

# Joint Project Watch

IASB/FASB joint projects from an IFRS perspective

May 2011<sup>1</sup>

Keeping up with the standard-setting activities of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) (collectively, the Boards) on their many joint projects can be challenging. But with several major projects in active stages, it's important that you consider the potential effects of new standards on your company. The Boards have revised their work plans, announcing delays on certain projects, but are still scheduled to complete work on many of these projects in 2011.

This publication is designed to provide a snapshot of key developments from an IFRS 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 [www.ey.com/ifrs](http://www.ey.com/ifrs).

The following sections are based on our observations of the standard-setter meetings. The Boards are actively redeliberating many of these projects, making 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.

## Joint projects

Financial instruments.....	1
Revenue recognition.....	4
Leases.....	5
Fair value measurement.....	6
Insurance contracts.....	7
Consolidation.....	8
Other joint projects.....	9
Presentation of other comprehensive income.....	9
Reporting discontinued operations.....	9
Emissions trading schemes.....	10
Financial instruments with characteristics of equity.....	10
Financial statement presentation.....	10
Joint project timeline.....	11

<sup>1</sup> Certain topics include tentative decisions made on 1-2 June 2011 and have been labelled accordingly.

# Financial instruments

## Overall project background

The financial instruments project addresses: classification and measurement; impairment; hedging; and offsetting. Except for offsetting, the Boards initially deliberated these topics separately due to differing timelines and priorities, resulting in separate proposals. The IASB issued a final standard on classification and measurement (IFRS 9) and separate proposals on impairment and hedging, whereas the FASB issued one comprehensive ED.

## Financial instruments – classification and measurement

November 2009 and October 2010  
Final standard

### Background

IFRS 9 *Financial Instruments* requires entities to classify financial assets on the basis of the objective of the entity's business model for managing the financial assets and the characteristics of the contractual cash flows. While the FASB's proposals would require fair value measurement for many financial assets and financial liabilities, IFRS 9 permits more use of amortised cost.

### Key developments to date

- ▶ IFRS 9 for financial assets was first published in November 2009. It was later updated in October 2010 to include financial liabilities. For more details of IFRS 9, refer to our publications on this topic.
- ▶ The FASB is now redeliberating its proposals on the classification and measurement of financial instruments, addressing feedback received from its constituents. The FASB expects to complete these redeliberations in the third quarter of 2011. The IASB will then expose the FASB's final decisions to seek views from its constituents.

### References

- ▶ [Supplement to IFRS Outlook Issue 89: IASB completes phase 1 of IFRS 9: \*Financial Instruments - Classification and Measurement\* \(November 2010\)](#)
- ▶ [Implementing phase 1 of IFRS 9: \*Financial instruments\* \(June 2010\)](#)
- ▶ [Supplement to IFRS Outlook Issue 60: IASB publishes IFRS 9: phase 1 of the standard to replace IAS 39 \(November 2009\)](#)

## Financial instruments – impairment

Q4 2009  
Exposure draft

Q1 2011  
Supplement to  
exposure draft

Jun-Sep 2011  
Ballot and final standard

### Background

Although their original proposals on impairment differ significantly, the Boards jointly issued a supplement to their EDs (Supplementary Document or SD), proposing a joint model. In that document, the Boards also asked for feedback on approaches to impairment that they have developed separately.

### Tentative decision in May 2011

- ▶ Based on the feedback received on the SD, the Boards decided not to pursue the joint impairment approach proposed in the SD. Instead, they will develop a new approach based on variations of the previous proposals, taking into account the feedback on the Boards' EDs and the SD.

### What's next

A small working group of Board members and senior staff from both the IASB and the FASB will develop specific suggestions to move forward.

### References

- ▶ [IFRS Outlook: What we think of the new proposed approach for impairment of financial assets \(March/April 2011\)](#)
- ▶ [Supplement to IFRS Outlook Issue 95: IASB and US FASB propose a joint approach to accounting for credit losses \(February 2011\)](#)
- ▶ [IFRS Outlook: Impairment of financial assets – where is it heading? \(July 2010\)](#)
- ▶ [Supplement to IFRS Outlook Issue 61: New proposals for financial instruments at amortised cost \(November 2009\)](#)

# Financial instruments continued

## Financial instruments – hedging



### Background

The IASB's proposed hedging model is designed to better align the accounting for hedging activities with risk management practices and to simplify certain aspects of hedge accounting. The FASB model would make it easier to qualify for hedge accounting than under existing US GAAP. The basic US GAAP framework, including what constitutes eligible hedge relationships, would not be significantly adjusted.

The IASB has begun to redeliberate its hedging proposals, addressing feedback received from its constituents.

### Tentative decisions in May 2011<sup>1</sup>

- ▶ The ED's proposals for the hedge effectiveness test introduce new terminology such as, the requirements that the hedge relationship minimise ineffectiveness, be unbiased and result in offset that was other than accidental. The IASB decided to replace these terms such that the hedge effectiveness test would be based on the quantity of hedged item an entity actually hedges and the quantity of the hedging instrument that is actually being used to hedge that quantity of hedged item. In addition, there must be an economic relationship between the hedged item and the hedging instrument, and the effect of credit risk must not dominate the value changes that result from that relationship.
- ▶ The IASB decided that, after the inception of a hedging relationship, rebalancing would be required when an entity adjusts the quantities of the hedging instrument, or the hedged item in response to changes in circumstances that affect the hedge ratio.
- ▶ The Board confirmed the ED's proposal that a hedge relationship may be discontinued only when it no longer meets the qualifying criteria. Voluntary discontinuation would be prohibited when the risk management strategy and objective remain unchanged.
- ▶ The IASB also confirmed its proposals in respect of the time value of options. The standard would include application guidance to distinguish between transaction related and time period related hedged items.

<sup>1</sup> Includes tentative decisions made at the 1–2 June 2011 meetings.

### Previous key developments

- ▶ Hedge accounting would be permitted for equity investments measured at fair value through other comprehensive income (OCI). However, hedge accounting would not be allowed for other exposures that affect OCI, such as economic hedges of defined benefit obligations.
- ▶ In another change to the ED, the current accounting for fair value hedges would continue to apply. That is, the fair value changes of the hedging instrument and the hedged item would be recognised in profit or loss, and the gain or loss on the hedged item would be reflected as an adjustment to the carrying amount of that item on the balance sheet. Disclosures of the effects of the fair value hedges, including gross gains and losses on the hedged item and the hedging instrument and the hedge ineffectiveness, would be required in the notes to the financial statements.
- ▶ The IASB affirmed that entities would be permitted to hedge a layer within the hedged item to the extent the amounts are not pre-payable. However, entities may also hedge a prepayable layer if the effect of prepayment is included in measurement of the hedged item.
- ▶ The IASB has decided to align the treatment of changes in the time value of options and zero-cost collars. This was based on the feedback that, from a risk management perspective, zero-cost collars (i.e., the combination of a purchased and a written option that at inception has a net time value of zero) are used for exactly the same purpose as options.
- ▶ Hedge accounting would be permitted for components of financial and non-financial items, provided the risk component that is being hedged can be separately identified and measured. There would also be no bright line tests for hedge effectiveness assessments.
- ▶ In a February 2011 discussion paper (DP), the FASB sought comments from its constituents on the IASB's model. The comment period for the DP ended on 25 April 2011.

### What's next

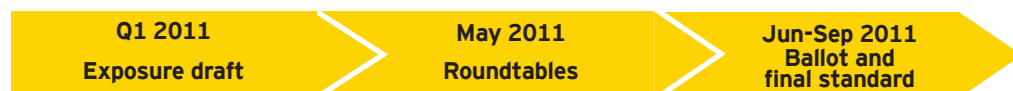
The IASB will continue its redeliberations over the next few months. The IASB will also develop proposals related to macro hedge accounting, which is not covered in the ED, before it finalises the more general hedge accounting proposals in the ED.

### References

- ▶ [IFRS Outlook: Our views on the hedge accounting proposals \(March/April 2011\)](#)
- ▶ [Hedge accounting under IFRS – a closer look at the changes and challenges \(February 2011\)](#)
- ▶ [Supplement to IFRS Outlook issue 91: Hedge accounting under IFRS – all set for change \(December 2010\)](#)

# Financial instruments continued

## Financial instruments – balance sheet offsetting



### Background

The Boards issued a joint proposal on the offsetting criteria for financial instruments, in an effort to eliminate a significant difference between IFRS and US GAAP.

### Tentative decisions in May 2011

- ▶ The Boards discussed the mixed feedback they received on their joint proposal as well as differences of opinion among Board members and staff about the unit of account, collateral arrangements and the notion of simultaneous settlement for transactions handled by clearing houses. Before moving ahead, the Boards decided they need more information about several topics, including unit of account, collateral arrangements and simultaneous settlement.

### Previous key developments

The Boards issued a joint proposal that would amend and converge the requirements for balance sheet offsetting under both IFRS and US GAAP.

- ▶ The proposal would replace the current IFRS requirement for financial assets and financial liabilities.
- ▶ Offsetting of assets and liabilities would be required when an entity has both an unconditional, legally enforceable right of set-off and intends to settle either on a net basis or simultaneously. The realisation of a financial asset and the settlement of a financial liability are considered to be simultaneous only when they are settled at the same moment.
- ▶ The proposal is similar to the existing IFRS requirements except:
  - ▶ The right of set-off must be legally enforceable in all circumstances (i.e., in the normal course of business, as well as on the default, insolvency or bankruptcy of a counterparty).
  - ▶ Contracts executed with a clearing house may no longer be deemed to constitute simultaneous settlement since the settlement of offsetting transactions may not occur at the same moment due to processing constraints. However, the Boards are reconsidering this issue based on feedback received.

### Previous key developments (continued)

- ▶ The proposal would require extensive disclosures of the effect of rights of set-off and related arrangements, such as collateral agreements, on an entity's financial position.
- ▶ The proposal would eliminate the exception in US GAAP that allows offsetting for some arrangements in which the right of set-off is conditional (e.g., upon bankruptcy, insolvency or default of a counterparty) and there is no intention to set off. This would have a significant effect on the balance sheets of many financial institutions and other entities in the US that have large portfolios of derivative contracts.
- ▶ The proposal would also eliminate the separate guidance in US GAAP for offsetting repurchase agreements and reverse repurchase agreements, as well as certain offsetting practices within the broker dealer, construction and depository and lending industries.

### What's next

The Boards asked the staff to set up an education session to learn more about the topics they identified.

### References

- ▶ [Supplement to IFRS Outlook Issue 94: Offsetting of financial instruments: Is convergence on the horizon? \(February 2011\)](#)

# Revenue recognition



## Background

Both Boards have a strong interest in developing a single, common revenue recognition model that can be applied to a wide range of industries and transactions. IFRS is perceived as lacking necessary application guidance, while US GAAP has been criticised for the complexity of its guidance on revenue recognition. Revenue would be recognised when an entity satisfies its obligations to customers, which occurs when control of an asset is transferred to the customer.

## References

- ▶ [Supplement to IFRS Outlook Issue 101: Another step towards a final revenue standard \(April 2011\)](#)
- ▶ [Supplement to IFRS Outlook Issue 99: New revenue recognition model is taking shape \(March 2011\)](#)
- ▶ [The road to convergence: The revenue recognition proposal - retail and consumer products \(March 2011\)](#)
- ▶ [Revenue recognition – impact on the mining sector \(February 2011\)](#)
- ▶ [Revenue from contracts with customers - impact on the oilfield services sector \(February 2011\)](#)
- ▶ [Revenue from contracts with customers - impact on the oil and gas sector \(February 2011\)](#)
- ▶ [Revenue recognition under IFRS: What do respondents think of the proposed changes? \(December 2010\)](#)
- ▶ [IFRS Outlook: Our views of the revenue recognition proposals \(November 2010\)](#)
- ▶ [Revenue from contracts with customers - The road to convergence – what the revenue proposals mean in practice \(October 2010\)](#)
- ▶ [IFRS practical matters: Revenue - will your key performance measures change? \(September 2010\)](#)
- ▶ [Supplement to IFRS Outlook Issue 75: IASB and FASB propose a single revenue recognition model \(June 2010\)](#)

## Tentative decisions in May 2011

- ▶ The onerous test would apply only to performance obligations that are satisfied over time (e.g., long-term service contracts). In performing the test, the costs to be considered would be the lesser of the costs that relate directly to satisfying the performance obligation or the amount the entity would pay to cancel the contract.
- ▶ Assets arising from fulfilment costs and contract acquisition costs would be amortised, at times, over periods longer than the term of the initial contract (i.e., including expected renewals). As a practical expedient, immediate expense recognition would be allowed for acquisition costs related to contracts with a duration of one year or less. The capitalised assets would be assessed for impairment. IFRS constituents would reverse previous impairments when the impairment condition ceases to exist, while reversal of previous impairments would be prohibited by US GAAP. Additional disclosures would be required for capitalised fulfilment costs and contract acquisition costs.

## Previous key developments

- ▶ The Boards continue to believe that revenue should be recognised upon the transfer of goods and services to the customer, but have decided to treat goods and services differently. While goods would be considered transferred when the customer obtains control (consistent with the original proposal), the Boards decided that services would be transferred as the entity performs the agreed-upon services.
- ▶ An entity's commitment to provide multiple goods and services as a single integrated item would represent a single performance obligation. Otherwise, the determination would be based on whether the entity sells the good or service separately or the customer can use the delivered item on its own or with readily available resources.
- ▶ When estimating the transaction price, entities would include uncertain consideration using the approach that best predicts the amounts that will be received (i.e., either the probability-weighted amounts or the most likely amounts). However, revenue recognition would be limited to the amount that is reasonably assured to be received. Revenue is not reasonably assured when the customer could avoid payment without breaching the contract or when the entity lacks relevant experience with similar contracts.
- ▶ The estimated transaction price would be allocated using the relative standalone selling price method, except when prices are highly variable (e.g., software licences), in which case a residual technique could be used to estimate standalone selling prices. When uncertain consideration exists, a portion of (or a change in) the transaction price could be allocated entirely to the performance obligation(s) that gives rise to the variability.

## What's next

The Boards have completed redeliberations on all major aspects of the proposed model. In June, the Boards plan to discuss application of the model in certain industries as well as transition and effective date. Additionally, the Boards will decide whether to re-expose the updated proposal before finalising the standard.

# Leases

Q3 2010  
Exposure draft

Q4 2010/Q1 2011  
Roundtables

Q3 2011  
Ballot

Q4 2011  
Final standard

## Background

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

The joint IASB and FASB proposal would apply to most leases and require the recognition of lease-related assets and liabilities on the balance sheet. The proposed model would also require entities to make a number of estimates and periodically reassess those estimates in accounting for leases. As proposed, the standard would affect existing leases at transition and no leases would be grandfathered.

## References

- ▶ [IFRS Developments: A U-turn on straight-line lease expense \(May 2011\)](#)
- ▶ [Supplement to IFRS Outlook Issue 100: Straightening out lease expense and other issues \(April 2011\)](#)
- ▶ [Supplement to IFRS Outlook Issue 98: A clearer picture of leases on the balance sheet \(April 2011\)](#)
- ▶ [Supplement to IFRS Outlook Issue 96: Lease term and variable lease payments simplified \(February 2011\)](#)
- ▶ [Proposed accounting for leases \(November 2010\)](#)
- ▶ [IFRS Practical Matters for financial services: What do the proposed lease accounting changes mean for financial institutions \(September 2010\)](#)
- ▶ [IFRS Practical Matters: What do the proposed lease accounting changes mean for you? \(August 2010\)](#)
- ▶ [Supplement to IFRS Outlook Issue 79: Proposed accounting changes for leases \(August 2010\)](#)

## Tentative decisions in May 2011

- ▶ The Boards reversed course from earlier redeliberations and have reverted to a single approach for lessee accounting. Lessees would be required to apply the finance lease approach to all leases recognised on the balance sheet and no leases (other than short-term leases) would be allowed straight-line expense recognition.
- ▶ The Boards discussed the factors to consider when reassessing whether a lessee has a significant economic incentive to exercise an option (to extend or terminate a lease or purchase the underlying asset) and indicated that changes in market rates after the lease commencement would be excluded from that assessment. A change in lease payments due to a reassessment of the lease term would be recognised by a lessee as an adjustment to both the liability to make lease payments and the right-of-use asset.
- ▶ Substantive contract modifications would be accounted for as a new contract. The leases standard would include guidance on assessing whether a change to a contract is substantive.

## Previous key developments

- ▶ 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.
- ▶ 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 customisation or installment costs).
- ▶ The accounting for purchase options included in lease arrangements would be consistent with the accounting for options to extend a lease. The leases standard would not include guidance for distinguishing a lease from a purchase or sale of an underlying asset.
- ▶ Variable lease payments based on performance or usage would not be included in the amounts recognised on the balance sheet but instead would be recognised as expenses when they are incurred.
- ▶ 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.
- ▶ Both lessees and lessors would be allowed to apply current operating lease accounting to short-term leases.
- ▶ No unique criteria would exist for sale-leasebacks as 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 principles.

## What's next

The Boards still need to discuss lessor accounting, impairment, short-term leases, presentation and disclosure, transition and effective date. Additionally, the Boards will decide whether to re-expose the updated proposal before finalising the standard.

## Background

In May 2011, the IASB issued a standard on fair value measurement (IFRS 13). This standard, in combination with amendments to US GAAP by the FASB, generally converges the IFRS and US GAAP requirements for how to measure fair value and the related disclosures. IFRS 13 establishes a single source of requirements for how to measure fair value, when fair value is required or permitted by IFRS.

While the FASB agreed to change certain fair value principles in the interest of convergence, most of the amendments to US GAAP only clarify existing guidance in ASC 820. The effects of the amendments will likely vary by entity and for some entities they could be significant.

## References

- ▶ [IFRS Developments Issue 2: Fair value measurement guidance converges \(May 2011\)](#)
- ▶ [IFRS 13 Fair Value Measurement: 21st century real estate values - Implications for the real estate and construction industries \(May 2011\)](#)
- ▶ [Supplement to IFRS Outlook Issue 77: Limited re-exposure of fair value measurement disclosures \(June 2010\)](#)

## Highlights of the new standard

- ▶ IFRS 13 does not change when an entity is required to use fair value but, instead, describes how to measure fair value under IFRS when fair value is required or permitted by IFRS.
- ▶ Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”; it is an exit price.
- ▶ A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal or in the most advantageous market (in the absence of the principal market).
- ▶ Market participants are defined as the “buyers and sellers in the principal (or most advantageous) market for the asset or liability.”
- ▶ The new standard applies to measuring fair value for both financial and non-financial assets and liabilities.
- ▶ When measuring fair value, management is required to use a fair value hierarchy that classifies the inputs used to measure fair value into three levels. An entity is required to measure fair value using the valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.
- ▶ The concepts of “highest and best use” and “valuation premise” are not relevant for financial assets and liabilities. If the unit of account for the item being measured is not clear from other standards, entities should assume that market participants act in their economic best interest.
- ▶ Measuring financial assets and liabilities with offsetting risks on a portfolio basis is allowed as an exception to fair value principles, if certain criteria are met.
- ▶ The application of a “blockage factor” is prohibited in all levels of the fair value hierarchy. Other premiums or discounts (e.g., control premiums) may be applied when they are considered by market participants based on the unit of account for the item being measured, when the unit of account is not clear.
- ▶ New fair value disclosures are required.
- ▶ IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and will be applied prospectively. Early application is permitted.

## Remaining differences between IFRS and US GAAP

- ▶ Differences remain between IFRS and US GAAP regarding when fair value is required or permitted to be used.
- ▶ US GAAP does not restrict the recognition of day-one gains and losses when fair value is determined using unobservable inputs.
- ▶ US GAAP includes a practical expedient for measuring the fair value of certain alternative investments (e.g., investments in hedge funds, private equity funds, real estate funds) at net asset value.
- ▶ IFRS requires a quantitative sensitivity analysis to be disclosed for Level 3 financial instruments and qualitative information about the sensitivity of recurring Level 3 fair value measurements to changes in unobservable inputs disclosed, including a description of interrelationships between unobservable inputs.
- ▶ Generally, US GAAP allows derivative assets and liabilities to be presented on a net basis in the level 3 rollforward.
- ▶ The requirements in IFRS and US GAAP for measuring the fair value of a financial liability with a demand feature differ slightly.
- ▶ US GAAP exempts non-public entities from making certain fair value disclosures. No similar exemption exists under IFRS 13.

# Insurance contracts



## Background

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

## References

- ▶ [Insurance Accounting Alert: Boards remain split on the approach to margins \(May 2011\)](#)
- ▶ [Insurance Accounting Alert: Boards disagree on measurement of certain participating contracts \(May 2011\)](#)
- ▶ [Insurance Accounting Alert: Boards seek an approach to unbundling that is consistent with revenue recognition \(April 2011\)](#)
- ▶ [Insurance Accounting Alert: IASB and FASB make further progress \(April 2011\)](#)
- ▶ [Insurance Accounting Alert \(special edition\): Proposal for accounting for insurance contracts \(July 2010\)](#)

## Tentative decisions in May 2011

- ▶ The Boards clarified that certain reinsurance contracts would meet the definition of insurance even if there is no expected loss to the reinsurer. The Boards also highlighted when reinsurance assets should be first recognised and when to recognise certain losses arising from reinsurance contracts.
- ▶ The Boards intend to develop the unbundling principle for non-insurance goods and services included in an insurance contract consistent with the revenue recognition project's approach for identifying separate performance obligations. The Boards decided an insurer should unbundle explicit investment account balances that are credited with an explicit return that is based on the account balance.
- ▶ The IASB decided 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; the FASB did not make a decision on this topic.
- ▶ The IASB decided that the measurement model should contain an explicit risk adjustment and residual margin. The FASB decided that the measurement of an insurance contract liability should include a composite margin.
- ▶ The IASB decided not to change the requirements for presenting gains and losses on assets backing insurance liabilities. However, it may revisit this if it decides to use OCI for changes in insurance liabilities

## Previous key developments

- ▶ A particular method for determining the discount rate (e.g., top-down or bottom-up approach) would not be prescribed, but the rate would reflect the characteristics of the liability. All insurance contracts would be measured using a current discount rate updated in each reporting period (i.e., discount rate is not locked). To the extent that cash flows depend (wholly or partly) on the performance of specific assets, the insurer would adjust those cash flows using a discount rate that reflects that dependence.
- ▶ Insurance contract assets and liabilities would not be recognised until the coverage period begins, although subject to an onerous test. The Boards agreed that no gain would be recognised at the inception of a contract, while a loss at issue must be recognised.
- ▶ The Boards decided that a modified approach would apply to insurance contracts that meet certain eligibility criteria, but did not reach a conclusion on those criteria. However, they made several decisions that would affect how contracts would be accounted for under the modified approach.
- ▶ The IASB decided to include all costs that the insurer incurs in acquiring the portfolio, including costs associated with unsuccessful efforts, in cash flows of insurance contracts. The FASB, however, decided that acquisition costs should be limited to those related to successful efforts and direct costs related to the acquisition of a portfolio of contracts.
- ▶ A contract renewal would be treated as a new contract when the insurer is no longer required to provide coverage or when the existing contract does not confer any substantive rights on the policyholder. For those contracts that do not contain a financing element, the contract boundary would be based on the right to re-price the portfolio of contracts that the contract belongs to.
- ▶ The IASB decided to retain the existing approach in IFRS which permits an issuer of a financial guarantee contract to account for it as an insurance contract if the issuer had previously asserted that it regards the contract as an insurance contract. In all other cases, the issuer would account for it under the financial instruments standard. The FASB will decide on financial guarantee arrangements in a future meeting.

## What's next

The IASB plans to continue redeliberating jointly with the FASB in the coming months.

# Consolidation



## Background

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*. IFRS 10 replaces the existing IFRS consolidation requirements and establishes a single control model applicable to all entities. Under this new standard, more judgement is required to determine whether one entity controls another.

In addition, the IASB is jointly considering, with the FASB, issues relating to the accounting by investment entities for controlled investments in other entities.

## References

- ▶ [IFRS Developments Issue 1: IASB issues three new standards: \*Consolidated Financial Statements\*, \*Joint Arrangements\*, and \*Disclosure of Interests in Other Entities\* \(May 2011\)](#)
- ▶ [IFRS practical matters: What do the new consolidation, joint arrangement and disclosures accounting standards mean to you? \(May 2011\)](#)
- ▶ [IFRS Outlook: Investment companies – consolidate or measure at fair value? \(March 2010\)](#)

## Highlights of the new standard

- ▶ Under IFRS 10, control exists when the reporting entity is exposed, or has rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its power over that other entity.
- ▶ IFRS 10 is effective for annual periods beginning on or after 1 January 2013 and will be applied retrospectively.
- ▶ The FASB decided not to develop a single control model for all entities and will not converge with the IASB's consolidation requirements in IFRS 10. Accordingly, the differences between IFRS and US GAAP with respect to the concept of *de facto* control and consideration of potential voting rights will not be eliminated. However, the FASB has tentatively decided to amend its principal/agent requirements for variable interest entities (VIEs). In addition, it plans to amend certain requirements for voting interest partnerships (and similar entities). This will result in substantial convergence between IFRS and US GAAP regarding consolidation of VIEs (or structured entities) and related disclosures.
- ▶ The Boards plan to issue EDs with largely converged proposals related to the definition of an investment entity and the measurement requirements for its investments (i.e., fair value).

## What's next

- ▶ The FASB plans to propose amendments to its principal/agent and partnership requirements in Q2 2011.
- ▶ The Boards plan to issue their proposals for investment entities in June 2011.

# Other joint projects

## Presentation of other comprehensive income



### Background

The goal is to make the components of other comprehensive income more transparent and make IFRS and US GAAP financial statements more comparable.

### Tentative decision in May 2011<sup>1</sup>

- ▶ The IASB decided to modify the effective date of the amendment to annual periods beginning on or after 1 July 2012 with full retrospective application (this was previously expected to be 1 January 2012).

### Previous key developments

- ▶ Entities reporting under IFRS would continue to be permitted to present net income and other comprehensive income either in a single continuous statement or in two separate statements. The option in US GAAP to present other comprehensive income in the statement of changes in stockholders' equity would be eliminated.
- ▶ Items of other comprehensive income subject to reclassification to profit or loss in the future would be presented separately from items that will not be reclassified.
- ▶ There would be no change to how earnings per share is calculated or reported.

### What's next

Amendments to the standard on presentation of financial statements are expected in June 2011.

### References

- ▶ [Supplement to IFRS Outlook Issue 74: Proposed changes to the presentation of other comprehensive income \(May 2010\)](#)

<sup>1</sup> Includes tentative decisions made at the 1–2 June 2011 meetings.

## Reporting discontinued operations



### Background

The Boards plan to align their definitions of discontinued operations and related disclosures.

### 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 one 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
- ▶ Disclosures about continuing involvement in the discontinued operation after the disposal date would be required.
- ▶ The proposed definition of discontinued operations does not represent a significant change to IFRS.

### What's next

The IASB will not issue an ED in the second quarter of 2011, as originally planned, and will discuss, later in 2011, whether re-exposure of the additional disclosure requirements is necessary. Meanwhile, the FASB plans to re-expose its proposed guidance.

# Other joint projects continued

## Emissions trading schemes

### Background

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

### What's next

Further action by the Boards is not expected before December 2011.

## Financial instruments with characteristics of equity

### Background

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

### What's next

Further action by the Boards is not expected before December 2011.

## Financial statement presentation

### Background

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

### What's next

Further action by the Boards is not expected before December 2011.

## References

- ▶ [Supplement to IFRS Outlook Issue 78: IASB staff draft of new presentation model for financial statements \(July 2010\)](#)

# Joint project timeline

		2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Presentation of other comprehensive income	Joint	ED		Final		
Fair value measurement	Joint	ED <sup>1</sup>		Final <sup>2, 13</sup>		
Financial instruments	IASB	ED <sup>3</sup>	Final <sup>4</sup>	SD <sup>5</sup>	Ballot* / Final <sup>6</sup> (Q3 2011)	
	FASB	ED	RT	SD/DP <sup>5</sup>		Final <sup>7</sup>
▶ Balance sheet offsetting	IASB			ED	RT	Ballot* / Final (Q3 2011)
	FASB			ED	RT	Final
Revenue recognition	IASB	ED	RT		Ballot*	Final
	FASB	ED	RT		Final	
Leases	IASB	ED	RT		Ballot*	Final
	FASB	ED	RT		Final	
Consolidation	Joint <sup>8</sup>			ED	Final	
	IASB	Staff draft		Final <sup>13</sup>		
	FASB	RT		ED <sup>9</sup>	Final <sup>9</sup>	
Financial statement presentation	Joint <sup>10</sup>	Staff draft				
▶ Reporting discontinued operations	IASB <sup>11</sup>					
	FASB			ED	Final	
Financial instruments with characteristics of equity	Joint <sup>11</sup>					
Insurance contracts	IASB	ED	RT		Ballot* / Final (Q4 2011)	
	FASB	DP	RT		ED	
Emissions trading schemes	Joint <sup>11</sup>					
Effective dates and transition	Joint	DP/RV <sup>12</sup>				

**ED - Exposure draft RT - Roundtable SD - Supplementary document DP - Discussion paper RV - Request for views**

\* This refers to the formal review and voting process for new IFRS. Balloting takes place outside of Board meetings, and the IASB procedures do not require the balloting draft to be released to the public, although the IASB would not be prohibited from doing so. If the draft IFRS receives enough support, it is normally published several weeks or more after the balloting process is completed. That time is necessary for the IFRS to be formatted and the accompanying documents to be prepared.

- The FASB's ED included various amendments and implementation guidance to achieve convergence. The IASB re-exposed one new disclosure requirement.
- The disclosures related to measurement uncertainty are being separately analysed.
- IASB ED related to the hedging portion of its project.
- IASB's final IFRS on classification and measurement of liabilities.
- The Boards issued an SD on impairment in January 2011. The FASB issued a DP requesting input on the IASB's hedging proposal.
- The IASB's impairment and general hedge accounting phases of this project. A separate ED on macro hedge accounting is expected in the fourth quarter of 2011.

- The FASB's classification and measurement and impairment phases of this project. The FASB's deliberations on proposed hedging requirements will take place over the next few months.
- IASB and FASB project related only to consolidation by investment entities.
- FASB amendments to principal-agent guidance.
- The IASB will further discuss whether re-exposure of the additional disclosure requirements is necessary.
- Further action by the Boards is not expected before December 2011.
- FASB DP and IASB RV.
- Standard issued in May 2011.

*This page intentionally blank.*

Ernst & Young  
Assurance | Tax | Transactions | Advisory

#### **About Ernst & Young**

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [www.ey.com](http://www.ey.com)

© 2011 EYGM Limited.  
All Rights Reserved.

EYG no. AU0865

#### **About Ernst & Young's International Financial Reporting Standards Group**

The move to International Financial Reporting Standards (IFRS) is the single most important initiative in the financial reporting world, the impact of which stretches far beyond accounting to affect every key decision you make, not just how you report it. We have developed the global resources – people and knowledge – to support our client teams. And we work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide. It's how Ernst & Young makes a difference.



In line with Ernst & Young's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.