IASB Update

From the International Accounting Standards Board

February 2012

Welcome to IASB Update

The IASB met in public over five days, starting on Monday 27 February 2012. The FASB joined the IASB for some of the sessions, with some members participating in person and others via video from its offices in Norwalk.

The full list of topics for discussion at the joint IASB/FASB meeting was:

- Financial instruments: classification and measurement
- Financial instruments: classification and measurement: education session
- Impairment of financial assets
- Insurance contracts
- Leases

The topics discussed at the IASB meeting were:

- Annual improvements (2009-2011 cycle)—comment letter analysis
- Annual improvements (2011-2013 cycle)
- IFRS Interpretations committee—agenda rejection notices
- IFRS Interpretations Committee issues
- IFRS Interpretations Committee update
- Leases education session
- Macro hedge accounting
- Put options written on non-controlling interests
- 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 2012 are:

19-23 March
11-13 April (Education)
16-20 April
17-18 May (Education)
21-25 May

To see all Board meetings for 2012, **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

Financial instruments: classification and measurement

The boards discussed the cash flow characteristics assessment and held an education session on the business model assessment in their respective classification and measurement models for financial instruments.

Proposed approach to the contractual cash flows characteristics assessment

The boards tentatively decided that a financial asset could be eligible for a measurement category other than fair value through profit or loss (FVPL) (depending on the business model within which it is held) if the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest (P&I) on the principal amount outstanding. Interest is consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. Principal is understood as the amount transferred by the holder on initial recognition.

- If the financial asset contains a component other than these three components: principal, the consideration for the time value of money and the credit risk of the instrument, the financial asset must be measured at FVPL.
- If the financial asset only contains components that are principal and the consideration for the time value of money and the credit risk of the instrument, but the relationship between them is modified (for example, the interest rate is reset and the frequency of the reset does not match the tenor of the interest rate), an entity needs to consider the effect of the modification when assessing whether the cash flows on the financial asset are still consistent with the notion of being solely P&I.
- If the financial asset only contains components that are principal and the consideration for the time value of money and the credit risk of the instrument, and the relationship between them is not modified, the financial asset could be eligible for a measurement category other than FVPL (depending on the business model within which it is held). For the IASB, this is a minor amendment to the application guidance in IFRS 9 *Financial Instruments*. For the FASB, this is an amendment to the cash flow characteristics assessment in the tentative classification and measurement model. All IASB and FASB members voted in favour of the proposed approach.

Contingent cash flows

The boards tentatively decided that a contractual term that changes the timing or amount of payments of principal and interest would not preclude the financial asset from being eligible for a measurement category other than FVPL as long as any variability only reflects changes in the time value of money and the credit risk of the instrument.

In addition, the boards tentatively decided that the probability of contingent cash flows that are not solely P&I should not be considered. Financial assets that contain contingent cash flows that are not solely P&I must be measured at FVPL. An exception will, however, be made for extremely rare scenarios.

For the IASB, this does not represent a change to IFRS 9. For the FASB, the guidance will be included as part of the contractual cash flow characteristics assessment. All IASB and FASB members voted in favour of the decision.

Assessment of economic relationship between P&I

The boards tentatively decided that an entity would need to compare the financial asset under assessment to a benchmark instrument that contains cash flows that are solely P&I to assess the effect of the modification in the economic relationship between P&I. An appropriate benchmark instrument would be a contract of the same credit quality and with the same terms, except for the contractual term under evaluation.

The boards tentatively decided that if the difference between the cash flows of the benchmark instrument and the instrument under assessment is more than insignificant, the instrument must be measured at FVPL because its contractual cash flows are not solely P&I.

For the IASB, this is a minor amendment to the application guidance in IFRS 9. However, the IASB believes that this change will address application issues that have arisen in the application of IFRS 9. For the FASB, the guidance will be included as part of the contractual cash flow characteristics assessment. Thirteen IASB members and all FASB members voted in favour of the decision. One IASB member voted against.

Prepayment and extension options

The boards tentatively decided that a prepayment or extension option, including those that are contingent, does not preclude a financial asset from being eligible for a measurement category other than FVPL as long as these features are consistent with the notions of solely P&I.

For the IASB, this does not represent a change to IFRS 9. For the FASB, the guidance will be included as part of the contractual cash flow characteristics assessment. All IASB and FASB members voted in favour of the decision.

Financial instruments: classification and measurement: education session

The boards discussed the business model assessment in their respective classification and measurement models for financial instruments. No decisions were made at the education session. At a future meeting, the boards will discuss whether and how they may be able to reduce differences between their business model assessments.

Impairment of financial assets

In continuing to develop the 'three-bucket' impairment model, the FASB and IASB discussed whether financial assets categorised in Bucket 2 or Bucket 3 (either by deterioration or, in the case of purchased financial assets with an explicit expectation of loss, upon acquisition) would be required to be subsequently transferred to Bucket 1, and if so, under which circumstances. That is, the boards discussed whether the measurement of financial assets' expected credit losses should subsequently change from a lifetime expected loss (for financial assets in Bucket 2 or Bucket 3) to a 12 months' expected loss (for financial assets in Bucket 1). In addition, the boards discussed how the impairment model would be applied to trade receivables.

Direction of movement between buckets

Purchased financial assets with an explicit expectation of loss

The boards tentatively decided that purchased financial assets with an explicit expectation of loss would always be categorised outside Bucket 1, even if there are improvements in credit quality subsequent to purchase. As a result, the impairment allowance for such assets would always be based on changes in lifetime expected credit losses since initial recognition.

Fourteen IASB members and seven FASB members agreed.

Originated and other purchased financial assets

The scope of this part of the discussion included financial assets other than (a) purchased financial assets with an explicit expectation of loss, (b) trade receivables that use lifetime expected credit losses as the impairment measure upon initial recognition and (c) restructured debt.

The boards tentatively decided that these financial assets would subsequently transfer to Bucket 1(after previously deteriorating and transferring to Bucket 2 or Bucket 3) if the initial transfer notion from Bucket 1 is no longer met.

Thirteen IASB members and four FASB members agreed.

Trade receivables

In this session, the boards discussed whether an incurred loss impairment approach or an expected loss impairment approach should apply to trade receivables. Furthermore, they discussed whether, if any expected loss impairment approach were to be used, the 'three bucket' model or a simplified approach should be applied. The scope of the discussion was limited to trade receivables with (and without) a significant financing component that result from revenue transactions within the scope of the exposure draft ED/2011/6 *Revenue from Contracts with Customers* (the Revenue ED).

Trade receivables ***without*** *a significant financing component*

The boards asked the staff to further analyse whether an incurred loss impairment model or an expected loss impairment model should be applied to trade receivables without a significant financing component, in particular to assess the change in practice necessary to apply an expected loss impairment model.

Subject to that decision, the boards discussed how an expected loss approach would be applied to trade receivables *without* a significant financing component. In particular, the boards discussed whether the 'three-bucket' model or a simplified approach should be applied. This discussion was not joint because of the different initial measurement requirements for financial instruments in accordance with IFRSs and those in accordance with US GAAP—nevertheless the staff recommendations and the boards' decisions (as outlined below) were consistent.

The IASB tentatively decided that a simplified form of the three bucket model shall be applied. The approach for trade receivables accounted for as not having a significant financing component in accordance with the Revenue ED would be twofold (affecting both initial measurement of the receivable and the general three bucket model):

- the receivable shall be measured at the transaction price as defined in the Revenue ED (ie the invoice amount in many cases) on initial recognition in IFRS 9 Financial Instruments; and
- those receivables shall be included in Bucket 2 or 3 on initial recognition, thus recognising lifetime expected losses on initial recognition and throughout the life of the asset.

Nine IASB members agreed.

If an expected loss impairment model were to be applied, the FASB tentatively decided that the credit impairment measurement objective for all trade receivables that do not have a significant financing component should be lifetime expected losses throughout their life.

Seven FASB members agreed.

Trade receivables ***with*** *a significant financing component*

The boards tentatively decided that an expected loss impairment model would be applied to trade receivables *with* a significant financing component.

Fourteen IASB members and seven FASB members agreed.

The boards tentatively decided that an entity could apply a policy election to either fully apply the 'three-bucket' impairment model to trade receivables accounted for as having a significant financing component, or to apply a simplified model in which those trade receivables would have an allowance measurement objective of lifetime expected credit losses at initial recognition and throughout the trade receivables' life. The simplified model provides relief because an entity would not be required to track credit deterioration through the Buckets of the 'three-bucket' model for disclosure purposes.

Nine IASB members and four FASB members agreed.

Insurance contracts

The IASB and FASB continued their discussions on the insurance contracts project by considering the following topics: eligibility criteria and mechanics for the premium allocation approach; measurement of liabilities for infrequent, high-severity events; onerous contracts; unbundling goods and services components; and financial instruments with discretionary participating features.

Eligibility criteria for the premium allocation approach

The IASB tentatively decided that:

a. Contracts should be eligible for the premium allocation approach if that approach would produce measurements that are a reasonable approximation to those that would be produced by the building block approach.
b. A contract should be deemed to meet the condition in (a) without further work if the coverage period is one year or less.
   All IASB members supported these decisions.
c. To provide application guidance that contracts would not produce measurements that are a reasonable approximation to those that would be produced by the building block approach if, at the contract inception date:
    i. it is likely that, during the period before a claim is incurred, there will be a significant change in the expectations of net cash flows required to fulfil the contract; or
    ii. significant judgement is required to allocate the premium to the insurer's performance obligations for each reporting period. This may be the case if, for example, significant uncertainty exists about:
        1. the premium that would reflect the exposure and risk that the insurer has for each reporting period; or
        2. the length of the coverage period.
           The IASB noted that it would review whether it will need to update these criteria after its future discussions on the building block approach.

Thirteen IASB members supported this decision and one opposed it.

d. An insurer should be permitted, but not required, to apply the premium allocation approach to contracts that are eligible for that approach.
   All IASB members supported this decision.

The FASB tentatively decided that:

a. Insurers should apply the building block approach rather than the premium allocation approach if, at the contract inception date, either of the following conditions is met:
   i. it is likely that, during the period before a claim is incurred, there will be a significant change in the expectations of net cash flows required to fulfil the contract; or,
   ii. significant judgement is required to allocate the premium to the insurer's obligation to each reporting period. This may be the case if, for example, significant uncertainty exists about:
      1. the premium that would reflect the exposure and risk that the insurer has for each reporting period; or
      2. the length of the coverage period.

   Six FASB members supported this decision and one opposed it.
b. A contract should fall within the scope of the premium allocation approach without further evaluation if the coverage period is one year or less.
   Four FASB members supported this decision and three opposed it.
c. The premium allocation approach should be required for contracts that qualify for that approach.
   Six FASB members supported this decision and one opposed it.

Mechanics for the premium allocation approach

The boards tentatively decided that discounting and interest accretion to reflect the time value of money should be required in measuring the liability for remaining coverage for contracts that have a significant financing component, as defined according to the characteristics of a significant financing component under the revenue recognition proposals. However, as a practical expedient, insurers need not apply discounting or interest accretion in measuring the liability for remaining coverage if the insurer expects at contract inception that the period of time between payment by the policyholder of all or substantially all of the premium and the satisfaction of the insurer's corresponding obligation to provide insurance coverage will be one year or less.

All IASB and FASB members supported these decisions.

The boards also tentatively decided that:

a. the measurement of acquisition costs should include directly attributable costs (for the FASB limited to successful acquisition efforts only); this is consistent with the decision made for the building block approach.
   Twelve IASB members and five FASB members supported this decision. Two IASB members and two FASB members opposed it.
b. insurers should be permitted to recognise all acquisition costs as an expense if the contract coverage period is one year or less. Twelve IASB members and seven FASB members supported this decision. Two IASB members opposed it.

The boards also agreed to explore an approach in which acquisition costs would be netted against the single/residual margin applying the building block approach, and netted against the liability for remaining coverage applying the premium allocation approach. That amount could be separately presented from the present value of expected cash flows (plus a risk margin for the IASB).

Measurement of liabilities for infrequent, high-severity events

The boards tentatively confirmed that insurers should measure both insurance contract liability by applying the building block approach and onerous contract liability by applying the premium allocation approach, taking into account estimates of expected cash flows at the balance sheet date.

The boards tentatively decided to provide application guidance to clarify that an insured event (for example an infrequent, high-severity event such as a hurricane) that was impending at the end of the reporting period does not constitute evidence of a condition that existed at the end of the reporting period when it occurs or does not occur after that date. Consequently, such an event is a non-adjusting event, to which IAS 10 *Events after the Reporting Period* applies, and a non-recognized event to which Topic 855-10-25 *Subsequent Events Overall Recognition* in the FASB Accounting Standards Codification® applies.

Twelve IASB members and all FASB members supported this decision. Two IASB members opposed it.

Onerous contracts

The boards tentatively decided that the measurement of the liability for onerous contracts should be updated at the end of each reporting period.

All IASB and FASB members supported this decision.

The IASB tentatively decided that risk adjustment should be considered when identifying onerous contracts and that the measurement of an onerous contract liability should include a risk adjustment.

Nine IASB board members supported this decision and five opposed it.

The boards tentatively decided that if an insurer elects not to discount the liability for incurred claims that are expected to be paid within 12 months, the insurer should use an undiscounted basis in identifying whether contracts are onerous and in measuring the liability for onerous contracts.

Eleven IASB and six FASB members supported this decision. Three IASB and one FASB members opposed it.

Unbundling goods and services components

The boards tentatively decided on the following criteria for unbundling goods and services:

a. An insurer shall identify whether any promises to provide goods or services in an insurance contract would be performance obligations as defined in the exposure draft *Revenue from Contracts with Customers*. If a performance obligation to provide goods or services is distinct, an insurer shall apply the applicable IFRSs or US GAAP in accounting for that performance obligation.
b. A performance obligation is a promise in a contract with a policyholder to transfer a good or service to the policyholder. Performance obligations include promises that are implied by an insurer's customary business practices, published policies, or specific statements if those promises create a valid expectation by the policyholder that the insurer will transfer a good or service. Performance obligations do not include activities that an insurer must undertake to fulfil a contract unless the insurer transfers a good or service to a policyholder as those activities occur. For example, an insurer may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the policyholder as the services are performed. Hence, those promised setup activities are not a performance obligation.
c. Except as specified in the following paragraph, a good or service is distinct if either of the following criteria is met:

    i. The insurer regularly sells the good or service separately.
    ii. The policyholder can benefit from the good or service either on its own or together with other resources that are readily available to the policyholder. Readily available resources are goods or services that are sold separately (by the insurer or another entity), or resources that the policyholder has already obtained (from the insurer or from other transactions or events).
d. Notwithstanding the requirements in the previous paragraph, a good or service in an insurance contract is not distinct and the insurer shall therefore account for the good or service together with the insurance component under the insurance contracts standard if both of the following criteria are met:
    i. The good or service is highly interrelated with the insurance component and transferring them to the policyholder requires the insurer also to provide a significant service of integrating the good or service into the combined insurance contract that the insurer has entered into with the policyholder.
    ii. The good or service is significantly modified or customised in order to fulfil the contract.

All IASB and FASB members supported this decision.

Financial instruments with discretionary participation features

The IASB considered the applicable standard for financial instruments that are not insurance contracts but that have discretionary participation features similar to those found in many insurance contracts. The discussion was not held jointly with the FASB because of the different considerations for each board.

The IASB tentatively decided that the forthcoming insurance contracts standard should apply to financial instruments with discretionary participation features that are issued by insurers. It should not apply to any financial instruments issued by entities other than insurers.

Twelve IASB members supported this decision and two opposed it.

Next steps

The FASB intends to discuss the applicable standard for financial instruments with discretionary participation features at its meeting on 7 March 2012. Both boards will continue their discussion on insurance contracts in the week commencing 19 March 2012.

Leases

The FASB and the IASB discussed lessee accounting and, in particular, different methods of amortising the right-of-use asset. They also discussed any consequences that a change to the lessee accounting model would have on the tentative decisions for lessor accounting. The boards were not asked to make any decisions.

More specifically, the boards discussed the following two approaches to amortising the right-of-use asset:

1. The underlying asset approach described in agenda paper 2C/227: under this approach, the lessee would amortise the right-of-use asset based on the estimated consumption of the underlying leased asset over the lease term. Consequently, the higher the consumption rate, the more the income statement effects would resemble those that would arise from purchasing the underlying asset and financing it separately. The lower the rate of consumption, the more the income statement effects would resemble the rental expense pattern under current

operating lease accounting. Although the boards did not make any formal decision, the IASB indicated an initial leaning toward this approach, if it is confirmed that it is operational and useful.

2. The interest-based amortisation approach described in agenda paper 2C/227: under this approach, the lessee would amortise the right-of-use asset on a systematic basis that reflects the pattern of consumption of expected future economic benefits (this is consistent with the 2010 *Leases* exposure draft) for those leases for which substantially all of the risks and rewards of the underlying leased asset have been transferred to the lessee. For leases that do not transfer substantially all of the risks and rewards of the underlying leased asset, the lessee would use an amortisation approach that would result in recognising total lease expense in a pattern that would typically resemble the rental expense pattern under current operating lease accounting. Although the boards did not make any formal decision, the FASB indicated an initial leaning toward this approach.

Although a tentative vote was not taken, 13 IASB members expressed an initial preference for the underlying asset approach whereas 6 FASB members expressed an initial preference for the interest-based amortisation approach *[this sentence indicating the preferences expressed by the IASB and FASB members in relation to lessee accounting alternatives was added in March 2012]*.

The boards directed the staff to undertake further outreach and research on those two approaches before they reach a tentative decision on which approach to propose in the re-exposure document.

IASB sessions

Annual improvements (2009-2011 cycle)—comment letter analysis

The Board discussed seven of the proposed Improvements to IFRSs from the exposure draft published in June 2011. On the basis of the comments that the Board received from respondents and the recommendations of the IFRS Interpretations Committee, the Board tentatively decided to finalise six of the seven proposed improvements. The six amendments that the Board tentatively decided to finalise are:

a. IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Repeated application of IFRS 1
    i. In the light of the comments received on the exposure draft, the Board tentatively decided to allow, rather than require, the repeated application of IFRS 1 by entities that have applied IFRSs in a previous reporting period
b. IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Clarification of borrowing costs exemption for first-time adopters
c. IAS 1 *Presentation of Financial Statements*—Clarification of the minimum requirements for comparative information in financial statements
d. IAS 16 *Property, Plant and Equipment*—Clarification of accounting for servicing equipment
e. IAS 32 *Financial Instruments: Presentation*—Clarification of the presentation of the tax effect of distributions to holders of equity instruments
f. IAS 34 *Interim Financial Reporting*—Clarification of the disclosure requirements for total segment assets in interim financial reports. In the light of the comments received on the exposure draft, the Board tentatively decided to also clarify the disclosure requirements for total segment liabilities. The Board also tentatively decided to require that the proposed amendment should apply retrospectively rather than prospectively, as proposed.

All Board members present agreed

Annual Improvements not finalised

IAS 1 Presentation of Financial Statements—*Changes derived from the* Conceptual Framework for Financial Reporting (issued in 2010)

The Board tentatively decided to defer proposed amendments to IAS 1 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These proposed amendments were intended to enhance consistency with the new relevant chapters of the *Conceptual Framework*. In IAS 1 this was done in terms of:

a. updating the 'objective of financial statements' to be consistent with the 'objective of financial reporting'; and
b. updating the definition of 'understandability' to be consistent with the new definition in the *Conceptual Framework*.

In IAS 8 this was done to reflect the term 'faithful representation' and to replace the term 'reliable'.

The Board tentatively decided that these changes should not be part of the annual improvements project, and to consider these matters separately from that project.

Annual improvements (2011-2013 cycle)

The IASB discussed two issues that the IFRS Interpretations Committee (the Interpretations Committee) had recommended that the Board should include within the Improvements to IFRSs exposure draft to be published in the third quarter 2012 (called the 2011-2013 cycle).

IFRS 3 *Business Combinations*—Scope exclusion for the formation of a joint venture

The Board discussed a proposed amendment to paragraph 2(a) of IFRS 3 to clarify the scope of IFRS 3 and ensure that the scope of the IFRS is not changed after the adoption of IFRS 11 *Joint Arrangements*.

The amendment would:

- exclude the accounting for the formation of all types of joint arrangements (joint ventures and joint operations) from the scope of IFRS 3; and
- clarify that the scope exclusion in paragraph 2(a) of IFRS 3 only addresses the accounting in the financial statements of the joint arrangement itself, and not the accounting for the interest in a joint arrangement in the financial statements of a party to the joint arrangement.

The Board tentatively decided to include the proposed amendment within the *Improvements to IFRSs* exposure draft to be published in the third quarter of 2012. All Board members present voted in favour of this decision.

IFRS 3 *Business Combinations*—Definition of a business

The Board discussed a proposed amendment to IAS 40 *Investment Property*, to clarify that IFRS 3 and IAS 40 are not mutually exclusive when investment property with associated insignificant ancillary services as specified in paragraph 11 of IAS 40 is acquired.

The Board noted that judgement is needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination in the scope of IFRS 3 and that this judgement is not based on paragraphs 7-15 of IAS 40 but on the guidance in IFRS 3. Paragraphs 7-15 of IAS 40 relate to the judgement needed to distinguish investment property from owner-occupied property.

The Board tentatively decided to include the proposed amendment within the *Improvements to IFRSs* exposure draft to be published in the third quarter of 2012. All Board members present voted in favour of this decision.

IFRS Interpretations committee—agenda rejection notices

Over the last 12 months, the Trustees of the IFRS Foundation have been undertaking a review of the efficiency and effectiveness of the IFRS Interpretations Committee. One of the areas that has attracted significant comment has been the subject of the rejection notices that the Interpretations Committee issues when it decides not to take an issue onto its agenda. The Board discussed proposals for changes to the way in which the Interpretations Committee explains its reasons for not taking an issue onto its agenda. In summary the Board tentatively agreed that:

- When the Interpretations Committee reaches a conclusion on an issue, but for which it has decided not to add the item to its agenda, it should explain its decision in a rejection notice.
- The Interpretations Committee's rejection notices do not form part of IFRSs and therefore do not change the requirements of IFRSs.
- Because the rejection notices are not part of IFRSs, there is no need for them to have an effective date or transition requirements.
- The rejection notices are not intended to determine whether certain accounting practices are errors; that judgement is left to entities, their auditors and their regulators.
- The comment period for the tentative rejection notices should be doubled to 60 days to allow more time for constituents to respond.
- The Board will continue to receive an update on the work of the Interpretations Committee after each Committee meeting, including information about tentative rejection notices, but the Board will not be asked to approve or ratify the rejection notices.

These proposals will be reported to the Trustees at their next meeting.

IFRS Interpretations Committee issues

IFRIC 15 *Agreements for the Construction of Real Estate*

The Interpretations Committee received a request asking for clarification of the meaning of 'continuous transfer of a good' referred to in IFRIC 15 *Agreements for the Construction of Real Estate*. The submission described the sale of multi-unit residential apartments off plan. This request has been discussed three times by the Committee. At the most recent discussions in November 2011, the Committee requested that the Board should provide them with direction in this matter.

The Board discussed this request. Continuous transfer is specifically addressed in the Board's exposure draft *Revenue from Contracts with Customers*, which is currently out for public comment, so direction is only required for the period until a new standard would be effective.

The Board's advice to the Committee is to retain IFRIC 15 as drafted. The Board noted, however, that a careful assessment needs to be made of the facts and circumstances of individual transactions when applying IFRIC 15 and that those facts and circumstance may vary considerably between jurisdictions.

This difference in facts and circumstances could result in different outcomes when assessing real estate transactions in different jurisdictions.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—Levies charged for participation in a specific market (date of recognition of a liability)

The IFRS Interpretations Committee received a request to clarify whether, under certain circumstances, IFRIC 6 *Liabilities arising from participating in a specific market—Waste Electrical and Electronic Equipment* should be applied by analogy to identify the event that gives rise to a liability for other levies charged by public authorities for participation in a specific market. The concern relates to when a liability to pay a levy should be recognised and to the definition of a present obligation in IAS 37.

At the January 2012 Interpretations Committee meeting, the Committee tentatively decided to develop an interpretation on the accounting for levies charged by public authorities on entities that participate in a specific market. The interpretation would not address income taxes that are within the scope of IAS 12 *Income Taxes*. The consensus would be based on the principles identified so far by the Committee and would include illustrative examples (see January 2012 IFRIC *Update* for more details).

With respect to levies that are due only if a minimum revenue threshold is achieved, the Committee did not reach a consensus as to whether:

- reaching the threshold is the obligating event and the liability should be recognised only after the threshold is met; or
- generating revenue during the levy period as identified by the legislation is the obligating event and the liability should be recognised progressively as the entity makes progress towards the relevant threshold (ie as the entity generates revenue), if the threshold is expected to be met.

The Committee decided to ask the Board whether the Board thinks that:

- the rationale developed in the example on contingent lease payments of IAS 34 *Interim Financial Reporting* only applies to interim financial statements or also applies to annual financial statements; and whether
- the characteristics of the levies that would be within the scope of the interpretation are such that they would warrant special treatment.

At the February 2012 Board meeting, the staff consulted the Board on these two matters. The Board tentatively concluded that the rationale in the example of IAS 34 on contingent lease payments applies both in the interim and the annual financial statements. As a result, the Board expressed support for recognising in the annual financial statements levies subject to a revenue threshold progressively as the entity makes progress towards the revenue threshold provided it is probable that the threshold will be met. The Board also tentatively confirmed that levies that are not based on taxable profits should be accounted for in accordance with IAS 37, and not IAS 12.

Twelve Board members voted in favour of this decision.

IAS 2 *Inventories*—Long-term prepayments for inventory supply contracts

The IFRS Interpretations Committee received a request seeking clarification on the accounting for long-term supply contracts of raw materials when the purchaser of the raw materials agrees to make prepayments to the supplier for the raw materials. The question is whether the purchaser should accrete interest on long-term prepayments by recognising interest income, resulting in an increase of the cost of inventories.

At the January 2012 Interpretations Committee meeting, the Committee observed that there is mixed practice on the issue submitted, and that current IFRSs do not provide clear guidance on this issue.

The Committee noted that the exposure draft *Revenue from Contracts with Customers* published in November 2011 states that:

- in determining the transaction price, an entity should adjust the promised amount of consideration to reflect the time value of money if the contract has a financing component that is significant to the contract; and that
- the objective when adjusting the promised amount of consideration to reflect the time value of money is for an entity to recognise revenue at an amount that reflects what the cash selling price would have been if the customer had paid cash for the promised goods or services at the point that they are transferred to the customer.

Provided that the requirements on the time value of money are not changed in the final standard on revenue, this would apply in the seller's financial statements when prepayments are received. The Committee observed that the principles regarding accounting for the time value of money in the seller's financial statements are similar to those in the purchaser's financial statements.

The Committee decided to ask the Board whether it agrees with the Committee's observation, and, if so, whether there should be amendments made in the IFRS literature in order to align the purchaser's accounting with the seller's accounting.

At the February Board meeting, the Board agreed that a financing component contained in a purchase transaction should be identified and recognised separately. As a result, interest would be accreted on long-term prepayments made in a financing transaction. However, the Board noted that payments made when entering into a long-term supply contract might include premiums paid for securing supply or for fixing prices. In that case, the Board noted that it is not appropriate to accrete interest on these payments. Consequently, the Board tentatively decided that it should be made clear that the clarifications proposed should only apply to financing transactions, ie transactions in which prepayments are made for assets to be received in the future.

The Board asked the Committee to consider addressing the diversity in accounting, not by amending the current literature as part of a separate Board project, but by clarifying the purchaser's accounting through an interpretation. The Board suggested that the interpretation could refer to the requirements in IAS 18 (on the measurement of revenue at the fair value of consideration received), in IAS 16 (on the measurement of cost as the cash price equivalent at the recognition date) and in IAS 23 (on capitalisation of borrowing costs that are attributable to the acquisition of a qualifying asset).

All Board members voted in favour of this decision.

IFRS Interpretations Committee update

The IASB received an update from the January 2012 meeting of the IFRS Interpretations Committee. Details of the meeting were published in IFRIC *Update*, which is available by **clicking here**.

Leases: education session

In an education session, the IASB discussed lessee accounting and different methods of amortising the right-of-use asset in anticipation of the joint meeting with the FASB later in the week. The Board was not asked to make any decisions.

Macro hedge accounting

As part of the deliberations on macro hedge accounting the Board discussed an overview of accounting alternatives, reflecting its discussions to date. The focus was on the valuation of the risk position as well as the accounting mechanics of a net portfolio valuation approach. No decisions were made.

Put options written on non-controlling interests

In September 2011 the IASB discussed a recommendation from the IFRS Interpretations Committee for a possible scope exclusion to IAS 32 *Financial Instruments: Presentation* for put options written on non-controlling interests in the consolidated financial statements of the group (NCI puts). The objective of the scope exclusion would be to address a potential conflict between the requirements in IAS 32, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* for measuring financial liabilities and the requirements in IAS 27 *Consolidated and Separate Financial Statements* and IFRS 10 *Consolidated Financial Statements* for accounting for transactions with owners in their capacity as owners.

At that meeting in September 2011 the IASB voted not to amend the scope of IAS 32 to exclude NCI puts but expressed support for considering addressing the potential conflict by clarifying the accounting for subsequent changes in the measurement of the NCI put. In November 2011 the Interpretations Committee confirmed that it was willing to consider this issue further. Accordingly the IASB asked the Interpretations Committee to analyse the following two issues:

1. whether changes in the measurement of the NCI put should be recognised in profit or loss (P&L) or equity; and
2. whether the clarification described in point (1) above should be applied to only NCI puts or to both NCI puts and NCI forwards.

In response to the IASB's request, in January 2012 the Interpretations Committee discussed an analysis of the alternative views on those two issues. Acknowledging that the IASB had decided not to pursue the Committee's preferred solution to exclude NCI puts from the scope of IAS 32, the Interpretations Committee recommended that the Board should address the diversity in accounting by amending IFRSs to clarify that all changes in the measurement of the NCI put must be recognised in P&L.

The Interpretations Committee noted that paragraph 30 in IAS 27 and paragraph 23 in IFRS 10 give guidance on the accounting in circumstances when the respective ownership interests of the controlling shareholder and non-controlling interest shareholder change. The Committee also noted that the NCI put is a financial liability and that its remeasurement does not change the respective ownership interests of the controlling shareholder or the non-controlling interest shareholder. Consequently, the Committee decided that these two paragraphs are not relevant to the issues being considered. The Interpretations Committee further noted that the clarification is consistent with the requirements for other derivatives written on an entity's own equity instruments and therefore did not vote on the second issue.

At this meeting the IASB discussed the Interpretations Committee's recommendation. The IASB decided not to amend IFRSs but voted to request that the Committee should publish a draft Interpretation to clarify that all changes in the measurement of the NCI put must be recognised in P&L, consistently with the Committee's conclusions at its January 2012 meeting.

The IASB noted that the draft Interpretation would not apply to NCI puts that had been issued as part of a business combination that occured before the application of IFRS 3 *Business Combinations* (2008) and were accounted for as contingent consideration in accordance with IFRS 3 (2004).

The staff will prepare a draft Interpretation for the Interpretations Committee's consideration at a future meeting.

Work plan

The work plan reflecting decisions made at this meeting will be updated on the IASB website in the week beginning 12 March 2012. The most significant change is that the new *Leases* exposure draft is now not planned to be issued until the second half of this year.

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