

# Joint Project Watch

IASB/FASB joint projects from an IFRS perspective

August/September 2011

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 continue to move forward. The Boards are redeliberating several projects and have issued final standards on others. The Boards decided to re-expose their revenue and leases models, giving constituents another opportunity to provide feedback. We encourage you to actively follow the Boards' progress and to respond to requests for comment.

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. 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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# Financial instruments

## Financial instruments – classification and measurement

<b>November 2009 &amp; October 2010</b> Final standard	<b>July 2011</b> Exposure draft on mandatory effective date of IFRS 9
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### 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 greater use of amortised cost.

### References

- ▶ [IFRS Developments Issue 12: IFRS 9 mandatory effective date to move to 2015 \(July 2011\) EYG no. AU0915](#)
- ▶ [Supplement to IFRS Outlook Issue 89: IASB completes phase 1 of IFRS 9: \*Financial Instruments - Classification and Measurement\* \(October 2010\) EYG no. AU0680](#)
- ▶ [Implementing Phase 1 of IFRS 9 \(Second edition\) \(July 2011\) EYG No. AU0897](#)
- ▶ [Supplement to IFRS Outlook Issue 60: IASB publishes IFRS 9: phase 1 of the standard to replace IAS 39 \(November 2009\) EYG No. AU0387](#)

### Overall project background

The financial instruments project addresses the following: classification and measurement; impairment; hedging; and offsetting. The Boards' overall objective is to simplify and converge the accounting for financial instruments. Except for offsetting, the Boards initially deliberated these topics separately to accommodate different timelines and priorities, resulting in separate proposals. The IASB issued the final standard on classification and measurement (IFRS 9) and separate proposals on impairment and hedging, whereas the FASB issued one comprehensive ED.

### Previous key developments

- ▶ The IASB proposed to defer the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, with earlier application permitted.
- ▶ IFRS 9 currently provides relief from the requirement to restate comparative figures for entities that elect to early adopt the standard before 2012. The IASB proposed in its ED on the mandatory effective date of IFRS 9 not to extend this relief to periods beginning before 1 January 2015.
- ▶ 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 on IFRS 9, refer to our publications listed below 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 hopes to complete these redeliberations in the fourth quarter of 2011. The FASB will, at a minimum, expose the proposed amendments to the FASB Accounting Standards 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 to seek views from its constituents.

### What's next

Comments on the IASB's proposal to defer the mandatory effective date of IFRS 9 to 2015 are due on 21 October 2011.

# Financial instruments continued

## Financial instruments – impairment

<b>Q4 2009</b> Exposure draft	<b>Q1 2011</b> Supplement to exposure draft	<b>Q4 2011 or 2012</b> Re-exposure or review draft
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### Background

The Boards initially proposed different approaches to impairment. They then developed a joint approach, as proposed in a Supplementary Document to their EDs, but decided not to pursue it. The Boards are now developing a new approach to credit impairment based on variations of the previous proposals and taking into account the feedback received.

### References

- ▶ [IFRS Developments Issue 11: New credit impairment approach takes shape \(July 2011\) EYG no. AU0913](#)
- ▶ [IFRS Developments Issue 9: A new approach to credit impairment is in the works \(June 2011\) EYG no. AU0895](#)

## Tentative decisions in September 2011

- ▶ The Boards directed the staff to pursue an absolute credit quality approach for the three bucket impairment model (see *Previous key developments* below), under which originated financial assets would initially be included in one of the three buckets based on the credit quality of each asset upon origination. This is a big change from the Boards' previous plan to pursue a relative credit risk approach, under which all purchased and originated financial assets would initially be included in Bucket 1, regardless of credit quality. Under the absolute credit quality approach, assets would move between buckets based on changes in credit quality.
- ▶ The Boards will consider the application of an absolute credit quality approach for: (1) lending institutions in particular jurisdictions that originate financial assets of lower credit quality; and (2) purchased impaired financial assets.

### Previous key developments

- ▶ Financial assets would be split into three buckets, based on their underlying credit risk characteristics:
  - ▶ Bucket 1 - assets that do not meet the criteria for either of the other two buckets
  - ▶ Bucket 2 - assets for which possible future defaults may occur, but the specific assets that may default have not been identified
  - ▶ Bucket 3 - individual assets for which available information indicates that credit losses are expected to occur, or have occurred
- ▶ An allowance for 12 months or 24 months (no final decision yet) of expected credit losses calculated at the portfolio level would be required for financial assets in Bucket 1. Buckets 2 and 3 would require allowances for full lifetime expected losses, calculated at the portfolio level and the individual asset level, respectively.

### What's next

The Boards will further develop the new credit impairment approach and are expected to expose that approach in 2011 or 2012.

# Financial instruments continued

## Financial instruments – hedge accounting

<b>Q4 2010</b> Exposure draft	<b>Q4 2011</b> Staff draft	<b>Q1 2012</b> Ballot and final standard
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### 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.

### References

- ▶ [IFRS Developments Issue 16: Hedge accounting - summary of redeliberations \(September 2011\) EYG no. AU0965](#)
- ▶ [IFRS Developments Issue 14: A step forward in hedge accounting \(August 2011\) EYG no. AU0926](#)
- ▶ [IFRS Outlook: Our views on the hedge accounting proposals \(March/April 2011\) EYG no. AU0829](#)
- ▶ [Hedge accounting under IFRS – a closer look at the changes and challenges \(February 2011\) EYG no. AU0765](#)
- ▶ [Supplement to IFRS Outlook Issue 91: Hedge accounting under IFRS – all set for change \(December 2010\) EYG no. AU0715](#)

### Tentative decisions in September 2011

- ▶ When hedging a credit exposure using a credit derivative, an entity could at any time elect to account for the loan or loan commitment (i.e. the hedged item) at fair value through profit or loss. The difference between the fair value and the carrying amount when the election is made would be recognised in profit or loss immediately.
- ▶ The IASB identified two specific areas for which they proposed that a retrospective application would either be required (when accounting for the time value of options) or permitted (when accounting for the forward points of a forward contract).
- ▶ For hedging relationships with frequent de-designation and re-designation, the disclosure of the terms and conditions of the hedging instruments would not be required. Instead, the risk management approach must be described in more detail.

### Previous key developments

- ▶ In a change to the ED, the IASB would permit the forward points of a foreign exchange forward contract (i.e., the forward premium or discount compared to the spot rate) that exist at the inception of a hedging relationship to be recognised in profit or loss over time on a rational basis. The subsequent changes in the fair value of the forward contract would be recorded in other comprehensive income (OCI).
- ▶ In another change to the ED, for a cash flow hedge of the foreign currency risk of a net position, the offsetting items in the hedged net position would not be required to affect the profit or loss in the same reporting period. However, the initial hedge documentation would need to describe how such items (within the net position) will affect profit or loss.
- ▶ Hedge accounting would be permitted for equity investments measured at fair value through OCI. However, hedge accounting would not be allowed for other exposures that affect OCI, such as defined benefit obligations.
- ▶ In a change to the ED, the current accounting for fair value hedges would continue to apply.
- ▶ 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 reliably measured.
- ▶ There would be no bright line tests for hedge effectiveness assessments. A prospective hedge effectiveness test would be required based on the quantity of the hedged item that an entity actually hedges and the quantity of the hedging instrument that is actually being used to hedge that quantity of the 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 changes in value 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 IASB affirmed 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 if the risk management objective remains unchanged.

### What's next

- ▶ The IASB finished its redeliberations on general hedge accounting in September 2011 and will make a draft of the final standard available on its website for about 90 days. The final standard is expected in 2012.
- ▶ The IASB will also develop proposals related to macro hedge accounting in a separate ED in the fourth quarter of 2011 or in 2012.

# Financial instruments continued

## Financial instruments – balance sheet offsetting

<b>Q1 2011</b> Exposure draft	<b>May 2011</b> Roundtables	<b>Q4 2011</b> Ballot and final standard
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### Background

In March 2011, 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. Subsequently, the Boards decided not to pursue a common offsetting model, but rather to work on converging disclosure requirements. In July 2011, the IASB tentatively decided to retain the current offsetting requirements under IAS 32: *Financial Instruments: Presentation* and to propose changes to address existing inconsistencies in their application.

### References

- ▶ [Supplement to IFRS Outlook Issue 94: Offsetting of financial instruments: Is convergence on the horizon? \(January 2011\) EYG no. AU0751](#)

### Tentative decisions in September 2011

- ▶ A right of set-off must be legally enforceable both in the normal course of business and in the event of default, bankruptcy and insolvency of one of the counterparties.
- ▶ Gross settlement systems would be considered equivalent to net settlement if they have certain distinguishing characteristics (e.g., submitted for processing at exactly the same point, the transaction is non-cancellable after submitted for processing, processing is carried out through the same settlement depository)
- ▶ The amendments to IAS 32 and the revised disclosure requirements in IFRS 7: *Financial Instruments: Disclosures* would be applied retrospectively and would be effective for annual and interim reporting periods beginning on or after 1 January 2013.

### Previous key developments

- ▶ The Boards agreed to the following disclosure requirements: (1) gross amounts; (2) amounts presented in the statement of financial position; (3) any other amounts that can be offset in the event of bankruptcy, insolvency or default of any of the parties (including cash and non-cash financial collateral); and (4) the entity's net exposure.
- ▶ The Boards agreed to limit the proposed disclosures to instruments subject to an enforceable master netting agreement (e.g., derivatives, repurchase and reverse repurchase agreements, securities lending arrangements)

### What's next

The IASB finished redeliberating its offsetting proposal in September 2011. The IASB is expected to publish amendments to the IAS 32 application guidance and IFRS 7 disclosure requirements for balance sheet offsetting in Q4 2011. These amendments will not be provided to constituents for re-exposure.

# 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 the good or service is transferred to the customer.

## References

- ▶ [IFRS Developments Issue 5: Boards to re-expose revenue proposal, delaying project to seek comments \(June 2011\)](#) EYG no. AU0889
- ▶ [Supplement to IFRS Outlook Issue 101: Another step towards a final revenue standard \(April 2011\)](#) EYG no. AU0828
- ▶ [Supplement to IFRS Outlook Issue 99: New Revenue recognition model is taking shape \(April 2011\)](#) EYG no. AU0822
- ▶ [Revenue recognition under IFRS: What do respondents think of the proposed changes? \(December 2010\)](#) EYG no. AU0695
- ▶ [Revenue from contracts with customers: The road to convergence - what the revenue proposals mean in practice \(October 2010\)](#) EYG no. AU0658
- ▶ [IFRS Practical Matters: Revenue - Will your key performance measure change? \(September 2010\)](#) EYG no. AU0622
- ▶ [Supplement to IFRS Outlook Issue 75: IASB and FASB propose a single revenue recognition model \(June 2010\)](#) EYG no. AU0581

## Previous key developments

- ▶ The Boards decided to formally expose their joint revenue recognition proposal for a second time as a result of significant changes they had made to the model they proposed last year. This decision will delay the project, likely until at least September 2012, but will give constituents a chance to comment on the changes.
- ▶ Revenue would be recognised upon the transfer of goods and services to the customer, but the pattern of transfer may differ for certain goods and services. While the control over certain performance obligations transfers at a point in time, control over other performance obligations occurs continuously over time. The Boards have indicated that guidance will be provided to help entities make that determination.
- ▶ An entity's commitment to provide multiple goods or services as a single integrated item would represent a single performance obligation. Otherwise, an entity would separate performance obligations based on whether it sells the good or service separately or the customer can use the delivered item on its own or with readily available resources.
- ▶ The onerous test would only apply to performance obligations satisfied over time.
- ▶ 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 to which the entity is reasonably assured to be entitled.
- ▶ The estimated transaction price generally would be allocated using the relative standalone selling price method. If certain conditions are met, discounts inherent in the arrangement and variable portions of the transaction price would be allocated to specific performance obligations.
- ▶ An entity would determine the standalone selling price of a good or service using observable prices, when available, or the entity's best estimate by maximising observable inputs. However, when prices are highly variable (e.g. software licences), a residual technique could be used to estimate standalone selling prices.
- ▶ 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 duration of one year or less. The capitalised assets would be assessed for impairment.
- ▶ The Boards did not reach a firm decision on the effective date of the new revenue standard. However, the IASB decided the effective date would be no earlier than annual periods beginning on or after 1 January 2015. The IASB decided to permit early adoption.

## What's next

The Boards have completed redeliberations on all major aspects of the proposed model. The staffs anticipate a new ED will be issued in the fourth quarter of 2011.

# Leases



## 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 create a single model that 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 Practical Matters: Lease accounting proposals - simplified, but not simple \(August 2011\) EYG no. AU0930](#)
- ▶ [IFRS Developments Issue 10: Boards to re-expose leases, and propose a new approach for lessors \(July 2011\) EYG no. AU0912](#)
- ▶ [Applying IFRS: Lessee model comes together as leases project progresses \(July 2011\) EYG No. AU0905](#)
- ▶ [Proposed accounting for leases \(November 2010\) EYG No. AU0689](#)
- ▶ [IFRS Practical Matters for financial services: What do the proposed lease accounting changes mean for financial institutions? \(September 2010\) EYG no. AU0626](#)
- ▶ [IFRS Practical Matters: What do the proposed lease accounting changes mean to you? \(August 2010\) EYG no. AU0610](#)
- ▶ [Supplement to IFRS Outlook Issue 79: Proposed accounting changes for leases \(August 2010\) EYG no. AU0606](#)

## Tentative decisions in September 2011

- ▶ Lessors would refer to existing financial instrument requirements to assess the impairment of the lease receivable and to existing requirements in IAS 36 *Impairment of Assets* to assess the impairment of the residual asset.
- ▶ Amounts expected to be received under residual value guarantees would be recognised only at the end of the lease.

## Previous key developments

- ▶ The Boards decided to formally expose the standard for a second time because they made significant changes to the model proposed last year.
- ▶ 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 recognised on the balance sheet, and all leases (other than short-term leases) would have accelerated expense recognition.
- ▶ 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 instalment 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 recognised on the balance sheet but, instead, would be recognised as expenses when they are incurred.
- ▶ Lessees would be required to reassess certain key considerations (e.g., lease term, residual value guarantees, discount rate, variable lease payments that depend on an index or rate) throughout the life of the lease. The reassessment requirements would vary, as would the offset that is recorded when the liability to make lease payments 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.
- ▶ Lessors would apply a single approach to all leases (except short-term leases and leases of investment properties measured at fair value) and would recognise a lease receivable and a residual asset for each lease. The lessor would recognise day-one profit (if reasonably assured) or any indicated loss at the commencement of the lease. Over the term of the lease, the lessor would recognise 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.
- ▶ 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 still need to discuss a number of lessor-specific presentation and disclosure matters.

# Insurance Contracts

Q3 2010  
Exposure draft

Q4 2010  
Roundtables

Q4 2011 or 2012  
Re-exposure or  
review draft

## 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

- ▶ [IFRS 9 for Insurers - what to do now? \(September 2011\) EYG no. AU0940](#)
- ▶ [Insurance Accounting Alert: Boards discuss premium allocation approach; tentatively revise effective date of IFRS 9 \(August 2011\) EYG no. AU0918](#)
- ▶ [Insurance Accounting Alert: IASB opens the residual margin; Boards define acquisition costs \(June 2011\) EYG no. AU0904](#)
- ▶ [Measure by measure: synchronising IFRS 9 and IFRS 4 Phase II for insurers \(July 2011\) EYG No. AU0908](#)
- ▶ [Insurance Accounting Alert: Boards discuss reinsurance topics \(May 2011\) EYG no. AU0866](#)
- ▶ [Insurance Accounting Alert: Boards remain split on the approach to margins \(May 2011\) EYG no. AU0863](#)
- ▶ [Insurance Accounting Alert: Boards disagree on measurement of certain participating contracts \(May 2011\) EYG no. AU0857](#)
- ▶ [Insurance Accounting Alert: Boards seek an approach to unbundling that is consistent with revenue recognition \(May 2011\) EYG no. AU0848](#)
- ▶ [Insurance Accounting Alert \(special edition\): Proposal for accounting for insurance contracts \(July 2010\) EYG No. AU0594](#)

## Tentative decisions in September 2011

- ▶ The objective of the risk adjustment in the IASB model is to determine the compensation that would make an insurer indifferent between fulfilling an insurance contract liability with a range of possible outcomes or a fixed liability that has the same expected present value of cash flows. In a change from the ED, the IASB decided not to restrict the use of different techniques for estimating the risk adjustment. However, the IASB decided to retain the proposed disclosure of the confidence level equivalent in those estimations.
- ▶ 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 also decided that under the building block approach, an insurer would recognise 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.

## Previous key developments

- ▶ The standard would 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. The discount rate would be a current rate that is updated at each reporting period. The objective of the discount rate is the same for non-participating and participating contracts. However, 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.
- ▶ On one hand, the IASB decided that the measurement model would contain an explicit risk adjustment and residual margin. The FASB, on the other hand, decided that the measurement of an insurance contract liability would include a composite margin. The Boards will evaluate how differences in their approaches might be addressed through disclosures. The IASB decided that the residual margin would be adjusted (i.e., unlocked) on a prospective basis for favourable and unfavourable changes in estimates of cash flows and that the margin would be amortised over the coverage period.
- ▶ Insurers would not recognise 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 certain portions of insurance contracts should be unbundled and will decide on the specific criteria at a later date.
- ▶ The IASB decided that the fulfilment 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 has not yet made a decision.
- ▶ Acquisition costs included in the cash flows of insurance contracts would include only direct costs. The IASB would continue to include costs associated with both successful and unsuccessful efforts, while the FASB reaffirmed that only costs related to successful efforts would be included.
- ▶ The IASB decided to retain the existing approach in IFRS that 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.

## What's next

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

# Consolidation

## Background

The IASB issued a new consolidation standard in May 2011, establishing a single control model applicable to all entities. Under this new standard, more judgement is required to determine whether one entity controls another. The FASB decided not to move to a single control model for all entities, and will propose only limited changes to its consolidation requirements. The Boards are continuing to consider issues relating to consolidation accounting for investment entities.

## IFRS 10 Consolidated Financial Statements

**May 2011**  
Final standard

### Highlights of the new consolidation 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.
- ▶ IFRS 10 is similar to US GAAP for the consolidation of variable interest entities (VIEs), but creates new differences between IFRS and US GAAP in some areas, and some long-standing differences also remain. This includes differences with respect to the concept of *de facto* control and consideration of potential voting rights that will not be eliminated.
- ▶ Consistent with IFRS 10, the FASB is proposing to allow decision makers to perform a broader assessment of whether they are a principal or an agent for VIEs and voting interest partnerships (and similar entities).

### References

- ▶ [Applying IFRS: Challenges in adopting and applying IFRS 10 \(September 2011\) EYG no. AU0920](#)
- ▶ [IFRS Developments Issue 1: IASB issues three new standards: Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities \(May 2011\) EYG no. AU0839](#)
- ▶ [IFRS Practical Matters: What do the new consolidation, joint arrangement and disclosures accounting standards mean to you? \(June 2011\) EYG no. AU0853](#)

## Consolidation - Investment entities

**Q3 2011**  
Exposure draft

### Key developments in August/September 2011

- ▶ In August 2011, the IASB published an ED that proposes an exception for investment entities to the principle in IFRS that an entity consolidates all controlled entities. Instead, the ED would require an investment entity (as defined in the ED) to measure all controlled investments at fair value with changes recognised in profit or loss.

### Previous key developments

- ▶ The FASB plans to issue an ED with largely converged proposals related to the definition of an investment entity and the measurement requirements for its investments (i.e., fair value). However, the Boards diverged on whether an investment entity's fair value accounting would be retained by a non-investment entity parent. The FASB favours retention, whereas the IASB proposals would require the non-investment entity parent to consolidate the investment entity and its underlying investments.

### References

- ▶ [IFRS Developments Issue 15: Proposal for investment entities to measure investments at fair value \(August 2011\) EYG No. AU0939](#)

### What's next

- ▶ Comments on the ED are due by 5 January 2012.
- ▶ The FASB plans to issue its proposals on consolidation accounting and for investment entities in the fourth quarter of 2011.

# Other joint projects

## Reporting discontinued operations

### Background

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

## 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.

## 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.

## 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

The IASB will consider next steps for these joint projects at the beginning of 2012, as part of its agenda consultation process.

# Joint projects completed in 2011

## Presentation of other comprehensive income

**June 2011**  
Final amendments to standard

### Highlights of the amendments

- ▶ The amendments to IAS 1 *Presentation of Financial Statements* require entities to present items of net income, items of OCI and total comprehensive income either in a single continuous statement or in two separate, but consecutive, statements. The option in US GAAP to present OCI in the statement of changes in stockholders' equity has been eliminated.
- ▶ The amendments require items of comprehensive income that are subject to reclassification to profit or loss in the future to be presented separately from items that will not be reclassified. There is no change to how earnings per share is calculated or reported. The amendments are effective for annual periods beginning on or after 1 July 2012.

### References

- ▶ [IFRS Developments Issue 7: Changes to the presentation of other comprehensive income - amendments to IAS 1 \(June 2011\) EYG no. AU0787](#)

## Fair value measurement

**May 2011**  
Final standard

### Highlights of the new standard

- ▶ The IASB's new standard, IFRS 13 *Fair Value Measurement*, 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 changed 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. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and must be applied prospectively. Early application is permitted.

### References

- ▶ [IFRS Developments Issue 2: Fair value measurement guidance converges \(May 2011\) EYG no. AU0840](#)
- ▶ [IFRS 13 Fair value measurement: 21st century real estate values - Implications for the real estate and construction industries \(May 2011\) EYG no. AU0850](#)
- ▶ [Supplement to IFRS Outlook Issue 77: Limited re-exposure of fair value measurement disclosures \(June 2010\) EYG no. AU0586](#)

# Joint project timeline

		2010	Q1 - Q2 2011	Q3 2011	Q4 2011	2012
Presentation of other comprehensive income	Joint	ED	Final			
Fair value measurement	Joint	ED <sup>1</sup>	Final <sup>2</sup>			
Financial instruments						
Classification and measurement	IASB	Final <sup>3</sup>		ED <sup>3</sup>		
	FASB	ED <sup>4</sup>	RT			ED <sup>5</sup>
Impairment	IASB		SD		ED or staff draft	
	FASB	ED <sup>4</sup>	RT	SD		ED <sup>5</sup>
General hedge accounting	IASB	ED			Staff draft	Final
	FASB	ED <sup>4</sup>	RT	DP		
Balance sheet offsetting	IASB		ED	RT		Final
	FASB		ED	RT		Final
Revenue recognition	IASB	ED	RT		ED	Final
	FASB	ED	RT		ED	Final <sup>6</sup>
Leases	IASB	ED	RT			ED
	FASB	ED	RT			Final <sup>6</sup>
Insurance contracts	IASB	ED	RT			ED or staff draft
	FASB	DP	RT			ED
Consolidation	Joint <sup>7</sup>			ED <sup>7</sup>		
	IASB	Staff draft	Final			
	FASB	RT			ED <sup>8</sup>	
Financial statement presentation <sup>9</sup>	Joint	Staff draft				
Reporting discontinued operations <sup>9</sup>	IASB					
	FASB					
Financial instruments with characteristics of equity <sup>9</sup>	Joint					
Emissions trading schemes <sup>9</sup>	Joint					
Effective dates and transition	Joint	DP/RV <sup>10</sup>				

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

<sup>1</sup> The IASB re-exposed one new disclosure requirement. The FASB's ED includes various amendments and implementation guidance to achieve convergence.

<sup>2</sup> The disclosures related to measurement uncertainty are being separately analysed.

<sup>3</sup> The IASB's final IFRS on classification and measurement for financial liabilities was issued in 2010 and the final IFRS on classification and measurement for financial assets was issued in 2009. In Q3 2011, the IASB issued an ED proposing to defer the mandatory effective date of IFRS 9.

<sup>4</sup> The FASB issued a single comprehensive proposal on all three phases of this project.

<sup>5</sup> 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.

<sup>6</sup> Our expectation is that the FASB will follow timing that is similar to the IASB on finalising the Revenue and Leases projects.

<sup>7</sup> IASB and FASB joint project related only to consolidation by investment entities. The IASB issued its ED in Q3. The FASB will issue an ED in Q4 2011.

<sup>8</sup> FASB amendments to principal-agent guidance in ASC 810.

<sup>9</sup> The IASB will consider next steps for these joint projects at the beginning of 2012, as part of its agenda consultation process.

<sup>10</sup> The IASB request for views and FASB DP.

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