

Welcome to IASB Update

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 met in London on the afternoons of Tuesday 1 February and Wednesday 2 February. Some IASB board members participated by phone and some by video. Most of the meeting was held jointly with the FASB. FASB members participated by video on Tuesday and by phone on Wednesday, because poor weather had caused the FASB to close its offices on that day. In the IASB-only sessions the Board considered the last of the major staff recommendations for the project to improve the reporting by an entity of defined benefit schemes that it sponsors. The topics discussed were classification of post employment benefit plans and accounting for risk sharing features in defined benefit plans. The Board will discuss effective dates and transitional provisions in February with the goal of issuing the amendments in early April. In the sessions held jointly with the FASB, the boards began the more detailed discussions on topics in the revenue recognition, leases and insurance contracts projects.

For leases, the staff used two cases to help the boards focus on the factors that are critical to distinguishing the lease of an asset from a contract for services. For revenue recognition the boards discussed warranties and acquisition costs. The insurance contracts team also presented its analysis for acquisition costs so that the boards could consider this topic at the same time for both the revenue recognition and the leases projects. The boards have identified several topics that affect all of the revenue recognition, leases and insurance contracts projects. (These are called cross-cutting issues.) The staff and boards are ensuring that those topics are considered in a consistent manner.

The topics discussed at the joint IASB/FASB board meeting were:

- Insurance contracts
- Leases
- Revenue recognition

The topics discussed at the IASB Board meeting were:

- Post-employment benefits

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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 2011 are:

14-18 February
2 March
14-18 March

To see all Board meetings for 2011, [click here](#).

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Podcast summaries

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Sessions held jointly with the FASB

Insurance contracts

The IASB and FASB continued their discussions on insurance contracts by discussing how insurers should account for acquisition costs for insurance contracts.

The boards tentatively decided that the contract cash flows should include those acquisition costs that relate to a portfolio of insurance contracts. This was supported by all IASB board members present and by three of the FASB board members.

The FASB tentatively decided to include implementation guidance to clarify which acquisition costs should be included in the initial measurement of an insurance contract, rather than being recognised as an expense as incurred. The IASB did not vote on this proposal.

The boards discussed whether acquisition costs included in the initial measurement of the cash flows should include only those associated with successful selling efforts. All FASB board members tentatively supported this approach. The IASB did not reach a consensus on this issue.

The boards asked the staff to provide further clarification on how to define incremental costs, direct costs, or direct and incremental costs to better understand the acquisition costs that would be included in the cash flows.

Next steps

The board will continue their discussions on insurance contracts in their joint meeting in the week of 14 February.

Leases

The IASB and the FASB discussed the definition of a lease and how to distinguish between a lease contract and a service contract. Using some examples, the boards discussed the application of the following principles to identify a lease:

1. Fulfilment of the contract depends on the supplier (lessor) providing a specified asset.
2. The contract conveys to the customer (lessee) the right to control the use of the specified asset.

The boards will continue their discussions at a future joint meeting.

Revenue recognition

The IASB and the FASB continued their redeliberations of the exposure draft *Revenue from Contracts with Customers* by discussing the accounting for warranties.

The boards decided that an entity should account for some warranties as a warranty obligation (ie as a cost accrual) in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or *FASB Accounting Standards Codification® Topic 450 Contingencies*. This was supported by all IASB and FASB members present.

To determine which warranties an entity would account for as a cost accrual, the boards decided that:

1. If a customer has the option to purchase a warranty separately from the entity, the entity

should account for the warranty as a separate performance obligation. Hence, the entity would allocate revenue to the warranty service.

2. If a customer does not have the option to purchase a warranty separately from the entity, the entity should account for the warranty as a cost accrual unless the warranty provides a service to the customer in addition to assurance that the entity's past performance was as specified in the contract (in which case the entity would account for the warranty service as a separate performance obligation).

Four IASB members and one FASB member present did not support this decision. However, all the board members supported further development of the application requirements to help an entity to determine when a warranty provides a service to the customer in addition to assurance that the entity's past performance was as specified in the contract.

The boards also tentatively decided that:

1. An entity should recognise an asset for the incremental costs of obtaining a contract that the entity expects to recover. Incremental costs of obtaining a contract are costs that the entity would not have incurred if the contract had not been obtained.
2. An asset recognised for the costs of obtaining a contract should be presented separately in the statement of financial position and be subsequently amortised on a systematic basis consistent with the entity's performance under the contract(s) to which the asset relates.

Two IASB members and one FASB member present did not support this decision.

At a future meeting, the boards will discuss the costs of fulfilling a contract.

Next steps

At their next February joint meetings, the boards will discuss the following topics:

1. Recognising revenue for a service
2. Identifying distinct goods or services
3. Combining contracts
4. Contract modifications
5. Existence of a contract and the definition of a performance obligation
6. Onerous performance obligations
7. Gift cards and breakage.

IASB-only sessions

Post-employment benefits

The IASB continued its discussion of the proposals in the exposure draft *Defined Benefit Plans* (the ED) relating to accounting for risk sharing features.

Classification of post-employment benefit plans

The Board tentatively decided to clarify that for a plan with a benefit formula to be classified as a defined benefit plan, the benefit formula needs to give rise to a legal or constructive obligation that may require the employer to pay additional contributions as a result of current or past service beyond any contributions already paid for that service. All Board members present at the meeting supported this decision.

Accounting for risk-sharing features in defined-benefit plans

The Board tentatively decided:

- to clarify that the benefit to be attributed in accordance with paragraph 67 of IAS 19 is the benefit net of the effect of the employee contributions;
- to confirm the proposal that the effect of employee contributions should be deducted in determining the defined benefit obligation, but to withdraw the proposal that the effect of employee contributions should always be presented as a reduction in service cost;
- to clarify that the conditional indexation should be reflected in the measurement of the defined benefit obligation, regardless of whether the indexation or changes in benefits are automatic or are subject to a decision by the employer, by the employee, or by a third party such as trustees or administrators of the plan; and
- to clarify that if there exist any limits on the legal and constructive obligation to pay additional contributions, the effect of those limits should be included in the calculation of the defined benefit obligation.

All Board members present at the meeting supported these decisions.

In addition, the Board decided to confirm the proposal that the assumptions used to estimate conditional indexation or changes in benefits should be compatible with the other assumptions used to determine the defined benefit obligation. Two Board members present at the meeting did not support this decision

Next steps

In the Board meeting for the week beginning 14 February, the IASB intends to discuss the effective date and transition requirements for the amendments to IAS 19.

Post-implementation review

The IASB considered a plan for developing a framework for conducting post-implementation reviews. The plan proposes to seek views from the IFRS Advisory Council, the IFRS Interpretations Committee and national standard-setters.

The Board agreed with the proposed plan and asked the staff to also seek views from the Analyst Representative Group. The staff expect to bring the results of these consultations, together with the draft framework for post-implementation reviews, to the Board for discussion in April.

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