# IASB Update

From the International Accounting Standards Board

1 and 2 March 2011

## 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 and FASB met jointly on Tuesday 1 March and Wednesday 2 March 2011.

The joint discussions were held by videoconference, with the IASB based in London and the FASB based in Norwalk. Several IASB members were undertaking outreach activities and participated in the meeting by phone or video. Two IASB members were unable to attend the sessions held on 1 March and three were unable to attend the sessions held on 2 March.

The discussions focused on their three major MoU projects: revenue recognition, leases and insurance contracts. The boards also considered a summary of comments received on their request for views about effective dates and transitional provisions for these major projects.

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

- Effective dates and transition methods
- Financial statement presentation
- Insurance contracts
- Leases
- Revenue recognition.

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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 March
21-23 March (joint meeting in Norwalk, US)
28-29 March

To see all Board meetings for 2011, click here.

### Archive of IASB Update Newsletter

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### Podcast summaries

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

## Effective dates and transition methods

In October 2010, the FASB and the IASB each published a document requesting views from stakeholders about the time and effort that will be involved in adopting several new standards and when those standards should be effective. The staff presented a summary of the feedback received, highlighting the main similarities and differences between the views expressed by FASB and IASB stakeholders.

In view of the limited numbers of responses received from users and, for the FASB, from private entities, the boards directed the staff to undertake further outreach activities with these groups as well as with other stakeholders, such as third-party financial software developers and data aggregators, that are a source of financial information for financial statement users. In addition, the boards directed the staff to analyse input received from investors and other users about what transitional disclosures might be needed to help users understand the effect of the new requirements and to develop recommendations for consideration at a future meeting.

The boards discussed possible effective dates for their joint projects on leases, revenue recognition, and insurance contracts. The boards also discussed how they would establish effective dates and transition methods for the various other projects under way. The boards indicated that they would determine the effective dates for the projects by taking into account the significance of the accounting changes required and the methods of transition. In doing so, they will provide adequate time for stakeholders to apply the new requirements.

The boards tentatively decided to determine the effective dates and transition methods for their projects on other comprehensive income, fair value measurements, financial instruments with characteristics of equity, and financial statement presentation on a standard-by-standard basis, when each of those projects comes to a conclusion. The IASB decided that it would determine effective dates and transition methods for its financial instruments project as each project phase is completed. The FASB has yet to decide on how it will determine the effective date for its financial instruments project.

## Financial statement presentation

The staff presented the results and findings of its outreach activities related to the July 2010 staff draft of an exposure draft on financial statement presentation. The IASB and FASB acknowledged the substantial amount of outreach conducted by staff and especially highlighted their appreciation to all the participants of the outreach activities. The boards also emphasised the valuable feedback received through several joint outreach meetings conducted by EFRAG and national standard setters.

The boards observed that there might be parts of the project that could be addressed in the nearer term and that the information provided would feed into the IASB's agenda consultation. The boards also noted that many parties thought that developing a conceptual basis for other comprehensive income should be addressed sooner rather than later. No formal decisions were made regarding technical aspects of the project or the timing of future board discussions.

## Insurance contracts

The IASB and FASB continued their discussions on insurance contracts by considering the following subjects: locking in the discount rate, discounting non-life contract liabilities, scope, financial guarantee contracts, field test preliminary report, uncertainty and acquisition costs.

### Locking in the discount rate

The boards tentatively confirmed the proposal in the IASB's exposure draft *Insurance Contracts* (ED) and the FASB's Discussion Paper *Preliminary Views on Insurance Contracts* (DP) that the discount rate used to measure all insurance contracts should be a current rate that is updated each reporting period (ie not to lock in the discount rate for any insurance contract). All IASB and FASB members present supported this decision.

### Discounting non-life contracts

The IASB's ED and the FASB's DP proposed that discounting should be used in the measurement of all insurance liabilities. The boards tentatively decided to require discounting for all non-life long-tail claims. All IASB and FASB members present supported this decision.

The boards tentatively agreed that discounting of insurance liabilities should not be required when the effect of discounting would be immaterial. The boards asked the staff to develop, as part of the papers on the modified approach, additional guidance for determining when discounting a contract with a short-tail claim would be considered immaterial.

### Scope

The boards tentatively confirmed the proposal in the ED/DP to exclude from the scope of the insurance contracts standard some fixed-fee service contracts which have as their primary purpose the provision of services. The boards will consider in a future meeting how to identify such contracts.

The boards tentatively confirmed all the other scope exceptions that had been proposed by the ED/ DP. All the IASB members present and six FASB members supported this decision. One FASB member disagreed that the standard on insurance contracts should exclude contracts between an employer and employees under employee benefit or retirement plans.

### Financial guarantee contracts

The IASB's exposure draft (ED) *Insurance Contracts* proposed that the insurance contracts standard would apply to all financial guarantee contracts, as defined in IFRSs. However, at this meeting, the IASB tentatively decided:

a. to retain the existing approach in IFRSs that:
    i. permits an issuer of a financial guarantee contract (as defined in IFRSs) to account for the contract as an insurance contract if the issuer had previously asserted that it regards the contract as an insurance contract; and
    ii. requires an issuer to account for an a financial guarantee contract (as defined in IFRSs) in accordance with the financial instruments standards in all other cases.
b. it would not create an exception from the accounting for financial guarantee contracts for intragroup guarantees.

All IASB members supported this decision.

The FASB decided to consider at a future meeting which financial guarantee arrangements, if any, should be within the scope of the insurance contracts standard. All FASB members supported this decision.

### Field test preliminary report

The boards considered a preliminary report of results from the field test of the proposals in the ED. The boards were not asked to make any decisions on this topic.

### Uncertainty

The boards considered an overview of where the measurement model captures the elements of risk and uncertainty. The boards were not asked to make any decisions on this topic.

### Acquisition costs

The boards continued their discussion on how insurers should account for acquisition costs.

The FASB tentatively decided that the acquisition costs included in the cash flows of insurance contracts will be limited to:

a. those costs related to successful acquisition efforts; and
b. direct costs that are related to the acquisition of a portfolio of contracts.

All FASB members supported this decision.

The FASB directed the staff to develop implementation guidance on which direct costs related to the acquisition of a portfolio of contracts would be included in the cash flows of insurance contracts.

The IASB tentatively decided that the acquisition costs to be included in the initial measurement of a portfolio of insurance contracts should be all the costs that the insurer will incur in acquiring the portfolio, including costs that relate directly to the acquisition of the portfolio, such as commissions. No distinction would be made between successful efforts and unsuccessful efforts. Ten IASB members supported this decision and two IASB members opposed it.

The boards discussed which types of acquisition costs would be included in the cash flows of insurance contracts, and directed the staff to draft application guidance on this topic for the boards' consideration.

### Next steps

The boards will continue their discussion on this project at their joint meeting in the week of 14 March 2011.

## Leases

The IASB and the FASB discussed the application of the right-of-use model to all lease arrangements and discussed the scope of the leases standard.

### Confirmation of the right-of-use model

The boards affirmed the decision in the *Leases* exposure draft to apply a right-of-use model to all lease arrangements. Under that model, a lessee in an arrangement that is, or contains, a lease would recognise an asset representing its right to use an underlying asset during the lease term and a liability representing its obligation to make lease payments during the lease term. Application of the right-of-use model by a lessor will be discussed at a future meeting. All IASB and FASB members supported this decision.

### Scope

The boards tentatively decided that leases of intangibles are not required to be accounted for in accordance with the leases standard. One IASB member did not support this decision. All FASB members supported this decision.

The boards unanimously affirmed the decision in the leases exposure draft that the following are within the scope of the leases standard:

1. right-of-use assets in a sublease
2. leases of non-core assets; and
3. long-term leases of land.

The boards unanimously affirmed the decision in the leases exposure draft that the following are not within the scope of the leases standard:

1. leases for the right to explore for or use minerals, oil, natural gas and similar non-regenerative resources
2. leases of biological assets (IFRSs), and biological assets plus timber (US GAAP); and
3. leases of service concession arrangements within the scope of IFRIC 12, *Service Concession Arrangements* (IFRSs only).

The boards directed the staff to perform additional research and then present an analysis of the results at a future meeting on whether the following are within the scope of the leases standard:

1. leases of internal-use software in accordance with Subtopic 350-40, *Intangibles-Goodwill and Other Internal-Use Software, of the FASB Accounting Standards Codification*®; and
2. leases of inventory.

### Next steps

The boards will continue their redeliberations of the *Leases* exposure draft at future meetings.

## Revenue recognition

The IASB and the FASB continued their discussion from February 2011 on how an entity would test a contract to determine whether it is onerous.

The boards tentatively decided that the onerous test should apply to all contracts, including those that are intentionally priced at a loss in the expectation of profits to be generated on subsequent contracts with the customer (ie 'loss-leader' contracts).

The boards tentatively affirmed the proposal in the exposure draft *Revenue from Contracts with Customers* that the costs to be included in the onerous test and in measuring an onerous liability should be the costs that relate directly to satisfying the remaining performance obligations (as described in paragraph 58 of the exposure draft). The boards observed that when an entity is committed to cancelling a contract and has the contractual right to do so, the costs would reflect the amount that the entity would have to pay to cancel the contract (eg the amount it would have to refund the customer, including any penalties). The boards also observed that cancelling the contract may give rise to other obligations that would be accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or Topic 450 *Contingencies in the FASB Accounting Standards Codification*®.

No formal vote was taken, but all board members present supported this general approach.


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