IASB Update

From the International Accounting Standards Board

July 2012

Welcome to IASB Update

The IASB met in public from 16-21 July 2012 at the IASB offices in London, UK. 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 topics for discussion at the joint IASB/FASB meeting were:

- Investment Entities
- Leases
- Classification and Measurement
- Financial Instruments: Impairment
- Revenue Recognition

The topics discussed at the IASB meeting were:

- Insurance Contracts
- Due Process
- Accounting for macro hedging
- IAS 28 *Investments in Associates and Joint Ventures*
- Investment Entities
- Financial Instruments: Impairment
- Classification and Measurement
- 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:

24-28 September
15-19 October

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

Investment Entities

The IASB and the FASB continued their discussion about how an entity would determine whether it is an investment entity. At the May 2012 joint board meeting, they tentatively decided that an entity would be required to meet specific criteria to be an investment entity. At this meeting, the boards tentatively decided to provide additional guidance to describe the typical characteristics of an investment entity, which an entity would be required to consider when determining whether it is an investment entity.

The boards tentatively decided that if an entity did not meet one or more of the typical characteristics it would not necessarily be precluded from being an investment entity. The boards also tentatively decided that when an entity does not meet one or more of the typical characteristics, it would be required to justify how its activities continue to be consistent with that of an investment entity.

The boards tentatively decided that an investment entity should have all of the following typical characteristics:

a. multiple investments;
b. multiple investors;
c. investors that are not related to the parent entity or the investment manager; and
d. ownership interests in the form of equity or partnership interests.

All IASB and FASB members present agreed. One IASB member was absent.

At the May 2012 joint board meeting, the FASB had tentatively decided that the fair value management of investments would be a typical characteristic rather than a required characteristic to be an investment entity. At the same joint board meeting, the IASB tentatively decided that an investment entity would be required to manage its investments on a fair value basis to be an investment entity.

Leases

The IASB and the FASB continued their deliberations of the proposed Leases model. The boards discussed:

a. Lessee accounting-transition, presentation and disclosure relating to leases for which the lessee would recognise a single lease expense in its statement of comprehensive income.
b. Lessor receivable and residual approach-how the lessor would measure the underlying asset if the lease terminates or expires.
c. Interim disclosures-whether the interim reporting Standards should be amended to require specific lease disclosures in a lessee's or lessor's interim financial statements.
d. The Exposure Draft comment period-the length of the comment period and whether the staff can begin the drafting process.

The IASB also discussed whether it has complied with its due process steps in publishing a revised Exposure Draft.

Lessee-Statement of Financial Position

The boards discussed the presentation in a lessee's statement of financial position for leases for which the lessee recognises a single lease expense (SLE) in its statement of comprehensive income and tentatively decided that a lessee should:

a. separately present in the statement of financial position, or disclose in the notes to the financial statements, right of use (ROU) assets and liabilities to make lease payments (lease liabilities). If ROU assets and lease liabilities are not separately presented in the statement of financial position, the disclosures should indicate in which line item in the statement of financial position the ROU assets and lease liabilities are included.
b. present ROU assets under the SLE approach as if the underlying asset were owned.

ROU asset presentation: all IASB and FASB members agreed.

Lease liability presentation: nine IASB members and six FASB members agreed.

Lessee—Statement of Cash Flows

The boards discussed presentation in a lessee's statement of cash flows for leases for which the lessee recognises a single lease expense and tentatively decided that a lessee should:

a. classify cash paid for lease payments within operating activities. Twelve IASB members and all FASB members agreed.
b. disclose the ROU asset acquired as a supplemental non cash transaction. All IASB and FASB members agreed.

Lessee Disclosures

The boards discussed lessee disclosures and tentatively decided that a lessee should disclose the following:

a. a single maturity analysis, which sets out the future undiscounted cash flows relating to all lease liabilities and reconciles to the total lease liability. All IASB and FASB members agreed.
   i. a separate reconciliation of opening and closing balances for:
   ii. lease liabilities recognised under the interest and amortisation (I&A) approach; and
   iii. lease liabilities recognised under the SLE approach. The reconciliation should include interest or the unwinding of the discount on the lease liability.

Fourteen IASB members and all FASB members agreed.

In addition, the FASB tentatively decided not to bifurcate the disclosure of the maturity of contractual commitments associated with services and other non-lease components between the two lessee accounting approaches. All FASB members agreed.

The IASB tentatively decided to require a lessee to provide a reconciliation of the opening and closing balances of ROU assets under both the I&A approach and the SLE approach, disaggregated by class of underlying asset. The FASB tentatively decided to not require any reconciliation relating to the ROU asset. Eleven IASB members and all FASB members agreed.

The boards tentatively decided to revise the previous tentative decision regarding disclosure of lease costs incurred in the reporting period to only include costs relating to variable lease payments that are not included in the lease liability. Nine IASB members and four FASB members agreed.

Lessee Transition—Measurement of the ROU Asset

The boards discussed transition requirements for leases for which the lessee recognises a single lease expense in its statement of comprehensive income and tentatively decided that a lessee should be permitted to either:

a. recognise an ROU asset for each outstanding lease, measured at the amount of the related lease liability, adjusted for any uneven lease payments; or

b. apply a fully retrospective transition approach.

All IASB and FASB members agreed.

Lessor Accounting—Measurement of the Underlying Asset When a Lease Terminates Prematurely

The boards tentatively decided that, when applying the receivable and residual approach, a lessor should measure the underlying asset as the sum of the carrying amounts of the lease receivable (after any impairment) and the net residual asset when re-recognising the underlying asset on termination of the lease before the end of the lease term.

Fourteen IASB members and all FASB members agreed.

Interim Disclosures

The boards tentatively decided not to amend IAS 34 *Interim Financial Reporting* and Topic 270 *Interim Reporting* in the *FASB Accounting Standards Codification*® to require lessee disclosures at interim periods.

All IASB members and five FASB members agreed.

The FASB tentatively decided to amend Topic 270 to require a lessor to provide a table of all lease-related income items in its interim financial statements.

Four FASB members agreed.

The IASB decided to amend IAS 34 to require a lessor to disclose total lease income in its interim financial statements. Additional information about that lease income would be required if there has been a significant change from the end of the last annual reporting period.

Thirteen IASB members agreed.

Exposure Draft Comment Period

The boards tentatively decided that the revised Exposure Draft for leases should have a comment period of 120 days. The FASB plans to address issues specific to non-public entities at a future FASB-only meeting.

Due Process

The IASB confirmed that it has complied with its due process steps in publishing a revised Exposure Draft.

In July 2011, the boards agreed unanimously to re-expose their revised proposals for a common *Leases* Standard. This is because the revised proposals include significant changes to the proposals that were included in the *Leases* Exposure Draft (issued 2010) and the boards wish to provide interested parties with an opportunity to comment on the revisions. The main areas of change include the lessee accounting model-specifically, how the lessee recognises lease expense in its statement of comprehensive income for some leases; the lessor accounting model; the accounting for variable lease payments and renewal options; and the definition of a lease.

Next steps

The decisions made at the July 2012 joint meeting complete the IASB's public discussions at this stage of the project, other than sweep issues that may arise during the drafting process. The staff plan to proceed to drafting the revised Exposure Draft for publication in the final quarter of 2012.

Classification and Measurement

The boards discussed accounting for the reclassification of financial assets between measurement categories. Some topics in the discussion were FASB-only because IFRS 9 *Financial Instruments* already contains relevant requirements. The discussion of reclassification disclosures was IASB-only. The FASB will discuss disclosures related to its classification and measurement model at a future FASB-only meeting.

Seven FASB members agreed.

Reclassification mechanics—joint discussion

For reclassification of financial assets as a result of a change in the business model, the boards tentatively decided that when financial assets are reclassified from:

a. Fair value through other comprehensive income (FVOCI) to FVPL, the financial assets should continue to be measured at fair value and any accumulated other comprehensive income (OCI) balances should be derecognised from OCI and recognised in profit or loss P&L on the date of reclassification.
   Fifteen IASB members and seven FASB members agreed.
b. FVPL to FVOCI - the financial assets should continue to be measured at fair value and particular changes in fair value subsequent to the reclassification date should be recognised in OCI.
   Fourteen IASB members and seven FASB members agreed.
c. Amortised cost to FVOCI - the financial assets should be measured at fair value on the reclassification date with any difference between the previous carrying amounts and the fair values recognised in OCI.
   Fifteen IASB members and six FASB members agreed.
d. FVOCI to amortised cost, the financial assets should be measured at fair value on the reclassification date and the accumulated OCI balance at the reclassification date should be derecognised through OCI with an offsetting entry against the financial asset balance. As a result, the financial assets will be measured at the reclassification date at amortised cost as if they had always been so classified.
   Fourteen IASB members and six FASB members agreed.

Reclassification disclosures—IASB-only

The IASB discussed disclosures related to reclassifying eligible debt investments into and out of the FVOCI measurement category. The IASB tentatively decided that the reclassification disclosures in:

a. paragraph 12B of IFRS 7 should be extended to all reclassifications into and out of FVOCI.
   Fifteen IASB members agreed.
b. paragraph 12C of IFRS 7 should be extended to reclassifications from FVPL to FVOCI.
   Fifteen IASB members agreed.
c. paragraph 12D of IFRS 7 should be extended to apply to reclassifications from FVPL to FVOCI and from FVOCI to amortised cost.
   Fourteen IASB members agreed.

Reclassification date—FASB-only

The FASB tentatively decided that the reclassification date should be the last day of the reporting period in which there is a change in the business model.

Five FASB members agreed.

Reclassification mechanics—FASB-only

For reclassification of financial assets as a result of a change in the entity's business model, the FASB tentatively decided that when financial assets are reclassified from:

a. fair value through profit or loss (FVPL) to amortised cost, the financial assets' fair values on the reclassification date should become their new carrying amounts for amortised cost purposes.

b. amortised cost to FVPL, the financial assets' fair values on the reclassification date should become their new carrying amounts, with the difference between the previous carrying amounts and fair values recognised in P&L.

Financial Instruments: Impairment

At this meeting, the boards discussed:

a. the application of the proposed expected loss model to loan commitments and financial guarantee contracts; and
b. disclosures to accompany the proposed expected loss model.

Loan commitments and financial guarantee contracts

The boards tentatively decided that:

a. The proposed expected loss impairment model should apply to loan commitments and financial guarantee contracts to which IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* applies, or that are not accounted for at fair value through net income and not accounted for as insurance in accordance with US GAAP.
b. The proposed expected loss impairment model should apply to instruments that create a present legal obligation to extend credit. When estimating expected losses an entity shall consider the maximum contractual period over which it is exposed to credit risk.
c. The usage behaviour shall be estimated over the lifetime of a loan commitment when estimating expected lifetime losses.
d. Expected losses arising from undrawn loan commitments or financial guarantee contracts should be recognised separately as a liability.

All IASB members and FASB members agreed.

The IASB tentatively decided that:

a. The discount rate to be applied to discounting the expected losses arising from a loan commitment or a financial guarantee contract shall be the rate that reflects:
    i. current market assessments of the time value of money (i.e. risk free rate); and
    ii. the risks specific to the cash flows (but only if, and to the extent that, the risks are taken into account by adjusting the discount rate rather than by adjusting the cash shortfalls being discounted). Thirteen IASB members agreed.
b. As part of the Impairment project, the accounting for revenue arising from loan commitments or financial guarantee contracts shall not be changed.

All IASB members agreed.

Disclosures to accompany the proposed expected loss model

The boards considered the proposed disclosure requirements for the proposed expected loss model in the context of the following high-level disclosure objectives:

a. To enable a user to understand an entity's estimate of expected losses.
b. To enable a user to understand the credit quality migration of financial assets.

In meeting the above objectives, the boards tentatively decided to require an entity to disclose:

a. The inputs, assumptions and techniques used in:
   i. estimating expected losses; and
   ii. assessing whether the recognition of lifetime expected losses have been met.
b. Information regarding the quality of collateral.
c. Quantitative information related to collateral for financial assets for which lifetime expected losses are recognised. The IASB decided at the IASB-only meeting to limit this disclosure to financial assets that are credit-impaired (see 'Presentation of Interest Revenue' in the IASB-only meeting for criteria).
d. A reconciliation of the beginning and ending balances, disaggregated by whether the impairment allowance is measured using12 months' expected losses and lifetime expected losses, of:
   i. gross carrying amounts; and
   ii. impairment allowance balances.
e. A narrative discussion of changes in the impairment allowance balance.
f. A disaggregation of the gross carrying amount by credit quality for both financial assets with an impairment allowance measured at 12 months' expected losses and lifetime expected losses (including a description of how the entity determines the categories of credit quality). For the IASB, these disclosures would be required only if other more detailed disclosures related to credit risk profiles are not already required by regulators (e.g. Basel III). The FASB directed its staff to explore how this would be integrated into existing disclosures of credit quality information, including disclosures relating to credit quality indicators.
g. Amounts related to purchased credit-impaired assets.
h. The balance of financial assets evaluated on an individual basis and for which impairment is measured at lifetime expected losses and the allowance balance related to these financial assets.

The IASB noted that if the disclosures above are satisfied by disclosures required by other applicable regulations (such as prudential regulations), an entity will be permitted to cross-refer to those disclosures.

The boards asked the staff to consider the application of the disclosures to non-financial institutions (including entities applying the simplified model for trade receivables and lease receivables) when drafting the proposals.

All IASB members and FASB members agreed.

Revenue Recognition

The IASB and the FASB commenced their redeliberations on the revised Exposure Draft *Revenue from Contracts with Customers* (the '2011 ED'), by discussing the following topics:

a. Identifying separate performance obligations (Step 2 of the proposed revenue model)
b. Performance obligations satisfied over time (Step 5)
c. Licences
d. Losses arising from onerous obligations in contracts with customers.

Identifying Separate Performance Obligations (Step 2)

The boards tentatively decided:

a. to retain the concept of a distinct good or service, which is used to determine whether a promise to transfer a good or service to a customer should be accounted for as a separate performance obligation;
b. to improve the assessment of whether a good or service is distinct that was proposed in paragraphs 28 and 29 of the 2011 ED by clarifying the criterion proposed at paragraph 28 and by replacing the proposed criterion in paragraph 29 of the 2011 ED with indicators; and
c. to remove the practical expedient in paragraph 30 of the 2011 ED (which permitted an entity to account for two or more distinct goods or services as a single performance obligation if those goods or services have the same pattern of transfer to the customer).

To retain and improve the distinct concept in the 2011 ED (paragraphs 28 and 29), the boards tentatively decided that an entity should account for a promised good or service (or a bundle of goods or services) as a separate performance obligation only if:

a. the promised good or service is capable of being distinct because the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (this criterion is based on paragraph 28(b) of the 2011 ED); and
b. the promised good or service is distinct within the context of the contract because the good or service is not highly dependent on, or highly interrelated with, other promised goods or services in the contract.

The boards tentatively agreed that the assessment of whether a promised good or service is distinct in the context of the contract should be supported by indicators, such as:

a. The entity does not provide a significant service of integrating the good or service (or bundle of goods or services) into the bundle of goods or services that the customer has contracted. In other words, the entity is not using the good or service as an input to produce the output specified in the contract.
b. The customer was able to purchase or not purchase the good or service without significantly affecting the other promised goods or services in the contract.
c. The good or service does not significantly modify or customise another good or service promised in the contract.
d. The good or service is not part of a series of consecutively delivered goods or services promised in a contract that meet the following two conditions:
    i. the promises to transfer those goods or services to the customer are performance obligations that are satisfied over time (in accordance with paragraphs 35 of the 2011 ED); and
    ii. the entity uses the same method for measuring progress to depict the transfer of those goods or services to the customer. The changes and clarifications for the identification of separate performance obligations were agreed by all IASB members and all FASB members.

Performance Obligations Satisfied over Time (Step 5)

The boards tentatively decided to make the following refinements to the criteria proposed in paragraph 35 of the 2011 ED for determining whether an entity satisfies a performance obligation over time and, therefore, recognises revenue over time:

a. retain the criterion proposed in paragraph 35(a), which considers whether the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
b. combine the "simultaneous receipt and consumption of benefits" criterion proposed in paragraph 35(b)(i) and the "another entity would not need to substantially re-perform" proposed criterion in 35(b)(ii) into a single criterion that would apply to "pure service" contracts; and
c. link more closely the "alternative use" criterion in paragraph 35(b) and the "right to payment for performance completed to date' criterion in paragraph 35(b)(iii) by combining them into a single criterion.

(please note that the IASB Daily Update issued on 20 July merged the above points b and c in error)

The boards also tentatively decided to clarify aspects of the "alternative use" and "right to payment for performance completed to date" criteria. For example:

a. The assessment of alternative use is made at contract inception and that assessment considers whether the entity would have the ability throughout the production process to readily redirect the partially completed asset to another customer.
b. The right to payment should be enforceable and, in assessing the enforceability of that right, an entity should consider the contractual terms as well as any legislation or legal precedent that could override those contractual terms. The changes and clarifications to the criteria for determining whether a performance obligation is satisfied over time were agreed by all IASB members and all FASB members.

Licences

The boards discussed possible refinements to the implementation guidance on licences and rights to use. The boards requested the staff to perform additional analysis and bring the topic back to a future meeting.

Losses arising from onerous obligations in contracts with customers

The boards tentatively decided to not develop new requirements for onerous contracts that would apply to contracts with customers within the scope of the *Revenue* Standard. As a result, the IASB tentatively decided that the requirements for onerous contracts in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, should apply to all contracts with customers within the scope of the Revenue Standard. The FASB tentatively decided to retain existing guidance related to the recognition of losses arising from contracts with customers, including the guidance relating to construction-type and production-type contracts in Subtopic 605-35, *Revenue Recognition-Construction-Type and Production-Type Contracts* in the *FASB Accounting Standards Codification*®. The FASB also indicated it would consider whether to undertake a separate project to develop new guidance for onerous contracts.

Twelve IASB members and four FASB members agreed with not developing new requirements for onerous contracts for the *Revenue* Standard.

Next steps

The boards expect to continue redeliberations in September 2012

IASB sessions

Insurance Contracts

The IASB received a summary of the recent Insurance Contracts Working Group (the Working Group) meeting. At that meeting with the Working Group, the staff had discussed some of the IASB's tentative decisions and had requested feedback on the issues that remain for the Insurance Contracts project. These issues include adjustments to the residual margin and the presentation of 'earned premium' in the statement of comprehensive income and transition.

The IASB received the report. No decisions were made.

Next steps

The IASB will continue its joint discussions with the FASB on the Insurance Contracts project at their meeting in September 2012.

Due Process

The staff presented four summary reports related to Due Process, which dealt with Comment Letters, Availability of Meeting Papers, Consultative Groups and Market and Prudential Regulators.

The staff reported that in the year to 30 June 2012 they had not withheld any material distributed to the IASB for discussion at IASB meetings from observers. Similarly, all comment letters received in response to consultative documents were made available on the IASB website.

The staff provided a summary of the number of meetings held with project working groups. The IASB supported a staff recommendation to formally wind up three working groups, reflecting the successful completion of the related projects.

The staff also presented a summary of interactions with securities and prudential regulators.

Accounting for macro hedging

As part of its deliberations on accounting for macro hedging, the IASB discussed how some entities incorporate capital management objectives into their overall risk management. In an interest rate risk context, this is colloquially referred to as an 'equity model book'. When applying this approach, capital is typically considered as a fixed interest rate risk profile, which is then included in interest rate risk management, reflecting multi-dimensional risk management objectives (multidimensional in the sense that the capital objectives combine retaining or avoiding fixed interest rate exposures for different time horizons). The IASB discussed the accounting implications of using or not using an equity model book within the accounting for macro hedging. This relates to step 7 of the 11 step overview presented at the November 2011 meeting.

No decisions were made.

The IASB will continue its discussion at future meetings.

IAS 28 *Investments in Associates and Joint Ventures*

The IASB discussed how an investor should account for its share of the changes in the net assets of the associate that are not recognised in profit or loss or other comprehensive income of the associate (ie, "other net asset changes").

The IASB tentatively decided that an investor should account for the other net asset changes in the investor's equity.

The IASB decided that:

- It would issue a separate exposure draft to amend IAS 28. No additional amendment to IFRS 1 *First-time Adoption of International Financial Reporting* is required.
- The amendments should apply retrospectively.
- The comment period should be no less than 120 days.

Fourteen Board members agreed.

Investment Entities

The IASB continued its discussions on the Investment Entities project and discussed the following issues:

- request for extension of exception to consolidation;
- sweep issues;
- reassessment;
- disclosures;
- transition and effective date; and
- Due Process.

Request for extension of exception to consolidation

The IASB tentatively decided not to extend the exception to consolidation for insurers' insurance investment fund subsidiaries within the scope of the Investment Entities project.

Fourteen IASB members agreed and one IASB member was absent.

Sweep issues

The IASB tentatively decided that:

a. controlled investees and investments in associates and joint ventures should be initially measured at fair value in accordance with IFRS 9 *Financial Instruments*.
b. the requirements for investment entities should not include any measurement guidance for investments other than controlled investees and investments in associates and joint ventures.
c. the IASB should not introduce a net asset value ('NAV') practical expedient for fair value measurement within the Investment Entities project.
d. the definition of an investment entity should not make reference to existing regulatory requirements.
e. an investment entity should not be prohibited from providing financial support to its investees so long as the provision of financial support does not constitute a separate substantive activity of the entity.

All IASB members agreed.

Reassessment

The IASB tentatively decided to:

a. Require an entity to reassess its investment entity status if facts and circumstances indicate that its status has changed. All IASB members agreed.
b. Provide the following guidance regarding the accounting for controlled investees when an entity changes its investment entity status:
    i. When an entity ceases to be an investment entity, it shall apply IFRS 3 *Business Combinations* and recognise goodwill or a bargain purchase (as applicable). Fourteen IASB members agreed and one IASB member was absent.
    ii. When an entity becomes an investment entity, it shall apply the requirements of IFRS 10 *Consolidated Financial Statements* for loss of control and any resulting gain or loss shall be recognised in profit or loss. Ten IASB members agreed, four IASB members disagreed and one IASB member was absent.
c. Retain the proposed disclosures to be given when an entity changes its status. All IASB members agreed.
d. Draft reassessment guidance in IAS 28 *Interests in Associates and Joint Ventures* and IAS 27 *Separate Financial Statements* that is consistent with the decisions made for the reassessment guidance for IFRS 10. Thirteen IASB members agreed, one IASB member disagreed and one IASB member was absent.

The IASB noted that paragraph 4 of IFRS 10 already provides some relief from preparing consolidated financial statements for an intermediate parent entity and tentatively decided not to provide any additional relief when an intermediate parent entity ceases to qualify as an investment entity. Eleven IASB members agreed, three IASB members disagreed and one IASB member was absent.

Disclosures

The IASB tentatively decided that:

a. the disclosure requirements should only apply to investment entities with investments in subsidiaries, associates or joint ventures (all IASB members agreed); and
b. an investment entity with one or more subsidiaries, associates or joint ventures should not be required to provide information about all of its investment activities (Thirteen IASB members agreed, one IASB member disagreed and one IASB member was absent).

c. An investment entity should be required to provide the disclosures required by IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement* in addition to the disclosure requirements for Investment Entities (Fourteen IASB members agreed and one IASB member was absent).
d. The 'interests in subsidiaries' disclosures in IFRS 12 *Disclosures of Interests in Other Entities* should only apply to consolidated investments of investment entities, except for paragraphs 14 and 16, which should still apply to an investment entity (Fourteen IASB members agreed and one IASB member was absent).
e. Investment entities with joint ventures and associates accounted for using the fair value method need not apply paragraphs 21(b), 21(c), 22(b) and 22(c) of IFRS 12 (Fourteen IASB members agreed and one IASB member was absent).
f. Paragraph B20 of the Exposure Draft should not be carried forward to the final investment entities requirements (Fourteen IASB members agreed and one IASB member was absent).
g. An investment entity should be required to disclose that it is an investment entity and thus that it has not consolidated controlled investees (All IASB members agreed).
h. An investment entity should be required to disclose how it has met the definition and typical characteristics to be an investment entity, with specific reasons given if it has not met one or more of the typical characteristics (All IASB members agreed).

Transition and effective date

The IASB tentatively decided to develop transition guidance based on a retrospective approach, which would be consistent with the approach used in the IFRS 10 transition guidance. Thirteen IASB members agreed, one IASB member disagreed and one IASB member was absent.

The IASB tentatively decided to:

a. allow investment entities to apply the existing impracticability exception in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to retrospective application;
b. require, for the purposes of transition, the assessment of investment entity status only at the date of initial application of the investment entity requirements;
c. on transition, to allow investment entities to retain the previous accounting for investees disposed of in the comparative period(s);
d. for the purposes of transition, to allow the use of fair value that is consistent with fair value as defined by IFRS for periods prior to the effective date of IFRS 13; and
e. for the purposes of transition, to limit the requirement to present adjusted comparatives to the annual period immediately preceding the date of application of these investment entity requirements, with any unadjusted comparatives being clearly identified.

Fourteen IASB members agreed and one IASB member was absent.

The IASB tentatively decided that the transition guidance relating to investment entities for IAS 28 *Interests in Associates and Joint Ventures* and IAS 27 *Separate Financial Statements* should be consistent with the decisions made for the transition guidance for IFRS 10.

Fourteen IASB members agreed and one IASB member was absent.

In respect of first-time adopters of IFRS, the IASB tentatively decided:

a. To require retrospective application of the requirements. Entities preparing their first IFRS financial statements for annual periods ending on or before 31 December 2014 would be permitted to apply the same impracticability exception and IFRS 13 exception as described in the transition requirements above.
b. To require the assessment of investment entity status at the date of transition to IFRS.
c. To allow first-time adopters to apply the consolidation exception in IFRS 10 early, together with the other requirements of IFRSs 10-12.

All IASB members agreed.

The IASB tentatively decided to set an effective date of 1 January 2014 for the final amendments and permit early adoption. All IASB members agreed. The IASB noted that it is important to explain clearly in the Basis for Conclusions that it is setting an effective date of 1 January 2014 to allow a sufficient time lag between the publication of the investment entities requirements and their effective date. However, the IASB thinks that it is important to allow early adoption in order to allow entities to apply the investment entities amendments at the same time as the initial application of IFRS 10, which has a mandatory effective date of 1 January 2013.

Due Process

All IASB members stated that they are satisfied that the IASB has performed all mandatory due process steps and performed sufficient additional due process steps to support the decisions made in this project. The IASB believes that:

a. it has not changed the basic concepts exposed in the *Investment Entities* Exposure Draft but has made a number of refinements to the proposals in response to comments received;
b. the proposed changes affect only a limited number of entities; and
c. the issues involved are well understood by both the IASB and its constituents.

Consequently, all IASB members agreed that none of the amendments require re-exposure.

All IASB members agreed that they should proceed to ballot the Investment Entities requirements.

No IASB members stated that they plan to dissent from the Investment Entities requirements.

Financial Instruments: Impairment

The following topics were discussed at the IASB only meeting:

a. presentation of interest revenue;
b. the application of the proposed expected loss model to assets reclassified from fair value through profit or loss;
c. disclosures specific to IFRSs; and
d. transition.

Presentation of interest revenue

The IASB tentatively decided that:

a. The accounting treatment of purchased credit-impaired financial assets should be extended to all financial assets subject to impairment accounting that are credit-impaired on initial recognition.
   Thirteen IASB members agreed and one IASB member was absent.
b. For other financial assets subject to the general deterioration impairment model, an entity should present interest revenue calculated on the carrying amount net of the impairment allowance if the asset is credit-impaired as at the reporting date. This evaluation should be made at each reporting date and will be applicable for the following reporting period.
   Nine IASB members agreed and one IASB member was absent.
c. Financial assets should be considered to be credit-impaired if there is objective evidence of the criteria in paragraphs 59(a)-(e) of IAS 39 *Financial Instruments: Recognition and Measurement*. The IASB noted that this will be a subset of financial assets with an impairment allowance measured at lifetime expected losses.
   Eight IASB members agreed and one IASB member was absent.

Assets reclassified from fair value through profit or loss

The IASB considered how the proposed impairment model would apply to financial assets that are reclassified from fair value through profit or loss to:

a. amortised cost under IFRS 9 *Financial Instruments*; and
b. fair value through other comprehensive income as per the Classification and Measurement project.

The IASB tentatively decided that the application of the proposed impairment model to a financial asset on the date of reclassification from fair value through profit or loss should be the same as a financial asset at initial recognition. Fourteen IASB members agreed and one IASB member was absent.

Disclosures

The IASB continued to discuss disclosure requirements for the proposed expected loss model. In addition to the decisions at the joint board meeting, the IASB tentatively decided to require that an entity disclose:

a. qualitative information related to the discount rate elected;
b. information regarding financial assets for which an impairment allowance of lifetime expected losses is required that have been modified at any time in their life;
c. the gross carrying amount and related allowance, if any, of financial assets measured under the impairment model if a default has occurred;
d. the balance of financial assets 90 days past due with an impairment allowance measured at 12 months' expected losses; and
e. the amount of interest revenue and by how it is calculated (ie gross, net, credit-adjusted EIR).
   Fourteen IASB members agreed and one IASB member was absent.

Transition

The IASB tentatively decided that:

a. an entity should be required to use the credit quality at initial recognition for existing financial assets when initially applying the new impairment model, unless obtaining such credit quality information requires undue cost or effort.
   Fourteen IASB members agreed and one IASB member was absent.
b. if the credit quality at initial recognition is not used at the date of initial application (as per the relief outlined above), the transition provisions should require these financial assets to be evaluated only on the basis of the second criterion in the transfer notion: the likelihood that contractual cash flows may not be collected is at least reasonably possible.
   Eleven IASB members agreed and one IASB member was absent.
c. the restatement of comparative periods should be permitted, but not required, if the information is available without the use of hindsight.
   Twelve IASB members agreed and one IASB member was absent.
d. the disclosures in paragraph 28(f) of IAS 8 should not be required, but should be permitted, for prior periods if the information is available without the use of hindsight.
   Twelve IASB members agreed and one IASB member was absent.
e. the disclosures in paragraph 28(f) of IAS 8 should be required for the current period.
   Fourteen IASB members agreed and one IASB member was absent.

Next steps

Subject to any further issues being identified, the IASB has taken all the technical decisions for developing an IASB Exposure Draft for the new impairment model.

During deliberations IASB members and IASB staff members have conducted ongoing outreach and have met with investors, preparers, auditors and regulators to discuss the boards' tentative decisions on the proposed expected loss model. As part of the IASB's due process, matters raised during these outreach meetings have been reported to the boards on a timely basis during their deliberations.

Before publishing the impairment proposals, the IASB will discuss the comment period and permission to ballot at future meetings.

Classification and Measurement

The IASB discussed the transition and disclosure requirements as a result of the limited amendments to IFRS 9 *Financial Instruments*.

Transition

The IASB discussed how the classification and measurement (C&M) requirements in IFRS 9 should be applied in light of the limited amendments to IFRS 9, as well as when the limited amendments should be applied. The IASB also discussed the transition to IFRS 9 as a whole considering the interaction between its phases.

Limited amendments to C&M

The IASB tentatively decided that on transition to the amended C&M requirements, an entity should be required to:

a. retrospectively apply the contractual cash flow characteristics assessment as set out in IFRS 9 (2010) where it is impracticable to apply the amended contractual cash flow characteristics assessment retrospectively; and
b. disclose the carrying values of the financial assets whose contractual cash flows have been assessed under IFRS 9 (2010) rather than the amended C&M requirements due to impracticability until the affected financial assets are derecognised.

Fourteen IASB members agreed and one IASB member was absent.

The IASB also tentatively agreed that no amendments to the existing IFRS 9 transition requirements are required in the light of either:

a. the proposed amendments to the business model assessment, or
b. the proposed extension of the Fair Value Option (FVO) for accounting mismatches to debt instruments that would otherwise be measured at Fair Value Through Other Comprehensive Income (FVOCI). Fourteen IASB members agreed and one IASB member was absent.

IFRS 9 as a whole

The IASB tentatively decided to require entities that have already applied IFRS 9 (2009) and/or IFRS 9 (2010) before they apply the limited amendments to IFRS 9 (i) to revoke previous FVO elections if an accounting mismatch no longer exists at initial application of the amended C&M requirements; and (ii) to permit them to apply the FVO to new accounting mismatches created by the initial application of the amended C&M requirements. Fourteen IASB members agreed and one IASB member was absent.

The IASB tentatively decided that once IFRS 9 is finalised, entities should no longer be permitted to early apply previous versions of IFRS 9. Those entities that-prior to the publication of the complete version of IFRS 9-already early applied a previous version of IFRS 9 should be able to continue applying that version and not be required to apply the final requirements until the mandatory effective date. Eight IASB members agreed and one IASB member was absent.

The IASB also tentatively decided that early application of the entire IFRS 9 should be permitted once all of the requirements are issued. Eleven IASB members agreed and one IASB member was absent.

The IASB tentatively decided to re-affirm that comparative C&M information should be permitted, but not required, to be restated, if the information is available without the use of hindsight. Fourteen IASB members agreed and one IASB member was absent.

Presentation and disclosure

The IASB discussed additional presentation and disclosure requirements in the light of proposed limited amendments to IFRS 9, as well as the interaction with the disclosures proposed in the impairment project.

The IASB tentatively decided the following related to the amended contractual cash flow characteristics assessment:

a. That the judgement involved in the assessment of contractual cash flow characteristics should be added to IAS 1 as an example of a judgement that could have a significant effect on the amounts recognised in the financial statements. Fourteen IASB members agreed and one IASB member was absent.
b. Not to require quantitative disclosures when the assessment of contractual cash flow characteristics could have a significant effect on the amounts recognised in the financial statements. Nine IASB members agreed and one IASB member was absent.

The IASB tentatively decided the following related to the proposed addition of a FVOCI category for eligible debt instruments:

a. No new requirements should be added related to the presentation of gains or losses arising from the derecognition of debt instruments measured at FVOCI. Fourteen IASB members agreed and one IASB member was absent.
b. The impairment disclosures for debt instruments measured at FVOCI should be consistent with those for assets measured at amortised cost, including disclosure of an accumulated impairment amount. Twelve IASB members agreed, two IASB members disagreed and one IASB member was absent.
c. Presentation of an allowance balance on the face of the statement of financial position should be prohibited for debt instruments measured at FVOCI. Fourteen IASB members agreed and one IASB member was absent.

Work plan

Projected targets as at 18 June 2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2	MoU	Joint
			Next major project milestone			
Agenda consultation						
Three-yearly public consultation	Feedback Statement					
			Next major project milestone			
Financial Crisis related projects						
IFRS 9: Financial instruments (replacement of IAS 39)						
- Classification and measurement (review)		Target ED			✓	✓

- Impairment		Target ED			✓	✓
Hedge accounting						
- General hedge accounting	Review draft	Target IFRS			✓	
- Macro hedge accounting	Target DP				✓	
	Next major project milestone					
Memorandum of Understanding projects						
Leases		Target ED			✓	✓
Revenue recognition	Redeliberations		Target IFRS		✓	✓
	Next major project milestone					
Other Projects						
Insurance contracts	Review draft or revised ED					✓
IAS 8 Effective date and transition methods	Target ED					
Annual improvements 2010-2012			Target completion			
Annual improvements 2011-2013	Target ED					
Consolidation–Investment entities	Target amendments to IFRS					✓
	Next major project milestone					
Post-implementation reviews						
IFRS 8 Operating Segments		Comment period ends	Consider comments received			
IFRS 3 Business Combinations		Initiate review				

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