IASB Update
From the International Accounting Standards Board

11 March 2010

Welcome to IASB Update

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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 International Accounting Standards Board met in London on 11 March 2010 for an additional Board meeting. The US Financial Accounting Standards Board (FASB) participated via video conference. The boards discussed:

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Future board meetings

The IASB meets at least once a month for up to five days.
The next Board meetings in 2010 are:

15 - 19 March
22 - 24 March
19 - 23 April
17 - 21 May

To see all Board meetings for 2010, **click here**.

Archive of IASB Update Newsletter

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

Podcast summaries

To listen to a short Board meeting audio summary (podcast)or previous Board meetings, **click here**.

Financial statement presentation

Sweep issues in advance of pre-ballot draft

The boards discussed for possible clarification several points in their forthcoming exposure draft on financial statement presentation.

Both boards had previously decided that a complete set of financial statements includes statements of financial position, comprehensive income, cash flows, and changes in equity, as well as the accompanying notes. An entity is required to present a complete set of financial statements for the current period and for one comparative period. In addition, when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, it is required to present a statement of financial position as at the beginning of the *earliest comparative period* (an opening statement of financial position).

The boards decided that the exposure draft should clarify these requirements as follows:

- only one comparative period is required for a complete set of financial statements. Presenting one or more financial statements for additional comparative periods is acceptable, provided it is not misleading. That is, any additional financial statement presented must be prepared in accordance with current IFRSs/US GAAP and must be presented with the same prominence as the required financial statements.
- an opening statement of financial position for that one comparative period is the only additional statement that an entity is required to present to be in compliance with IFRSs/US GAAP when there is a change in accounting policy, restatement or reclassification. On a separate issue, the boards decided that the exposure draft should clarify that if an item of other comprehensive

income relates to, or will relate to, a discontinued operation, it should be identified and presented as such on the statement of comprehensive income.

Go to the project page on the IASB website

Financial instruments with characteristics of equity

Accounting for conversion or settlement of convertible debt and exercises of options

Shares issued upon exercise of written call options should be reported at their fair values on the issuance date (the current trading price, if it is available). If the option has been classified as equity, the difference between the fair value of the shares and the carrying value of the option plus the cash received, should be reported in the statement of stockholders' equity. If the instrument that is being exercised is classified as a liability, the difference between the fair value of the shares and the carrying value of the instrument should be reported in net income.

Shares issued upon conversion of convertible debt should be reported at their fair values on the issuance date (the current trading price, if it is available). If the convertible debt has been separated into liability and equity components, a gain or loss should be recognised equal to the difference between the carrying value of the liability component and the fair value of that component (which is equal to the fair value of a comparable freestanding instrument without an equity component). The remainder of the fair value of the shares issued (the total fair value of the shares less the fair value of the liability component) should be reported in equity.

Reassessment of classification

An instrument should be reclassified if events occur or circumstances change with the result that the instrument no longer meets the conditions for its existing classification. The reclassification should take place as of the date of the event that changed the classification.

An entity should immediately remeasure a reclassified instrument according to the requirements for the new classification as if it were a newly-issued instrument on the date of reclassification. If an instrument classified as equity is reclassified as a liability, the difference between the carrying value before the reclassification and the measurement after reclassification should be reported as an adjustment to equity. If an instrument classified as a liability is reclassified as equity, the difference between the carrying value before the reclassification and the measurement after reclassification should reported as a gain or loss in income. There is no limit on the number of times an instrument may be reclassified.

If an instrument is required to be reclassified, the issuer should disclose a description of the instrument, the amount that was reclassified, and the reason for reclassification.

Economic compulsion

Economic compulsion (as distinguished from expressed or implied contractual obligations) should not be considered in determining an instrument's classification.

Fair value option

An issuer may not avoid separation of an instrument with a liability and equity component by choosing the fair value option for the instrument in its entirety.

Scope

The proposed requirements would apply to all financial instruments except:

1. Interests in subsidiaries, associates, or joint ventures that are accounted for under other standards;
2. Employers' rights and obligations under employee benefit plans;
3. Insurance contracts accounted for under other standards; and
4. Share-based payment awards accounted for under IFRS 2, *Share-based Payment*, and FASB Accounting Standards Codification™ Topic 718, *Compensation - Stock Compensation*.

The proposed standard would also apply to contracts to buy or sell a nonfinancial item that can be settled in net cash or another financial instrument or by exchanging financial instruments.

Transition

An entity would apply the proposed requirements to all instruments outstanding at the beginning of the first period presented in the financial statements for the period of adoption. Net income would be restated for all the periods presented. If the proposed requirements result in an instrument being reclassified from a liability to equity, any measurement change upon reclassification should result in an adjustment to equity. If the proposed requirements result in an instrument being reclassified from equity to a liability, any measurement change upon reclassification should result in an adjustment to beginning retained earnings. The IASB decided the same transition requirements would apply to first-time adopters under IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Disclosures

An entity should disclose the nature and terms of instruments with settlement alternatives: that is, liability or asset instruments. That disclosure should include:

1. The identity of the entity that controls the settlement alternatives
2. The amount that would be paid, or the number of shares that would be issued and their fair value, determined under the conditions specified in the contract if the settlement were to occur at the reporting date
3. How changes in the fair value of the issuer's equity shares would affect the settlement amounts (for example, "the issuer is obligated to issue an additional X shares or pay an additional Y dollars in cash for each $1 decrease in the fair value of one share")
4. The maximum amount that the issuer could be required to pay to redeem the instrument by physical settlement, if applicable
5. The maximum number of shares that could be required to be issued, if applicable
6. That a contract does not limit the amount that the issuer could be required to pay or the number of shares that the issuer could be required to issue, if applicable
7. For a forward contract or an option indexed to the issuer's equity shares, all of the following:
   a. The forward price or option strike price
   b. The number of issuer's shares to which the contract is indexed
   c. The settlement date or dates of the contract, as applicable.

In addition, a public company should present a statement of capitalisation at fair value. The statement would show the beginning balance plus issuances less repurchases or expirations plus (or minus) changes in fair values of equity instruments and long-term debt instruments.

Comment Period

The comment period will be approximately 120 days.

The boards directed the staff to begin drafting an Exposure Draft on reporting financial instruments with characteristics of equity, to be voted on by written ballot.

Go to the project page on the IASB website

Fair value measurement

Measuring the fair value of financial instruments within a portfolio

The boards tentatively decided to permit an exception to fair value measurement principles by permitting entities to use mid prices as a basis for establishing fair values for offsetting market risk positions (eg interest rate risk, currency risk or other price risk) and to apply the price within the bid-ask spread that is most representative of fair value to the net open risk position. To use this exception, an entity must:

- manage its financial instruments on the basis of the net open risk positions in accordance with the entity's documented risk management strategy; and
- manage the net open risk position in a consistent manner from period to period.

In addition:

- the market risks that are being offset must be substantially the same;
- the financial instruments must share common characteristics; and
- the financial instruments must be measured at fair value on a recurring basis.

The boards also tentatively decided to clarify that entities are permitted to consider offsetting counterparty credit risk positions when measuring the fair value of financial instruments when there is a legally enforceable right of offset with the counterparty in the event of default (eg a master netting agreement).

Go to the project page on the IASB website