



## 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 15, 17, 18 and 19 February 2010, when they discussed:

- Consolidation
- Derecognition
- Joint ventures
- Post-employment benefits
- Rate-regulated activities

The IASB also met with the US Financial Accounting Standards Board, who participated via video conference, on 16, 17, 18 and 19 February. They discussed:

- Consolidation
- Fair value measurement
- Financial instruments: classification and measurement
- Financial instruments: hedge accounting
- Financial instruments with characteristics of equity
- Financial statement presentation
- Insurance contracts
- Leases
- Revenue recognition
- Right of offset

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### Future board meetings

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

**3 March**  
**11 March**  
**15 - 19 March**  
**22 - 24 March**

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

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## Consolidation

The IASB began its deliberations of the disclosure requirements proposed in ED 9 *Joint Arrangements* and ED 10 *Consolidated Financial Statements*. The Board tentatively decided to combine the disclosure requirements for subsidiaries, joint ventures and associates within a comprehensive disclosure standard would address a reporting entity's involvement with other entities when such involvement is not within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*. Such a disclosure standard would also include the disclosure requirements for joint operations.

In addition, the Board tentatively affirmed the proposal in ED 10 that a reporting entity should disclose

information that enables users of its financial statements to evaluate the nature of, and risks associated with, structured entities that the reporting entity does not control. The disclosure would be integrated within the comprehensive disclosure standard for a reporting entity's involvement with other entities.

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## **Derecognition**

At this meeting, the Board continued its deliberations of the feedback received on the Derecognition exposure draft (ED) published in March 2009. The Board made the following tentative decisions:

- The next due process document for derecognition of financial instruments will not provide a transfer definition, but it will provide application guidance to address the concerns raised by respondents to the ED with respect to that definition.
- The term 'economic benefits', as that term is used in the proposed derecognition approach, encompasses both the economic benefits associated with the financial and non-financial components of a contract within the scope of IAS 39, provided that the economic benefits associated with the nonfinancial component of the contract have not separately been recognised. Consequently if an entity sells the non-financial right (and hence the associated economic benefits), it will derecognise the entire financial asset, and will then recognise a new asset representing a right to only the economic benefits arising from the financial component.
- To make an exception to the derecognition criteria as it applies to sale and repurchase agreements and similar transactions. The exception requires that any sale of a financial asset that is accompanied by an agreement that entitles and obligates the entity to repurchase the asset before maturity of the asset should be accounted for as a secured borrowing (similar to the accounting for such transactions under FASB Statement No. 166, *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140*). The Board would seek to align the exception, to the extent feasible, with the 'effective control' guidance under FASB Statement No. 166.

The Board also discussed the application of the alternative derecognition approach to unit-linked insurance products, securitisation vehicles and pass-through arrangements, but did not make any tentative decisions.

The Board will continue its deliberations on the proposed derecognition approach at future meetings

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## **Joint ventures**

The Board continued its deliberations on the proposals in the exposure draft ED 9 *Joint Arrangements*. The Board discussed the scope and loss of joint control sections for the IFRS.

### **Scope**

The Board tentatively decided to modify the scope paragraph of ED 9 to state that the IFRS should be applied by all entities in accounting for interests in joint arrangements. The requirement for venture capital organisations or mutual funds, unit trusts and similar entities including investment-linked insurance funds that upon initial recognition are designated as at fair value through profit or loss to measure their investment at fair value in accordance with IFRS 9 or IAS 39 will be placed in the measurement section of the new IFRS. In addition, the Board tentatively agreed to amend the scope paragraph in IAS 28 Investments in Associates as a consequential amendment in the IFRS to align IAS 28 with the decisions described above.

### **Loss of Joint Control**

The Board tentatively decided to remove all descriptions that associate loss of joint control and loss of significant influence in existing IFRSs with the term 'significant economic event'. The Board tentatively decided to retain this term for the event of loss of control.

In addition, the Board tentatively decided to:

- to confirm that the requirements for the loss of joint control proposed in ED 9 would be carried into the IFRS.

- to amend IAS 21 The Effects of Changes in Foreign Exchange Rates to treat the loss of joint control over a joint venture that includes a foreign operation but in which the investor retains significant influence as a partial disposal instead of a disposal.

The Board will continue its deliberation of this project at a future meeting.

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## **Post-employment benefits**

The Board:

- tentatively approved a revised package of disclosures for the forthcoming exposure draft of amendments to IAS 19.
- tentatively decided it would not require entities to apply to plan assets the disclosure requirements proposed in the exposure draft *Fair Value Measurements*.

The Board intends to publish the exposure draft in March 2010.

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## **Rate regulated activities**

The Board began its discussions on the responses received on its ED Rate-regulated Activities published in July 2009. At this meeting, the Board discussed the summary analysis of the comments received. The Board reviewed the background of the issue, a summary analysis of the respondent demographics and a summary of the primary technical issues. The Board discussed the logistical considerations impacting upon this project and reviewed the potential paths forward for this project including a project timetable prepared by the staff.

The Board did not make any tentative decisions on specific aspects of the project, except that the Board decided tentatively to finalise the transition relief for first-time adopters. The transition relief is expected to be included in the omnibus Improvements to IFRSs due to be issued in April 2010.

The Board directed the staff to continue its research and analysis on this project and to focus on the key issue of whether regulatory assets and regulatory liabilities exist in accordance with the current Framework for the Preparation and Presentation of Financial Statements and whether they are consistent with other current IFRSs.

The Board will continue its deliberation of this project at a future meeting.

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## **10 February joint meeting**

### **Consolidation**

The IASB and the FASB discussed how an entity that is considered an investment company should account for investments in entities that it controls

The boards tentatively decided that there should be an exception to consolidation, whereby an investment company must measure investments in entities that it controls at fair value. The boards tentatively decided that the guidance currently in the US GAAP Codification (Topic 946) should be used as the basis for developing the attributes of an investment company. The boards asked the staff to do further work to remove any US specific references, and to address certain implementation concerns about that guidance.

The boards tentatively decided that an investment company should be required to provide additional disclosures about entities that it controls when it measures investments in those entities at fair value. The disclosures will be developed as part of the new disclosure requirements for involvement with

consolidated entities.

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## **Fair value measurement**

The Boards discussed the following topics:

- Highest and best use of nonfinancial assets
- Incremental value
- Valuation premise for nonfinancial assets
- Measuring the fair value of financial instruments
- Premiums and discounts in a fair value measurement.
- Measuring the fair value of difficult to value assets and liabilities (including unquoted equity instruments)
- Measuring the fair value of investments in investment company entities

### **Highest and best use of nonfinancial assets**

The Boards tentatively decided:

- That a fair value measurement of a nonfinancial asset considers its highest and best use by market participants
- To describe the meaning of *physically possible*, *legally permissible*, and *financially feasible*.

### **Incremental value**

The Boards tentatively decided:

- Not to require entities to separate the fair value of an asset group into two components when an entity uses an asset in a way that differs from its highest and best use
- To require entities to disclose information about when they use an asset in a way that differs from its highest and best use (and that asset is recognized at fair value based on its highest and best use).

### **Valuation premise for nonfinancial assets**

The Boards tentatively decided:

- That the objective of a fair value measurement of an individual asset is to determine the price for a sale of that asset alone, not for a sale of that asset as part of a group of assets or business. However, when the highest and best use of an asset is to be used as part of a group of assets, the fair value measurement of that asset presumes that the sale is to a market participant that has, or can obtain, the "complementary assets" and "complementary liabilities." Complementary liabilities include working capital but do not include financing liabilities.
- To describe the objective of the valuation premise without using the terms in-use and in-exchange because those terms are often misunderstood.

### **Measuring the fair value of financial instruments**

The Boards tentatively decided:

- That the concepts of highest and best use and of valuation premise are relevant only for nonfinancial assets and are not relevant for financial assets or for liabilities
- To describe valuation adjustments that entities might need to make when using a valuation technique because market participants would make those adjustments when pricing a financial asset or financial liability under the market conditions at the measurement date. These valuation adjustments were described in the IASB's Expert Advisory Panel report, *Measuring and Disclosing the Fair Value of Financial Instruments in Markets That Are No Longer Active*.

The Boards will discuss at a future meeting whether the fair value of financial instruments within a portfolio should consider offsetting risk positions, including credit risk and market risk.

## Premiums and discounts in a fair value measurement

The Boards tentatively decided:

- To clarify what a *blockage factor* is and to describe how it is different from other types of adjustments, such as a lack of marketability discount, for an individual instrument
- To prohibit the application of a blockage factor at any level of the fair value hierarchy
- To specify that a fair value measurement in Levels 2 and 3 of the fair value hierarchy considers other premiums and discounts that market participants would consider in pricing an asset or liability at the unit of account specified in the relevant standard (except for a blockage factor).

## Measuring the fair value of difficult to value assets and liabilities (including unquoted equity instruments)

The boards tentatively decided: that the converged fair value measurement standard should not include:

- additional guidance for measuring the fair value of difficult to value assets and liabilities (including unquoted equity instruments). At a future meeting, the IASB will discuss the need for developing educational materials to assist entities with applying the fair value measurement guidance to such assets and liabilities.
- indicators of when cost might be an appropriate estimate of fair value.

## Measuring the fair value of investments in investment company entities

The Board discussed whether to provide a practical expedient allowing entities with investments in investment company entities to use reported net asset value without adjustment as a measure of fair value in specific circumstances (eg when there are restrictions on redemption). Such a practical expedient is included in FASB Accounting Standards Codification Topic 820 (*Fair Value Measurements and Disclosures*).

The Board tentatively decided not to provide such a practical expedient because IFRSs do not have accounting requirements that are specific to investment company entities and it would be difficult to prescribe the circumstances in which it could be applied given the different practices for calculating net asset values in jurisdictions around the world.

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## Financial instruments: classification and measurement

Both boards were present for the discussions; however, only the IASB was asked to take any tentative decisions.

The tentative decisions described below, coupled with the tentative decisions made on 10 February 2010, effectively retain the measurement requirements in IAS 39 *Financial Instruments: Recognition and Measurement* for financial liabilities, except for the proposed changes to the fair value option described below. The IASB's tentative decisions about financial liabilities respond to issues raised about recognising gains or losses arising from changes in an entity's own credit risk.

### Amortised cost measurement

The IASB tentatively decided that financial liabilities should be measured at amortised cost if they are not held for trading, and if they do not have embedded derivative features that would require bifurcation under IAS 39.

### Bifurcation

At a previous meeting, the IASB tentatively decided to bifurcate financial liabilities that are held to pay contractual cash flows, and that have 'non-vanilla' contractual cash flow characteristics. At this meeting, the Board tentatively decided that the bifurcation requirements in IAS 39 should be retained. This decision is in response to issues raised about recognising gains or losses arising from changes in an entity's own credit risk.

### Fair value option

The IASB tentatively decided to retain the fair value option (FVO) and carry forward the three eligibility conditions in IAS 39.

However, to respond to issues raised about recognising gains or losses arising from changes in an entity's own credit risk, the Board also tentatively decided that for all financial liabilities designated under the FVO, an entity would be required to:

- recognise the total fair value change in profit or loss; and
- recognise the portion attributable to changes in own credit risk in other comprehensive income (OCI) (with an offsetting entry to profit or loss).

Amounts recognised in OCI would never be recycled into profit or loss.

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## **Financial instruments: hedge accounting**

The boards discussed possible criteria for designation of eligible hedged risks and possible bifurcation-by-risk approaches for hedged financial items.

The IASB tentatively decided to explore a new criterion for the purpose of determining risk components eligible for designation as hedged items.

The FASB tentatively decided that bifurcation-by-risk would be permitted for hedged financial items within the context of the recognition and measurement model agreed to by the Board for accounting for financial instruments. The Board will continue to discuss issues relating to hedge accounting, specifically how to identify the hedged risk and how the assessment of effectiveness will be determined.

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## **Financial instruments with characteristics of equity**

The boards affirmed their support for the following key classification decisions:

1. Instruments currently accounted for under IFRS 2 Share-based Payment, and FASB Accounting Standards Codification<sup>TM</sup> Topic 718 *Compensation-Stock Compensation* (originally issued as Statement No. 123 (revised 2004) *Share-Based Payment*), are not within the scope of this project.
2. The following types of instruments should be equity in their entirety:
  - Perpetual instruments (instruments not required to be redeemed unless the entity decides to or is forced to liquidate its assets and settle claims against the entity) issued by entities without specified limits to their lives. (That includes both ordinary and preferred shares.)
  - Mandatorily redeemable and puttable instruments that meet either of the following criteria:
    - The instrument's terms require, or permit the holder or issuer to require, redemption to allow an existing group of shareholders, partners, or other participants to maintain control of the entity when one of them chooses to withdraw.
    - The holder must own the instrument in order to engage in transactions with the entity or otherwise participate in the activities of the entity, and the instrument's terms require, or permit the holder or issuer to require, redemption when the holder ceases to engage in transactions or otherwise participate.
3. All other mandatorily redeemable instruments (instruments that an entity is required to redeem on a certain date or on the occurrence of an event that is certain to occur) should be classified as liabilities.
4. Contracts that require or may require an entity to issue a specified number of its own perpetual equity instruments in exchange for a specified price (for example, call options, forward contracts to issue shares, rights issues, and purchase warrants) should be classified as equity. For this purpose, the specified number must be either fixed or vary only so that the counterparty will receive a specified percentage of total shares that were outstanding on the issuance date for a specified price. The specified price must be fixed in the reporting entity's currency unless the

domestic currency of the shareholder that holds the derivative (or functional currency if the shareholder is a reporting entity or a unit of a reporting entity) is different from the currency in which the issuing entity issues equity instruments to domestic shareholders. In that case, the price may be specified in the currency of the shareholder instead of in the currency of the issuer.

5. Instruments that require an entity to issue a specified number of its own perpetual equity instruments for no further compensation should be classified as equity (for example, prepaid forward contracts to issue shares).
6. The entity's ability to issue its own perpetual equity instruments to settle share-settled instruments classified as equity should be assessed at the date that each instrument is issued and at each reporting date thereafter. If, at any time, the entity does not have enough authorised shares to settle a share-settled instrument classified as equity, that instrument should be reclassified as a liability and left there for the remainder of its life.
7. Preferred shares required to be converted into a specified number of common shares on a specified date or on the occurrence of an event that is certain to occur should be classified as equity.
8. Contracts that require an entity to repurchase its own shares on a specified date or on the occurrence of an event that is certain to occur should be separated into a liability representing the amount to be paid (measured according to standards for similar freestanding instruments) and an offsetting debit to equity (grossed up).

### **Equity instruments**

The boards decided that the following types of instruments should be classified as equity:

1. A nominally perpetual instrument issued by an entity with a specified limit on its life or that must be liquidated at the option of an instrument holder. (That means an instrument that would otherwise be equity will not become a liability merely because it is issued by an entity that is not or may not be able to continue to exist indefinitely.)
2. A contract that requires an entity to issue for a specified price (or for no future consideration) a specified number of puttable or mandatorily redeemable instruments that will be equity in their entirety when issued. Examples are a forward contract to issue mandatorily redeemable equity instruments and an identical forward contract that has been prepaid.
3. A contract that requires the entity to issue for a specified price (or for no future consideration) a specified number of derivatives that will require the entity to issue a specified number of instruments that will be equity in their entirety when issued. Examples are a forward contract to issue a written call option on the entity's own shares and an identical forward contract that has been prepaid.
4. Preferred shares that are required to be converted into a specified number of perpetual equity instruments.
5. Preferred shares that are required to be converted into a specified number of puttable or mandatorily redeemable instruments that will be equity in their entirety when issued.

### **Convertible debt**

The boards decided that a bond (or other debt instrument) should be separated into a liability component and an equity component if it is convertible at the option of the holder into a specified number of instruments that will be equity in their entirety when issued. All other convertible debt instruments should be classified as liabilities in their entirety.

### **Puttable shares (shares that are redeemable at the option of the holder)**

Puttable shares that are not classified as equity in their entirety should be separated into liability and equity components. The liability component, which represents a written put option, should be accounted for as a freestanding written put option

### **Presentation of freestanding written put options**

A freestanding written put option should be presented net as a liability in its entirety.

### **Classification of subsidiary instruments in consolidated financial statements**

Equity classification in a subsidiary's financial statements should carry forward into consolidated financial statements unless the nature of the instrument changes in consolidation because of arrangements between the instrument holder and another member of the consolidated group. If the nature of the instrument changes in consolidation, classification should be reconsidered in the consolidated financial statements.

## Financial statements presentation

At their February joint meeting, the boards continued their deliberations on the proposals in the discussion paper *Preliminary Views on Financial Statement Presentation*.

### Application guidance for analysis of changes in significant asset and liability line items

The boards addressed several implementation issues that relate to the tentative decision made in October 2009 to require an entity to present in the notes to financial statements an analysis of changes in the balances of all significant asset and liability line items (referred to herein as *analysis* or *analyses of changes*).

At the February meeting, the boards tentatively decided that the exposure draft:

- will permit an entity to present each analysis of changes with related information in the topic-specific note disclosure. For example, an analysis of changes in an entity's property, plant and equipment line items could be presented as part of the entity's property, plant and equipment note. In all cases, each analysis must be accompanied by a narrative explanation of the changes.
- will require each analysis of changes reported in the current reporting period to include a comparative analysis of changes for the prior reporting period(s).
- will clarify that an entity should always disclose the reconciliations of specific items as required elsewhere in IFRSs or US GAAP, notwithstanding the factors to be considered in determining whether the change in an asset or liability should be analysed in the notes.
- will clarify that, when preparing a reconciliation of specific items as required elsewhere in IFRSs or US GAAP, an entity should consider whether the reconciliation reflects the required components that are part of the analysis of changes.
- will clarify that an entity should provide disaggregated information for each component of an analysis of changes. For example, an entity cannot aggregate items that meet the definition of a remeasurement into one line item.

### Definition of a remeasurement and related guidance

The boards tentatively decided that a *remeasurement* should be defined as an amount recognised in comprehensive income that reflects the effects of a change in the net carrying amount of an asset or liability, and that is the result of:

- a. a change in (or transacting at) a current price or value;
- b. a change in an estimate of a current price or value; or
- c. a change in any estimate or method used to measure the carrying amount of an asset or liability.

In addition, the boards tentatively decided that the sale of ordinary inventory (including the realised income from the market-making activities of broker-dealers) should not be presented as a remeasurement.

### New categories for 'financing arising from operating activities' and for 'assets and liabilities arising from equity'

In December 2009 the boards tentatively decided to add a new category to the business section in the statements of financial position and comprehensive income, labelled *financing arising from operating activities*. It was proposed that an entity would present related cash flows in a category on the statement of cash flows labelled *operating activities and financing arising from operating activities*.

At their February 2010 joint meeting, the boards tentatively decided that financing arising from operating activities should be included in a new subcategory in the operating category of the statements of financial position and comprehensive income. The cash flows related to these items would be presented in the operating category in the statement of cash flows. The boards clarified that the subcategory should include all liabilities (and assets bound to the related obligation for the purpose of settling the liability) that:

- do not meet the definition of *financing*,
- are initially long term, and



- have a time value of money component that is evidenced either by interest or an accretion of the liability because of the passage of time.

The boards also tentatively decided that the debt category should include assets and liabilities that arise from transactions involving an entity's own equity (eg a dividend payable, a written put option on an entity's own shares or a prepaid forward purchase contract for an entity's own shares). The boards clarified that assets and liabilities that arise from transactions involving an entity's own equity should be presented separately from borrowing arrangements within the debt category.

#### **Statement of cash flows for financial service entities**

At their respective board meetings in January 2010, the FASB and the IASB considered how a financial services entity should present cash flow information in the statement of cash flows. In February 2010, the boards tentatively decided that the exposure draft:

- will include existing requirements about the types of cash flows that may be reported net on a statement of cash flows. However, a financial services entity will be required to present cash flows for loans made to customers and principal collections of loans gross rather than net.
- will require a financial services entity to present a direct method statement of cash flows.
- will require an entity with funds held on deposit to present cash inflows and outflows so that its statement of cash flows reflects transactions between the entity and its depositors as if they were settled by external funds.
- will ask respondents to the exposure draft who are preparers, auditors and users of financial services entity financial statements for input on the costs and benefits of presenting cash flows in this manner for that type of entity.

#### **Divergence issues**

The boards discussed the issues on which they have reached different tentative decisions. The FASB affirmed that its exposure draft will:

- not include a requirement to disclose net debt information in the notes to financial statements;
- not include minimum line item requirements for the statement of financial position; and
- require disclosure of operating assets, liabilities and cash flows by reportable segment.

The FASB decided to change its December 2009 tentative decision to require the presentation of remeasurement information in a separate column on the statement of comprehensive income. Instead, the FASB agreed to present that information in a separate note to the financial statements. Consequently, the boards' respective exposure drafts will be the same on this issue.

The IASB affirmed that its exposure draft will:

- require presentation of net debt information as part of the analyses of changes;
- include minimum line item requirements for the statement of financial position; and
- not include a requirement to disclose operating assets, liabilities and cash flows by reportable segment.

The IASB decided to change its October 2009 tentative decision and require an entity with more than one reportable segment to present its by-nature income and expense information in a new note rather than in its segment note. The FASB reaffirmed its decision to require an entity with more than one reportable segment to present its by-nature information in its segment note. The IASB noted that IFRS 8 *Operating Segments* is scheduled for a post-implementation review in 2011. As part of that review, the IASB committed itself to considering whether existing requirements for segment reporting should be brought into line with the amendments to Topic 280 *Segment Reporting* that the FASB will make as part of the financial statement presentation project.

The IASB also tentatively decided to retain the discussion paper proposal that deferred tax assets and liabilities should be classified as short term or long term according to the classification of the related asset or liability. This classification approach is consistent with US GAAP.

#### **Sweep issues**

The boards tentatively decided that the exposure draft:

- will include the requirements in IAS 1 for the statement of changes in equity.

- will include the general offsetting principle from IAS 1.
- will remove the proposal in the discussion paper that classification of items into sections and categories is an accounting policy. However, an entity will be required to relate its presentation of assets and liabilities (and changes in those assets and liabilities) to its business.
- will retain the discussion paper proposal that subtotals and headings for each section and category should be presented in the financial statements. Furthermore, subtotals and headings should be presented for all subcategories.
- will require disaggregation of similar cash flows when the nature of the cash flow and timing of the payment in relation to its recognition in profit and loss is relevant to an understanding of the entity's change in cash for the period.
- will not address disclosure of information about the maturities of contractual long-term assets and liabilities.

### **Support for package of decisions**

The boards directed the staff to proceed with drafting an exposure draft for balloting based on the package of tentative decisions.

The boards tentatively decided that the exposure draft should have a five-month comment period. The boards expect to publish the exposure draft near the end of April 2010.

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## **Insurance contracts**

The boards discussed:

- whether to account for insurance, investment and service components included in an insurance contract as if those components were separate contracts (unbundling).
- presentation of the performance statement.
- assets and liabilities associated with unit linked contracts.

### **Unbundling**

The boards discussed whether to account for components of an insurance contract as if those components were separate contracts (ie unbundle those components). The boards did not reach a conclusion but instead asked the staff to develop further an approach that would not require unbundling for recognition and measurement if components are significantly interdependent. In developing that approach, the staff will research:

- whether an account balance functions independently of other components.
- whether a surrender option would give rise to significant interdependence.

The boards discussed two approaches for unbundling derivatives embedded in insurance contracts:

- use the unbundling approach that is being developed for insurance contracts.
- use existing requirements in the boards' standards on financial instruments.

The IASB decided tentatively to use the approach being developed for insurance contracts, subject to satisfactory completion of the work on that approach. The FASB deferred reaching a decision until the staff develops further guidance on interdependency.

### **Presentation of the performance statement**

The boards discussed the presentation of the performance statement for insurance contracts and decided tentatively that:

- the measurement approach should drive the presentation model for the performance statement.
- the staff should further develop an expanded margin approach.

### **Assets associated with unit linked contracts**

The boards discussed whether the invested fund into which the premium is deposited represents an

asset and corresponding liability of the insurance entity. The boards decided tentatively that assets and related liabilities associated with unit linked contracts, including those sometimes described as separate accounts, should be reported as the insurer's assets and liabilities in the statement of financial position.

The boards also decided tentatively not to address in this project issues involving the consolidation of investment funds associated with unit-linked contracts (including separate account contracts). Such issues are within the scope of the project on consolidation.

### **Next steps**

The boards will continue their discussion of this project at their meetings in March.

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## **Leases**

The boards discussed:

- How to account for changes in contingent rentals
- How to determine when contracts are purchases or sales of the underlying asset in the context of a lease contract
- The definition of initial direct costs.

### **Accounting for changes in contingent rentals**

For lessees, the boards tentatively decided that:

- Changes in amounts payable under contingent rental arrangements arising from current or prior periods should be recognised in profit or loss. All other changes should be recognised as an adjustment to the lessee's right-of-use asset.
- Changes in amounts payable under residual value guarantees should be recognised in the same way as contingent rental arrangements.

For lessors, the boards tentatively decided that changes in amounts payable under contingent rental arrangements should be treated as adjustments to the original transaction price and they should be allocated to the lessor's performance obligation. If a change is allocated to a satisfied performance obligation, the change would be recognised in revenue. If a change is allocated to an unsatisfied performance obligation, the carrying amount of the lessor's performance obligation would be adjusted. The boards instructed the staff to provide additional analysis on when a lessor's performance obligation is satisfied in a lease contract.

### **Scope - purchases or sales of the underlying asset**

The boards tentatively decided that contracts that are purchases or sales of the underlying asset are not lease contracts, and that they should not be accounted for in accordance with the proposed new leases requirements.

The boards also tentatively decided that the proposed new leases requirements should clarify that a contract is a purchase or sale if at the end of the contract, the contract transfers:

- control of the underlying asset.
- all but a trivial amount of the risks and benefits associated with the underlying asset.

The boards tentatively decided that control of the underlying asset has generally been transferred/obtained in the following situations:

- Contracts in which the title of the underlying asset transfers to the lessee automatically
- Contracts that include a bargain purchase option, if it is reasonably certain that the option will be exercised
- Contracts in which the return that the lessor receives is fixed
- Contracts in which it is reasonably certain that the contract will cover the expected useful life of the asset, and in which any risks or benefits associated with the underlying asset retained by the

lessor at the end of the contract are not expected to be more than trivial.

The boards tentatively decided that very long leases of land would not be considered purchases or sales. However, the boards instructed the staff to develop possible criteria for excluding very long leases of land from the scope of the proposed new leases requirements.

#### **Definition of initial direct costs**

The boards tentatively decided to:

- define initial direct costs as incremental costs directly attributable to negotiating and arranging a lease.
- include additional guidance in the proposed new leases requirements to illustrate which costs could be considered initial direct costs.

The boards also discussed:

- Transitional provisions for the proposed new requirements for lessees
- The definition of the interest rate implicit in the lease.

#### **Transitional provisions for the proposed new requirements for lessees**

At their joint meeting in June 2009, the boards tentatively decided to require the lessee to recognise and measure an obligation to pay rentals and a right-of-use asset for all outstanding leases as of the date of initial application of the proposed new leases requirements.

The obligation to pay rentals would be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on the transition date. The right-of-use asset should be measured on the same basis as the liability, subject to any adjustments required to reflect impairment.

At this meeting, the boards tentatively decided that:

- Lessees should apply the proposed transition requirements to leases currently accounted for as finance/capital leases, except for simple finance/capital leases.
- For simple finance/capital leases that do not have options, contingent rentals and/or residual value guarantees, the assets and liabilities would not be accounted for by applying the new requirements.
- For IFRS preparers, the revalued amount of property, plant and equipment can be carried forward as the carrying amount of the asset for simple finance/capital leases.
- Additional adjustments for prepaid or accrued rentals should be made when lease payments are uneven over the lease term.

#### **Definition of the interest rate implicit in the lease**

The boards tentatively decided that the rate the lessor uses to discount lease payments should be the rate that the lessor is charging the lessee. That rate would take into account the nature of the transaction as well as the specific terms of the lease (rental payments, lease term, contingent rentals, etc.). The boards also tentatively decided to include guidance in the proposed new leases requirements on how to determine the discount rate to be used in different circumstances.

The boards will continue discussion of lessee and lessor accounting at their March 2010 meeting.

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## **Revenue recognition**

The boards discussed scope and transition.

### **Scope**

The boards tentatively decided that the proposed standard would apply to an entity's contracts with customers, except for:

- a. lease contracts within the scope of IAS 17 *Leases* or FASB ASC Topic 840 *Leases*;
- b. insurance contracts within the scope of IFRS 4 *Insurance Contracts* or FASB ASC Topic 944 *Financial Services-Insurance*;
- c. contracts within the scope of IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* or FASB ASC Topic 825 *Financial Instruments*;
- d. guarantees (other than product warranties) within the scope of IFRS 4, IAS 39 or FASB ASC Topic 460 *Guarantees*.

At a future meeting, the boards will consider further how an entity accounts for a contract that includes some performance obligations within the scope of the proposed standard and other performance obligations that fall outside it, but that are within the scope of other standards.

### **Transition**

The boards tentatively decided that an entity should apply the proposed standard retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and FASB ASC Topic 250 *Accounting Changes and Error Corrections*.

The FASB tentatively decided to prohibit early adoption of the proposed standard. The IASB tentatively decided to permit early adoption by first-time adopters of IFRSs. The IASB will decide at a future meeting whether to permit or prohibit early adoption by entities already applying IFRSs.

### **Next steps**

At their March 2010 joint meeting, the boards plan to continue their discussions on disclosure, scope and contract costs.

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

## **Right of offset**

The IASB and FASB held a joint education session on the netting provisions in the ISDA Master Agreement and agreements governing transactions with central counterparties, to discuss their legal meaning, basis and effect and also their commercial effect. The boards did not make any decisions but the information and understanding gained from this session should help the boards in any future deliberations that may address the accounting for right of offset.

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