

IASB Update

From the International Accounting Standards Board



2 and 10 February 2010

Welcome to IASB Update

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 2 February 2010 for an additional Board meeting. The US Financial Accounting Standards Board (FASB) participated via video conference. The boards discussed:

- Presentation of other comprehensive income
- Financial instruments with characteristics of equity
- Financial instruments: hedge accounting
- Leases

The IASB also met in London on 10 February 2010 for an additional Board meeting. The US FASB participated via video conference for the Insurance contracts and Financial instruments: classification and measurement sessions.

- Annual improvements (IASB only meeting)
- Financial instruments: classification and measurement
- Insurance contracts

Presentation of other comprehensive income

The boards discussed the following issues:

1. Presentation of the sections of the statement of comprehensive income
2. The timeline for the issuance of an exposure draft.

Presenting the sections of the statement of comprehensive income

The boards tentatively decided that:

- An entity must present a continuous statement showing clearly and separately either profit or loss or net income and other comprehensive income. An entity reporting comprehensive income is permitted to use different titles for these sections on condition that the meaning is clear.
- The components of each section of the statement must be reported consistently. The boards affirmed the existing requirements that provide the option to display components of other comprehensive income net of related income tax expense or before related income tax effects with one amount shown for the aggregate income tax effects on the face of the continuous statement of comprehensive income either:

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Future board meetings

The IASB meets at least once a month for up to five days.
The next Board meetings in 2010 are:

15 - 19 February
15 - 19 March

To see all Board meetings for 2010, [click here](#).

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Podcast summaries

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- net of related income tax expense; or
- before related income tax effects, with one amount shown for the aggregate income tax effects on the face of the continuous statement of comprehensive income.

The boards also affirmed that the income tax effect related to each component of other comprehensive income, including reclassification adjustments, may be displayed on the face of the statement together with the component to which they relate. Alternatively, the income tax effect of each component of other comprehensive income may be displayed in the notes to the financial statements.

The boards also affirmed their decision not to change the requirements as to which items must be presented in other comprehensive income. Those requirements are in other standards, which the boards are not amending.

The FASB affirmed that reclassifications between other comprehensive income and net income should be displayed in the same level of detail as when the items were originally reported. The IASB affirmed that the components of other comprehensive income that are not reclassified upon derecognition should be presented together and that the components of other comprehensive income that are reclassified upon derecognition should be presented together.

Timeline for issuing an exposure draft

The boards directed the staff to draft an exposure draft for vote by written ballot.

The boards tentatively decided that the exposure draft should be issued simultaneously with the FASB's proposed Update on financial instruments and the IASB's exposure draft on post-employment benefits.

Presentation of Other Comprehensive Income project webpage

A new Presentation of Other Comprehensive Income project page on the website is being finalised and will be available shortly.

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

Financial instruments with characteristics of equity

This was not discussed at this meeting because of lack of time.

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

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

Financial instruments: hedge accounting

The boards discussed possible objectives for hedge accounting and whether hedging risk components (bifurcation-by-risk) should be permitted. No decision was made on the objective.

The IASB tentatively decided to permit bifurcation-by-risk for financial items and indicated a leaning toward permitting bifurcation-by-risk for non-financial items. Furthermore, the IASB requested that the staff explore for consideration at a future meeting a possible approach that the hedged item must be both separately identifiable and measurable for the purpose of determining hedge effectiveness.

The FASB decided to explore bifurcation-by-risk for financial items and requested the staff to develop possible approaches for consideration at a future meeting.

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

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

Leases

At this meeting, the boards tentatively decided that:

- The definition of a lease should not be limited to property, plant and equipment. However, the proposed new leases requirements do not apply to assets other than property, plant and equipment.

- A lease is defined as a type of contract.
- A lease must convey the right to use an asset.
- The right to use an asset is conveyed if:
 - a. the contract conveys the right to use a specified asset. The proposed new leases requirements will provide additional guidance about what constitutes a specified asset; and
 - b. the contract conveys the right to control the use of the underlying asset. The current leases guidance regarding when a lease conveys the right to control the use of the underlying asset would be included in the proposed new leases requirements. However, the current guidance would be rewritten to help clarify its meaning.
- A lease is for a period of time.
- The definition of a lease should explicitly state that the right to use an asset is conveyed in exchange for consideration.

The boards therefore tentatively agreed with the following proposed definition of a lease:

A lease is a contract in which the right to use a specified asset is conveyed, for a period of time, in exchange for consideration.

The boards will continue discussing lessee and lessor accounting issues at the February 2010 joint meeting.

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

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

10 February joint meeting

Annual improvements (IASB only meeting)

The Board approved the project plan and timetable for issuing Improvements to IFRSs in April 2010, based on the exposure draft published in August 2009.

The Board discussed nine of the proposed improvements to IFRSs. On the basis of the comments that the Board had received from respondents and the recommendation of the IFRIC, the Board tentatively decided to finalise six of the improvements:

- Exemption in paragraph D8 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* - revaluation basis as deemed cost: the amendment extends the exemption to also apply to revaluations that occurred after the date of transition to IFRSs but during the period covered by the first IFRS financial statements, with resulting adjustments recognised at the measurement date directly in retained earnings.
- IFRS 3 (revised 2008) *Business Combinations* - Measurement of non-controlling interests (NCI): the amendment clarifies that the choice for measuring the NCI in the acquiree applies only to components of NCI that are present ownership instruments that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation.
- IFRS 3 (revised 2008) - transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS: an entity should apply the requirements from IFRS 3 (issued 2004) as reproduced in the revised IFRS 3.
- IFRS 7 *Financial Instruments: Disclosures* - clarification of disclosures: the amendment clarifies and amends the qualitative, quantitative and credit risk disclosures.
- IAS 28 *Investments in Associates* - partial use of fair value for measurement of associates: enables a parent entity to measure part of the investment in an associate at fair value in its consolidated financial statements when that part is designated as at fair value through profit or loss in accordance with the scope exclusion in paragraph 1 of IAS 28. The Board decided not to include in the forthcoming IFRS on joint arrangements equivalent guidance on the partial use of fair value for the measurement of investments in joint ventures.
- IAS 34 *Interim Financial Reporting* - significant events and transactions: emphasis on disclosure principles and addition of guidance on how to apply these principles.

In several cases the proposed final wording of the improvements was modified in the light of suggestions made in the comment letters. The revised, proposed, amendments can be viewed on the [Annual Improvements](#) page of the IASB website.

The Board noted that the requirements that relate to the accounting for contingent consideration acquired in a business combination are contained in more than one IFRS. The Board asked the IFRIC to provide a recommendation on how to present the guidance on contingent consideration within one standard.

The Board also decided to remove from the annual improvements project, without finalisation, three proposed amendments that had been included in the Improvements to IFRSs exposure drafts in either August 2008 or August 2009. The Board made this decision on the grounds that these issues should be reconsidered taking into account the broad replacement project IAS 39 *Financial Instruments: Recognition and Measurement* rather than on a piecemeal basis:

- IAS 27 *Consolidated and Separate financial Statements* - impairment of investments in associates in the separate financial statements of the investor,
- Two issues concerning IAS 39 that were originally part of the *Improvements to IFRSs* ED published in August 2008:
 - bifurcation of embedded foreign currency derivative,
 - application of the fair value option.

At the March 2010 IFRIC and IASB meetings, the staff will present an analysis to the IFRIC and to the Board of the comment letters for the following issues included in the Improvements to IFRSs ED published in August 2009:

- IFRS 1 - Accounting policy changes in the year of adoption,
- IFRS 3 - Un-replaced and voluntarily replaced share-based payment awards,
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* - application of IFRS 5 to loss of significant influence over an associate or a jointly-controlled entity,
- IAS 1 *Presentation of Financial Statements* - clarification of statement of changes in equity,
- IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors* - change in terminology for the qualitative characteristics,
- IAS 27 - transition requirements for amendments made as a result of IAS 27 (revised 2008) to IAS 21, IAS 28 and IAS 31,
- IAS 40 *Investment Property* - change from fair value model to cost model,
- IFRIC 13 *Customer Loyalty Programmes* - fair value of award credit.

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

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

Financial instruments: classification and measurement

The boards began their discussion of how to measure financial liabilities.

The boards affirmed their previous tentative decisions that financial liabilities that are not held to pay contractual cash flows should be measured at fair value through profit or loss.

The IASB tentatively decided that financial liabilities that are held to pay contractual cash flows and have 'non-vanilla' contractual cash flow characteristics should be bifurcated into a host and the embedded features. These components would be separately measured. This tentative decision responds to issues raised about recognising gains or losses arising from changes in an entity's own credit risk.

The FASB did not make any decisions about financial liabilities that are held to pay contractual cash flows that contain embedded derivatives, and that under the FASB's current tentative model would be required to be measured at fair value with changes in fair value recognised in net income. The FASB will first consider whether and how to address changes in an entity's own credit risk for financial liabilities with 'vanilla' contractual cash flow characteristics. Under the FASB's current tentative model, these changes would be required to be measured at fair value with changes in fair value recognised in other comprehensive income.

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

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

Insurance contracts

Reinsurance

The boards discussed the accounting for reinsurance contracts by both the reinsurer (principally its obligations) and the cedant (its reinsurance assets-recoverables on business written).

The boards tentatively decided that:

- A reinsurer should use the same recognition and measurement approach for the reinsurance contracts that it issues as all other insurers use for the insurance contracts that they have issued.
- A cedant should recognise and measure its reinsurance asset (reinsurance recoverable) using the same recognition and measurement approach that it uses for the reinsured portion of the underlying insurance contracts that it has issued (this tentative decision is subject to further staff research, as described below). This measurement approach includes:
 - the expected present value of the cash flows required to fulfil the reinsured portion of the insurer's obligations.
 - the addition of the risk margin (but not the residual margin) included in the measurement of the reinsured portion of the contract liability.
 - the addition of the residual margin implied by the pricing of the reinsurance contract.
 - the impact on the reinsurance asset of possible impairment and coverage disputes, measured using the building block approach, in other words an expected value basis, rather than an incurred loss basis.

The staff will carry out research on the following issues:

- Can the residual margin implied by the pricing of the reinsurance contract be negative?
 - How do the building blocks of the proposed measurement approach interact with the impairment test of the reinsurance asset?
 - The staff will develop an example to test how the proposed measurement approach applies to the cedant and the reinsurer.
- A cedant should not offset reinsurance balances against related direct reinsurance balances (balance sheet and income statement) unless legal requirements for offsetting are met.
 - A cedant should not derecognise the related direct insurance liabilities upon entering into a reinsurance contract unless the obligation specified in the insurance contract is [legally] discharged, cancelled, or expired.
 - The cedant should credit, and the reinsurer should charge, to the income statement ceding commissions for proportional reinsurance contracts in a manner consistent with the treatment of acquisition costs. The staff will investigate whether this treatment requires amendment if applied to non-proportional reinsurance contracts, and will consider how to distinguish ceding commissions from other contractual cash flows.

Policyholder accounting

The boards discussed an analysis of symmetry between policyholder accounting and the accounting by the issuer of the insurance contract. The boards tentatively decided not to carry out any further discussion on the following two points before issuing an exposure draft on accounting by insurers for insurance contracts:

- any differences in measurement that might arise if the boards' proposals for insurers were applied to policyholders, except in relation to acquisition costs and participating features.
- non-reinsurance policyholder accounting.

Next steps

The boards will continue their discussion of this project at the joint board meeting on 16-18 February.

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

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

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