

IASB Update

From the International Accounting Standards Board



September 2012

Welcome to IASB Update

The IASB met in public from 20-28 September 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:

- Leases
- Insurance Contracts
- Revenue Recognition
- Rate-regulated Activities
- Accounting for macro hedges
- IFRS 9: Classification and measurement
- IFRS 9: Impairment
- Bearer biological assets (limited-scope project on IAS 41 Agriculture)
- Annual improvements - IFRS 13 *Fair Value Measurement*: scope of paragraph 52 (portfolio exception)
- Investment Entities
- IFRIC *Update*
- Acquisition of an interest in a joint operation (proposed amendments to IFRS 11)
- Sales or contributions of assets between investor and its associate/joint venture (Proposed amendments to IFRS 10 and IAS 28)
- Conceptual Framework

Contact us

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Tel: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
E-mail: info@ifrs.org
Website: <http://www.ifrs.org/>

Future Board meetings

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

The next Board meetings in 2012 are:

15-19 October
19-23 November
17-21 December

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 IFRS website.

Podcast summaries

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

Leases

The IASB and the FASB discussed issues that have been raised about the boards' tentative decisions regarding sale and leaseback transactions; issues on how a lessee would account for leases under the single lease expense (SLE) approach; and issues about determining which lease approach should be applied.

Sale and leaseback transactions

The boards discussed how the revenue recognition guidance being developed by the boards should be applied within the context of sale and leaseback transactions. The boards tentatively decided to clarify the following:

- a. When determining whether a sale has occurred in a sale and leaseback transaction, an entity should apply the guidance developed in the Revenue Recognition project to the entire transaction.
- b. The existence of the leaseback does not, in isolation, prevent the transaction from being accounted for as a sale and a leaseback.
- c. However, if the leaseback is of such a nature that the seller/lessee has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset, a sale has not occurred. For the purpose of a sale and leaseback transaction, the seller/lessee is assumed to have the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset if:
 - i. the lease term is for the major part of the economic life of the underlying asset; or
 - ii. the present value of the minimum lease payments accounts for substantially all of the fair value of the underlying asset.
- d. If there are multiple lease components in the transaction, the assessment should be performed for each lease component separately.
- e. If an entity concludes that a sale has not occurred in accordance with the revenue recognition guidance, the entire transaction should be accounted for as a financing arrangement. The wording in the revised Leases Exposure Draft will be aligned with the wording in the revenue recognition guidance in this respect.

All IASB members and all FASB members agreed.

SLE Approach—accounting after impairment of the ROU asset

The boards discussed the accounting after an impairment of the right-of-use (ROU) asset under the SLE approach, noting that the current tentative decision is to refer to existing impairment guidance in IFRSs and US GAAP when assessing the ROU asset for impairment.

The boards tentatively decided that when the ROU asset is impaired, the lessee should continue to recognise the remaining lease expense in each period on a straight-line basis. However, the total lease expense recognised in any period should not be lower than the amount of the periodic unwinding of the discount on the lease liability. When the ROU is fully impaired, this would result in the lessee recognising the remaining lease expense in an amount equal to the periodic unwinding of the discount on the lease liability (ie, the remaining lease expense would no longer be recognised on a straight-line basis). The lessee should present lease expense recognised in the remaining periods in accordance with the decisions reached under the SLE approach.

All IASB members and all FASB members agreed, for the case in which the ROU asset is fully impaired. Nine IASB members and four FASB members agreed for the case in which the ROU asset is only partially impaired.

SLE Approach—lease expense recognition pattern

The boards tentatively decided that, under the SLE approach, a lessee should be required to recognise total lease expense on a straight-line basis.

Eleven IASB members and four FASB members agreed.

Lease approach—date of assessment

The boards discussed the timing of the assessment of which lease approach to apply and tentatively decided that an entity should determine the lease approach at lease commencement only.

All IASB members and five FASB members agreed.

Lease approach—which asset to evaluate in a sublease

The boards tentatively decided that, for the purpose of assessing which lease approach to apply, a lessor and a lessee should evaluate the lease with reference to the underlying asset (not the ROU asset) to determine the appropriate accounting approach to apply to the sublease.

Nine IASB members and six FASB members agreed.

Next steps

There are a few remaining FASB-only issues to be addressed, and then the staff will draft the revised *Leases* Exposure Draft. The plan is to publish the Exposure Draft in the first quarter of 2013.

Insurance Contracts

IASB-FASB joint meeting

(This section was omitted from the IASB *Update* as published on 3 October due to an administrative error.)

The IASB and FASB met on 24 September 2012 to continue their joint discussions on insurance contracts. They discussed the accounting for acquisition costs in the pre-coverage period and transition requirements.

Acquisition costs in the pre-coverage period

The boards tentatively decided that acquisition costs incurred before a contract's coverage period begins should be recognised as part of the insurance contracts liability for the portfolio of contracts, if the contract will be recognised once the coverage period begins.

All IASB members and 6 FASB members supported this decision and 1 FASB member opposed it.

Transition requirements

Measurement

The boards tentatively decided that when an insurer first applies the new insurance contracts standard, the insurer shall:

1. At the beginning of the earliest period presented:

- a. Measure the present value of the fulfilment cash flows using current estimates at the date of transition (ie as of the earliest period presented).
- b. Account for the acquisition costs in accordance with the board's existing tentative decisions for acquisition costs and derecognise any existing balances of deferred acquisition costs.

All IASB members and FASB members supported this decision.

2. Determine the single or residual margin at the beginning of the earliest period presented, as follows:

- a. Determine the margin through retrospective application of the new accounting principle to all prior periods, unless it is impracticable to do so.
- b. If it is impracticable to determine the cumulative effect of applying that change in accounting principle retrospectively to all prior periods, the insurer is required to apply the new policy to all contracts issued after the start of the earliest period for which retrospective application is practicable (ie apply retrospectively as far back as is practicable).
- c. For contracts issued in earlier periods for which retrospective application would normally be considered impracticable because it would require significant estimates that are not based solely on objective information, an insurer shall estimate what the margin would have been if the insurer had been able to apply the new standard retrospectively. In such cases, an insurer need not undertake exhaustive efforts to obtain objective information but shall take into account all objective information that is reasonably available.
- d. If it is impracticable to apply the new accounting policies retrospectively for other reasons, an insurer shall apply the general requirements of ASC Topic 250-10/IAS 8 that are relevant to situations in which there are limitations on retrospective application (ie measure the margin by reference to the carrying value before transition).

Eleven IASB members and seven FASB members supported this decision and four IASB members opposed it.

The boards asked the staff to consider developing a constraint, or set of constraints, on the estimated amount of the single or residual margin. In addition, the FASB asked the staff to explore a practical expedient that might allow insurers to determine the margin based on the definition of portfolios during the retrospective period.

Determining the discount rate

The boards tentatively decided that, for those periods for which it would be impracticable to determine the discount rate that would reflect the characteristics of the liability, insurers shall, determine the discount rate as follows:

- a. Calculate the discount rate in accordance with the standard for a minimum of three years and. If possible, determine an observable rate that approximates the calculated rates. If there is not an observable rate that

approximates the calculated rate then determine the spread between the calculated rate and an observable rate.

- b. Use the same observable reference point to determine the rate (plus or minus the spread determined in (a) if applicable) to be applied at the contract inception for contracts that were issued in the retrospective period.
- c. Apply the yield curve corresponding to that rate to the expected cash flows for contracts recognised in the retrospective period to determine the single or residual margin at contract inception.
- d. Use the rate from the reference yield curve reflecting the duration of the liability for recognising interest expense on the liability.
- e. Recognise in other comprehensive income the cumulative effect of the difference between that rate and the discount rate determined at the transition date.

Thirteen IASB members and all FASB members supported this decision and two IASB members opposed it.

Transition disclosures

The boards tentatively decided that insurers shall make the disclosures required by ASC Topic 250-10/IAS 8. In addition, insurers shall make the following, more specific, disclosures:

- a. If full retrospective application is impracticable, the earliest practicable date to which the insurer applied the guidance retrospectively.
- b. The method used to estimate the expected remaining residual or single margin for insurance contracts issued before that earliest practicable date, including the extent to which the insurer has used information that is objective; and separately, the extent to which the insurer has used information that is not objective, in determining the margin.
- c. The method and assumptions used in determining the initial discount rate during the retrospective period.

All IASB members and all FASB members supported the additional disclosures. In addition, the FASB asked the FASB staff to consider whether all the disclosures in ASC Topic 250-10 should be required.

The boards also tentatively decided that an insurer need not disclose previously unpublished information about claims development that occurred earlier than five years before the end of the first financial year in which it first applies the new guidance. Furthermore, if it is impracticable, when an insurer first applies the guidance, to prepare information about the claims development that occurred before the beginning of the earliest period for which the insurer presents full comparable information, it shall disclose that fact. (This decision confirms the proposal in the IASB's ED.) All IASB members and all FASB members supported this decision.

IASB-only sessions

One IASB member was not able to be present for this session. Consequently, only fourteen IASB members voted on each issue.

The IASB met on 26 September 2012 to continue its discussions on Insurance Contracts. During this session the IASB received an update from the FASB's meetings on FASB-only issues held in July and August 2012. The IASB also discussed accretion of interest on the residual margin, disclosure requirements and the next due process steps for the Insurance Contract project.

Residual margin—accretion of interest

The IASB tentatively decided that, consistently with the proposals in the original Exposure Draft (ED):

- a. An insurer should accrete interest on the residual margin. Ten members present agreed with the proposal.
- b. The rate used for the accretion of interest should be the discount rate of the liability determined at initial recognition, ie a locked-in rate. Ten members present agreed with the proposal.

The IASB also tentatively decided that it would not provide additional guidance on estimating the discount rate that related to the accretion of interest on the residual margin. All members present agreed with the proposal.

Disclosures

The IASB tentatively agreed with the disclosure package as set out by the staff in Agenda Paper 16F *Disclosures: Overview* and with the proposed drafting, including requirements that insurers should:

- a. disclose gains or losses arising on contract modifications, commutation or derecognition;
- b. provide reconciliations between the opening and closing carrying amounts of insurance contract liabilities and insurance contract assets, including information about the carrying amounts of onerous contract liabilities recognised in the pre-coverage period; the expected present value of fulfilment cash flows, the risk adjustment and the residual margin; and
- c. disclose amounts payable on demand in a way that highlights the relationship between such amounts and the carrying amount of the related contracts.

The IASB tentatively decided not to add more guidance on the level of disaggregation of the reconciliation of carrying amounts beyond the requirements to (a) consider the level of detail necessary to satisfy the disclosure objective; and (b) to aggregate or disaggregate data so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

The IASB tentatively decided to delete the specific disclosure proposed in paragraph 89 of the ED about contracts for which uncertainty about the amount and timing of claims payments is not typically fully resolved within one year.

All members present agreed with the disclosure package.

The IASB decided that it would not explore further disclosures about the effect of regulation on reported equity in the Insurance Contracts project. Seven members present agreed with this decision.

Review Draft or re-expose

Although the deliberations on the Insurance Contracts project are not yet complete, given the stage of the deliberations and the desire to provide greater certainty to the market, the IASB discussed whether the IASB should proceed to an IFRS as its next step, perhaps with a Review Draft being made publicly available, or publish a revised Exposure Draft. The IASB discussed the progress that has been made on the Insurance Contracts project, and acknowledged the length of time that has been devoted to the project and the importance of issuing a final Standard in a timely fashion. The IASB discussed the substantive nature of the changes made since the ED and the importance of evaluating each change within the context of the overall model. The IASB also considered the importance of obtaining constituents' input on targeted areas and of adjusting the model, if necessary, as a result of that input. On balance, the IASB decided to published a revised Exposure Draft of the proposals on accounting for insurance contracts but to seek feedback only on the following issues:

- a. the requirement that the cash flows used to measure participating contracts should be based on the cash flows

- used to account for the underlying items (mirroring approach);
- b. the requirement to present premiums in the statement of comprehensive income, which has two consequential decisions:
 - i. the part of the premium that relates to investment components is excluded from the premium presented in the statement of comprehensive income; and
 - ii. the premiums are allocated in the statement of comprehensive income on an earned basis (to be discussed at a future meeting);
 - c. the requirement to use the residual margin to offset changes in estimates of future cash flows (unlocking);
 - d. the requirement to present in Other Comprehensive Income changes in the discount rate used to measure the insurance contract liability; and
 - e. the proposed transition requirements, including the tentative decisions made at the September meeting as well as those that will be made at future meetings.

While the IASB noted that the Exposure Draft would include the full text of the proposed Standard, it would also be necessary to clearly inform stakeholders that after re-exposure the IASB does not intend to revisit aspects of the proposed Standard other than those targeted areas set out above.

Twelve members present agreed with the decision to re-expose.

All IASB members present agreed that all mandatory Due Process steps have been taken in developing the Insurance Contracts project.

Next steps

The FASB will continue their discussion on Insurance Contracts in the week beginning 1 October 2012.

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

Revenue Recognition

The IASB and the FASB discussed the following topics as they continued their redeliberations on the revised Exposure Draft, *Revenue from Contracts with Customers* (the 2011 ED):

- a. constraining the cumulative amount of revenue recognised;
- b. collectibility, including accounting for contracts with customers that contain nonrecourse, seller-based financing;
- c. time-value of money; and
- d. contract issues—distribution networks.

Constraining the cumulative amount of revenue recognised

The boards tentatively decided that, in keeping with the proposal in the 2011 ED, an entity should evaluate whether to constrain the cumulative amount of revenue recognised if the amount of consideration to which an entity expects to be entitled is variable. Paragraph 53 of the 2011 ED identified examples of variable consideration. The boards tentatively decided to clarify the meaning of 'variable consideration' to indicate that the constraint should apply to a fixed price contract in which there is uncertainty about whether the entity would be entitled to that consideration after satisfying the related performance obligation.

This tentative decision was supported by all IASB and FASB members.

In addition, the boards discussed the application of the constraint in the revenue proposals and asked the staff to perform further analysis and bring the topic back to a future meeting.

Collectibility

The boards discussed whether:

- a. to affirm their proposed requirement in the 2011 ED that if a contract with a customer does not include a significant financing component, the consideration promised by the customer should not be adjusted for the customer's credit risk and that any impairment loss arising from that contract should be presented as a separate line item adjacent to the revenue line item; or
- b. To consider other approaches for accounting for a customer's credit risk, including:
 - i. modifying the 2011 ED proposals to require that all impairment losses arising from contracts with customers (regardless of whether the contract has a significant financing component) should be presented adjacent to the revenue line item; or
 - ii. introducing a revenue recognition threshold for collectibility.

Following the discussion, the boards requested the staff to further analyse those other approaches for accounting for customer credit risk and to discuss that analysis at a future meeting.

Additionally, the boards tentatively decided:

- a. to present any impairments recognised in the current period or in a subsequent period in a consistent manner; and
- b. to provide additional guidance in the Standard about how to determine whether a contract with a customer exists based on the customer's commitment to perform its obligations under the contract.

All IASB members and FASB members agreed

Time value of money

The boards tentatively decided to approve the proposal in the 2011 ED that an entity should adjust the amount of promised consideration for the effects of the time-value of money if the contract with a customer has a significant financing component.

All members of the IASB and the FASB supported this tentative decision.

The boards also tentatively decided:

- a. to clarify the application of the indicators in paragraph 59 of the 2011 ED for determining whether a contract has a significant financing component (14 IASB members and 5 FASB members supported this tentative decision);
- b. to clarify that, if the transfer of goods or services to a customer is at the discretion of the customer, an entity should not adjust advance payments for the effects of the time value of money (all IASB and FASB members supported this tentative decision);
- c. to retain the proposed practical expedient and clarify that the practical expedient should also apply to contracts with a duration of greater than one year if the period between performance and payment for that performance is

- one year or less (14 IASB members and 6 FASB members supported this tentative decision); and
- d. to clarify that the proposed revenue Standard would not preclude an entity from presenting as revenue interest income that is recognised from contracts with a significant financing component (all IASB and FASB members supported this tentative decision).

Contract issues—distribution networks

The boards discussed the application of the proposals in the 2011 ED to arrangements that arise in distribution networks. In those arrangements, an entity (such as a manufacturer) may transfer control of a product to its customer (who may be an intermediary, such as a dealer or retailer). The manufacturer may also promise other goods or services as sales incentives to encourage the sales of those products that have become part of the intermediary's inventory.

If the promise to transfer those goods or services that are regarded as sales incentives was made in the contract or implied in the circumstances described in paragraph 24 of the 2011 ED, the boards tentatively decided that those promised goods or services should be accounted for as a performance obligation. However, if the promise was made after the transfer of control of the product to the intermediary, the boards tentatively decided that the promise would not be a performance obligation. All IASB members and five FASB members supported these tentative decisions.

Rate-regulated Activities

One IASB member was not able to be present for this session. Consequently, only fourteen IASB members voted on each issue.

The IASB discussed their initial views on developing a plan for a standards level project for Rate regulated Activities. The IASB considered whether the project should include the publication of a Discussion Paper (DP). The IASB also discussed whether an interim IFRS should be developed in the shorter term, including different options for such an interim IFRS if the IASB were to decide to develop one.

Restarting the project

At their meeting in May 2012, the IASB expressed their support for a standards level project on Rate regulated Activities. The previous project (which was suspended in September 2010, awaiting the outcome of the Agenda Consultation) had included the publication of an Exposure Draft (ED). Responses to the ED highlighted a diversity of strongly held views which demonstrated differences of interpretation of the Conceptual Framework. At this meeting, the IASB decided to restart the project with the development of a DP. Developing a DP will provide the opportunity for a broader debate on the circumstances in which rate regulated activities may give rise to assets or liabilities.

Thirteen IASB members agreed, one disagreed, preferring the IASB to develop an Exposure Draft as the next step, and one was absent.

The IASB also discussed whether to develop an interim IFRS and considered some alternatives for what type of interim IFRS might be appropriate, such as:

- a. disclosure only requirements;
- b. an IFRS that 'grandfathers' existing accounting policies, with some modifications, similar to the approach in IFRS 6 *Exploration for and Evaluation of Mineral Resources*;
- c. use of national GAAP (either current GAAP for first time adopters or the one used immediately before transition to IFRSs for recent IFRS adopters); or

- d. use of specified accounting requirements for all entities with rate regulated activities, based on one or more existing national GAAP requirements.

At this meeting, the IASB were not asked to make a decision on whether to develop an interim IFRS.

Next steps

The IASB's initial views on developing an interim IFRS will be taken, in October 2012, to the IFRS Advisory Council, who will be asked for their input. The IASB expect to continue to discuss the Rate regulated Activities project plan later in the year.

Accounting for macro hedges

The IASB discussed whether 'internal derivatives' could play a role in accounting for macro hedging. Internal derivatives are derivatives that are entered into between different business units within a consolidated group. This relates to step 10 of the 11-step overview presented at the November 2011 meeting. The discussion focused on a bank with a business model in which banking book interest rate risk is managed (partly or wholly) through the use of the internal derivatives with the trading book. The debate considered two aspects:

1. whether the existence of internal derivatives is a relevant aspect when deciding the financial assets and liabilities to which a revaluation model for interest risk could be applied; and
2. whether internal derivatives should also have a role in income statement presentation.

The IASB also discussed what accounting implications the concept of risk limits might have for the accounting for macro hedging, which is based on a revaluation model for interest rate risk. The discussion explored whether it is possible to reflect a risk management objective to hedge only a part of a risk position in the accounting model similarly to a distinction between hedge ineffectiveness and unhedged positions. The discussion highlighted the difficulties that would result from introducing the risk limit concept into the accounting model, such as departures from IFRS principles, a lack of comparability among entities and operational difficulties.

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

IFRS 9: Classification and measurement (C&M)

One IASB member was not able to be present for this session. Consequently, only fourteen IASB members voted on each issue.

At this meeting, the IASB discussed:

- a. relief to accelerate the application of the own credit requirements introduced by IFRS 9 (that is, the requirement to present fair value gains or losses attributable to changes in the issuer's own credit risk in the statement of Other Comprehensive Income for financial liabilities measured under the fair value option);
- b. additional transition issues for the limited amendments to IFRS 9 (including a related issue for impairment); and
- c. due process considerations for issuing an Exposure Draft proposing limited amendments to IFRS 9.

Presentation of 'own credit' gains and losses on financial liabilities

The IASB tentatively decided to propose an amendment to IFRS 9 that would allow an entity to early apply only the requirements for the presentation of fair value gains or losses attributable to changes in the issuer's own credit risk, without the need to early apply IFRS 9 in its entirety. Twelve IASB members agreed.

Additional transition issues

Prior-period disclosures for classification and measurement (C&M)

The IASB tentatively decided to confirm that in the period in which IFRS 9 is initially applied, disclosure of the line item amounts that would have been reported in prior periods in accordance with the C&M model in IFRS 9 should not be required. Twelve IASB members agreed.<

Current-period disclosures for C&M

The IASB tentatively decided that in the period in which IFRS 9 is initially applied, disclosure of the current-period line item amounts that would have been reported in accordance with the C&M model in IAS 39 should not be required. Fourteen IASB members agreed.

Current-period disclosures for impairment

- a. Notwithstanding its tentative decision in July 2012, the IASB tentatively decided that in the period in which IFRS 9 is initially applied, disclosure of the current-period line item amounts that would have been reported in accordance with the impairment model in IAS 39 should not be required.
- b. On the date of initial application of IFRS 9, the IASB tentatively decided to require a disclosure that would permit reconciliation of the ending impairment allowances under IAS 39 to the opening impairment allowances under IFRS 9 by measurement category, showing separately the effect of reclassifications on the allowance balance at that date.

Thirteen IASB members agreed.

Phased early application of IFRS 9

The IASB tentatively decided that once IFRS 9 is finalised, earlier versions of IFRS 9 should be withdrawn on a date 6 months after the publication of the final version of IFRS 9. Fourteen IASB members agreed.

Due Process

The IASB discussed whether the IASB has complied with all the required steps in the Due Process Handbook, and has performed sufficient optional due process steps in developing the proposed limited amendments to IFRS 9, to be able to proceed to issuing an Exposure Draft.

All IASB members present agreed that the staff should begin the balloting process for the Exposure Draft, and that the Exposure Draft should have a comment period of 120 days.

One IASB member stated an intention to dissent from the Exposure Draft, and two others stated that they are considering dissenting to the proposal.

IFRS 9: Impairment

The IASB staff advised the IASB that as part of their outreach they have received feedback related to the operational aspects of the proposed Impairment model. The staff plan to provide the IASB with detailed feedback from that outreach in the October 2012 IASB meeting.

Bearer biological assets (limited-scope project on IAS 41 *Agriculture*)

At the May 2012 meeting, the IASB decided to give priority to developing a proposal to amend IAS 41 for bearer biological assets. This was in response to comments received on the IASB's Agenda Consultation. Most respondents who mentioned agriculture, especially those in the plantation industry, asked the IASB to undertake a limited-scope project to address concerns they have in relation to bearer biological assets.

Consequently, at the September 2012 meeting, the IASB staff presented a proposal recommending that the IASB should add a limited-scope project on bearer biological assets to its agenda. All IASB members supported undertaking such a project. The proposal, and the IASB's tentative decision, will be discussed at the next meeting of the IFRS Advisory Council.

The IASB was also provided with a staff analysis of the main issues that will need to be addressed by the project, including the preference expressed by respondents to the Agenda Consultation that mature bearer biological assets should be accounted for in accordance with the requirements in IAS 16 *Property, Plant and Equipment* rather than IAS 41. The IASB noted the analysis but did not make any decisions.

Next steps

The IASB will start discussing the issues listed in the proposal in forthcoming meetings. The proposal will also be presented in October 2012 to the IFRS Advisory Council.

Annual improvements — IFRS 13 *Fair Value Measurement*: Scope of paragraph 52 (portfolio exception)

The IASB discussed a proposed amendment to be included in the Annual Improvements Exposure Draft, which is due to be published in November 2012. The amendment aims to clarify the scope of the portfolio exception as set out in paragraph 52 of IFRS 13 *Fair Value Measurement*. Paragraph 52 states that the portfolio exception applies to financial assets and financial liabilities that are "within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*".

The IASB was informed that some who are applying IFRS 13 are interpreting this paragraph to mean that the portfolio exception does not apply to contracts that do not meet the definitions of financial assets or financial liabilities according to IAS 32 *Financial Instruments: Presentation* (even if the contracts are within the scope of IAS 39 or IFRS 9).

To address this issue, the IASB tentatively agreed to amend paragraph 52 to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32. This amendment will be exposed within the 2011-2013 Annual Improvements cycle.

All IASB members agreed with the decision.

Investment Entities

In this meeting the IASB discussed sweep issues that were identified after distribution of the *Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)* pre-ballot draft.

The IASB tentatively decided:

- a. To replace the requirement for an investment entity to have exit strategies for substantially all of its investments with a requirement that an investment entity should not hold any of its investments indefinitely.

Eleven IASB members agreed and four IASB members disagreed.

- b. That the requirement that an investment entity should manage substantially all of its investments on a fair value basis should be changed to require an investment entity to measure substantially all of its investments at fair value.

Thirteen IASB members agreed and two IASB members disagreed.

- c. That the proposed requirement in IAS 28 *Investments in Associates and Joint Ventures* that an investment entity should measure its investment in associates and joint ventures at fair value through profit or loss should be removed and that the current option in IAS 28 should be retained.

Thirteen IASB members agreed .and two IASB members disagreed.

- d. That the Basis for Conclusions should clarify that an investment entity can measure investments at fair value through Other Comprehensive Income and still meet the 'fair value measurement' component of the investment entity definition.

Thirteen IASB members agreed .and two IASB members disagreed.

- e. That an entity should not be disqualified from investment entity status only because it provides substantive investment-related services to third parties.

All IASB members agreed.

IFRIC Update

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

Acquisition of an interest in a joint operation (proposed amendments to IFRS 11)

(Editorial changes were made to this section on 4 October 2012.)

The IASB discussed a recommendation from the IFRS Interpretations Committee (the Interpretations Committee) to provide guidance on the application of IFRS 3 *Business Combinations* by joint operators when those joint operators are acquiring interests in joint operations (as defined in IFRS 11 *Joint Arrangements*).

This relates to circumstances in which the activity of the joint operation would constitute a business, as defined in IFRS 3. The issue to be addressed was one that also affected the acquisition by venturers of interests in jointly controlled operations or assets as specified in IAS 31 *Interests in Joint Ventures*. However, new guidance will not be added to IAS 31 because it would have an effective date after 1 January 2013, when IFRS 11 supersedes IAS 31.

At this meeting the IASB tentatively agreed with the recommendation from the Interpretations Committee to add new guidance in IFRS 11 for such transactions in order to reduce the significant diversity in practice. Such guidance should:

- a. make general reference to the relevant principles of business combination accounting and related disclosure requirements in IFRS 3 and other Standards;
- b. include minimal application guidance on the following issues on which the Interpretations Committee noted diversity in practice; ie:
 - i. measuring identifiable assets and liabilities at fair value with exceptions;
 - ii. recognising acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity instruments are recognised in accordance with IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments*;
 - iii. recognising deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets and liabilities except for deferred tax liabilities that arise from the initial recognition of goodwill; and
 - iv. recognising the residual as goodwill;
- c. address the accounting for the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business; and
- d. be applied prospectively to acquisitions of interests in a joint operations that constitute businesses on or after the effective date.

The IASB tentatively agreed that the comment period for the exposure draft should not be less than 120 days.

All IASB members agreed with these recommendations.

Sales or contributions of assets between investor and its associate/joint venture (proposed amendments to IFRS 10 and IAS 28)

The IASB continued discussions from its May 2012 meeting on the accounting for the sale or contribution of assets between an investor and its associate or joint venture.

The issue relates to an inconsistency between the requirements in IAS 27 *Consolidated and Separate Financial Statements* (2008) and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* in accounting for the loss of control of a subsidiary when it is contributed to a Jointly Controlled Entity (JCE)/Joint Venture (JV) or an associate. IAS 27 requires full profit or loss recognition on the loss of control of the subsidiary, while SIC-13 restricts gains and losses arising from contributions of non-monetary assets to a JCE to the amount of interest attributable to the other equity holders in the JCE.

At the September 2012 meeting, the IASB agreed to a recommendation from the IFRS Interpretations Committee to propose amendments to IAS 28 and IFRS 10 to address this inconsistency. The consequence of these proposed amendments is that a full gain or loss would be recognised on the loss of control of a subsidiary that constitutes a business, including cases in which the investor retains joint control of, or significant influence over, the investee. The IASB also decided that the proposed amendments should be applied prospectively to contributions or sales occurring in annual periods beginning on or after the date that the proposed amendments would become effective.

The IASB noted that IAS 27 and SIC-13 do not need to be amended because they will be superseded by the time the proposed amendments would become effective. The IASB therefore decided to publish an Exposure Draft with a 120-day comment period. The Exposure-Draft is expected to be published in December 2012.

All IASB members agreed with the recommendations.

Conceptual Framework

The IASB discussed how to restart the project on the Conceptual Framework and agreed unanimously with the following approach:













- a. The project should focus on elements of financial statements (including recognition and derecognition), measurement, reporting entity, presentation and disclosure.
- b. The aim should be to work towards a single Discussion Paper covering all of these areas and then a single Exposure Draft, rather than separate documents for each area.
- c. The IASB will conduct this project as an IASB project, not as a joint project with any other standard-setter.
- d. The IASB should have a consultative group for this project. National standard-setters, or regional organisations of standard-setters, should constitute a significant proportion of the membership of the group.
- e. The IASB should complete the project by September 2015.

Next steps

The staff will begin to develop material for a Discussion Paper. The IASB plans to begin discussing that material in early 2013 and to publish the Discussion Paper in the first half of 2013.

Work plan

Next major project milestone						
Agenda consultation	2012 Q3	2012 Q4	2013 Q1	2013 Q2	MoU	Joint

Three-yearly public consultation		Feedback Statement	Development of strategy		
Next major project milestone					
Financial Crisis-related projects	2012 Q3	2012 Q4	2013 Q1	2013 Q2	MoU Joint
IFRS 9: Financial Instruments (replacement of IAS 39)					
Classification and Measurement (limited amendments)		Target ED			 
Impairment		Target ED			 
General hedge accounting [Review Draft posted until December 2012]	Review Draft	Target IFRS			
Accounting for macro hedges			Target DP		
Next major project milestone					
Memorandum of Understanding projects	2012 Q3	2012 Q4	2013 Q1	2013 Q2	MoU Joint
Leases			Target ED		 
Revenue Recognition	Redeliberations		Target IFRS		 
Next major project milestone					
Other Projects	2012 Q3	2012 Q4	2013 Q1	2013 Q2	MoU Joint
Insurance Contracts			Target ED		
Consolidation– Investment entities		Target IFRS ²			
Narrow scope amendments	2012 Q3	2012 Q4	2013 Q1	2013 Q2	MoU Joint
Annual Improvements 2010-2012				Target completion	
Annual Improvements 2011-2013		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)		Target ED			
Acquisition of an interest in a joint operation (Proposed amendments to IFRS 11)		Target ED			
IAS 8—Effective date and transition methods		Target ED ¹			

¹At the October 2012 IASB meeting the staff will recommend that publication of an ED should be suspended pending the broader discussion of disclosure as part of the Conceptual Framework project.

²Amendment to IFRS 10 *Consolidated Financial Statements*

Next major project milestone						
Interpretations	2012 Q3	2012 Q4	2013 H1	2013 H2	MoU	Joint
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 Q3	2012 Q4	2013 Q1	2013 Q2	MoU	Joint
Comprehensive Review 2012-2014 [comment period ends 30 November 2012]	See detailed timetable on project page					
Next major project milestone						
Post-implementation reviews	2012 Q3	2012 Q4	2013 Q1	2013 Q2	MoU	Joint
IFRS 8 <i>Operating Segments</i> [comment period ends 16 November 2012]	Request for Information		Consider comments received			
IFRS 3 <i>Business Combinations</i>			Initiate review			
Next major project milestone						
Research Projects	2012 Q3	2012 Q4	2013 H1	2013 H2		
Rate-regulated Activities				Target DP		
Bearer biological assets (limited-scope project—IAS 41)			Target ED			
Conceptual Framework			Target DP			

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