

Joint Project Watch

IASB/FASB joint projects from an IFRS perspective

September 2012

The standard-setting activities of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) (collectively, the Boards) on their joint projects continue to move forward. The Boards are re-deliberating their second exposure draft (ED) on revenue recognition, and are preparing to issue a second ED on leases in early 2013. 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 an IFRS perspective, 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.

The following discussion of ongoing projects is based on our observations of the standard-setter meetings. During re-deliberations, the Boards make tentative decisions that may be different from earlier decisions and those in the EDs, which often are revised during re-deliberations.

At this point, the Boards' decisions and our observations remain subject to change.

Joint projects

Financial instruments.....	2
Revenue recognition	5
Leases	6
Insurance contracts	7
Consolidation	8
Joint projects completed in 2011	10
Inactive joint projects.....	11
Joint projects timeline	12

Financial instruments – classification and measurement

Background

IFRS 9 *Financial Instruments* for financial assets was first published in November 2009. It was later updated in October 2010 to include financial liabilities. IFRS 9 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. The IASB amended IFRS 9 to move the mandatory effective date from 1 January 2013 to 1 January 2015. While the FASB's original proposals would require fair value measurement for many financial assets and financial liabilities, IFRS 9 permits greater use of amortised cost. To more closely align their respective models and reduce key differences, the Boards jointly re-deliberated selected aspects of their standards. The outcome of these re-deliberations is a substantially converged set of principles for the classification and measurement of debt instruments.

References

- ▶ [IFRS Developments Issue 41: IFRS 9 classification and measurement – IASB deliberations are now substantially complete \(October 2012\) EYG no. AU1297](#)
- ▶ [IFRS Developments Issue 38: Financial instruments: Classification and measurement – joint deliberations now complete \(August 2012\) EYG no. AU1254](#)
- ▶ [Applying IFRS: New mandatory effective date and transition disclosures \(January 2012\) EYG no. AU1067](#)
- ▶ [Implementing Phase 1 of IFRS 9 \(Second edition\) \(July 2011\) EYG no. AU0897](#)

Overall project background

The financial instruments project addresses classification and measurement, impairment, hedging and offsetting. The Boards' overall objective is to simplify, improve 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 a final standard on classification and measurement (IFRS 9) and separate proposals on impairment and hedging, whereas the FASB issued one comprehensive ED. In December 2011, the Boards issued amendments to their respective standards related to the disclosures associated with offsetting. The IASB also issued clarifying amendments to IAS 32 *Financial Instruments: Presentation* related to the offsetting of financial instruments together with related disclosures in IFRS 7 *Financial Instruments: Disclosures*. The IASB subsequently began re-deliberating certain elements of IFRS 9. In September 2012, the IASB posted on its website a review draft of the final standard on general hedge accounting with the objective of issuing a final standard by the end of 2012.

Q3 2012

- ▶ The Boards agreed on a nearly converged approach to account for reclassifications of financial assets between measurement categories (as a result of a change in an entity's business model), with the only key difference being the date of reclassification.
- ▶ The IASB decided, amongst other things, to propose an amendment to IFRS 9 that would allow an entity to apply the requirements for the presentation of fair value gains or losses attributable to changes in the issuer's own credit risk, without the need to early adopt IFRS 9 in its entirety. Furthermore, the IASB decided to propose that after six months from the date IFRS 9 is finalised, previous versions of IFRS 9 will not be available for early adoption.

Previous key developments

- ▶ To bring about greater convergence, the Boards decided that financial assets would be classified at:
 - ▶ Amortised cost, if an entity's business model is to hold the assets to collect contractual cash flows and if the assets have contractual cash flows that are solely payments of principal and interest (i.e., they meet the cash flow characteristics assessment). This approach would generally be consistent with IFRS 9.
 - ▶ Fair value through other comprehensive income (FVOCI), if the assets meet the cash flow characteristics assessment and if the entity's business model for a portfolio is to: (1) hold to collect contractual cash flows and (2) sell financial assets. This is consistent with the FASB's proposal.
 - ▶ Fair value through profit or loss (FVTPL) residual category, if the assets do not qualify for amortised cost or for FVOCI classification.
- ▶ The IASB decided to make a minor amendment to the application guidance of IFRS 9 with respect to the contractual cash flow characteristics test. The amendment would clarify that an instrument with modifying features can only be classified at amortised cost if the difference between the cash flows of such an instrument and the cash flows of a similar instrument without modifying features is insignificant.

What's next

The Boards have concluded their joint deliberations. The IASB expects to issue an ED in Q4 2012. The FASB still has a few key matters to discuss and also plans to expose a document in Q4 2012.

Financial instruments – impairment

Background

In July 2012, the Boards completed joint deliberations on a new expected loss impairment model that would split financial assets measured at amortised cost at FVOCI into three buckets based on their underlying credit risk characteristics. During the FASB's outreach on this model, constituents expressed significant concerns. The FASB is now developing an alternative approach.

References

- ▶ [IFRS Developments Issue 37: Impairment of financial assets – the last details? \(July 2012\) EYG no. AU1246](#)
- ▶ [IFRS Developments Issue 26: IFRS 9 Impairment of financial assets – a step closer to completion \(April 2012\) EYG no. AU1150](#)
- ▶ [IFRS Practical Matters: Impairment – assessing the impact of the new proposal \(March 2012\) EYG no. AU1104](#)
- ▶ [IFRS Developments Issue 21: Impairment – a major step forward in achieving convergence \(December 2011\) EYG no. AU1056](#)

Q3 2012

- ▶ The Boards jointly decided that:
 - ▶ New qualitative and quantitative disclosures would be introduced to supplement the proposed expected loss impairment model.
 - ▶ Originated credit-impaired assets would be accounted for in the same way as purchased credit-impaired assets on initial recognition.
 - ▶ When there is objective evidence of impairment, interest revenue would be calculated on the carrying amount net of impairment.
 - ▶ Assets reclassified from FVTPL would be treated the same way as other financial assets on initial recognition.
 - ▶ The expected loss model would be applied to irrevocable loan commitments and financial guarantee contracts that are not classified at FVTPL.
 - ▶ The impairment requirements would apply on a retrospective basis, with some transition relief.
- ▶ The FASB is now developing an alternative approach it calls the current expected credit loss model, in which an entity would record a credit impairment allowance for its current estimate of the expected losses on financial assets it holds.

Previous key developments

- ▶ The three-bucket approach is intended to reflect the general pattern of the deterioration in the credit quality of financial assets.
- ▶ All financial assets would initially be included in Bucket 1, regardless of credit quality except for purchased credit-impaired assets. The allowance for financial assets in Bucket 1 would capture expected losses related to loss events expected in the next 12 months, with a corresponding charge to profit or loss.
- ▶ The allowance for assets in Bucket 2 or 3 would capture lifetime expected losses.
- ▶ Assets would move into Bucket 2 or 3 when: (1) there has been a 'more than insignificant' deterioration in credit quality; and (2) it is at least 'reasonably possible' that the contractual cash flows will not be recoverable.

What's next

In October 2012, the IASB staff will provide the IASB with feedback from their outreach activities on the operational aspects of the three-bucket approach. The IASB plans to issue an ED based on the three-bucket model in Q4 2012. We expect the FASB to continue developing the alternative model and to expose a document in Q4 2012.

Financial instruments – hedge accounting

Background

Although the hedging project is intended to be a joint project, the Boards have issued EDs that they developed separately. The IASB's proposed hedging model is designed to align the accounting for hedging activities more closely with risk management practices and to simplify certain aspects of hedge accounting. The FASB's proposal attempts to simplify hedge accounting while leaving the basic framework intact, including what constitutes eligible hedge relationships.

References

- ▶ [IFRS Developments Issue 40: The general hedge accounting project on the home straight \(September 2012\) EYG no. AU1270](#)
- ▶ [IFRS Developments Issue 30: The IASB decouples macro hedge accounting from the IFRS 9 project \(May 2012\) EYG no. AU1185](#)
- ▶ [IFRS Outlook: Hedge accounting moves closer to risk management practices \(January 2012\) EYG no. AU1071](#)
- ▶ [IFRS Developments Issue 16: Hedge accounting – summary of re-deliberations \(September 2011\) EYG no. AU0965](#)
- ▶ [IFRS Developments Issue 14: A step forward in hedge accounting \(August 2011\) EYG no. AU0926](#)
- ▶ [Hedge accounting under IFRS 9 – a closer look at the changes and challenges \(February 2011\) EYG no. AU0765](#)

Q3 2012

- ▶ The IASB released a review draft of the final standard on general hedge accounting that will be available on its website for about 90 days.

Previous key developments

- ▶ The macro hedge accounting project was decoupled from the IFRS 9 project. This will give the IASB more time to develop a macro hedge accounting model without affecting the timing of the completion of IFRS 9.
- ▶ 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 FVTPL. The difference between the fair value and the carrying amount when the election is made would be recognised in profit or loss immediately.
- ▶ 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 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 FVOCI. 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.
- ▶ 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 review draft will be on the IASB's website until 6 December 2012. The IASB expects to issue the final standard in Q4 2012. The IASB is developing proposals on macro hedge accounting and intends to issue a separate discussion paper (DP) in the first half of 2013.

Background

The Boards want to develop 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 complexity in the revenue recognition area. Under the joint proposal re-exposed by the Boards in November 2011, revenue would be recognised when an entity satisfies its obligations to customers, which occurs when control of the good or service is transferred to the customer.

References

- ▶ [Applying IFRS: Joint revenue recognition project – Boards to begin re-deliberations on key issues \(May 2012\) EYG no. AU1183](#)
- ▶ [IFRS Outlook: More work needed on revenue recognition \(March 2012\) EYG no. AU1139](#)
- ▶ [Applying IFRS: Revenue from contracts with customers – the revised proposal \(January 2012\) EYG no. AU1074](#)
- ▶ [IFRS Practical Matters: Revenue recognition project: Round 2 for the exposure draft \(January 2012\) EYG no. AU1087](#)
- ▶ [IFRS Developments – Issue 18: IASB and FASB issue revised revenue recognition proposal \(November 2011\) EYG no. AU1008](#)

A number sector-specific *Applying IFRS* publications on this project are also available on www.ey.com/ifrs.

Q3 2012

- ▶ The Boards tentatively decided to remove the proposed requirement for an onerous test.
- ▶ The requirements for identifying separate performance obligations and the criteria for determining whether performance obligations are satisfied over time or at a point in time were clarified. For example, additional application guidance will be provided on distribution networks, to help identify when a performance obligation exists.
- ▶ The meaning of variable consideration will be clarified to indicate that the constraint on the cumulative amount of revenue recognised would apply to a fixed price contract in which there is uncertainty about whether the entity would be entitled to that consideration after satisfying the related performance obligation.
- ▶ The Boards clarified the application of the indicators for determining whether a contract has a significant financing component.

Previous key developments

- ▶ The proposal would apply to most contracts with customers. Leases, insurance contracts, financial instruments, guarantees and certain non-monetary transactions would be excluded from the scope.
- ▶ Certain aspects of the proposal would result in significant changes from current practice, including:
 - ▶ An entity would account for promised goods or services separately if they are distinct. An entity would consider both the individual goods and services promised and how those goods and services are bundled in the arrangement to make that determination. 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 recognise as revenue only the amounts to which it expects to be entitled based on its experience with similar types of performance obligations.
 - ▶ A performance obligation would be 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.
 - ▶ For contracts longer than one year, an entity would recognise the incremental costs of obtaining a contract as an asset (capitalisation would be permitted, but not required, for contracts with a duration of less than one year). The costs incurred in fulfilling a contract (e.g., direct costs) also would be capitalised. Such costs would be recognised in the statement of comprehensive income 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

Re-deliberations are expected to continue through December 2012.

Background

Although current requirements under IFRS and US GAAP are similar, the Boards consider this a priority project because they believe significant improvement in the accounting for leases is needed.

Based on the Boards' re-deliberations, lessees would be required to recognise lease-related assets and liabilities on the balance sheet for most leases. Lessees and lessors would use the same criteria to classify leases on the basis of whether the lessee acquires and consumes more than an insignificant portion of the underlying asset over the lease term. The classification of a lease would affect how the lessee and the lessor account for the lease. Lessees and lessors would be required to make a number of estimates and periodically reassess those estimates in accounting for leases. The standard would affect existing leases at transition.

References

- ▶ [Applying IFRS: Leases project on the brink of re-exposure \(September 2012\) EYG no. AU1267](#)
- ▶ [IFRS Developments Issue 32: Circling back to straight-line leases but with a twist \(June 2012\) EYG no. AU1200](#)

Q3 2012

- ▶ Determining whether a sale-leaseback transaction is accounted for as a sale and a lease, or as a financing transaction, would be based on revenue recognition requirements. The existence of the leaseback would not, in isolation, prevent the transaction from being accounted for as a sale and leaseback. However, the Boards identified certain conditions that would indicate that a sale has not occurred, requiring the transaction to be accounted for as a financing.

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 exclude from the scope of the proposal certain contracts that are currently accounted for as leases.
- ▶ Both lessees and lessors would use the same criteria, based primarily on the nature of the underlying asset, to distinguish between two types of leases. For lessees, leases of property (i.e., land, a building or part of a building) generally would have a straight-line lease expense recognition pattern, and leases of assets other than property (e.g., equipment) generally would have an accelerated lease expense recognition pattern. Lessors generally would apply operating lease accounting to property leases and generally would apply the receivable and residual approach to leases of assets other than property.
- ▶ Lessees would be required to recognise all leases (other than short-term leases) on the balance sheet.
- ▶ Lessors applying the receivable and residual approach would recognise 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 recognise income related to interest on the receivable and accretion of the residual asset.
- ▶ Both lessees and lessors could elect to apply current operating lease accounting to short-term leases.
- ▶ The lease term for accounting purposes would include optional periods 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).
- ▶ Lease payments would not include contingent rents based on performance or usage. Instead, such contingent rents would be recognised as expense or income when they are incurred or accrued.
- ▶ Reassessment of certain key considerations (e.g., lease term, contingent rents 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.
- ▶ In transition, lessees and lessors could follow 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).

What's next

The Boards expect to issue a second ED in Q1 2013.

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 both its preliminary views and the IASB's ED. The proposals are far-reaching and would have a significant impact on insurers. The Boards continue to jointly re-deliberate but acknowledge they will not issue a single standard.

References

- ▶ [Insurance Accounting Alert: Boards decide on allocation of cash flows; discussions continue on earned premium presentation for contracts \(July 2012\) EYG no. AU1236](#)
- ▶ [Insurance Accounting Alert: Boards review OCI, unbundling investment components and recognition of acquisition costs \(June 2012\) EYG no. AU1197](#)
- ▶ [Insurance Accounting Alert: Boards discuss reinsurance accounting, insurance contracts and decisions on policy loans and riders \(May 2012\) EYG no. AU1174](#)
- ▶ [Insurance Accounting Alert: Boards agree on separation of investment component; but remain split on definition of a portfolio \(April 2012\) EYG no. AU1145](#)
- ▶ [Applying IFRS: Limited improvements to IFRS classification and measurement: The impact for insurers and next steps \(March 2012\) AU1101](#)
- ▶ [Insurance Accounting Alert: Boards make decisions on the premium allocation approach \(March 2012\) EYG no. AU1133](#)

Q3 2012

- ▶ The IASB decided to publish a revised ED of the proposals on accounting for insurance contracts to seek feedback on limited issues, notably: participating contracts; presentation of premiums in the statement of comprehensive income; unlocking of the residual margin; the use of OCI for discount rate changes and transition.
- ▶ The Boards decided that preparers should retrospectively apply the standard at transition, but provided a practical expedient if full retrospective application is not practicable.
- ▶ The IASB decided that an insurer should accrete interest on the residual margin at a rate that is locked-in at inception. The FASB decided that the single margin included in the measurement of the insurance contract liability would not be adjusted (i.e., unlocked) on a prospective basis for changes in estimates of cash flows.

Previous key developments

- ▶ The Boards agreed to the eligibility criteria for the Premium Allocation Approach (PAA). If the criteria are met, the IASB would allow the use of the PAA and the FASB would require it.
- ▶ Distinct investment components of insurance contracts (i.e., investment components that are not highly interrelated with the insurance component) would be unbundled and measured separately under the financial instruments standard.
- ▶ The IASB decided that the Building Block Approach (BBA) would contain an explicit risk adjustment and residual margin. The IASB's residual margin would be adjusted on a prospective basis for changes in estimates of cash flows, and would be amortised over the coverage period. The FASB decided that the measurement under the BBA would include a single margin.
- ▶ The objective of the risk adjustment in the IASB model is to determine the compensation an insurer requires for bearing the risk that the ultimate cash flows will exceed those expected. In a change from the ED, the IASB decided not to restrict the use of different techniques for estimating the risk adjustment.
- ▶ The standards would not prescribe a particular method for determining the discount rate, but the rate should reflect the characteristics of the liability and should be updated each reporting period. To the extent that cash flows depend on the performance of specific assets, the rate should reflect that dependence.
- ▶ The IASB decided that both reinsurers and cedants would evaluate whether to account for reinsurance contracts under the BBA or PAA using the same criteria as direct contracts. The FASB decided that cedants would evaluate reinsurance contracts applying the approach used for the underlying contracts, while reinsurers would use the same criteria used for direct contracts.
- ▶ The IASB would include in the scope of its proposal investment contracts with discretionary participation features written by insurers, while the FASB's proposals would not.

What's next

The IASB plans to continue re-deliberating jointly with the FASB over the coming months. The IASB expects to issue a second ED in the first half of 2013.

Consolidation

Under IFRS 10 *Consolidated Financial Statements*, more judgement is required to determine whether one entity controls another. IFRS 10 is similar to US GAAP for the consolidation of variable interest entities, but creates new differences between IFRS and US GAAP in some areas. Some long-standing differences between IFRS and US GAAP also remain, including differences with respect to the concept of *de facto* control and considerations of potential voting rights. In June 2012, the IASB issued amendments to the transition guidance in IFRS 10 along with related amendments to IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*.

References

- ▶ [IFRS Developments Issue 35: Transition guidance amendments for IFRS 10, IFRS 11 and IFRS 12 \(July 2012\) EYG no. AU1235](#)
- ▶ [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](#)

Overall project background

The IASB's consolidation project is being conducted in two phases: the consolidation model, and the exception to consolidation for investment entities. The IASB split the project into two phases to allow it to publish IFRS 10, while allowing time for due process regarding proposed changes to accounting by investment entities. The IASB issued IFRS 10 in May 2011. IFRS 10 establishes a single consolidation model for all entities that will result in closer alignment with US GAAP on consolidation of variable interest entities and related disclosures. After hearing from constituents, the FASB decided not to move to a single control model for all entities. Instead, the FASB decided to make targeted revisions to the two consolidation models in US GAAP to more closely align the models with IFRS. In 2011, the Boards each issued proposals on investment entities.

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 must be applied using a modified retrospective approach.
- ▶ An entity will need to make an assessment of whether control exists at the date of initial application (i.e., the beginning of the annual reporting period in which IFRS 10 is applied for the first time).
 - ▶ If the control assessment is the same between IFRS 10 and IAS 27 *Consolidated and Separate Financial Statements / SIC-12 Special Purpose Entities*, no retrospective application is required.
 - ▶ However, if the control assessment under the two standards is different, retrospective adjustments have to be made.
- ▶ If more than one comparative period is presented, additional relief is given to require only one period to be restated. Similar relief has been provided in the transition guidance of IFRS 11 and IFRS 12.
- ▶ The FASB's proposal would affect all reporting entities, particularly those in the asset management industry, and would rescind the current FAS 167 *Amendments to FASB Interpretation No. 46 (R)* deferral for certain investment entities.

What's next

IFRS 10, IFRS 11 and IFRS 12 are effective for annual periods beginning on or after 1 January 2013. The FASB will continue re-deliberations and expects to issue guidance in the first half of 2013.

Consolidation – Investment entities

Background

In 2011, the Boards issued separate proposals to define an investment entity and to provide the accounting requirements for its investments. The concept of an investment entity is new to IFRS.

References

- ▶ [IFRS Developments Issue 34: Investment Entities – the plot thickens \(June 2012\) EYG no. AU1212](#)

Q3 2012

- ▶ The IASB decided to replace the requirement for an investment entity to have exit strategies for substantially all of its investments. Instead, an investment entity should not hold any of its investments indefinitely.
- ▶ An investment entity would be required to measure substantially all of its investments at fair value.
- ▶ The Basis for Conclusions will clarify that an investment entity can measure investments at FVOCI and still meet the 'fair value measurement' component of the investment entity definition.
- ▶ An entity would not be disqualified from being considered as an investment entity only because it provides substantive investment-related services to third parties.

Previous key developments

- ▶ The definition of an investment entity would include two required criteria rather than the six originally proposed. Entities would consider the remaining proposed criteria when determining whether they qualify as investment entities. The FASB's definition is similar, but the Boards disagreed in some cases about which criteria would be required and which would be factors to consider.
- ▶ The Boards will diverge on retention of fair value accounting by a non-investment company parent. The IASB would require a non-investment entity parent of investment entities to apply IFRS 10 and consolidate all controlled investments, while the FASB decided that a non-investment entity parent would retain the fair value accounting of the controlled investment entity.
- ▶ The IASB decided to require investment entities to measure their investments in associates and joint ventures at fair value through profit or loss. This requirement would not apply to investments in associates and joint ventures that provide services to the investment entity, which must be accounted for using the equity method of accounting.
- ▶ For non-investment entities, the existing option in IAS 28 *Investments in Associates*, to measure investments in associates and joint ventures at fair value through profit or loss would be retained.

What's next

The IASB expects to issue its final standard (in the form of an amendment to IFRS 10) in Q4 2012, with an effective date of 1 January 2014. The FASB also plans to issue its final standard by the end of 2012.

Joint projects completed in 2011

Financial instruments – balance sheet offsetting

Standards issued in December 2011

- ▶ IASB: Amendments to IFRS 7 and IAS 32
- ▶ FASB: ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*

References

- ▶ [Applying IFRS: Offsetting financial instruments: clarifying the amendments \(May 2012\)](#)
EYG no. AU1182
- ▶ [IFRS Developments Issue 22: Offsetting of financial instruments \(December 2011\)](#)
EYG no. AU1053

Presentation of other comprehensive income¹

Standards issued in June 2011 and December 2011

- ▶ IASB: Amendments to IAS 1 *Presentation of Financial Statements*
- ▶ FASB: ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*
- ▶ FASB: 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*

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

Standards issued in May 2011

- ▶ IASB: IFRS 13 *Fair Value Measurement*
- ▶ 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*

References

- ▶ [IFRS Developments Issue 2: Fair value measurement guidance converges \(May 2011\)](#)
EYG no. AU0840

¹ Certain elements are being reconsidered by the FASB.

Inactive joint projects

Reporting discontinued operations

Background

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

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.

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 also would require more disaggregation of information within the primary financial statements.

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

The above projects were assessed as lower-priority projects. The IASB will consider next steps for these projects as part of its agenda consultation process.

Joint projects timeline

	2010 – 2011 (highlights of prior activity)				Q1 – Q3 2012	Q4 2012	Q1 2013	Q2 2013
Financial instruments								
Classification and measurement	IASB	Final¹				ED ²		
	FASB	ED ³		ED ⁴		ED ⁵		
Impairment	IASB	SD				ED		
	FASB	ED ³	SD			ED ⁵		
Hedging- general	IASB	ED		Review Draft		Final		
	FASB	ED ³	DP					
Hedging- macro	IASB						DP	
Revenue recognition	IASB	ED	ED	RT			Final	
	FASB	ED	ED	RT			Final	
Leases	IASB	ED					ED	
	FASB	ED					ED	
Insurance contracts	IASB	ED					ED	
	FASB	DP					ED	
Consolidation								
Consolidation	IASB	Final⁶						
	FASB	ED					Final	
Investment entities	IASB	ED		RT		Final		
	FASB	ED		RT		Final		

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

- ¹ The IASB's final IFRS on classification and measurement for financial liabilities. In 2011, the IASB deferred the mandatory effective date of IFRS 9.
- ² The IASB's project is to undertake limited scope improvement to IFRS 9.
- ³ The FASB issued a single comprehensive proposal on its three phases of this project.
- ⁴ In Q2 2012, the FASB separately issued an ED on liquidity and interest rate risk disclosures related to financial instruments.
- ⁵ The FASB will at a minimum expose the proposed amendments to the Codification, and may decide to fully re-expose the model.
- ⁶ In Q2 2012, the IASB issued an amendment to clarify the transition guidance in IFRS 10, IFRS 11 and IFRS 12.
- ⁷ The FASB is reconsidering some elements of this standard.

Note: Our timeline for some projects is based on discussions with staff and may differ from the technical plan on the Boards' websites.

Joint projects completed in 2011

Financial instruments: balance sheet – offsetting
Presentation of other comprehensive income⁷
Fair value measurement

Inactive joint projects

Reporting discontinued operations
Emissions trading schemes
Financial statement presentation
Financial instruments with characteristics of equity

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