRS 2 only in a group share-based payment transaction.
- the final amendments should exclude a transactions of a settling group entity from the revised defined terms of 'equity-settled' and 'cash-settled' share-based payment transactions.
- the amended definition of 'share-based payment arrangement' should not refer to the goods or services that the suppliers provide.
- in the disclosure requirements in IFRS 2, the term 'share-based payment transaction' should replace 'share-based payment arrangement'
- the accounting for transfers of employees among group entities for all awards that are accounted for as equity-settled should remain the same as required by IFRIC 11 IFRS 2 -*Group and Treasury Share Transactions*.
- the final revised amendments do not require re-exposure.
- the effective date will be 1 January 2010, with retrospective application subject to the transitional provisions of IFRS 2. If the information necessary for that retrospective application is not available, an entity's separate financial statements would use the amounts previously recognised in the group's consolidated financial statements.

Technical plan

The Board made its quarterly review of its Technical Plan. The Plan will be available soon at: http://www.iasb.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm. Project summaries are available on the IASB website at: http://www.iasb.org/Current+Projects.

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.

18-22 May

15-19 June

20-24 July (23-24 July with FASB)

14-18 September

19-23 October

26-27 October (IASB and FASB joint meeting, Norwalk USA)

16-20 November

14-18 December

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