IASB Update

From the International Accounting Standards Board

January 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 International Accounting Standards Board (IASB) / Financial Accounting Standards Board (FASB) joint board meeting and the IASB Board meeting took place between 17-21 January 2011.

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

- Financial instruments: impairment
- Insurance contracts - comment letter summary
- Insurance contracts - education session
- Leases
- Leases - education session on lessor accounting model(s)
- Revenue recognition

The topics discussed at the IASB Board meeting were:

- Annual improvements
- Assessment of the proposed Annual Improvements qualifying criteria
- Consolidation and joint arrangements
- IFRS Interpretations Committee update
- Joint arrangements - education session
- 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:

1 & 2 February
14-18 February
14-18 March (joint meeting with FASB
21-23 March in London)

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) or previous Board meetings, click here.

Financial instruments: impairment

The IASB decided unanimously to a 60-day comment period for the upcoming joint supplement to the IASB's November 2009 exposure draft, including the additional questions in the IASB-only appendix to that supplementary document.

Insurance contracts - comment letter summary

The IASB and FASB discussed the feedback received in the comment letters on the IASB's exposure draft *Insurance Contracts* and the FASB's discussion paper *Preliminary Views on Insurance Contracts*.

No decisions were made.

Insurance contracts - education session

The boards had invited guest speakers to an education session on potential discount rates for non-participating insurance contracts. The IASB's exposure draft Insurance contracts and the FASB's discussion paper *Preliminary Views on Insurance Contracts* had both proposed a bottom-up determination of the discount rate that starts with a risk-free interest rate and adds an adjustment for illiquidity. The guest speakers provided presentations on, as an alternative, various top-down approaches that start with the return on a specified portfolio of assets and then deduct components that do not reflect the characteristics of the insurance liability being measured. The approaches discussed were:

- economic default adjusted discount rate (EDAR); speaker: Rob Esson, National Association of Insurance Commissioners (NAIC) and the International Association of Insurance Supervisors (IAIS);
- reference asset portfolio-based discount rate; speakers: Francesco Nagari and Andrew Smith, Deloitte LLP;
- asset-linked discount rate; speaker Nick Bauer, Eckler Ltd.

No decisions were made.

Next steps

The boards will continue their discussions on this project at an additional meeting on 2 February 2011.

Leases

Comment letter summary

The IASB and FASB considered a summary of:

1. the feedback received in response to the exposure draft *Leases*, which was published for public comment in August 2010; and
2. feedback from outreach activities undertaken after the publication of the exposure draft to explain the proposals and to obtain comments on them.

The boards also discussed the plan for redeliberating the issues raised by respondents to the exposure draft.

The boards plan to begin redeliberations by considering two of the fundamental issues raised by respondents, which are the definition of a lease and the next steps to be taken relating to lessor accounting.

Definition of a lease

The boards discussed the definition of a lease and how to distinguish between a lease contract and a service contract. The boards also discussed whether, under a right-of-use model, all lease contracts should have the same subsequent measurement approach.

This session was for education only, and thus the boards did not make any technical decisions.

Leases - education session on lessor accounting model(s)

The boards discussed the next steps for redeliberating the lessor accounting model proposed in the exposure draft *Leases*.

The boards noted the benefit of considering lease issues from both the perspective of a lessee and of a lessor and, therefore, decided that they should continue to address lessee and lessor accounting issues together. The boards could then decide later in the current leases project whether changes to the present lessor accounting model are needed, and if so, whether these changes should be made as part of the current leases project or as part of a separate project.

The boards also noted that some respondents questioned why the exposure draft proposes consistent application of a right-of-use model by all lessees, but proposes that application by lessors depends on an assessment of whether the lessor retains exposure to significant risks and benefits associated with the underlying asset. The boards noted that many respondents, including users, think that some lessees and lessors enter into lease contracts to finance the use of an underlying asset, whereas other lessees and lessors enter into lease contracts for other reasons, such as the operational flexibility provided by the contract. Consequently, the boards directed the staff to explore whether there should be two approaches to apply the right-of-use model by both lessees and lessors, and therefore two different patterns of profit or loss recognition, and how to differentiate between the two approaches.

This session was for education only, and thus the boards did not make any technical decisions.

Revenue recognition

The IASB and FASB began their redeliberations on the exposure draft *Revenue from Contracts with Customers* by discussing the following topics:

- segmenting a contract;
- identifying separate performance obligations; and
- determining the transfer of goods and services.

Segmenting a contract

The boards decided to eliminate the proposed requirement in the exposure draft to account for one contract as two or more contracts, in the situation where the price of some goods or services in the contract is independent of the price of other goods or services in the contract. Consequently, an entity would separate a contract only if the entity identifies separate performance obligations in the contract. At a future meeting, the boards will discuss further the implications of this decision on allocating the transaction price.

Identifying separate performance obligations

The boards decided that the revenue standard should clarify that the objective of identifying separate performance obligations is to depict the transfer of goods or services and also the profit margin that is attributable to those goods or services.

The boards decided to retain the principle of 'distinct goods or services' as the basis for identifying separate performance obligations. The boards asked the staff to analyse further the following attributes of a distinct good or service and to consider how an entity would apply them in various scenarios:

- distinct function;
- separable risks; and
- different pattern of transfer to the customer.

The boards also decided that it would not be necessary for the revenue standard to include additional requirements on accounting for perfunctory, incidental or other similar obligations.

Determining the transfer of goods and services

The boards affirmed the core principle in the exposure draft that an entity should recognise revenue to depict the transfer of goods and services to a customer.

Goods

For determining the transfer of a good, the boards decided that an entity should recognise revenue when the customer obtains control of the good. The boards also decided that the revenue standard should:

- carry forward most of the proposed guidance on control from the exposure draft;
- describe rather than define control;
- add 'risks and rewards of ownership' as an indicator of control; and
- eliminate 'the design or function of the good or service is customer-specific' as an indicator of control.

Services

For determining the transfer of a service, the boards decided that an entity should recognise revenue for the entity's performance of contractually-agreed tasks if:

- the customer controls the work-in-process; or
- another entity would not need to reperform the task if that other entity were required to fulfill the remaining obligation to the customer; or
- the entity has a right to payment for the performed task and the entity's performance to date could not be put to an alternative use by the entity (ie the performance to date has not created an asset that could be transferred to another customer).

The boards decided that an entity would recognise revenue for a service only if the entity could reasonably measure its progress toward successful completion of the service. The boards asked the staff to analyse further which method an entity should use to measure its progress toward completion of a service (eg an output method, an input method, or a method based on the passage of time).

Goods and services

The boards decided that if an entity promises to transfer both goods and services, the entity should first determine whether the goods and services are distinct (in accordance with the guidance on identifying separate performance obligations).

- If the goods and services are distinct, the entity would account for them as separate performance obligations.
- If the goods and services are not distinct, the entity would account for the bundle of non distinct goods and services as a service.

Formal votes were not taken for the matters described above. However, there was support from the board to develop the project along the lines described with no board members objecting to the recommendations.

Next steps

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

- costs of obtaining a contract;

- combining contracts;
- contract modifications; and
- product warranties.

The topics discussed at the IASB meeting were:

Annual improvements

The IASB tentatively agreed to propose updating some parts of IAS 1 *Presentation of Financial Statements* to reflect the updated concepts in the Conceptual Framework that was published in September 2010. They Board decided:

- to replace the objective of financial statements contained in IAS 1 Presentation of Financial Statements with the objective of financial reporting [14 in favour, 1 against]; and
- to replace the definition of understandability to be consistent with the new definition in the Conceptual Framework [15 in favour].

These proposed amendments will be included in the 2010-2012 cycle of *Annual Improvements*.

Assessment of the proposed Annual Improvements qualifying criteria

In August 2010, the Trustees of the IFRS Foundation published for public comment a consultation document that sets out a proposal to add new paragraphs to the *Due Process Handbook for the International Accounting Standards Board* relating to the annual improvements process.

The IASB discussed the summary of the comments received on this proposal along with the views received from members of the IFRS Interpretations Committee who discussed it at their meeting on 6 January 2011. Board members generally agreed with the Committee's suggested modifications to the following aspects of the proposed qualifying criteria for annual improvements:

a. to remove wording that states that a correcting amendment may create an exception from an existing principle;
b. to refine wording to emphasise that the scope of an amendment should be sufficiently narrow; and
c. to remove the word 'pressing' when considering the need to make an amendment sooner than an IASB project would.

The Board also discussed other supplementary criteria that could be used to clarify the distinction between an annual improvement and an interpretation.

The Board members' views, together with those of the Interpretations Committee members, will be included in the recommendations to the IFRS Foundation's Trustees.

Consolidation and joint arrangements

The IASB discussed a sweep issue that was raised by a number of Board members when reviewing the preballot draft of IAS 28 *Investments in Associates and Joint Ventures*. The Board considered whether the requirements in IAS 28 regarding potential voting rights when assessing significant influence should be changed to be consistent with the requirements developed in the consolidation project, but decided not to do so [13 in favour, 2 against]. However, the Board could address the issue as part of a comprehensive review of the definition and assessment of significant influence if such a project on associates were to be added to the Board's agenda after June 2011. The basis for conclusions on the revised IAS 28 will acknowledge the different treatment of potential voting rights when assessing significant influence and control, and will explain why the requirements of IAS 28 have not been changed, at least for the time being.

IFRS Interpretations Committee update

The IASB received an update from the January 2011 meeting of the IFRS Interpretations Committee. Details of the meeting were published in IFRIC Update, available here.

Joint arrangements - education session

The IASB held an education session on joint arrangements. The session aimed to provide an overview of the main requirements of the forthcoming IFRS dealing with the accounting for joint arrangements. Even though the project is at its final stage, the Board thought that it would be helpful to provide interested parties with a summary of the forthcoming IFRS.

Because this was purely an education session, the Board did not make any decisions.

Next steps

The Board will publish an IFRS on Joint Arrangements during the first quarter of 2011.

Post-employment benefits

The IASB continued its discussion of the proposals in the exposure draft *Defined Benefit Plans* (the ED) relating to:

- the presentation of the remeasurements component of defined benefit cost; and
- settlements and curtailments.

Presentation of the remeasurement component

At its November 2010 meeting, the IASB tentatively decided that an entity could present the remeasurements component in either other comprehensive income (OCI) or profit or loss.

At this subsequent January meeting, the Board tentatively decided that, although remeasurements should be presented in other comprehensive income, there were circumstances in which it would be appropriate to allow an entity to elect to present remeasurements in profit or loss (primarily to address accounting mismatches) for a given plan. Accordingly, entities should be permitted to elect to present remeasurements in profit or loss. That decision was supported by nine Board members, on the conditions that any such election would need to be irrevocable and that amounts previously recognised in other comprehensive income would not be reclassified to profit or loss.

The staff were asked to assess whether any other restrictions should be placed on such an election.

All Board members supported requiring an entity to disclose why the remeasurements are presented in profit or loss.

Settlements and curtailments

The IASB tentatively decided

- that if a curtailment or plan amendment arises as part of a restructuring plan or is linked to termination benefits, the gain or loss should be recognised at the earlier of:
    a. when the related restructuring costs or termination benefits are recognised; or
    b. when the curtailment or plan amendment occurs.

Otherwise, the gain or loss should be recognised when the curtailment or plan amendment occurs.

- that if a termination benefit arises as part of a restructuring plan, the termination benefit should be recognised at the earlier of:

a. when the related restructuring costs are recognised; or

b. when the entity can no longer withdraw an offer of the termination benefits.

Otherwise, termination benefits should be recognised when the entity can no longer withdraw an offer of the benefits.

- to confirm the proposal in the ED that a settlement should be recognised when it occurs.

Next steps

In February, the IASB intends to discuss the accounting for risk-sharing features and transition.

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