

IASB Update

From the International Accounting Standards Board



November 2012

Welcome to the IASB Update

The IASB met in public from 19-21 November 2012 at the IASB offices in London, UK. The FASB joined the IASB for some of the sessions via video from its offices in Norwalk.

The topics for discussion were:

- Education session—levies charged by public authorities on entities that operate in a specific market
- Education sessions—Financial Instruments: Impairment
- Financial Instruments: Impairment
- Revenue recognition
- Conceptual framework
- Insurance contracts
- Offsetting Disclosures—Amendments to IFRS 7 (Update)
- Due process documents
- Enhanced Disclosure Task Force Report

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Future Board meetings

The IASB meets at least once a month for up to five days.

The next Board meetings are:

12-19 December 2012
25-31 January 2013

To see all Board meetings for 2012, [click here](#).

Archive of IASB Update Newsletter

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Podcast summaries

To listen to a short Board meeting audio summary (podcast) of previous Board meetings, [click here](#).

Education session—levies charged by public authorities on entities that operate

in a specific market

The IASB received a report on the IFRS Interpretations Committee's (the Interpretations Committee) discussions on the draft Interpretation on accounting for levies charged by public authorities on entities that participate in a specific market.

At its November 2012 meeting the Interpretations Committee started to discuss the comments received on the draft Interpretation. The purpose of the report to the IASB was to inform the IASB of the divided views received on the draft Interpretation. Almost all respondents to the draft Interpretation agreed that it was a correct analysis of the requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. However, approximately half of the respondents disagreed with the outcome of the proposed accounting, claiming that it would not reflect the substance of the transactions and would therefore not be useful information for users of financial statements. A particular concern raised was in connection with circumstances in which the draft Interpretation would require recognition of the expense and the liability to pay a levy at a point in time at the end of the year. In such situations the entity would not be able to accrue the levy expenses in previous interim periods.

The IASB noted the concerns raised. Some IASB members referred back to the discussions at the February 2012 IASB meeting at which the IASB discussed the question of the recognition in interim financial statements of levies subject to a threshold. Some IASB members also expressed support for the Interpretations Committee to address the question of interim reporting of levies that are within the scope of the draft Interpretation.

The IASB was not asked to make any decisions at this meeting.

Next steps

The Interpretations Committee will continue its redeliberations at its January 2013 meeting.

Education sessions—Financial Instruments: Impairment

The IASB held an education session on Monday 19 November to continue its discussion of the proposed IASB impairment model.

No decisions were made.

The IASB and the FASB also held a joint education session on Tuesday 20 November on the FASB's proposed Current Expected Credit Loss impairment model.

No decisions were made.

Financial Instruments: Impairment

In October 2012 the IASB staff presented a summary of feedback received through recent outreach about the three-bucket impairment model. Overall, the majority of outreach participants, including analysts, supported an impairment model that distinguishes assets that have deteriorated in credit quality from those that have not. However, additional clarification was requested of the criteria that determine when lifetime losses are measured and

how the criteria would apply to retail loans. In addition, some noted that the benefit of the information resulting from the distinction between 12-month and lifetime expected losses should not outweigh the cost and complexity of obtaining such information. At that meeting, the IASB asked the IASB staff to explore ways to address those concerns and to prepare a paper summarising the feedback received on the Supplementary Document as a reminder of why the IASB rejected that approach in favour of the three-bucket model.

At this meeting the IASB discussed suggested clarifications to the criteria for recognition of lifetime expected losses in the three-bucket model. The IASB tentatively decided to simplify the requirements to now contain only one criterion, namely that an entity should recognise a lifetime expected loss in the three-bucket model if there has been significant deterioration in credit quality since initial recognition (taking into consideration the term of the asset and the original credit quality). An example of significant deterioration would be if an existing financial asset would be priced differently because of the increase in credit risk since initial recognition.

To alleviate the complexity and cost of performing an assessment of credit risk deterioration for higher credit quality assets, the IASB also tentatively decided that the recognition of lifetime expected losses for a higher credit quality asset is when it deteriorates to below "investment grade".

The IASB also agreed to provide guidance on how to assess the criterion, including the types of information that should be considered. The IASB has previously tentatively decided that an entity should use the best information that is available without undue cost and effort. To supplement this decision, the IASB also tentatively decided that:

- a. the borrower-specific information an entity considers in applying the requirements may include delinquency information, and to include a rebuttable presumption that the criterion for recognition of lifetime expected losses shall be met if an asset is 30 days past due, together with disclosure if this presumption is rebutted; and
- b. an entity may use a 12-month probability of default to assess the lifetime expected loss criterion, unless there is information that would indicate that this would not result in the same outcome if a lifetime probability of default was used (such as if the loss curve is abnormal).

In response to a request by the IASB in July 2012 to consider the effect of the disclosure requirements for non-financial institutions, the IASB staff presented an analysis of the current disclosure decisions and their applicability to entities applying the simplified approach for trade and lease receivables under the three-bucket model.

The IASB observed that the disclosures would be generally applicable; however, the IASB tentatively decided that for entities applying the simplified approach:

- a. a provision matrix may be used as a basis for the disclosure of the risk profile;
- b. the disclosure of modifications should be limited to assets that are more than 30 days past due; and
- c. for lease receivables, the following will not be required because of overlap with the decisions in the Leases project:
 - i. the reconciliation of the gross carrying amount of the lease receivable; and
 - ii. the disclosure of a qualitative description of the leased asset as part of the collateral disclosures.

The IASB tentatively decided to proceed with the three-bucket model, with the clarifications as set out above.

All IASB members agreed with these decisions.

Next steps

The IASB noted that it has now completed the technical discussions for developing the proposed three-bucket model.

At its December meeting, the IASB will discuss:

- a. compliance with due process requirements;
- b. considerations for re-exposure; and
- c. comment period and permission to ballot.

The IASB intends to publish an Exposure Draft on the three-bucket model in the first quarter of 2013.

Revenue recognition

The IASB and the FASB met on 19 November to continue their joint redeliberations on the revised Exposure Draft *Revenue from Contracts with Customers* (the 2011 ED). The boards discussed the following topics:

- a. constraining the cumulative amount of revenue recognised;
- b. collectibility; and
- c. implementation guidance: licences.

Constraining the Cumulative Amount of Revenue Recognised ('the Constraint') (Papers 7A-7C)

Paper 7C—Placement of Constraint (Step 3 v Step 5)

The boards considered whether the constraint on revenue recognition should be applied as either:

- a. a constraint on the cumulative amount of revenue recognised when an entity satisfies a performance obligation (Step 5); or
- b. a constraint on the transaction price (Step 3), which the 2010 Exposure Draft had previously proposed as the location of the constraint.

On the basis that the location of the constraint (that is, either in Step 5 or in Step 3) should not affect the amount or timing of revenue recognition, the boards tentatively decided to move the constraint to Step 3 unless, during the process of drafting the Revenue Standard, it becomes apparent that such a decision would result in unintended consequences.

Fourteen IASB members and all FASB members agreed with this decision.

Paper 7B—Application of the Requirements

The boards tentatively decided that the Revenue Standard should state that the objective of the constraint on revenue recognition is for an entity to recognise revenue at an amount that should not be subject to significant revenue reversals (that is, to any downward adjustment) that might arise from subsequent changes in the estimate of the amount of variable consideration to which the entity is entitled. An entity should reassess this objective as subsequent facts and circumstances change.

The boards tentatively decided that an entity would meet that objective if the entity has sufficient experience or evidence that supports its assessment that the revenue recognised should not be subject to a significant revenue reversal. The boards tentatively decided that the assessment is qualitative and that the entity needs to consider all the facts and circumstances associated with both the risk of a revenue reversal arising from an uncertain future event and the magnitude of the reversal if that uncertain event were to occur. The boards did not define the level of

confidence that an entity would need to achieve to recognise revenue. However, the boards indicated that their intention is that the level of confidence would need to be relatively high for an entity to recognise revenue for variable consideration.

All IASB and FASB members agreed with this decision.

The boards also tentatively decided to retain the indicators in paragraph 82 of the 2011 ED (subject to improvements and clarifications) to help entities in assessing whether to recognise revenue based on estimates of variable consideration, including estimates of price concessions.

Fourteen IASB members and all FASB members agreed with this decision.

Collectibility (Paper 7E)

The boards considered possible approaches for addressing customer credit risk in accounting for contracts with customers without a significant financing component. The boards tentatively decided:

- a. to reaffirm their proposal in the 2011 ED that the transaction price, and therefore revenue, should be measured at the amount of consideration to which the entity is entitled (that is, an amount that is not adjusted for customer credit risk and the revenue recognised is not subject to a collectibility threshold); and
- b. to present any corresponding impairment losses (recognised initially and subsequently in accordance with the respective financial instruments Standards) arising from those contracts with customers prominently as an expense in the statement of comprehensive income.

The boards also tentatively reaffirmed the proposals in the 2011 ED for accounting for contracts with customers with significant financing components.

Twelve IASB members and four FASB members agreed with these decisions.

Implementation Guidance: Licences (Papers 7F-7G)

The boards discussed improvements to the implementation guidance in the 2011 ED for licence arrangements in which an entity grants a customer a right to use the entity's intellectual property. The boards tentatively decided that an entity should assess the nature of the promise for the licence before applying the revenue recognition model to a licence arrangement. This assessment is necessary because the boards tentatively concluded that some licence arrangements represent the promise to transfer a right, whereas others represent a promise to provide access to the entity's intellectual property. That conclusion is consistent with View B as explained in Paper 7F.

In determining the nature of the promise in a licence, the boards tentatively decided that an entity should consider the characteristics of the licence. The boards also tentatively decided that the following characteristics may indicate that the nature of the promise in a licence represents a promise to provide a right:

- a. The right transferred to the customer in the form of a licence represents an output of the entity's intellectual property, similar to a tangible good.
- b. The licence can be easily reproduced by the entity with little or no effect on the value of the entity's intellectual property.
- c. The customer can determine how and when to use the right (that is, when the benefits from the asset can be consumed) and the customer does not require any further performance from the entity to be able to consume those benefits.

When those characteristics are not present, the licence would represent a promise to provide a service of access to

the entity's intellectual property. In these cases, access to the intellectual property is required because the customer obtains a right to use only a portion of the intellectual property (defined by the terms of the licence) and that portion is closely connected to the remaining intellectual property. This may be evidenced by the fact that changes in the nature or value of the intellectual property may directly affect the portion that the customer has a right to use by virtue of the licence. This assessment of the nature of the promise for the licence is important. That is because when the licence is distinct, the nature of the promise would affect whether the licence results in a performance obligation satisfied at a point in time (that is, when the licence is a promise to transfer a right) or a performance obligation satisfied over time (that is, when the licence is a promise to provide access to the entity's intellectual property).

Fourteen IASB members and all FASB members agreed with this decision.

The boards also tentatively decided to clarify the application of the other parts of the model to licence arrangements. In particular, the boards noted that after determining the nature of the promise related to the licence, an entity would need to assess:

- a. whether the entity has promised to transfer other goods or services in addition to the licence and, if so, whether the licence is distinct from those other goods or services;
- b. the time when the licence, goods, and services or the bundle of those promises are transferred to the customer (that is, whether the separate performance obligations are satisfied over time or at a point in time); and
- c. whether the cumulative amount of revenue recognised is subject to the constraint.

All IASB and FASB members agreed with this decision.

Next steps

The boards will continue their joint redeliberations on the 2011 ED in December 2012.

Conceptual framework

The IASB held an education session on work that had been undertaken on the Conceptual Framework project before the project was suspended in 2010. In addition, the IASB discussed the issues associated with the reporting entity chapter of the Conceptual Framework.

No decisions were made.

Next steps

The IASB will continue its discussions on the Conceptual Framework project at the December 2012 meeting.

Insurance contracts

Joint meeting

The IASB and FASB met on 20 November 2012 to continue their joint discussions of the proposed Insurance Contracts Standard. The boards discussed the discount rate for cash flows that are not subject to mirroring and that are affected by asset returns.

Discount rate for cash flows that are not subject to mirroring and that are affected by asset returns

The boards tentatively decided to clarify that, for cash flows in an insurance contract that are not subject to mirroring and that are affected by asset returns, the discount rate that reflect the characteristics of the cash flows shall reflect the extent to which the estimated cash flows are affected by the return from those assets. This would be the case regardless of whether the:

1. transfer of the expected returns of those assets are the result of the exercise of the insurer's discretion, or
2. the specified assets are not held by the insurer.

Twelve IASB members and all FASB members agreed with this decision.

The boards also tentatively decided that when there is any change in expectations of cash flows used to measure the insurance contracts liability (ie any expected change in the crediting rate), an insurer should reset the locked-in discount rate that is used to present interest expense for those cash flows in the insurance contract that are not subject to mirroring and are affected by asset returns.

Fourteen IASB members and all FASB members agreed with this decision.

IASB-only meeting

The IASB met on 21 November 2012 to discuss presentation and disclosure requirements and a proposed approach for future fieldwork.

Presentation requirements

The IASB tentatively decided that:

- An entity should present all rights and obligations for all insurance contracts on a net basis in the statement of financial position. All IASB members agreed with this decision.
- An entity should be required to present separate line items for insurance contracts and reinsurance contracts in the statement of financial position. Fourteen IASB members agreed with this decision.
- The general requirements of IAS 1 *Presentation of Financial Statements* are sufficient to specify the presentation requirements for the statement of comprehensive income for insurance contracts. Fourteen IASB members agreed with this decision.

Disclosure requirements

Disclosure requirements for participating contracts

The IASB tentatively decided that, for contracts with cash flows with a contractual link to underlying items, an insurer should disclose:

- a. the carrying amounts of those insurance contracts; and
- b. if an insurer measures those contracts on a basis other than fair value, and discloses the fair value of those underlying items, the extent to which the difference between the fair value and the carrying value of the

underlying assets would be passed to policyholders.

All IASB members agreed with this decision.

Disclosure requirements for the presentation of earned premiums in the statement of comprehensive income

The IASB tentatively decided that, for all insurance contracts, an insurer should disclose a reconciliation from the opening to the closing balance of the aggregate carrying amount of insurance contract liabilities and insurance contract assets, showing separately:

- a. the remaining balance of liabilities for remaining coverage but excluding any amounts that are attributable to losses on initial recognition (for the premium allocation approach, this will be the unearned premium);
- b. liabilities for remaining coverage that are attributable to:
 - i. losses on initial recognition; and
 - ii. subsequent changes in estimates that are immediately recognised in profit or loss (for the premium allocation approach, this will be the additional liabilities for onerous contracts); and
- c. liabilities for incurred claims.

All IASB members agreed with this decision.

The IASB tentatively decided that, for contracts that are accounted for using the building block approach, an insurer should disaggregate insurance contract revenue into inputs to the measure of that revenue in the period.

For example an insurer should disclose:

- a. the probability-weighted claims, benefits and expenses that are expected to be incurred in the period;
- b. an allocation of expected acquisition costs;
- c. the risk margin relating to that period's coverage; and
- d. the margin allocated to that period.

Thirteen IASB members agreed with this decision.

The IASB tentatively decided that, for contracts that are accounted for using the building block approach, an insurer should disclose the effect of insurance contracts written in the period on the insurance contract liability, showing separately the effect on:

- a. the expected present value of future cash outflows, showing separately the amount of acquisition costs;
- b. the expected present value of future cash inflows;
- c. the risk adjustment; and
- d. the residual margin.

All IASB members agreed with this decision.

The IASB tentatively decided that an insurer should disclose a reconciliation from premium receipts to revenue. Nine IASB members agreed with this decision.

Disclosure requirements for transition

The IASB tentatively decided that, in the period in which the new insurance contracts standard is initially applied, disclosure of the current period and prior period line item amounts that would have been reported in accordance with previous accounting policies in IFRS 4 *Insurance Contracts* should not be required.

All IASB members agreed with this decision.

Proposed plan for fieldwork

The IASB considered a proposed plan for a third round of fieldwork with preparers. In addition, the IASB considered a proposed plan for fieldwork with users of financial statements. Specifically, the IASB discussed the following objectives for fieldwork that is undertaken as part of the re-exposure of the Insurance Contracts proposals:

- a. to understand how the targeted proposals would be applied in practice;
- b. to evaluate the costs and benefits of the targeted proposals; and
- c. to assess how the proposed approach will help insurers to communicate with users of their financial statements.

The IASB staff reported that they intend to:

- a. invite the participants from previous rounds of field tests to participate and in addition to invite new participants, particularly from regions not previously represented;
- b. pursue collaboration with standard-setters and regional bodies in conducting fieldwork;
- c. develop the fieldwork questionnaire and other materials as the forthcoming Re-exposure Draft is finalised so that entities can conduct the fieldwork during the comment letter period; and
- d. present a preliminary analysis of the results at the same time as the comment letter analysis and the views received during the outreach activities. The results of the fieldwork, together with the views expressed in the comment letters, would then be taken into consideration when the IASB re-deliberates the proposals in the forthcoming Re-exposure Draft.

No decisions were made.

Next steps

The IASB will continue its discussions on the proposed Insurance Contracts Standard at its December 2012 meeting. The IASB will continue its joint discussions with the FASB on the proposed Insurance Contracts Standard at their January 2013 meeting.

Offsetting Disclosures—Amendments to IFRS 7 (Update)

In December 2011, the boards published converged offsetting requirements (*Disclosures-Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) for the IASB and Update 2011-11 for the FASB). These requirements are effective 1 January 2013.

As a result of feedback received from some of its stakeholders, on 31 October 2012 the FASB tentatively decided to amend the scope of its related disclosure requirements. The purpose of this meeting was to update the IASB on the recent decisions made by the FASB related to the disclosure requirements for offsetting.

This session was for information purposes only. No decisions were made.

Due process documents

In this meeting the IASB staff discussed the due process steps that the IASB has taken to date in preparation for the publication of two forthcoming Exposure Drafts:

- a. *Accounting for the sale or contribution of assets between an investor and its associate or joint venture (Proposed amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures)* ; and
- b. *Acquisition of an Interest in a Joint Operation (Proposed amendment to IFRS 11 Joint Arrangements).*

The IASB staff noted that the applicable due process steps have been completed.



All IASB members agreed that the IASB has complied with the due process requirements to date.










Enhanced Disclosure Task Force Report

In October 2012 the Financial Stability Board (FSB), of which the IASB is a plenary member, announced the publication of the Report of the Enhanced Disclosure Task Force (EDTF). The EDTF was formed at the initiative of the FSB in May 2012 to investigate ways in which to improve the quality of risk disclosures for banks. The Report includes a number of recommendations aimed at enhancing the clarity, comparability and timeliness of information that banks provide to their investors.

At this session Russell Picot, EDTF Co-Chair, and Jerry Edwards, Financial Stability Board, presented a summary of the Report for the information of IASB members.

Work plan—projected targets as at 23 November 2012

Next major project milestone						
Agenda consultation	2012 Q4	2013 Q1	2013 Q2	2013 Q3	MoU	Joint
Three-yearly public consultation	Feedback Statement					
Next major project milestone						
Financial Crisis-related projects	2012 Q4	2013 Q1	2013 Q2	2013 Q3	MoU	Joint
IFRS 9: <i>Financial Instruments</i> (replacement of IAS 39)						
Classification and Measurement (limited amendments)	Target ED					

Impairment		Target ED				
General hedge accounting [Review Draft posted until December 2012]	Target IFRS					
Accounting for macro hedging		Target DP				
Next major project milestone						
Memorandum of Understanding projects	2012 Q4	2013 Q1	2013 Q2	2013 Q3	MoU	Joint
Leases		Target ED				
Revenue Recognition	Redeliberations	Target IFRS				
Next major project milestone						
Other Projects	2012 Q4	2013 Q1	2013 Q2	2013 Q3	MoU	Joint
Insurance Contracts		Target ED				
Bearer biological assets (limited-scope project—IAS 41)		Target ED				
Next major project milestone						
Narrow scope amendments	2012 Q4	2013 Q1	2013 Q2	2013 Q3		
Annual Improvements 2010-2012			Target completion			
Annual Improvements 2011-2013 [comment period ends 18 February 2013]				Target completion		
Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)	Target ED					
Sales or contributions of assets between investor and its associate/ joint venture (Proposed amendments to IFRS 10 and IAS 28)	Target ED					
Equity method of accounting: accounting for other net asset changes (Proposed amendments to IAS 28)[comment period ends 22 March 2013]				Target IFRS		
Acquisition of an interest in a joint operation (Proposed amendments to IFRS 11)	Target ED					
Next major project milestone						
Interpretations	2013 H1		2013 H2			
Levies Charged by Public Authorities on Entities that Operate in a Specific Market	Target Interpretation					

Put Options Written on Non-controlling Interests			Target Interpretation			
Next major project milestone						
IFRS for SMEs	2012 Q4	2013 Q1	2013 Q2	2013 Q3		
Comprehensive Review 2012-2014 [comment period ends 30 November 2012]	See detailed timetable on project page					
Next major project milestone						
Post-implementation reviews	2012 Q4	2013 Q1	2013 Q2	2013 Q3		
IFRS 8 Operating Segments		Consider comments received				
IFRS 3 Business Combinations		Initiate review				
Next major project milestone						
Research projects	2013 H1		2013 H2			
Rate-regulated Activities			Target DP			
Conceptual Framework (chapters addressing elements of financial statements, measurement, reporting entity, and presentation and disclosure)	Target DP					

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