IASB Update

From the International Accounting Standards Board

28 July 2011

Welcome to IASB Update

The IASB met in London on 28 July 2011. Eight Board members attended in person with two joining the meeting by telephone. Five Board members were not able to attend the meeting.

The 'tentative decisions' reported here reflect the views of the Board members present at the meeting. None of the tentative decisions constitutes a formal vote in relation to the matters discussed. An IASB proposal, exposure draft or IFRS, can only be finalised and issued after it has been formally balloted. Before such a ballot takes place the Board will review, ion a public session, all of its tentative decisions at which time those Board members not able to attend this meeting will have the opportunity to have matters reconsidered. All Board members must participate in the formal balloting process for exposure drafts and IFRSs.

The topics discussed at the joint IASB meeting were:

- Asset and liability offsetting
- IFRS 9: Financial instruments: hedge accounting
- Effective date of IFRS 9—sweep issues
- 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:

6&7 September
19-23 September (Norwalk, US)
19-21 October

To see all Board meetings for 2011, 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) of previous Board meetings, click here.

Asset and liability offsetting

The Board discussed the effective date and transition requirements for the revised offsetting disclosures. The staff recommended that the revised disclosure requirements should be applied retrospectively and be effective for annual and interim reporting periods beginning on or after 1 January 2013.

None of the Board members present objected to either of the staff recommendations. However, no vote was taken and the matter will be considered by the full Board in September.

IFRS 9: Financial instruments: hedge accounting

At this meeting the IASB continued its redeliberations on the exposure draft *Hedge Accounting* (the ED).

Risk components

The Board discussed the feedback on the designation of a risk component as the hedged item. It was noted that the feedback on this proposal was positive, although many respondents asked for additional guidance.

The Board tentatively decided to:

- retain the notion of risk components as eligible hedged items; [This decision was supported by 9 Board members with 1 against and 5 absent]
- use a criteria-based approach to determining eligible risk components on the basis of the criteria proposed in the ED, ie that a risk component must be separately identifiable and reliably measurable; [This decision was supported by 9 Board members with 1 against and 5 absent]
- use a single set of criteria for all items, ie that the criteria should apply for all types of items (financial and non-financial items); and [This decision was supported by 9 Board members with 1 against and 5 absent]
- provide guidance by using examples to illustrate how the criteria should be applied. [This decision was supported by 8 Board members with 2 against and 5 absent]

The Board also discussed the ED's specific restriction that prohibits designating as a hedged item non-contractually specified inflation risk components of financial items.

The Board tentatively decided to:

- eliminate the restriction in the ED but add a 'caution' and 'rebuttable presumption' regarding non-contractually specified inflation risk components of financial items; and [This decision was supported by 9 Board members in favour, 1 against and 5 absent]
- include an example of a situation in which an inflation risk component is eligible for designation as a risk component and an example of a situation in which inflation risk is not an eligible risk component. [This decision was supported by 6 Board members with 4 against and 5 absent]

Hedges of credit risk using credit derivatives

The Board discussed the feedback on hedges of credit risk using credit derivatives.

The Board noted that the accounting for hedges of credit risk using credit default swaps (CDSs) has been a long standing and prevalent issue in practice for financial institutions despite the fact that IAS 39 allows applying hedge accounting to risk components of financial hedged items.

The Board tentatively decided to address this issue specifically and further explore an approach reflecting the insurance like nature of credit derivatives that are used to manage credit exposures.

[This decision was supported by 10 Board members with 0 against and 5 absent]

Disclosure requirements

The Board discussed the following issues related to the proposed disclosure requirements based on the feedback received:

- scope of the hedge accounting disclosures
- description of the risk management strategy
- timing, amount and uncertainty of future cash flows
- effects of hedge accounting on the financial statements

Scope of the hedge accounting disclosures

The Board tentatively confirmed the scope of the hedge accounting disclosures that it had proposed in the exposure draft. That is, consistently with the scope of the project, to require disclosure of information on risk exposures being hedged and for which hedge accounting is applied.

This decision was supported by 9 Board members with 1 against and 5 absent.

Description of the risk management strategy

In the ED, the Board proposed that entities should provide information that allows users to understand:

- How each risk arises.
- How the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component(s) of an item.
- The extent of risk exposures that the entity manages.

The Board tentatively decided to add guidance about aspects that are part of describing the risk management strategy under each risk category:

- Whether the entity hedges an item in its entirety for all risks or hedges a risk component of an item and how each risk arises (and why it uses that particular approach).
- The hedging instruments that are used to offset the risk exposure (and how they are used).
- How the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of testing hedge effectiveness.
- How the entity establishes the hedge ratio and the sources of hedge ineffectiveness.

The Board also tentatively decided that entities should provide qualitative or quantitative information that allows users to understand:

- How the entity determined the component that is designated as the hedged item.
- How the component relates to the item in its entirety (for example, the designated component historically covered 80 per cent of the changes in fair value of the item as a whole).

[This decision was supported by 9 Board members with 1 against and 5 absent]

Timing, amount and uncertainty of future cash flows

The Board noted that many respondents were concerned that part of the proposed disclosure requirements regarding the timing, amount and uncertainty of future cash flows would lead to disclosure of commercially sensitive information. Instead of the proposed disclosures in the ED the Board tentatively decided to require disclosure of information that would allow users to understand:

- The principal, stated face or similar amount (referred to as the notional amount) of the hedging instrument.
- A profile of the timing of the notional amount of the hedging instrument. This is based on the terms of that instrument.
- If applicable, the average price or rate (for example strike or forward prices etc) of the hedging instrument.

[This decision was supported by 10 in favour, 0 against and 5 absent]

The Board also discussed what disclosures would provide useful information when entities apply a dynamic hedging process. A dynamic hedging process refers to a situation in which entities hedge an exposure that is constantly evolving and so they designate hedging relationships that are frequently reset (ie they are discontinued and newly designated in response to how the exposure has evolved until that point in time).

The Board did not reach a conclusion at this meeting and will discuss these disclosure requirements again at the September meeting.

Effects of hedge accounting on the financial statements

The Board discussed what additional information might be provided to help users to understand how the different hedging instruments and hedged items have contributed to hedge ineffectiveness. The Board tentatively decided to require that entities should disclose the change in fair value of both the hedged items and hedging instruments that are used to determine the hedge ineffectiveness. This links the changes in fair value (used for the purpose of calculating hedge ineffectiveness) of the hedged items and hedging instruments to the hedge ineffectiveness recognised in the statement of profit or loss and other comprehensive income.

[This decision was supported by 10 Board members with 0 against and 5 absent]

The Board also tentatively decided that entities should provide the same level of aggregation or disaggregation of information for the purpose of the hedge accounting disclosure as it does for other disclosures in IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement*.

[This decision was supported by 10 Board members with 0 against and 5 absent]

The Board also tentatively decided not to require a disclosure that distinguishes the carrying amount of financial instruments that have been designated as hedging instruments and those that have not. The Board noted that the same information is available without that specific disclosure.

[This decision was supported by 7 Board members with 3 against and 5 absent]

Linked presentation

At the 27 April IASB meeting, the Board decided not to allow linked presentation for fair value hedges, subject some further outreach.

The information obtained from the additional outreach was consistent with that set out in previous agenda papers. Consequently, the Board tentatively decided to confirm its decision not to allow linked presentation for fair value hedges.

[This decision was supported by 10 Board members with 0 against and 5 absent]

Accounting for contracts to buy or sell non-financial items that can be settled net in cash

The Board discussed the feedback on the proposal in the ED to change the accounting for a contract to buy or sell a non-financial item that can be settled net in cash (so-called 'own use' contracts).

The Board noted that the feedback on the proposal highlighted a concern about unintended consequences that might create an accounting mismatch in some situations. In response to that concern, the Board tentatively decided to extend the fair value option in IFRS 9 *Financial Instruments* to contracts that meet the 'own use' scope exception (ie if applying fair value accounting eliminates or significantly reduces an accounting mismatch) instead of using the proposal in the ED.

[This decision was supported by 7 Board members with 3 against and 5 absent]

Effective date of IFRS 9—sweep issues

The Board considered whether, as part of the upcoming exposure draft that will propose an amendment to the mandatory effective date of IFRS 9, to also extend the concession relieving entities from presenting comparative information. The Board decided not to change the requirement in IFRS 9 for comparatives to be presented for entities that initially apply IFRS 9 for annual periods beginning on or after 1 January 2012, but decided to include a question on this matter in the exposure draft.

Revenue recognition

The IASB tentatively decided at the joint July board meeting to grant four transition reliefs on retrospective application of the new revenue standard. At this meeting the Board tentatively decided to add an exemption to IFRS 1 *First-time Adoption of International Financial Reporting Standards* to permit a first-time adopter to apply any one of three reliefs.

The three reliefs are that the entity:

- should not be required to apply the proposals to contracts that begin and end within the same annual periods prior to the first IFRS reporting period
- should be required to use hindsight in estimating variable consideration in the periods prior to the first IFRS reporting period
- should not be required to disclose the maturity analyses of remaining performance obligations for periods before the first IFRS reporting period.

Note about the webcast

Unfortunately, a problem caused by our external provider resulted in the live streaming being interrupted for about 10 minutes at around 5:30 pm BST. The webcast recordings are available via the respective project pages on the IFRS Foundation website.

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