IASB Update

From the International Accounting Standards Board

September 2011

Welcome to IASB Update

The IASB held public meetings in London over four days, from Monday 19 to Thursday 22 September. The Board and staff of the FASB participated in sessions held on 19 and 21 September by video link from their offices in Norwalk.

The sessions held jointly with the FASB focused on impairment, leases and insurance contracts.

The IASB-only sessions focused on hedge accounting (the general model and macro-hedging), financial asset and liability offsetting and implementation issues-the ratification of a new Interpretation, annual improvements and narrow scope improvements recommended for consideration by the IFRS Interpretations Committee.

We have added a new section to IASB *Update*, summarising changes to the work plan that are a consequence of the decisions made at this meeting. This section appears at the end of the update.

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

- Leases
- Impairment
- Insurance contracts

The topics discussed at the IASB meeting were:

- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
- Put options written over non-controlling interests
- IFRS Interpretations Committee: update from last meeting
- Asset and liability offsetting
- IFRS 9: Financial instruments: hedge accounting
- Annual improvements
- IFRS 2 *Share-based Payment*
- IFRS 1 *First-time Adoption of IFRSs*—Prospective application provisions for first-time adopters
- IFRS 8 *Operating Segments*—Aggregation criteria and identification of the CODM
- Macro hedge accounting
- Work plan

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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:

19-21 October (Norwalk)
31 October and 1 November
7 November 2011

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**.

IASB/FASB sessions

Leases

The IASB and the FASB discussed a scope issue, the application of financial asset guidance to the right to receive lease payments, other subsequent measurement issues for lessors, and the accounting for residual value guarantees by lessors.

Scope—Inventory

The Boards tentatively decided not to provide a scope exclusion from the leases standard for assets often treated as inventory, such as non-depreciating spare parts, operating materials, and supplies, and that are associated with the leasing of another underlying asset. The forthcoming revised exposure draft will provide an example illustrating the effect of this decision. All IASB and FASB members agreed.

Lessor—Application of financial asset guidance to the right to receive lease payments

The boards tentatively decided that:

a. A lessor should subsequently measure the right to receive lease payments using the effective interest method.
b. A lessor should refer to existing financial instruments guidance (IAS 39 *Financial Instruments: Classification and Measurement* and Topic 310 *Receivables* in the FASB Accounting Standards Codification®) to assess the impairment of that right to receive lease payments.
c. The leases standard should not contain an option for fair value measurement of the right to receive lease payments.

Fourteen IASB members and all FASB members agreed.

The boards instructed the staff to analyse further whether there should be a requirement to measure the right to receive lease payments at fair value if that right were held for sale.

Lessor—Other subsequent measurement issues

The boards tentatively decided that a lessor should refer to IAS 36 *Impairment of Assets* or Topic 360 *Property, Plant, and Equipment* in the FASB Accounting Standards Codification®, as appropriate, to assess the impairment of the residual asset. Fourteen IASB members and four FASB members agreed.

The boards tentatively decided that a lessor should recognise immediately in profit or loss changes in the right to receive lease payments due to reassessments of variable lease payments that depend on an index or a rate. All IASB members and six FASB members agreed.

The IASB tentatively decided that revaluation of the residual asset should be prohibited. Thirteen IASB members agreed.

Lessor—Residual value guarantees

The boards tentatively decided that:

a. the leases standard would provide guidance on accounting for all residual value guarantees, regardless of whether they are provided by a lessee, a related party or a third party. All IASB and FASB members agreed.
b. a lessor would not recognise amounts expected to be received under a residual value guarantee until the end of the lease. However, the lessor would consider those guarantees when determining whether the residual asset is impaired. Fourteen IASB members and five FASB members agreed.

The FASB and the IASB discussed the presentation requirements for lessors, including presentation in the statement of financial position and in the statement of cash flows. They also discussed transition for lessees.

Presentation: lessor statement of financial position

The boards tentatively decided that a lessor should either:

1. Present the lease receivable and the residual asset separately in the statement of financial position, summing to a total 'lease assets'; or
2. Present the lease receivable and residual asset together in a single line item-'lease assets'-in the statement of financial position, and separately disclose those two amounts in the notes to the financial statements.

Nine IASB and five FASB members agreed.

Presentation: lessor statement of cash flows

The boards tentatively decided that a lessor should classify the cash inflows from a lease as operating activities in the statement of cash flows. Twelve IASB and all FASB members agreed.

Lessee transition

The boards discussed the transition requirements for lessees when first applying the proposed leases standard. The boards will continue to discuss lessee transition when they discuss lessor transition at a future meeting. No decisions were reached.

Impairment

The IASB and the FASB continued to discuss a 'three-bucket' expected loss approach to the impairment of financial assets, which makes the maximum use of credit risk management systems.

The boards discussed the feedback received from the initial outreach activities, in particular the operational challenges that would result from the requirement to classify all financial assets in Bucket 1 on initial recognition. The operational issues arise because current credit risk management systems do not typically store historical data, including origination data, in a way that is easily accessible for accounting purposes. To address these operational concerns, the boards tentatively decided to classify financial assets within the buckets in accordance with their credit quality levels as of the reporting date.

The boards recognised that such an approach would lead to day-one recognition of lifetime expected credit losses for financial assets classified outside Bucket 1. The Boards directed the staff to explore how to deal within the context of the model, with (a) purchased financial assets, including those purchased under a business combination, that are required to be initially measured at fair value and (b) entities that primarily engage in origination of financial assets at lower credit quality levels.

The boards discussed transfers of financial assets between the buckets and considered relevant feedback received in initial outreach activities. The boards agreed that the transfer between the buckets should be based on a principle rather on a bright line. The boards also agreed that the principle should reflect the point in time when the credit risk associated with the financial assets increases to the point which there is current significant uncertainty about the ability to collect contractual cash flows and the entity begins to manage the financial assets more actively because of the heightened credit risk.

Insurance contracts

The IASB and FASB continued their discussions on insurance contracts on the topic of disclosures. In addition, the IASB continued its discussions on the risk adjustment and heard a report on the FASB's recent decisions on the single margin approach.

Disclosures

The IASB and FASB tentatively decided to retain the disclosures proposed in paragraphs 90-97 of the IASB's exposure draft (ED) *Insurance contracts*, with changes as follows:

a. to delete the requirement that an insurer shall not aggregate information relating to different reportable segments (ie paragraph 83 of the ED) to avoid a conflict with the principle for the aggregation level of disclosures. The level of aggregation could thus vary for different types of qualitative and quantitative disclosures. However, the standard would add to the examples listed in paragraph 84 of the ED by stating that one appropriate aggregation level might be reportable segments. All IASB and FASB members supported this decision.
b. to require the insurer to disclose separately the effect of each change in inputs and methods, together with an explanation of the reason for the change, including the types of contract affected. Fourteen IASB members and seven FASB members supported this decision. One IASB member voted against.
c. for contracts in which the cash flows do not depend on the performance of specified assets (ie non-participating contracts), to require disclosure of the yield curve (or range of yield curves) used. Fourteen IASB members and seven FASB members supported this decision. One IASB member voted against.
d. to require the maturity analysis of net cash outflows resulting from recognised insurance liabilities proposed in paragraph 95(a) of the ED to be based on expected maturities and to remove the option to base maturity analysis on remaining contractual maturities. Furthermore, within the context of time bands, to require the insurer to disclose, at a minimum, the expected maturities on an annual basis for the first five years and in aggregate for maturities beyond five years. Fourteen IASB members supported this decision and one opposed it. In place of this disclosure, the FASB would rely on its tentative decisions relating to risk disclosures for financial institutions, as reached in its project on financial instruments at the FASB board meeting held on 7 September 2011. Those disclosures would apply to insurance entities.

In addition, the IASB tentatively decided to delete the proposed requirement in paragraph 90(d) of the ED to disclose a measurement uncertainty analysis and to align (in due course) that disclosure with the disclosure for fair value measurements in IFRS 13 *Fair Value Measurement*, as appropriate. Fourteen IASB members supported this decision and one member opposed it. The FASB decided to retain this disclosure. Five FASB members supported this decision and two opposed it.

Risk adjustment: Objective and confidence level disclosure

The IASB tentatively decided that:

a. the objective of risk adjustment should be the 'compensation the insurer requires for bearing the uncertainty inherent in the cash flows that arise as the insurer fulfils the insurance contract'; and that
b. the application guidance should clarify that:
   i. the risk adjustment measures the compensation that the insurer would require to make it indifferent between (1) fulfilling an insurance contract liability that would have a range of possible outcomes or (2) fulfilling a fixed liability that has the same expected present value of cash flows as the insurance contract. For example, the risk adjustment would measure the compensation that the insurer would require to make it indifferent between (1) fulfilling a liability that has a 50 per cent probability of being 90 and a 50 per cent probability of being 110 or (2) fulfilling a liability of 100.
   ii. in estimating the risk adjustment, the insurer should consider both favourable and unfavourable outcomes in a way that reflects its degree of risk aversion. The boards noted that a risk-averse insurer would place more weight on unfavourable outcomes than on favourable ones.

All IASB members agreed with this proposal.

In addition the IASB tentatively decided to retain the confidence level equivalent disclosure that had been proposed in paragraph 90(b)(i) of the ED. Eleven IASB members supported this decision.

Risk adjustment: Techniques and inputs

The IASB tentatively decided:

a. not to limit the range of available techniques and the related inputs to estimate the risk adjustment; and instead:
b. to retain, in the application guidance the list of characteristics, as proposed in paragraph of B72 of the ED, that a risk adjustment technique should exhibit if that technique is to meet the objective of the risk adjustment.

Twelve IASB members supported this decision.

The IASB also tentatively decided to retain as examples the three techniques proposed in the ED (confidence levels, conditional tail expectation and cost of capital), together with the related application guidance. All IASB members supported this decision.

Single margin approach

At its May 2011 meeting, the FASB tentatively decided that the insurance contract measurement model should use a single margin rather than an explicit risk adjustment and residual margin. The FASB staff reported on the tentative decisions reached regarding the single margin at the FASB board meeting held on 7 September 2011.

Next steps

Both boards will continue their discussion on insurance contracts in the week commencing on 19 October 2011.

IASB sessions

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

The IASB approved IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*, subject to its final review of drafting changes.

IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when two benefits accrue to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.

In approving IFRIC 20, the Board:

- Agreed with the conclusion of the Interpretation Committee that the Interpretation does not need to be re-exposed.
- Decided that an entity shall apply IFRIC 20 for annual periods beginning on or after 1 January 2013 with earlier application permitted. The Interpretation will be applied to costs incurred on or after the beginning of the earliest period presented, and provides transition guidance for pre-existing asset balances that resulted from stripping activity prior to that date.
- Approved a related amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* as a consequence of its approval of IFRIC 20.

Put options written over non-controlling interests

On the recommendation of the IFRS Interpretations Committee, the IASB discussed a possible scope exclusion to IAS 32 for put options written over the non-controlling interest in the consolidated financial statements of a group. The objective of the scope exclusion would be to address a potential inconsistency between the requirements of IAS 32, IAS 39 and IFRS 9 for measuring financial liabilities and the requirements in IAS 27 and IFRS 10 for accounting for transactions with owners in their capacity as owners; that is, whether the offsetting entry for subsequent measurement changes should be to profit or loss or to equity. The Board voted not to amend the scope of IAS 32 to exclude these put options over non-controlling interests. However, they expressed support for considering addressing the potential inconsistency, not by changing the measurement basis of the non-controlling interest, but by clarifying the accounting for subsequent changes in the measurement of such puts. They asked the staff to obtain feedback from the Interpretations Committee on how they wish to be involved in further considering this issue.

IFRS Interpretations Committee: update from last meeting

The IASB received an update from the September 2011 meeting of the IFRS Interpretations Committee. Details of the meeting were published in IFRIC *Update*, which is available by **clicking here**.

Asset and liability offsetting

At this meeting, the IASB discussed:

- Whether and how to address inconsistencies in the application of today's offsetting requirements by adding application guidance to IAS 32 *Financial Instruments: Presentation*
- Whether consequential amendments to other IFRSs were needed on the basis of the tentative decisions taken in the project
- The effective date and transition for the IAS 32 application guidance and the converged disclosure requirements
- Whether the Board was satisfied that all mandatory and non-mandatory due process steps had been performed, and whether re-exposure was required.

On the basis of the tentative decisions taken on the topics above, the Board granted the staff permission to prepare amendments to IAS 32 as well as the converged disclosures for balloting.

IAS 32 Application Guidance

In its meeting in July 2011 the IASB noted that the project consultation had highlighted inconsistencies in the application of the offsetting requirements in IAS 32.

In this meeting the Board considered whether those inconsistencies should be addressed and, if so, how.

The Board tentatively decided to address these inconsistencies by adding application guidance to IAS 32 to clarify that:

- A right of set-off must be legally enforceable both in the normal course of business and in the event of default, bankruptcy and insolvency of one of the counterparties. Eleven Board members supported this decision.
- Gross settlement systems that have the following distinguishing factors would be considered equivalent to net settlement:
  - financial assets and financial liabilities that meet the right of offset criterion are submitted for processing at exactly the same point;
  - once submitted for processing, the transactions cannot be cancelled or altered [there is no or insignificant liquidity and credit risk];
  - there is no potential for the cash flows arising from the assets and liabilities to change once they have been submitted for processing unless the processing fails [there are no potential change in cash flows];
  - if the processing of one asset or liability that is offset against another fails, then the processing of the related security used as collateral also fails [there is always net exposure /similar to a securities transfer system or delivery versus payment];
  - processing is carried out through the same settlement depository [(for example, delivery versus payment or the same depositary account] and
  - there is a high likelihood that an intraday credit facility is available and would be honoured until the settlement process is complete [there is no settlement (liquidity/credit) risk].

Location of offsetting requirements, application guidance and converged disclosures

The Board tentatively decided that the offsetting criteria and amendments to the offsetting application guidance should remain in IAS 32, and that the disclosures should be placed in IFRS 7 *Financial Instruments: Disclosures*.

Application guidance—effective date and transition

The Board tentatively decided that the amendments to the offsetting application guidance should be applied retrospectively and be effective for annual and interim reporting periods beginning on or after 1 January 2013.

Consequential amendments

The Board tentatively decided that no consequential amendments to other IFRSs were necessary as a result of the offsetting project.

Disclosures—effective date and transition

The Board tentatively decided 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.

Due process considerations

The Board noted that it was satisfied that all mandatory due process steps for the offsetting project and that sufficient non-mandatory due process steps had been performed.

All Board members supported these decisions.

The Board tentatively decided that neither the amendments to the IAS 32 application guidance nor the converged disclosure requirements required re-exposure.

Fourteen Board members supported this decision.

IFRS 9: Financial instruments: hedge accounting

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

Disclosures—dynamic strategies

The Board discussed disclosures for hedging relationships in situations in which an entity has a hedging strategy using a dynamic hedging process. This involves frequent resets (discontinuations and restarts) of hedging relationships. The Board tentatively decided to exempt hedging relationships that are frequently reset as part of a dynamic hedging process from the requirement to disclose the terms and conditions of the hedging instruments. Instead, entities would be required to disclose:

1. information about what the ultimate risk management strategy is for the dynamic hedging process;
2. a description of how it meets that objective by using hedge accounting and designating the particular hedging relationships; and
3. an indication of how frequently the hedging relationships are discontinued and restarted as part of the dynamic hedging process.

The votes were 13 in favour and 2 against. In addition, the Board tentatively decided that, if applicable, entities would also be required to disclose the fact that volumes of hedging relationships for dynamic hedging processes (ie balances at the reporting date that are part of the disclosures about the effects of hedge accounting on the financial statements) do not represent normal volumes during the year. The votes were 12 in favour and 3 against.

Hedge accounting—transition

The Board discussed the feedback received on the transition to the new hedge accounting model. The discussion covered the transition method and mandatory effective date, exceptions to the transition method and practical expedients for transition.

Transition method and mandatory effective date

The Board tentatively decided that the transition to the new model would be prospective with limited exceptions (which are summarised below). Hence, for example, retrospective application of the new hedge accounting model to risk components, aggregated exposures and groups and net positions would not be permitted.

The votes were 15 in favour and 0 against.

The mandatory effective date of the general hedge accounting model would be aligned with that of the other phases of the project to replace IAS 39, which would be1 January 2015 if that date, which was proposed in the exposure draft *Mandatory Effective Date of IFRS 9*, is confirmed.

The votes were 15 in favour and 0 against.

Exceptions to the transition method

The Board tentatively decided that retrospective application of the accounting for the time value of options would be required for all hedging relationships in which the hedging instrument is designated under IAS 39 as the intrinsic value of an option. This retrospective application applies to those types hedging relationships that exist at the beginning of the comparative period (or later).

The votes were 14 in favour and 1 against.

The Board also tentatively decided that the same retrospective application would be permitted for hedging relationships in which the hedging instrument is designated under IAS 39 as the spot element of a forward contract. The Board also decided that if an entity elects *retrospective* application it would have to be applied to all hedging relationships of this type (ie the accounting is not available on a hedge-by-hedge basis).

The votes were 13 in favour and 2 against.

Practical expedients

In addition to the transition and effective date to the new hedge accounting model, the Board also discussed practical expedients for transition.

The Board tentatively decided that entities would be allowed to consider the moment IAS 39 ceases to apply and the moment from which the new hedge accounting model applies as one point in time ('same logical second') for purposes of transition. Hence, entities may apply the new hedge accounting model immediately after ceasing to apply IAS 39.

The votes were 15 in favour and 0 against.

The Board tentatively decided that, for the purpose of rebalancing a hedging relationship on transition in order to comply with the new requirements, the hedge ratio used under IAS 39 would be the starting point. Any gain or loss arising from the rebalancing on transition would be recognised in profit or loss at the date of initial application of the new hedge accounting model.

The votes were 15 in favour and 0 against.

Hedges of credit risk using credit derivatives

The Board discussed approaches to the accounting for hedges of credit risk using credit derivatives. The Board tentatively decided to use elective fair value through profit or loss (FVTPL) accounting for credit exposures (such as loans, bonds and loan commitments), which would permit:

1. electing FVTPL at initial recognition or subsequently (if subsequently, the difference between the then carrying amount and fair value is recognised immediately in profit or loss),
2. making that election for a component of nominal amounts (instead of the entire nominal amount), and
3. discontinuation of FVTPL accounting.

Election of FVTPL accounting and its discontinuation would be subject to qualifying criteria

The approach would align the accounting for loan commitments at discontinuation with that for loans (ie use an amortisation method for unwinding the fair value on discontinuation that becomes the new cost basis).

The Board also tentatively decided to require disclosure of:

1. a reconciliation of the nominal amount and the fair value of the credit derivatives that have been used to manage the credit exposure of a financial instrument that qualified and was elected for FVTPL accounting;
2. the gain or loss recognised in profit or loss as a result of electing FVTPL accounting for a credit exposure; and
3. for discontinuations of elective FVTPL accounting for credit exposures the fair value that becomes the new deemed cost or amortisable amount (for loan commitments) and the related nominal or principal amount.

The votes in favour of an elective FVTPL approach were 11 in favour and 4 against.

The votes in favour of this variant of an elective FVTPL approach were 10 in favour and 5 against.

The Board asked the staff to prepare a draft of the final requirements, including application guidance and a Basis for Conclusions. That draft would be made available on the IASB website for about 90 days. This will provide the Board with the opportunity to undertake an extended fatal flaw process and undertake additional outreach. The Board also wishes to give the FASB the opportunity to consider the planned requirements. The Board decided that re-exposure of the proposed IFRS would not be necessary and is therefore not formally requesting comments on the draft. The Board plans to finalise the requirements once this review has been completed.

Annual improvements

The IASB discussed eight issues that the IFRS Interpretations Committee (the Interpretations Committee) had recommended that the Board should include in the next *Improvements to IFRSs* exposure draft expected to be published in November 2011.

IFRS 2 Share-based Payment—*vesting and non-vesting conditions*

The Board discussed a proposed amendment to the definitions of service conditions and performance conditions by separating the description of a performance condition and service condition from the definition of vesting conditions and setting out new definitions of performance condition and service condition.

The amendment would clarify that:

- a performance target is defined by reference to the entity's own operations or activities;
- a performance target may relate either to the performance of the entity as a whole or to some part of the entity, such as a division or an individual employee;
- in order to constitute a performance condition, any performance target needs to have an explicit or implicit service requirement for the duration of the period for which the performance target is being measured; and
- if the employee fails to complete a specified service period, then the employee fails to satisfy a service condition regardless of what the reason for failure is.

The Board agreed with the Interpretations Committee that these are the higher-priority issues from the Interpretations Committee's project *Vesting and non-vesting Conditions* that should be dealt with through annual improvements.

The Board tentatively decided to include the proposed amendment in the next Improvements to IFRSs exposure draft. Twelve Board members voted in favour of this decision and two voted against.

IFRS 8 Operating Segments—*reconciliation of segment assets*

The Board discussed a proposed amendment to remove an inconsistency in the disclosure requirements in IFRS 8.

The proposed change would be to clarify that the reconciliation of the total of the reportable segments' assets in paragraph 28(c) of IFRS 8 should be disclosed only if a measure of segment assets is regularly provided to the chief operating decision-maker. The proposed change would align the disclosure requirements for segment assets with those for segment liabilities in paragraph 28(d).

The Board tentatively decided to include the proposed amendment in the next *Improvements to IFRSs* exposure draft. All Board members present voted in favour of this decision.

IAS 1 Presentation of Financial Statements—*current/non-current classification of debt*

The Board discussed a proposed amendment to clarify the meaning of 'unconditional right to defer settlement of the liability' in paragraph 69(d) of IAS 1.

The proposed change would be to amend the wording of paragraph 73 of IAS 1 to clarify that, for an existing loan that is due within 12 months after the reporting date to be classified as non-current, it must be refinanced with the same lender, at the same or similar terms.

The proposed amendment would be applied prospectively as of the beginning of the annual period in which it is initially applied and would not need to be applied to comparative information that is provided for periods before initial application of the amendment.

The Board tentatively decided to include the proposed amendment in the next *Improvements to IFRSs* exposure draft, subject to additional explanations being given in the Basis for Conclusions. Ten Board members voted in favour and four against.

IAS 7 Statement of Cash Flows—*classification of interest paid that is capitalised*

The Board discussed proposed amendments to IAS 7 to clarify the classification in the statement of cash flows of interest paid that is capitalised into the cost of property, plant and equipment.

The amendments would be to:

- propose that the example guidance in paragraph 16(a) of cash flows arising from investing activities should explicitly include interest paid that is capitalised into the cost of property, plant and equipment; and
- clarify that interest paid that is capitalised in accordance with IAS 23 should be classified in conformity with the classification of the underlying asset to which those payments were capitalised.

The Board tentatively decided to include the proposed amendments in the next *Improvements to IFRSs* exposure draft, subject to some editorial amendments. All Board members present voted in favour of this decision.

IAS 12 Income Taxes—*recognising deferred tax assets for unrealised losses on AFS debt securities*

The Board discussed proposed amendments to IAS 12 *Income Taxes* relating to future taxable profits and tax planning opportunities that would use deductible temporary differences and unused tax losses.

The amendments would clarify that:

- separate assessment should be made of each type of taxable profit if tax law specifically distinguishes a specific type of profit (eg capital gain) from other types of taxable profit;
- an action that results in reversal of existing deductible temporary differences without creating or increasing taxable profit in the future is not a tax planning opportunity; and
- taxable profit against which realisation of a deferred tax asset is assessed is the amount before reversal of deductible temporary differences.

The Board tentatively decided to include the proposed amendments in the next *Improvements to IFRSs* exposure draft. All Board members present voted in favour of this decision.

IAS 16 Property, Plant and Equipment-revaluation method—*proportionate restatement of accumulated depreciation*

The Board discussed proposed amendments to clarify the guidance on the revaluation method to address concerns about the computation of the accumulated depreciation at the date of the revaluation.

The Board noted that the determination of the accumulated depreciation does not depend on the selection of the valuation technique used for the revaluation. They also noted that the accumulated depreciation is computed as the difference between the gross and the net carrying amounts. Consequently, in instances in which the revalued amounts for the gross and net carrying amounts both reflect observable data, restatement of the accumulated depreciation is not proportionate to the change in the gross carrying amount of the asset.

The Board tentatively decided to include the proposed amendments in the next *Improvements to IFRSs* exposure draft. All Board members present voted in favour of this decision.

IAS 24 Related Party Disclosures—*meaning of key management personnel*

The Board discussed a proposed amendment to clarify the disclosure requirements for related party transactions that are identified when a management entity provides key management personnel (KMP) services to a reporting entity in the specific circumstances where the management entity does not control, jointly control or have significant influence over the reporting entity.

Some Board members raised concerns about potential unintended consequences of the proposed amendments. The Board therefore asked the staff to consider these concerns and to bring the proposals back to a future meeting.

IAS 36 Impairment of Assets—*harmonisation of disclosures for value in use and fair value less costs to sell*

The Board discussed a proposed amendment to remove an inconsistency in the disclosure requirements of impairment losses in IAS 36.

The proposed change would apply when entities recognise a material impairment loss or impairment reversal. The proposed change would be to include an explicit requirement in paragraph 130(f) of IAS 36 that, if fair value less costs to sell is determined based on a present value technique, then the entity would disclose the discount rate that was used in the calculation. The proposed change would align the disclosure requirements when an entity uses a present value technique for fair value less costs to sell with the disclosure requirements in paragraph 130(g) relating to value in use.

The Board tentatively decided to include the proposed amendment in the next *Improvements to IFRSs* exposure draft. All Board members present voted in favour of this decision.

Issues not recommended for inclusion within the Annual Improvements *cycle for 2010 2012*

Following the IFRS Interpretations Committee's recommendation, the Board agreed that the four issues listed below did not meet the criteria for inclusion in Annual Improvements:

- IFRS 2 *Share-based Payment*—modification of a share-based payment from cash-settled to equity-settled;
- IAS 27 *Consolidated and Separate Financial Statements*—contributions to a jointly controlled entity or an associate;

- IAS 28 *Investments in Associates*—purchase in stages-fair value as deemed cost; and
- IAS 28 *Investments in Associates*—equity method.

The Board asked the Interpretations Committee to further analyse whether and where changes in the net assets of an associate, other than the investor's share of profit or loss distributions and other comprehensive income, should be recognised in the investor's financial statements and to recommend how the Board might address this issue in the short term.

IFRS 2 *Share-based Payment*

The Board discussed recommendations from the IFRS Interpretations Committee on which issues that the Committee did not take onto its agenda should be considered by the Board in a future agenda proposal for IFRS 2.

The Board agreed with the Interpretations Committee that the following issues should be considered by the Board in a future agenda proposal for IFRS 2:

- transactions in which the manner of settlement is contingent on future events; and
- testing and non-vesting conditions (ie the classification of a non-compete provision and the accounting for the interaction of multiple vesting conditions).

IFRS 1 *First-time Adoption of IFRSs*—Prospective application provisions for first-time adopters

The Board received a request to amend IFRS 1 to allow first-time adopters of IFRSs the same prospective application provisions in certain IFRSs as have been made available to existing preparers of IFRS financial statements. The request noted that while some of the recent Annual Improvements to IFRSs required or permitted prospective application for existing IFRS preparers, no corresponding amendments were made to IFRS 1 for the benefit of first-time adopters. The staff had identified one particular amendment to IAS 20 *Accounting for government grants and disclosure of government assistance* that they thought required amendment to IFRS 1.

The staff recommended that an amendment be made to IFRS 1 to allow first time adopters to apply paragraph 10A of IAS 20 prospectively, as was permitted for existing IFRS preparers. The staff requested that the Board make the amendment separately, rather than including it in the annual improvements project, in order to progress the issue quickly enough to permit entities adopting IFRS in 2011 to take advantage of the amendment. The proposed amendment would be in the form of an optional exemption, such that other entities that have already transitioned to IFRSs in 2011 and produced quarterly reports would not be required to amend their annual financial statements.

The Board tentatively agreed with the staff recommendation to make this amendment to IFRS 1. All Board members present voted in favour of this decision.

IFRS 8 *Operating Segments*—Aggregation criteria and identification of the CODM

The Board received a request to make improvements to IFRS 8 about the application of the aggregation criteria and the identification of the chief operating decision maker (CODM). More specifically, the request asked the Board to:

- include an additional disclosure in paragraph 22 of IFRS 8 requiring a brief description of both the operating segments that have been aggregated and the economic indicators that have been assessed in order to conclude that the operating segments have 'similar economic characteristics' in accordance with paragraph 12 of IFRS 8; and
- to emphasise in paragraph 7 of IFRS 8 the 'operating nature' of the function of the CODM and to clarify in paragraph 1 of IFRS 8 that there is a presumption that management reviews the information that is reported to it.

The Interpretations Committee recommended that rather than attempting to address these issues through an Interpretation or annual improvement, it would be better if the Board considered these issues as part of a future post-implementation review of IFRS 8.

The Board acknowledged the views of the Interpretations Committee and also the similarities between the requirements in IFRS 8 and the equivalent guidance in US GAAP in Topic 280 *Segment Reporting* in the FASB Accounting Standards Codification® (from which IFRS 8 was developed). The Board asked the staff to research further how similar concerns had been addressed in US GAAP and to consider whether this might help to identify how these concerns about IFRS 8 might be addressed.

Macro hedge accounting

As part of its deliberations of macro hedge accounting the IASB discussed a common interest rate risk management concept based on outreach with banks as well as on an education session on 1 June 2011, conceptual differences between that risk management approach and current hedge accounting requirements and alternatives for an accounting solution that addresses the conceptual differences between risk management and current hedge accounting requirements. No decisions were made.

Work plan

The Board ratified IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. The IASB expects to publish the new Interpretation in mid-October.

The Board asked the staff to prepare a ballot draft for a narrow-scope exposure draft amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* that would allow for the prospective application of paragraph 10A of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* for first-time adopters. The amendment would provide the same relief granted to existing preparers. The exposure draft is expected to be ready for publication in mid-October.

The review draft of the Hedge Accounting chapter of IFRS 9 *Financial Instruments* should be available on the IASB website from November, for a period of about 90 days.

The Board approved several items for inclusion in the 2011-2012 cycle of annual improvements. That exposure draft is expected to be exposed for public comment in December.

The amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments:*

Disclosures arising from the offsetting project are expected to be issued in December.

The Board also noted that the revised exposure draft for revenue recognition is expected to be released in Q4 of 2011 and the revised exposure draft for leases is planned for release in Q1 of 2012.

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