

Joint Project Watch

FASB/IASB joint projects from a US GAAP perspective

December 2011

The standard-setting activities of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (collectively, the Boards) on their many joint projects continue to move forward. The Boards have issued final guidance or exposure drafts on several projects and continue to redeliberate others. We encourage you to actively follow the Boards' progress and to respond to requests for comment.

This publication is designed to give you a snapshot of key developments from a US GAAP perspective each month, along with our observations about the potential implications for companies. We also include references to other Ernst & Young publications that provide more background and detail on the projects and proposals. These publications are available at ey.com/us/accountinglink.

The following discussion of ongoing projects is based on our observations of the standard-setter meetings. During redeliberations, the Boards make tentative decisions that may be different from earlier decisions and those in the exposure drafts (EDs). At this point, the Boards' decisions and our observations are all subject to change.

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Background

The financial instruments project addresses classification and measurement, impairment and hedging. The Boards' overall objective is to simplify, improve and converge the accounting for financial instruments. Differing timetables and priorities led the Boards to develop separate proposals. The IASB issued final guidance on classification and measurement (IFRS 9) as well as separate proposals on impairment and hedging, while the FASB issued one comprehensive exposure draft.

Other references

- ▶ [To the Point, Impairment – a major step toward convergence \(SCORE No. BB2250\)](#)
- ▶ [Practical matters for the c-suite, Financial instruments convergence project moves forward in fits and starts \(SCORE No. BB2205\)](#)
- ▶ [To the Point, New credit impairment approach takes shape \(SCORE No. BB2161\)](#)
- ▶ [Technical Line, Financial instruments – a new classification and measurement model on the horizon \(SCORE No. BB2157\)](#)
- ▶ [Technical Line, Hedge accounting: Is convergence possible? \(SCORE No. BB2125\)](#)
- ▶ [To the Point, Hedge accounting – FASB seeks reaction to IASB's proposed model \(SCORE No. BB2088\)](#)

Summary and observations – classification and measurement

Background

The FASB's original proposal required fair value measurement for most financial assets and financial liabilities, while IFRS 9 permits much more use of amortized cost. The FASB is now redeliberating classification and measurement of financial instruments, addressing feedback received from its constituents.

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- ▶ The IASB decided to consider making limited improvements to IFRS 9. Specifically, the IASB will consider the interaction of IFRS 9 with the insurance project and the FASB's proposed classification and measurement model. It is anticipated that any changes to IFRS 9 would be very limited to minimize the potential disruption to entities that have early adopted or are close to adopting IFRS 9.

Other key developments to date

- ▶ Financial assets would be classified into one of three categories – amortized cost, fair value through net income (FV-NI) or fair value through other comprehensive income (FV-OCI) – based on the financial asset's characteristics and the entity's business strategy for the financial asset.
- ▶ Changes in fair value that have been recognized in OCI would be recognized in net income (i.e., recycled) when these gains or losses are realized either through sales or settlements.
- ▶ All marketable equity securities would be measured at FV-NI. Public entities would also be required to measure nonmarketable equity securities at FV-NI. Nonpublic entities would be given a practicality exception to allow measurement of nonmarketable equity securities at cost less any other-than-temporary impairment, but must adjust the carrying value for both upward and downward observable price changes. Impairment would be recognized when qualitative factors indicate it is more likely than not that the fair value of the nonmarketable equity security is less than its carrying value.
- ▶ Financial liabilities meeting the characteristics criterion would generally be measured at amortized cost, with certain exceptions that would require classification at FV-NI.
- ▶ If financial assets will be used to settle nonrecourse financial liabilities, the financial liabilities would be measured in the same way as the associated financial assets.
- ▶ Groups of financial assets and financial liabilities may be measured at fair value with changes in fair value recognized in net income if the entity (1) manages the net exposure relating to those financial assets and financial liabilities (which may be derivative instruments) and (2) provides information on that basis to the reporting entity's management.
- ▶ Financial instruments that will be subsequently measured at FV-NI would initially be measured at fair value. Financial instruments that will be subsequently measured at amortized cost or FV-OCI would initially be measured at transaction price. Investment companies would continue to initially measure financial instruments at transaction price.

- ▶ The Board decided to retain bifurcation and separate accounting of embedded derivative features for all hybrid financial instruments, consistent with current requirements. For issuers, convertible debt instruments that currently are accounted for as a single instrument would continue to be measured at amortized cost in their entirety.
- ▶ An entity would be able to elect at recognition to apply a fair value option for both hybrid financial assets and hybrid financial liabilities to avoid bifurcation and separate accounting for an embedded derivative feature.
- ▶ Equity method investments would be measured at FV-NI if the investment is held for sale. That determination would be made based on certain criteria upon initial qualification for the equity method of accounting and could not subsequently be changed. All other equity method investments not held for sale would be accounted for under existing US GAAP.
- ▶ Loan commitments, revolving lines of credit and standby letters of credit would be measured at FV-NI when the business strategy for the underlying loans, when issued, is to hold them for sale. In other circumstances, measurement would be at amortized cost, with any fees recognized in accordance with existing guidance.
- ▶ Reclassifications between categories would not be permitted, even when there is a change in business strategy. Also, financial assets that qualify for the amortized cost category but are subsequently identified for sale should continue to be classified and measured at amortized cost (less impairment), and those sales would not “taint” the remaining financial assets classified that way.
- ▶ Expanded disclosures would be provided about liquidity risk (for all companies) and interest rate risk (for financial institutions only). Nonfinancial institutions with a subsidiary or reportable segment that engages in transactions that involve lending to or financing the activities of others would be required to present financial institution disclosures for its finance subsidiary or segment.

What's next

The FASB plans to complete its redeliberations on classification and measurement in the first quarter of 2012. The FASB will at a minimum expose the proposed amendments to the Codification, and may decide to fully re-expose the model, most likely in the first half of 2012. The IASB will then expose the FASB's final decisions on classification and measurement to its constituents.

Summary and observations – impairment

Background

The Boards initially proposed different impairment models, but are now developing a joint approach to credit impairment based on variations of their previous proposals. Under the joint approach, financial assets would be split into three buckets based on their underlying credit risk characteristics and the unit of evaluation.

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- ▶ All financial assets would initially be included in Bucket 1, regardless of credit quality. The allowance for financial assets in Bucket 1 would capture losses expected in the next 12 months (e.g., 12-month probability of default multiplied by the loss given default). The expected losses refer to shortfalls in all cash flows related to loss events expected over the next 12 months, not simply the cash shortfalls expected in the next 12 months.
- ▶ Assets would move into Bucket 2 or Bucket 3 when (1) there has been a “more than insignificant” deterioration in credit quality and (2) the likelihood of default is such that it is at least “reasonably possible” that the contractual cash flows may not be recoverable.
- ▶ For items in both buckets 2 and 3, the allowance would capture lifetime expected losses, but the unit of evaluation would differ. Financial assets evaluated on a group basis would be categorized in Bucket 2, while items evaluated on an individual basis would be in Bucket 3.

Other key developments to date

- ▶ The guiding principle of the three-bucket approach reflects the general pattern of the deterioration in the credit quality of financial assets.
- ▶ Measurement of impairment would be based on expected losses rather than incurred losses. Entities would use the best available and supportable information at the date of estimation (historical, current and forecasted).

What's next

The Boards are continuing to develop the new credit impairment approach, including its application to debt securities, purchased loans, loan commitments, and trade and lease receivables. The Boards have not yet concluded on whether the new impairment approach is applicable to improvement in the credit quality of financial assets (that is, whether the model would be symmetrical). The FASB plans to expose this approach in the first half of 2012.

Summary and observations – hedging

The Financial Instruments project timeline above does not reflect timing for the project's hedging phase. The FASB has not started redeliberations of its hedging model.

Background

Although the hedging project is intended to be a joint project, the two Boards have issued separately developed exposure drafts. The FASB's proposal intends to simplify hedge accounting while leaving the basic framework intact, including what constitutes eligible hedge relationships. The IASB completely revamped its hedging model to better align the accounting for hedging activities with an entity's risk management practices and to simplify certain aspects of hedge accounting.

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- ▶ The FASB is currently conducting user outreach on its proposed hedging model and plans to begin redeliberations upon the completion of its project on the classification and measurement of financial instruments.
- ▶ The IASB is working on its macro hedging project and intends to issue an exposure draft in the second half of 2012.

Other key developments to date

- ▶ The FASB and the IASB separately exposed their hedging models in 2010. In a February 2011 Discussion Paper (DP), the FASB sought feedback from its constituents on the IASB's model that the Board will consider in its redeliberations.
- ▶ The IASB has largely concluded redeliberations of its general hedging model and is preparing to finalize that standard in the first half of 2012.

What's next

We expect the FASB to begin redeliberations in early 2012. The IASB will post a review draft of its final standard for at least 90 days.

Background

Both Boards wish to develop a single, common revenue recognition model that can be applied to a wide range of industries and transactions. US GAAP has been criticized for complexity in the revenue recognition area, while IFRS is perceived as lacking necessary application guidance. Revenue would be recognized when an entity satisfies its obligations to customers, which occurs when control of the good or service is transferred to the customer.

Other references

- ▶ [Technical Line, Double-exposure: The revised revenue recognition proposal \(SCORE No. BB2231\)](#)¹
- ▶ [To the Point, A new proposal for revenue recognition \(SCORE No. BB2210\)](#)

Summary and observations

Q4 2011

- ▶ The Boards re-exposed their joint revenue recognition proposal. This will delay completion of the project, likely until at least the fourth quarter of 2012, but will give constituents a chance to comment on the revised model.
- ▶ The proposed model would apply to most contracts with customers. Leases, insurance contracts, financial instruments, guarantees and certain nonmonetary transactions are excluded from the scope of the proposal.
- ▶ Certain aspects of the proposed model would result in a significant change from current practice, including:
 - ▶ An entity would account for promised goods or services separately if they are distinct. The determination of distinct considers both the individual goods and services promised as well as how those goods and services have been bundled in the arrangement. An entity would account for a bundle of goods and services as one performance obligation if the goods and services are highly interrelated and transferring them requires significant integration and modification by the entity.
 - ▶ Variable consideration would be estimated based on a probability weighting or the amount most likely to be received, whichever best predicts the amount to be received. Variable consideration would be allocated to performance obligations, but the entity would recognize as revenue only the amounts to which it is reasonably assured to be entitled.
 - ▶ A performance obligation is satisfied continuously if (1) the entity's performance creates or enhances an asset that the customer controls as the asset is being created or (2) the entity's performance does not create an asset with alternative use to the entity and certain criteria are met.
 - ▶ The scope of the onerous performance obligation test is limited to performance obligations satisfied over a period greater than one year (determined at contract inception). Any loss and corresponding liability would be measured using the lesser of the cost to fully satisfy the performance obligation or the cost to exit the contract.
 - ▶ Allowances for uncollectible amounts would be presented as a separate line item adjacent to revenue in the statement of operations. Changes in estimated or actual collections would be recognized in the same line item.
 - ▶ For contracts longer than one year, an entity would recognize the incremental costs of obtaining a contract as an asset (capitalization is permitted but not required for contracts with a duration of less than one year). The costs incurred in fulfilling a contract (e.g., setup costs) would also be capitalized. Such costs would be recognized in the statement of operations consistent with the pattern of transfer of the related good or service.
 - ▶ All entities would apply the standard retrospectively, although some practical relief from full retrospective application would be permitted with appropriate disclosures. A final standard would not be effective before 1 January 2015.

What's next

Comments on the exposure draft are due by 13 March 2012.

¹ A number of industry supplements to this Technical Line are available.

Background

Although current requirements under US GAAP and IFRS are similar, the Boards consider this a priority project due to the need for significant improvement in the accounting for leases.

The joint FASB and IASB proposal would create a single lessee model that would apply to most leases and require the recognition of lease-related assets and liabilities on the balance sheet. The proposal would also address accounting by lessors. The proposed model would require entities to make a number of estimates and periodically reassess those estimates in accounting for leases. The guidance would affect existing leases at transition.

Other references

- ▶ [To the Point, Operating lease accounting survives for some real estate lessors \(SCORE No. BB2198\)](#)
- ▶ [Practical matters for the c-suite, Lease accounting proposals: simplified, but not simple \(SCORE No. BB2169\)](#)
- ▶ [Technical Line, Lessee model comes together as leases project progresses \(SCORE No. BB2156\)](#)

Summary and observations

Q4 2011

- ▶ Certain lessors of investment property would qualify as investment property entities and apply specialized accounting. All other lessors would account for their leases of investment property as operating leases.
- ▶ Lessees and lessors could transition following either a full retrospective approach or a modified retrospective approach (i.e., an approach that allows certain types of relief that the Boards designed to reduce transition costs).

Other key developments to date

- ▶ The Boards decided to re-expose the standard because they made significant changes to the model proposed in 2010.
- ▶ The Boards clarified the key concepts underlying the definition of a lease to align control concepts with other standards. These changes could scope out certain contracts that are currently accounted for as leases.
- ▶ Lessees would be required to apply a single approach to all leases recognized on the balance sheet, and all leases (other than short-term leases) would have accelerated expense recognition.
- ▶ For leases other than leases of investment property and short-term leases, lessors would recognize a lease receivable, a residual asset and any profit or loss at the commencement of each lease. Over the term of the lease, the lessor would recognize income related to interest on the receivable and accretion of the residual asset.
- ▶ Both lessees and lessors would be allowed to apply current operating lease accounting to short-term leases.
- ▶ The lease term for accounting purposes would include optional periods only when there is a significant economic incentive for the lessee to extend or not terminate the lease (e.g., renewal rates priced at a bargain, significant customization or installment costs). The accounting for purchase options included in lease arrangements would be consistent with the accounting for options to extend a lease.
- ▶ Variable lease payments based on performance or usage would not be included in the amounts recognized on the balance sheet but instead would be recognized as expense or income when they are incurred or accrued.
- ▶ Reassessment of certain key considerations (e.g., lease term, variable lease payments that depend on an index or rate) would be required throughout the life of the lease. The reassessment requirements would vary, as would the offset recorded when the liability to make lease payments or lease receivable is adjusted.
- ▶ All non-lease components (including services and executory costs) of contracts containing both lease and non-lease components would be separated from the lease components, except in limited circumstances.
- ▶ No unique criteria would exist for sale-leasebacks. The determination of whether sale-leaseback transactions are accounted for as a sale and a lease, or as a financing transaction, would be based on revenue recognition guidance.

What's next

The Boards are close to completing redeliberations and intend to issue an exposure draft during the first half of 2012.

Background

The FASB's DP solicited input on its preliminary views and the IASB's proposal for a comprehensive model on the accounting for insurance contracts. The proposals are far-reaching and would have a significant effect on insurers.

Other references

- ▶ [Insurance Accounting Alert, IASB decides to consider limited improvements to IFRS 9; Boards discuss unbundling \(SCORE No. AU1022\)](#)
- ▶ [Insurance Accounting Alert, Boards discuss fixed-fee service contracts \(SCORE No. AU1006\)](#)
- ▶ [Insurance Accounting Alert, IASB opens the residual margin; Boards define acquisition costs \(SCORE No. AU0904\)](#)
- ▶ [Insurance Accounting Alert, Boards remain split on the approach to margins \(SCORE No. AU0863\)](#)
- ▶ [Insurance Accounting Alert, Boards disagree on measurement of certain participating contracts \(SCORE No. AU0857\)](#)
- ▶ [Insurance Accounting Alert, Boards continue discussions; focus on discount rate \(SCORE No. AU0830\)](#)
- ▶ [Insurance Accounting Alert, IASB and FASB make further progress \(SCORE No. AU0811\)](#)
- ▶ [Practical matters for the c-suite, Insurance contracts: profound changes for accounting and the business \(SCORE No. BB2011\)](#)
- ▶ [Insurance Accounting Alert, FASB provides preliminary views on insurance accounting \(SCORE No. BB2008\)](#)

Summary and observations

Q4 2011

- ▶ Fixed-fee service contracts would be excluded from the insurance contracts model when: (1) pricing is not based on an assessment of risk associated with an individual customer, (2) compensation is typically in the form of service and (3) risk transferred relates mostly to the overutilization of services.
- ▶ A practical expedient would permit insurers not to discount certain incurred claims under the premium allocation approach.
- ▶ Under the premium allocation approach, an insurance contract would be onerous if the expected present value of the future cash outflows from that contract (plus, for the IASB, the risk adjustment) exceeds the expected present value of the future cash inflows in the pre-coverage period or the carrying amount of the liability for the remaining coverage.
- ▶ The FASB agreed with the IASB's earlier decision that the fulfillment cash flows relating to policyholder participation features should be measured on the same basis as the underlying items in which the policyholder participates.

Other key developments to date

- ▶ The standard will not prescribe a particular method for determining the discount rate (e.g., top-down or bottom-up approach), but the rate should reflect the characteristics of the liability and should be a current rate that is updated each reporting period. To the extent that cash flows depend (wholly or partly) on the performance of specific assets, the insurer should adjust those cash flows using a discount rate that reflects that dependence.
- ▶ The FASB tentatively decided that the measurement of an insurance contract liability should include a single margin. The IASB tentatively decided that the measurement model should contain an explicit risk adjustment and residual margin. The Boards will evaluate how differences in approach might be addressed through disclosures. The IASB tentatively decided that the residual margin would be adjusted (i.e., unlocked), on a prospective basis, for changes in estimates of cash flows, and that the residual margin would be amortized over the coverage period. The FASB would not favor unlocking the residual margin if it were to adopt an approach that included a residual margin.
- ▶ The FASB decided that under the premium allocation approach, the liability for incurred claims should be measured as the discounted unbiased cash flows without a single margin. The FASB decided that under the building block approach, an insurer should recognize the single margin in income as it is released from risk, the determination of which will depend on the nature of the uncertainty in the cash flows.
- ▶ Insurers should not recognize insurance contract assets and liabilities until the coverage period begins, although the contract would be subject to an onerous test.
- ▶ The Boards continue to believe that certain portions of insurance contracts should be unbundled and will decide on the specific criteria at a later date.
- ▶ The FASB reaffirmed that only direct acquisition costs related to successful efforts would be included, while the IASB would continue to include direct acquisition costs associated with both successful and unsuccessful efforts.

What's next

The FASB plans to continue redeliberating jointly with the IASB over the next several months.

Background

The FASB's proposed changes would affect all reporting entities, particularly those in the asset management industry, and would rescind the current FAS 167 deferral for certain investment companies. Prior to 2011, the FASB was working on a single consolidation model with the IASB. However, the FASB disagreed with the application of certain principles (e.g., potential voting rights and de facto control) included in the IASB's model. Instead, the FASB decided to make targeted revisions to the two consolidation models in US GAAP that would more closely align the models with IFRS.

Other references

- ▶ [Technical Line, Consolidation and investment company accounting could change \(SCORE No. BB2228\)](#)
- ▶ [To the Point, Consolidation models may move closer together \(SCORE No. BB2209\)](#)
- ▶ [To the Point, Key differences between IASB's new consolidation guidance and US GAAP \(SCORE No. BB2133\)](#)

Summary and observations

Q4 2011

- ▶ A decision maker (e.g., asset manager, general partner) of a variable interest entity (VIE) or voting partnership would be required to evaluate three factors to determine whether it is using its power as a principal or as an agent. A decision maker that acts as a principal is deemed to have a controlling financial interest, and would therefore consolidate the entities it controls. A decision maker that acts as an agent on behalf of and for the benefit of another party or parties generally does not have a controlling financial interest in the entity.
- ▶ The deferral of consolidation guidance in FAS 167 for certain investment funds would be rescinded.
- ▶ One of the criteria that a decision maker or service provider must meet (under FAS 167 and previously under FIN 46(R)) to conclude that its fees do not represent a variable interest would be removed. A decision maker or service provider would no longer assess whether its fees are at or above the same level of seniority as other operating liabilities of the entity. Consequently, a fee arrangement could be subordinate to other operating liabilities of the entity and not represent a variable interest.
- ▶ The Voting Model's consideration of removal and participating rights would be more closely aligned with the Variable Interest Model. For example, in both models, if a single party (including its related parties) holds substantive rights to remove the decision maker without cause, the decision maker would be an agent. However, if multiple parties (including a Board of Directors) must come together to remove the decision maker, the removal rights would not be determinative. In that case, as the number of parties required to come together to exercise the removal rights increases, the less likely that those rights would be deemed substantive.
 - ▶ This could result in a change in practice for some general partners that currently do not consolidate limited partnerships (or similar entities) as a result of substantive removal or participating rights held by limited partners.

Other key developments to date

- ▶ The IASB issued its single consolidation model (IFRS 10) in May 2011. The new IASB guidance is similar to the US GAAP guidance, but creates new differences between US GAAP and IFRS in some areas, and some long-standing differences also remain.

What's next

The comment period for the proposal was extended until 15 February 2012.

Background

The Boards recently issued proposals to define an investment company and to provide accounting guidance for those entities' investments. The concept of an investment company is new to IFRS. The FASB also has a separate proposal to define an investment property entity (a new term) and how it accounts for investments.

Other references

- ▶ [Technical Line, Consolidation and investment company accounting could change \(SCORE No. BB2228\)](#)
- ▶ [Technical Line, New investment property guidance may be in store for real estate entities \(SCORE No. BB2225\)](#)
- ▶ [To the Point, Redefining investment companies and how they account for investments \(SCORE No. BB2201\)](#)
- ▶ [To the Point, Real estate investment properties could be moving to fair value \(SCORE No. BB2200\)](#)

Summary and observations

Q4 2011

- ▶ Entities registered under the Investment Company Act of 1940 would automatically qualify as an investment company. All other entities would be required to meet six criteria to be an investment company. As a result, an entity that qualifies as an investment company today may no longer qualify under the proposal. For example, certain entities with a single investor or a single investment may not meet the "pooling of funds" or "nature of investment activities" criteria, respectively.
- ▶ The proposal would eliminate the current scope exception for real estate investment trusts (REITs). However, an entity that invests in real estate (e.g., a REIT or real estate opportunity fund) would first evaluate whether it qualifies (under a separate FASB proposal) as an investment property entity (IPE). If the entity meets the definition of an IPE, it would be in the scope of that guidance and would not be in the scope of the investment company guidance. If not, an entity would evaluate whether it is an investment company.
- ▶ Consistent with current US GAAP, an investment company would be required to account for its investments in non-investment companies at fair value. In a change from current US GAAP, an investment company would be required to consolidate another investment company or IPE that it controls. For example, a fund of funds would be required to consolidate controlled funds that are investment companies. As a result, an investment company that consolidates another investment company may have to present noncontrolling interests in its consolidated financial statements.
- ▶ In consolidation, investment company and non-investment company parents would retain their investment company subsidiary's fair value accounting for the underlying investments.
- ▶ New disclosures would be required, including changes to the presentation of financial highlights.

Other key developments to date

- ▶ The IASB issued its proposed amendments to IFRS for investment companies in August 2011. While the Boards' proposals would largely converge the definitions of an investment company in US GAAP and IFRS, differences in accounting and reporting would remain. Unlike the FASB's proposal, the IASB's proposal would require an investment company to account for all of its investments at fair value and generally would prohibit consolidation of another investment company.

What's next

The comment periods for the FASB's investment companies and investment property entities proposals were extended until 15 February 2012. Comments on the IASB's investment entities proposal are due by 5 January 2012. The Boards plan to hold roundtables after the comment periods end.

Inactive joint projects

Reporting discontinued operations

Background

The Boards plan to align their definitions of discontinued operations and related disclosures. The FASB will re-expose the proposed guidance. The IASB will consider at a later date whether re-exposure for additional disclosure requirements is necessary.

Key developments to date

- ▶ Discontinued operations would continue to be presented in a separate section on the face of an entity's financial statements.
- ▶ A discontinued operation would be defined as a component that has either been disposed of, or is classified as held for sale, and meets any of the following criteria:
 - ▶ Represents a separate major line of business or major geographical area of operations
 - ▶ Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations
 - ▶ Is a business that meets the criteria to be classified as held for sale on acquisition
- ▶ Certain requirements in existing US GAAP for discontinued operations classification (i.e., elimination of cash flows of the component and prohibition of significant continuing involvement) would be eliminated.

Emissions trading schemes

Background

The Boards have acknowledged that this area is becoming more important as more countries adopt allocation and trading systems to control emissions.

Key developments to date

- ▶ Purchased and allocated emissions allowances would be recognized as assets. The allocation of allowances would be recognized as a liability.
- ▶ Purchased and allocated allowances, as well as the liability for allocation of allowances, would be initially and subsequently measured at fair value.

Financial statement presentation

Background

The proposed model would significantly change the way that entities present their financial position, performance and cash flows. It would also require more disaggregation of information within the primary financial statements.

Key developments to date

- ▶ The FASB and IASB staffs provided the Boards with the results of outreach activities related to the July 2010 Staff Draft on financial statement presentation.
- ▶ No decisions were made about technical aspects of the project. However, the information provided by the staffs suggests that they may ask the Boards to reconsider several key aspects of the Staff Draft before issuing an ED.

Financial instruments with characteristics of equity

Background

The project to distinguish equity instruments from those that are assets or liabilities responds to criticism of both US GAAP and IFRS requirements. The existing guidance is complex and inconsistent.

What's next

The above joint projects were reassessed as lower-priority projects. Further action is not expected in the near term.

Joint projects completed in 2011

Projects completed in Q4 2011

Disclosures about offsetting assets and liabilities

Highlights of the new guidance issued in December 2011

- ▶ New disclosures are required to help users of financial statements understand certain significant quantitative differences in balance sheets prepared under US GAAP and IFRS related to the offsetting of financial instruments.
- ▶ These disclosures include: amounts netted in the balance sheet, amounts subject to an enforceable master netting arrangement that are not presented net in the balance sheet either because management makes an accounting policy election not to offset or because the arrangement does not meet some or all of the conditions for offsetting and financial collateral arrangements.
- ▶ Entities are required to disclose the above information in a tabular format and may choose to show certain items categorized by counterparty or type of financial instrument. Qualitative information about rights of setoff that do not result in net presentation is also required.

Differences remaining between US GAAP and IFRS

- ▶ Although certain disclosures will be converged with IFRS, the differences in the criteria for offsetting remain.

What's next

The new disclosures are effective retrospectively for annual reporting periods beginning on or after 1 January 2013, and interim periods within those annual periods.

Other references

- ▶ [To the Point, Offsetting of financial instruments – new disclosures \(SCORE No. BB2252\)](#)

Projects completed in prior quarters

Presentation of other comprehensive income

New guidance issued in June 2011

- ▶ FASB: ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*

Q4 2011

- ▶ In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, deferring the requirement that companies present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. Also deferred is the requirement to present reclassification adjustments in interim periods. The FASB expects to complete a project to reconsider the presentation requirements for reclassification adjustments in 2012.
- ▶ IASB: Amendments to IAS 1, *Presentation of Financial Statements*

Other references

- ▶ [To the Point, Reclassifications are deferred – for now \(SCORE No. BB2251\)](#)
- ▶ [To the Point, Other comprehensive income is moving \(SCORE No. BB2146\)](#)

Fair value

New guidance issued in May 2011

- ▶ FASB: ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*
- ▶ IASB: IFRS 13, *Fair Value Measurement*

Other references

- ▶ [Technical Line, Fair value measurement, a closer look at the converged guidance \(SCORE No. BB2147\)](#)
- ▶ [To the Point, Fair value measurement guidance converges \(SCORE No. BB2130\)](#)

Joint projects timeline

Active projects		2010	Q1 - Q3 2011	Q4 2011	Q1 - Q2 2012	Q3 - Q4 2012	
Financial Instruments	Classification and measurement	FASB	ED ¹	RT		ED ²	
		IASB	Final ³		ED ³	Final ³	
Impairment		FASB	ED ¹	RT	SD		ED ²
		IASB			SD		ED
Hedging		FASB	ED ¹	RT	DP		
		IASB	ED				Staff draft
Balance Sheet – Offsetting		FASB			ED	RT	Final
		IASB			ED	RT	Final
Revenue Recognition		FASB	ED	RT			ED
		IASB	ED	RT			ED
Leases		FASB	ED	RT			ED
		IASB	ED	RT			ED
Insurance Contracts		FASB	DP	RT			ED
		IASB	ED	RT			ED ⁵
Consolidation			Joint ⁶		ED ⁶		RT
		FASB	RT				ED ⁷
		IASB	Staff draft		Final		

ED – Exposure draft RT – Roundtable SD – Supplementary document DP – Discussion paper

¹ The FASB issued a single comprehensive proposal on all three phases of this project.

² The FASB will at a minimum expose the proposed amendments to the Codification, and may decide to fully re-expose the model, most likely in the first half of 2012.

³ The IASB's final IFRS on classification and measurement for liabilities. In Q4 2011, the IASB deferred the mandatory effective date of IFRS 9.

⁴ The IASB expects to issue a separate ED on macro hedge accounting in the second half of 2012.

⁵ The IASB will issue an ED or review draft.

⁶ The joint project relates only to consolidation by investment companies. The IASB issued its ED in Q3. The FASB issued its ED in Q4.

⁷ FASB amendments to principal-agent guidance in ASC 810.

⁸ In Q4 2011, the FASB deferred certain presentation requirements of ASU 2011-05. See detail above in Projects completed in prior quarters.

Note: Timing for some FASB projects is presented based on discussions with staff and/or Board members and may differ from the technical plan on the FASB website.

Inactive projects

Financial Statement Presentation
Reporting Discontinued Operations
Financial Instruments with Characteristics of Equity
Emissions Trading Schemes

Recently completed projects

Balance Sheet – Offsetting
Statement of Comprehensive Income⁸
Fair Value Measurement

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