



# IASB Update

From the International Accounting Standards Board

This IASB *Update* is a staff summary of the tentative decisions reached by the Board at a public meeting. As a project progresses, the Board can, and sometimes does, modify its earlier tentative decisions. Tentative decisions do not change existing requirements until those decisions are incorporated in a new or amended standard.

The International Accounting Standards Board met in London on 14 - 18 September 2009, when it discussed:

- [Financial crisis](#)
  - [Derecognition](#)
  - [Financial instruments: replacement of IAS 39](#)
  - [Classification of rights issues](#)
- [Conceptual framework](#)
- [Financial instruments with characteristics of equity](#)
- [Financial statement presentation](#)
- [Insurance contracts](#)
- [Leases](#)
- [Liabilities: Amendments to IAS 37](#)
- [Post-employment benefits](#)
- [Related party disclosures](#)
- [Revenue recognition](#)

## Other information

- [Future Board meetings](#)
- [Past issues of IASB Update](#)
- [Forthcoming comment deadlines](#)

## Financial crisis

### Derecognition

In March 2009, the Board published an exposure draft ('Derecognition ED') to replace the derecognition requirements of IAS 39 *Financial Instruments: Recognition and Measurement* and to improve the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* relating to the transfer of financial assets and liabilities. The comment deadline for the Derecognition ED ended on 31 July 2009. The Board has received 118 comment letters from a wide range of respondents (both by type, region and industry). The Board held public round tables to discuss the proposals in the Derecognition ED in June 2009 in Toronto, Tokyo and London. In addition to the round tables, the IASB staff also undertook an extensive outreach programme with users, preparers, auditors, trade associations, regulators and others.

At this meeting the Board discussed the feedback received from respondents to the Derecognition ED as well as from the extensive outreach program undertaken by the staff.

The Board did not make any decisions, but they will be discussing possible ways forward at the IASB meeting in October 2009.

[Go to the project page on the IASB website](#)

[Go to the top of this page](#)

### Financial instruments: Replacement of IAS 39

The Board is addressing the replacement of IAS 39 *Financial Instruments: Recognition and Measurement* in three main phases:

- Phase 1 - Classification and Measurement;
- Phase 2 - Impairment (methodology); and
- Phase 3 - Hedge Accounting.

[Go to the project page on the IASB website](#)

#### *Phase 1 - Classification and Measurement*

In July 2009 the IASB published an exposure draft (ED) *Financial Instruments: Classification and Measurement*. At this meeting the Board considered an overview of comments received on the ED, at the public round table meetings held in Tokyo, London and Norwalk (USA), and at the recent meeting of the IASB's Financial Instruments Working Group. The Board also considered feedback received from the extensive outreach programme that has been in place during the past few months. No decisions were made.

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## About IASB Update

We are interested to know your views on IASB *Update* and encourage you to give us your feedback via our online feedback form by [clicking here](#) and selecting 'IASB Update' from the drop down box named 'Topic'.

[Go to this section of the project page on the IASB website](#)

#### Phase 2 - Impairment (methodology)

In June 2009 the IASB posted on its website a *Request for Information on the feasibility of an expected cash flow approach*. At this meeting the Board considered feedback received on the Request for Information, with the aim of developing an ED for publication in October. The Board tentatively decided:

- to set up an expert advisory panel to provide input to the Board on operational aspects of applying the expected cash flow approach;
- to use a drafting design that articulates a clear objective and emphasises principles reinforced by concise application guidance;
- to include in the scope of the ED trade receivables, instruments quoted in active markets and individually significant assets;
- to prohibit the recognition of a loss on initial recognition of a loan (or similar financial asset) that bears interest sufficient to cover the credit losses expected at initial recognition; and
- to seek the expert advisory panel's input on possible ways to simplify application of the effective interest method.

[Go to this section of the project page on the IASB website](#)

#### Phase 3 - Hedge Accounting

The Board tentatively decided:

- to simplify today's hedge accounting requirements by replacing fair value hedge accounting with an approach that is similar to cash flow hedge accounting.
- to further simplify the existing cash flow hedge accounting model to reduce complexity.
- to address general hedge accounting first before considering the implications on portfolio hedge accounting; and
- to consider separately any implications on hedge accounting for net investments in a foreign operation because there are also interactions with IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

The Board will continue to discuss the project at an extra meeting on 22 September 2009.

[Go to this section of the project page on the IASB website](#)

#### Credit risk in liability measurement

The Board considered a preliminary summary of the responses to the discussion paper *Credit Risk in Liability Measurement*. The Board made no decision at this meeting and will consider a full summary of the responses in time for the analysis to be considered as part of *Financial Instruments: replacement of IAS 39*.

[Go to the project page on the IASB website](#)

#### Classification of rights issues

The Board discussed responses to the proposed amendment to IAS 32 *Financial Instruments: Presentation* included in the exposure draft *Classification of Rights Issues*. The exposure draft addressed the classification of instruments that give the holders the right to acquire an entity's own equity instruments at a fixed price when that price is stated in a currency other than the entity's functional currency.

The Board decided tentatively that the scope of the amendment shall be restricted to include only instruments that are offered *pro rata* to all holders of a class of an entity's existing non-derivative equity instruments. The amendment will apply to rights the exercise of which will result in the entity receiving a fixed amount of cash for a fixed number of the entity's own equity instruments *regardless of the currency in which the exercise price is denominated*.

The Board decided tentatively that the amendments should apply retrospectively with an effective date of 1 February 2010 with early application permitted. The Board plans to publish the amendments in October 2009.

[Go to the project page on the IASB website](#)

[Go to the top of this page](#)

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## Conceptual framework

Conceptual framework: objectives and qualitative characteristics

The Board discussed comments and questions raised in their review of the initial drafts of chapters 1 and 3 of the conceptual framework - *Objectives of financial reporting* and *Qualitative characteristics of, and constraints on, useful financial information*. During the course of that discussion, the Board provided some suggestions as to how some of its tentative decisions made in prior meetings could be expressed more clearly but did not change any of its previous tentative decisions.

Conceptual framework: reporting entity

The Board discussed comments and questions raised in their review of the initial draft of the exposure draft on the *Reporting Entity* chapter of the conceptual framework. During the course of that discussion, the Board provided some suggestions as to how some of its tentative decisions made in prior meetings could be expressed more clearly but did not change any of its previous tentative decisions.

[Go to the project page on the IASB website](#)

[Go to the top of this page](#)

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## Financial instruments with characteristics of equity

The Board reviewed and discussed its decisions to date. The Board decided to modify its proposed classification approach to allow some instruments that are settled with the issuer's own shares to be classified as equity.

[Go to the project page on the IASB website](#)

[Go to the top of this page](#)

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## Financial statement presentation

The discussion paper *Preliminary Views on Financial Statement Presentation* proposes that an entity should present information about the way it creates value (its business activities) separately from information about the way it funds those business activities (its financing activities). The discussion paper proposes that an entity should:

- further separate information about its business activities by presenting information about its operating activities separately from information about its investing activities.
- further separate information about its financing activities so that non-owner sources of finance (and related charges) should be presented separately from owner sources of finance (and related charges).
- present information about its discontinued operations separately from its continuing business and financing activities.

The Board tentatively decided:

- to retain the requirement to distinguish between business activities (value creating activities) and financing activities (funding of that value creation) in each of the financial statements.
- to define the financing section as financial liabilities used as part of an entity's capital raising activities that have an agreed-upon schedule of repayments with an interest component (and that interest component is either explicit or implicit). Items directly related to those financial liabilities, such as fees, would also be classified in the financing section. A derivative held as part of an entity's non-equity sources of funding, regardless of whether it is an asset or a liability at the reporting date, would also be presented in this section.
- to retain an approach to classification within the business section that is based on how a reporting entity organises its activities and how it uses its assets and liabilities. Consequently, additional groupings of information within the business section (ie categories) would reflect the facts and circumstances of that entity and would be left to the discretion of management. Application guidance would be developed to help management determine meaningful groupings of information within an entity's business section. The Board may revisit the decision not to require specific categories in the business section once it has reviewed the application guidance.
- to retain the requirement to present information about discontinued operations in a separate section in each of its primary financial statements (except the statement of changes in equity). However, the Board decided not to prescribe how information about discontinued operations should be disaggregated, nor whether that disaggregation should appear on the face of financial statements or be disclosed in the notes.

The Board also considered whether an entity should present information about net debt in its financial statements. The discussion paper did not address presentation of net debt information. Respondents to the discussion paper note that information that would be useful in assessing an entity's liquidity, solvency and financial flexibility is missing from the presentation model proposed in the discussion paper. Moreover, some respondents are concerned that the financial statements do not necessarily include all the information that users need to either reconcile net debt or to analyse the components of net debt.

The Board tentatively decided:

- to require information about net debt to be presented in the financial statements; and
- to define net debt to be the financial liabilities that an entity classifies in the financing section together with the resources available to service those financial liabilities.

The Board also considered different ways to present net debt information in the financial statements. The presentation of net debt information will be reconsidered at the October joint meeting with the FASB as part of the discussion on the Statement of Cash Flows.

### Field tests and FASRI study

As part of an education session, the Board discussed the findings of two research projects designed to test the proposals in the October 2008 discussion paper *Preliminary Views on Financial Statement Presentation*.

- FASRI experiment. FASB's Financial Accounting Standards Research Initiative (FASRI) conducted an experiment designed to examine how changes proposed in the discussion paper affect user judgments and decisions. The FASRI experimental study and the findings from that study are described in agenda paper 9A.
- Analyst portion of the field test. The staff completed the field test on the proposals in the

discussion paper. Agenda paper 9B summarises the results of the analyst portion of the field test. No decisions were made as a result of this meeting.

[Go to the project page on the IASB website](#)

[Go to the top of this page](#)

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## Insurance contracts

The Board discussed the two remaining candidate measurement approaches for insurance contracts:

- the approach being developed in the project to amend IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, modified by the inclusion of a residual margin that excludes day one gains.
- a current fulfilment value that includes a composite margin.

The Board decided tentatively:

- to select the approach being developed in the project to amend IAS 37, modified to exclude day one gains. Nevertheless, a significant minority of Board members supported the approach based on current fulfilment value. Therefore, the exposure draft will explain both approaches.
- that the driver selected for releasing the residual margins should result in recognising those margins in income in a systematic way that best depicts the insurer's performance under the contract.
- that the residual margin should be released over the period during which the insurer is standing ready to accept valid claims (the coverage period). The staff will consider further what drivers should be used for the release of that margin.
- that the insurer should not adjust the residual margin in subsequent reporting periods for changes in estimates.

The Board furthermore discussed discount rates for insurance liabilities. The Board decided tentatively that:

- the discount rate for an insurance liability should conceptually adjust estimated future cash flows for the time value of money in a way that captures the characteristics of that liability rather than using a discount rate based on expected returns on actual assets backing those liabilities.
- the standard should not give detailed guidance on how to determine the discount rate.

The Board also decided tentatively not to address policyholder accounting in the exposure draft, but clarified that the exposure draft should address how both parties - the cedant and the reinsurer - should account for reinsurance contracts.

The Board will continue its discussion of this project in October.

[Go to the project page on the IASB website](#)

[Go to the top of this page](#)

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## Leases

At this meeting, the Board discussed:

- a summary of the responses to the discussion paper *Leases Preliminary Views*
- plans for the Leases project over the next few months.

The Board will continue its discussion of both lessor and lessee accounting issues at future meetings.

[Go to the project page on the IASB website](#)

[Go to the top of this page](#)

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## Liabilities: Amendments to IAS 37

The Board discussed:

- proposed amendments to the measurement guidance in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*;
- proposed amendments to IFRS 3 *Business Combinations* and IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* required by proposed amendments to IAS 37; and
- whether the standard that replaces IAS 37 should be a revised IAS 37 or an IFRS.

Measurement guidance

The Board discussed proposed guidance on measuring obligations—such as asset retirement obligations—that an entity fulfils by carrying out a service at a future date.

The Board decided tentatively that the future outflow used to estimate the obligation should be the amount the entity would rationally pay a contractor at the future date to carry out the service on its behalf:

- if a market exists for such services, the amount is the price that a contractor would charge; and
- if no market exists, the entity must estimate that amount.

The Board directed the staff to develop guidance explaining how, in the absence of a market, an entity would use a 'building block' approach to estimate the amount it would rationally pay a contractor to carry out the service.

Consequential amendments to IFRS 3

The Board discussed amendments to IFRS 3 requirements for contingent liabilities.

Regarding *recognition*, the Board decided tentatively:

- to preserve the existing recognition requirements for contingent liabilities by replacing paragraphs 22 and 23 of IFRS 3 with a requirement for entities to recognise a liability within the scope of IAS 37 if its fair value can be measured reliably; and
- to clarify that, except in extremely rare cases, an entity will be able to determine a reliable measure of the fair value of such liabilities.

Regarding *subsequent measurement*, the Board decided tentatively to delete the special requirements in IFRS 3 for contingent liabilities. Without these special requirements, all liabilities within the scope of IAS 37 and assumed in a business combination would be measured after the acquisition in accordance with IAS 37.

Regarding *disclosures* the Board decided tentatively:

- to preserve the substance of the disclosure requirements for contingent liabilities assumed in business combinations in the period (ie those in paragraph B64(j) of IFRS 3);
- to do so by continuing to cross-refer to the disclosure requirements in IAS 37; and
- to apply the requirements to all liabilities and 'possible obligations' within the scope of the revised IAS 37.
- to delete the existing requirement in paragraph B67(c) of IFRS 3 for entities to disclose additional information about recognised contingent liabilities. The requirement will no longer be needed when IAS 37 has been amended.

Consequential amendments to IFRIC 5

Paragraph 9 of IFRIC 5 contains a requirement for contributors to measure rights to reimbursement from decommissioning funds at the lower of:

- the amount of the decommissioning obligation recognised; and
- the contributor's share of the fair value of the net assets of the fund attributable to contributors.

The Board decided tentatively to delete that requirement. Instead, if a contributor does not have control, joint control or significant influence over a decommissioning fund, it should recognise and measure a right to receive reimbursement for recognised liabilities in accordance with IAS 37.

The Board also decided tentatively to amend the requirements for obligations to make additional contributions to a decommissioning fund by:

- allowing for the possibility that some of these obligations are financial liabilities within the scope of IAS 32 and IAS 39 rather than IAS 37; and
- deleting the 'probability recognition' criterion, ie the criterion that requires an entity to recognise an obligation only if it is probable that the entity will make additional contributions.

Format of new standard

The Board decided tentatively to replace IAS 37 with an IFRS, rather than with an amended IAS 37.

Next steps

The Board will next consider whether, and in what way, it should re-expose the revised proposals for comment.

[Go to the project page on the IASB website](#)

[Go to the top of this page](#)

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## Post-employment benefits

The Board discussed the publication timetable for an exposure draft of amendments to IAS 19 relating to recognition, presentation, disclosures and other issues ('the ED').

The Board decided tentatively that:

- after the October joint meeting the staff should consider whether the Board's conclusions on the presentation of other comprehensive income have any implications for the presentation of the remeasurement component of the post employment benefit obligation;
- any discussion of such implications would take place at the November meeting.

[Go to the project page on the IASB website](#)

[Go to the top of this page](#)

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## Related party disclosures

The Board discussed the transitional requirements for its proposed amendments to IAS 24 *Related Party Disclosures* and decided tentatively that:

the amendments to the definition of a related party should apply retrospectively with an effective date of 1 January 2011 with early application permitted;

- the proposed partial exemption for government-controlled entities should apply retrospectively with an effective date of 1 January 2011 with early application permitted; and
- an entity should be permitted to apply the partial exemption for government-controlled entities before the effective date even if it chooses not to apply the new definition of a related party until a later date.

The Board plans to publish a revised standard in November 2009.

[Go to the project page on the IASB website](#)

[Go to the top of this page](#)

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## Revenue Recognition

The Board discussed:

- the definition of control for determining when goods and services are transferred to a customer; and
- options to acquire additional goods and services.

Control

In the Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers* the Board proposed that an entity should recognise revenue when it satisfies its performance obligations to a customer by transferring goods and services to the customer. An entity has transferred a good or a service when the customer obtains control of it.

At this meeting, the Board:

- Considered the following working definition of control: 'control of a good or a service is an entity's present ability to direct the use of and receive the benefit from that good or service'.
- Decided tentatively that an entity should assess the transfer of control from the perspective of the customer.
- Considered the following indicators that the customer has obtained control of the promised asset and examples applying those indicators:
  - a. The customer has an unconditional obligation to pay for the asset (and the payment is non-refundable).
  - b. The customer has legal title to the asset.
  - c. The customer can sell the asset to (or exchange the asset with) another party.
  - d. The customer has physical possession of the asset.
  - e. The customer has the practical ability to take possession of the asset.
  - f. The customer specifies the design or function of the asset.
  - g. The customer has continuing managerial involvement with the asset.
  - h. The customer can secure or settle debt with the asset.

The staff will continue to refine the definition of control and the indicators for discussion at future meetings. For example, one of the concerns expressed by the Board was how the control definition would be applied to an asset under construction.

Options to acquire additional goods and services

The Board considered how an entity would determine whether options to acquire additional goods and services are part of a present contract with a customer, and, if so, how the entity would account for them.

The Board decided tentatively as follows:

- An entity should account for an option to acquire additional goods and services granted in a contract with a customer as a performance obligation in that contract if that option provides a material right to the customer that the customer would not receive without entering into that contract. An example would be a material discount on additional goods and services that the customer would not otherwise receive. An entity should account for that performance obligation by allocating to it a portion of the transaction price relative to the standalone selling price of the option.
- In some cases, an entity may estimate the standalone selling price of the option by reference to:
  - a. the discount the customer would obtain when exercising the option, adjusted for:
  - b. the discount that the customer could receive without exercising the option; and
  - c. the likelihood that the option would be exercised.

The staff proposed that an entity should apply this approach when the standalone selling price of the option is not directly observable. However, the Board directed the staff to consider this further, noting that there may be circumstances in which the time value component of an option should not be ignored.

- If a customer has an option to acquire additional goods and services, and those goods and services are:
  - a. similar in nature to the other goods and services in the contract; and
  - b. provided in accordance with terms and conditions (including pricing) in the contract the allocation of the transaction price should reflect the optional goods and services (and corresponding customer consideration), on an expected (ie probability-weighted) basis.

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[Go to the project page on the IASB website](#)

[Go to the top of this page](#)

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## Future Board meetings

The Board will meet in public session on the following dates in 2009. Meetings take place in London, UK, unless otherwise noted.

22 September

29 September

19-23 October

26-27 October (*IASB and FASB joint meeting, Norwalk USA*)

16-20 November

14-18 December

[Go to the meetings section of the IASB website](#)

[Go to the top of this page](#)

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[Go to the top of this page](#)

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## Forthcoming comment deadlines

The list below includes all forthcoming deadlines up to the October 2009 Board meeting. For a full list of comment deadlines, visit the [Open to Comment](#) section of the IASB website.

28 September 2009 - exposure draft [Fair Value Measurement](#)

30 September 2009 - exposure draft [Discount Rate for Employee Benefits \(proposed amendments to IAS 19\)](#)

5 October 2009 - draft interpretation [IFRIC D25 Extinguishing Financial Liabilities with Equity Instruments](#)

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[Go to the top of this page](#)

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