

Joint Project Watch

FASB/IASB joint projects from a US GAAP perspective

April 2011

Keeping up with the standard-setting activities of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (collectively, the Boards) on their many joint projects 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 recently 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 give you a snapshot of key developments from a US GAAP perspective each month, along with our observations about the potential implications for companies. We also include references to other Ernst & Young publications that provide more background and detail on the projects and proposals. These publications are available at ey.com/us/accountinglink.

The following discussion is 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.

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Background

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

The Boards also have a joint project on the offsetting criteria for financial instruments.

Other references

- ▶ [Technical Line, Hedge accounting: Is convergence possible? \(SCORE No. BB2125\)](#)
- ▶ [Technical Line, Boards receive mixed feedback on credit impairment proposals \(SCORE No. BB2114\)](#)
- ▶ [To the Point, Credit impairment accounting continues to take shape \(SCORE No. BB2108\)](#)
- ▶ [Technical Line, FASB makes progress on classifying and measuring financial instruments \(SCORE No. BB2295\)](#)
- ▶ [Technical Line, Proposed impairment approaches: a closer look \(SCORE No. BB2292\)](#)
- ▶ [To the Point, Hedge accounting – FASB seeks reaction to IASB's proposed model \(SCORE No. BB2088\)](#)
- ▶ [To the Point, A new proposal for recognizing credit losses \(SCORE No. BB2087\)](#)
- ▶ [Hot Topic, Big changes proposed to balance sheet offsetting \(SCORE No. BB2083\)](#)

Summary and observations – classification and measurement

Background

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

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- ▶ The business strategy criteria should be applied at an entity or business unit level (higher level of aggregation) rather than at an individual financial instrument level. Identical or similar financial instruments could be classified differently based on an entity's business strategy.
- ▶ The Board further clarified the three classification and measurement categories:
 - ▶ Financial instruments for which an entity's business strategy is to manage the instruments through customer financing activities and for which the holder has the ability to manage credit risk by negotiating any potential adjustment of contractual cash flows with the counterparty, would be classified and measured at amortized cost. These activities primarily focus on the collection of substantially all of the contractual cash flows from the borrower or payment of contractual cash flows to the lender. Sales or settlements would be limited to circumstances that would minimize losses due to deteriorating credit.
 - ▶ Financial instruments for which an entity's business strategy is to invest the cash of an entity either to maximize total return (by collecting contractual cash flows or selling the instrument) or to manage the interest rate or liquidity risk of the entity, would be classified and measured at fair value with changes in fair value recognized in other comprehensive income (FV-OCI).
 - ▶ Financial instruments for which an entity's business strategy is to sell (assets) or transfer (liabilities) or actively manage on a fair value basis, but that do not qualify for the FV-OCI category, would be classified and measured at fair value with changes in fair value recognized in net income (FV-NI).
- ▶ Financial assets that qualify for the amortized cost category but are subsequently identified for sale should continue to be classified and measured at amortized cost (less impairment).
- ▶ The Board decided to retain bifurcation and separate accounting of embedded derivative features for all hybrid financial instruments, consistent with current requirements.

Other key developments to date

- ▶ Financial assets would be classified into one of three categories based on the financial asset's characteristics and the entity's business strategy for the financial asset.
- ▶ Although subject to future discussion, only simple financial assets with no complex features would be eligible for FV-OCI or amortized cost.
- ▶ All marketable equity securities would be measured at FV-NI. Public entities would also be required to measure non-marketable equity securities at FV-NI. Non-public entities would be given a practicality exception that would allow non-marketable equity securities to be measured at cost less any other-than-temporary impairment, with upward adjustments in fair value recognized when information about a change in price is observable. The FASB will discuss whether this practicality exception should be further restricted to non-public entities that are not financial institutions or expanded to include public entities.
- ▶ "Plain vanilla" financial liabilities, such as core deposit liabilities and an entity's own debt, would be classified and measured at amortized cost or FV-NI based on the business strategy approach that the Boards developed for financial assets.
- ▶ Reclassifications between categories would not be permitted, even when there is a change in business strategy. Also, sales of financial assets classified as amortized cost would not "taint" the remaining financial assets classified that way.
- ▶ Changes in fair value that have been recognized in OCI would be recognized in net income (i.e., recycled) when these gains or losses are realized either through sales or settlements.

What's next

The FASB will further deliberate the financial instrument characteristics criteria, other aspects of accounting for classification and measurement of financial instruments and related disclosure requirements. The FASB expects to complete its redeliberations on classification and measurement in the third quarter of 2011. The IASB will then expose the FASB's final decisions to its constituents.

Summary and observations – impairment

Background

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

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- ▶ Expected losses (i.e., shortfalls in both principal and interest cash flows) would be measured on a discounted basis but flexibility would be provided as to the methods that could be used for discounting. Discounting may not be required if an entity could demonstrate that the undiscounted amount would not be significantly different. The effect of unwinding the discount should be included in the impairment losses line item.
- ▶ The amortized cost balance would not be reduced for a credit impairment allowance. This conclusion is significant as the effective interest rate (EIR) is applied to the amortized cost balance to determine interest income.

Other key developments to date

- ▶ In estimating expected credit losses, an entity should use the best available and supportable information at the date of estimation (i.e., historical, current and forecast). This is a change from the original FASB proposal under which only past events and current conditions could be considered.
- ▶ Losses should be estimated with the objective of an expected value (i.e., identify possible outcomes, estimate the likelihood of each outcome and calculate a probability-weighted average). However, flexibility would be provided in that any reasonable method (e.g., loss rate method, the use of probabilities of default) could be used to estimate credit losses to achieve the objective of expected value.
- ▶ Full recognition of lifetime expected losses for a “bad book” (e.g., loans that management identifies as doubtful of collection) would be required, plus recognition of losses for a “good book” at the higher of either of the following:
 - ▶ The time-proportional expected credit losses of the portfolio (i.e., expected losses are recognized over the expected term of the loans)
 - ▶ The credit losses expected to occur in the foreseeable future (no less than 12 months)

- ▶ A single impairment model would apply to all originated and purchased good book financial assets. Interest on purchased good book financial assets would be recognized based on contractual cash flows. These financial assets would be immediately evaluated for credit losses in accordance with the proposed joint model. Interest on financial assets acquired in the bad book would be recognized based on expected cash flows. This would result in no immediate recognition of impairment loss.

What's next

The Boards will consider the issues raised and feedback received on the SD from the comment letters and other outreach efforts. The Boards plan to reach a consensus on a basic impairment approach by end of June 2011 and will assess at that time whether re-exposure or further outreach is required.

Summary and observations – hedging

Background

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

Key developments to date

- ▶ The FASB exposed its model in May 2010, followed by the IASB exposing its model in December 2010. In a February 2011 Discussion Paper (DP), the FASB sought comments from its constituents on the IASB's model. The deadline for comments to the FASB was 25 April 2011.
- ▶ The questions in the DP suggest that the FASB may be contemplating how to incorporate some of the IASB's ideas into its hedging framework. However, concerns about the clarity, operability and auditability of the IASB's proposal appear to underpin the questions posed by the FASB. The IASB is proceeding with redeliberations of its model.

What's next

The FASB will consider whether and how to incorporate some of the IASB's concepts into the FASB hedging model. There has been no promise of joint redeliberations, even though both Boards will be reconsidering their models somewhat concurrently.

Summary and observations – balance sheet offsetting

The diagram consists of three yellow chevron-shaped boxes pointing to the right, connected by lines. The first box is labeled 'Q1 2011 Exposure draft', the second 'Q2 2011 Roundtables', and the third '2H 2011 Final standard'.

Background

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

Key developments to date

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

- ▶ The proposal would replace the guidance for offsetting financial assets and financial liabilities and all derivative assets and liabilities (both financial and non-financial).
- ▶ Offsetting of applicable assets and liabilities would be *required* when a company has both the unconditional, legally enforceable right of offset and intends to settle either on a net basis or simultaneously. US GAAP currently permits offsetting (as a policy election), but does not require the assets and liabilities to be presented on a net basis.
 - ▶ Offsetting would be required whether the right of setoff results from a bilateral arrangement or from a multilateral arrangement (i.e., between three or more parties).
- ▶ The proposal would eliminate the exception in US GAAP that allows offsetting for some arrangements in which the ability to set-off is conditional (e.g., upon bankruptcy, insolvency or default of a counterparty) and there is no intention to set-off, or such intention is conditional. This would have a significant effect on the balance sheets of many financial institutions and other entities (such as energy companies) 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

Comments were due by 28 April 2011. Final guidance is expected to be issued in 2011. The proposal does not specify an effective date.

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. US GAAP has been criticized for complexity in the revenue recognition area, while IFRS is perceived as lacking necessary application guidance. Revenue would be recognized when an entity satisfies its obligations to customers, which occurs when control of an asset is transferred to the customer.

Other references

- ▶ [Technical Line, Another step toward a final revenue standard \(SCORE No. BB2119\)](#)
- ▶ [Technical Line, New revenue recognition model is taking shape \(SCORE No. BB2110\)](#)
- ▶ [Hot Topic, Revenue recognition – FASB and IASB discuss redeliberation plan \(SCORE No. BB2051\)](#)
- ▶ [Financial Reporting Developments, The road to convergence: the revenue recognition proposal \(SCORE No. BB1991\)](#)¹
- ▶ [Practical matters for the c-suite, Revenue: Will your key metric change? \(SCORE No. BB1969\)](#)
- ▶ [Hot Topic, FASB proposes single revenue recognition model \(SCORE No. BB1962\)](#)

Summary and observations

April 2011

- ▶ 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, the amount of revenue recognized upon satisfying a performance obligation 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, as is the case for royalties or commissions based on future sales.
- ▶ The estimated transaction price would be allocated using the relative-standalone-selling-price method except when transactions involve uncertain consideration. If certain conditions are met, the variable portions of the transaction price, and subsequent changes in the transaction price, would be allocated to the performance obligation that gives rise to the variability. The Boards tentatively agreed that a residual technique could be used to estimate standalone selling prices for performance obligations with highly variable prices (e.g., software licenses).
- ▶ Control of all licenses and other rights to use would be transferred when the customer obtains the right to use the asset, eliminating the proposed distinction between exclusive and non-exclusive licenses.
- ▶ When a customer has the ability and a significant economic incentive to require the vendor to repurchase the asset, the Boards tentatively agreed that the transaction would be accounted for as a lease.

Other key developments to date

- ▶ The Boards continue to believe that revenue should be recognized upon the transfer of goods and services to the customer, but have tentatively decided to treat goods and services differently. While goods are transferred when the customer obtains control (consistent with the original proposal), the Boards decided that services are transferred as the entity performs the agreed-upon services. These revisions clarify that continuous revenue recognition for some services, including those typically provided by the construction industry, is appropriate. The Boards agreed to criteria to help an entity determine whether a performance obligation constitutes a good or a service.
- ▶ Whether a good or service is “distinct” is a key determination in identifying separate performance obligations under the proposed model. In a change from the ED, the Boards tentatively agreed that an entity’s commitment to provide multiple goods and services as a single integrated item represents a single performance obligation. Otherwise, the determination is 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.
- ▶ To determine whether an onerous performance obligation exists, all remaining performance obligations within the contract would be evaluated in the aggregate. The onerous test would apply to all contracts, including those intentionally priced at a loss in expectation of profits to be generated on subsequent contracts with the customer.

What’s next

The Boards plan to discuss additional matters related to fulfillment costs, as well as disclosures, transition and effective date. The Boards will decide whether to re-expose the updated proposal before finalizing the standard.

¹ A number of industry supplements to this FRD are available.

Background

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

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

Other references

- ▶ [To the Point, Straightening out lease expense and other issues \(SCORE No. BB2118\)](#)
- ▶ [To the Point, A clearer picture of leases on the balance sheet \(SCORE No. BB2107\)](#)
- ▶ [To the Point, Lease term simplified – other lease accounting changes on the horizon \(SCORE No. BB2290\)](#)
- ▶ [Financial Reporting Developments, Proposed accounting for leases \(SCORE No. BB2012\)](#)
- ▶ [Practical matters for the c-suite, What do the proposed lease accounting changes mean for you? \(SCORE No. BB1992\)](#)
- ▶ [Technical Line, Proposed leases guidance exposed \(SCORE No. BB1990\)](#)
- ▶ [Hot Topic, Changes proposed for lease accounting \(SCORE No. BB1989\)](#)

Summary and observations

April 2011

- ▶ Lessees would be required to distinguish between two types of leases using criteria similar to those used to classify leases today, but without the “bright-line” tests used in current US GAAP. Finance leases would require separate recognition of interest and amortization expense in a pattern resulting in higher total expense in earlier periods of the lease, similar to capital leases under current lease accounting. Lease expense related to other-than-finance leases would be recognized on a straight-line basis, similar to operating leases under current lease accounting. Both types of leases would be recognized on the balance sheet.
- ▶ Variable lease payments based on performance or usage would not be included in the amounts recognized on the balance sheet but instead would be recognized as an expense when they are incurred. However, payments that are contractually described as variable, but in substance are fixed, would be treated as fixed payments (i.e., recognized on the balance sheet).
- ▶ 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.

Other key developments to date

- ▶ The lease term for accounting purposes would include optional periods only when there is a significant economic incentive for the lessee to extend or not terminate the lease (e.g., renewal rates priced at a bargain, significant customization or installment costs).
- ▶ The accounting for purchase options included in lease arrangements would be consistent with the accounting for options to extend a lease. The leases standard would not include guidance for distinguishing a lease from a purchase or sale of an underlying asset.
- ▶ 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 guidance.

What's next

The Boards still need to discuss lessor accounting, reassessment, impairment, lease modifications, presentation and disclosure, transition and effective date. Additionally, the Boards will decide whether to re-expose the updated proposal before finalizing the standard.

Background

The FASB proposal, in combination with a proposal from the IASB, would generally converge the US GAAP and IFRS requirements for fair value measurements and related disclosures. While not intended to result in significant changes to practice, the proposed guidance would clarify certain existing fair value principles under US GAAP and amend others. Additional disclosures would also be required, particularly about Level 3 measurements.

Other references

- ▶ [Hot Topic, FASB proposes amendments to converge fair value guidance \(SCORE No. BB1965\)](#)

Summary and observations

Key developments to date

- ▶ Consistent with the ED, the concepts of “highest and best use” and “valuation premise” are not relevant for financial instruments and liabilities.
- ▶ Measuring financial assets and liabilities with offsetting risks on a portfolio basis would be allowed as an exception to fair value principles, if certain criteria are met.
- ▶ Although the application of a “blockage factor” would be prohibited in all levels of the fair value hierarchy, the Boards clarified that other premiums and (or) discounts (e.g., control premiums) may be applied when they would be considered by market participants based on the unit of account for the item being measured.
- ▶ The Boards clarified that if the unit of account for the item being measured is not clear from other guidance, entities should assume that market participants would transact in a way that maximizes value.
- ▶ New fair value disclosures would be required; however, the FASB tentatively agreed that non-public companies would be exempt from providing certain of these disclosures.
- ▶ For public companies, the FASB guidance will be effective for interim and annual periods beginning after 15 December 2011. The effective date for non-public companies is annual periods beginning after 15 December 2011. The new IFRS on fair value measurements will be effective for annual periods beginning on or after 1 January 2013 for both public and non-public companies. Both standards will be applied prospectively upon their adoption.

What's next

Final guidance is expected shortly.

Background

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

Other references

- ▶ [Insurance Accounting Alert, Boards continue discussions; focus on discount rate \(SCORE No. AU0830\)](#)
- ▶ [Insurance Accounting Alert, IASB and FASB make further progress \(SCORE No. AU0811\)](#)
- ▶ [Insurance Accounting Alert, Boards continue their re-deliberations \(SCORE No. AU0790\)](#)
- ▶ [To the Point, Insurance project picks up steam – Boards make key decision on discount rate \(SCORE No. BB2294\)](#)
- ▶ [Insurance Accounting Alert, Insurance continues to attract significant attention from the Boards \(SCORE No. AU0784\)](#)
- ▶ [Insurance Accounting Alert, Boards make progress towards an insurance standard \(SCORE No. AU0774\)](#)
- ▶ [Insurance Accounting Alert, IASB and FASB begin re-deliberations \(SCORE No. AU0766\)](#)
- ▶ [Practical matters for the c-suite, Insurance contracts: profound changes for accounting and the business \(SCORE No. BB2011\)](#)
- ▶ [Insurance Accounting Alert, FASB provides preliminary views on insurance accounting \(SCORE No. BB2008\)](#)

Summary and observations

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- ▶ The Boards concluded that the insurance guidance should include a modified approach for contracts that meet certain eligibility criteria. Although they did not reach a conclusion on those criteria, the Boards agreed that the modified approach would be consistent with an unearned premium approach, typically used for short-duration insurance contracts. However, they disagreed on whether the modified approach should be a revenue recognition model or a liability measurement model.

Other key developments to date

- ▶ The Boards reaffirmed the definition of an insurance contract in the ED/DP, which would require an insurer to consider whether there is a possibility of loss on a present value basis.
- ▶ In a change from the ED/DP, the standard will not prescribe a particular method for determining the discount rate (e.g., top-down or bottom-up approach), but the rate should reflect the characteristics of the liability. The discount rate used to measure all insurance contracts should be a current rate that is updated each reporting period (i.e., discount rate is not locked). 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 should adjust those cash flows using a discount rate that reflects that dependence. A practical expedient is not allowed for determining the discount rate for any insurance contracts.
- ▶ The requirement to use an expected value of fulfillment cash flows refers to the mean. The Boards clarified that practical implementation would depend on circumstances and there is no need for *all* possible scenarios to be identified and quantified to calculate the mean, provided that the insurer is satisfied that the estimate is consistent with the objective of expected value.
- ▶ Insurers should not recognize insurance contract assets and liabilities until the coverage period begins, although the contract would be subject to an onerous test. This is a change from the ED/DP that required initial recognition when an insurer becomes a party to the contract. The Boards confirmed their view that no gain would be recognized at the inception of a contract, while a loss at issue must be recognized.
- ▶ The Boards reached different conclusions about which acquisition costs would qualify to be included in cash flows of insurance contracts. The FASB 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. The IASB, however, decided to include all costs that the insurer incurs in acquiring the portfolio (including costs associated with unsuccessful efforts). This is a change from the ED/DP proposal that provided that acquisition costs be identified at a contract level.
- ▶ 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 determination of whether a contract confers substantive rights on the policyholder would be based on the right to re-price the portfolio of contracts that the contract belongs to, rather than the contract of a particular policyholder.

What's next

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

Other joint projects

Presentation of other comprehensive income



Background

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

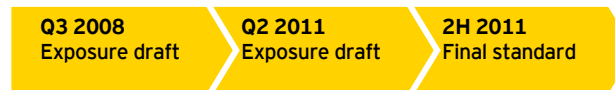
Key developments to date

- ▶ Entities would be required to present net income and other comprehensive income either in a single continuous statement or in two separate but consecutive statements. The option in US GAAP to present other comprehensive income in the statement of changes in stockholders' equity would be eliminated.
- ▶ Reclassification adjustments would be required to be presented separately on the statement of comprehensive income.
- ▶ There would be no change to how earnings per share is calculated or reported.

What's next

A final standard is expected shortly.

Reporting discontinued operations



Background

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

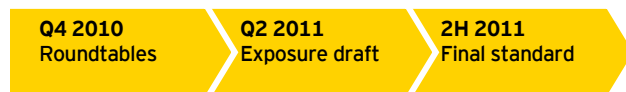
Key developments to date

- ▶ 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 of the following criteria:
 - ▶ Represents a separate major line of business or major geographical area of operations
 - ▶ Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations
 - ▶ Is a business that meets the criteria to be classified as held for sale on acquisition
- ▶ Certain requirements in existing US GAAP for discontinued operations classification (i.e., elimination of cash flows of the component and prohibition of significant continuing involvement) would be eliminated.

What's next

The FASB will re-expose the proposed guidance. The IASB will not issue an ED in the second quarter as originally planned and will discuss later in 2011 whether re-exposure for additional disclosure requirements is necessary. The proposed definition of discontinued operations does not represent a significant change to IFRS.

Consolidation



Background

The IASB proposed a single consolidation model for all entities that will result in substantial convergence with US GAAP on consolidation of variable interest entities (VIEs) and related disclosures. At roundtables in November, the FASB received feedback on the IASB model. In addition, the Boards are jointly considering issues relating to the consolidation accounting for investment companies.

Key developments to date

- ▶ After hearing from constituents, the FASB decided not to develop a single consolidation model and not to converge with the IASB's guidance at this time. Accordingly, some of the significant differences between US GAAP and IFRS with respect to the concept of "de facto control" and consideration of potential voting rights will not be eliminated.
- ▶ The FASB tentatively decided to amend its principal/agent guidance for VIEs. Consistent with the IASB proposal, the FASB would allow decision makers to make a more holistic assessment of their role as a principal or an agent. The assessment would include consideration of the nature and magnitude of fee arrangements, other interests held and kick-out rights. The amendments are expected to lift the existing deferral for asset managers related to certain provisions of the VIE consolidation model.
- ▶ In addition to amending the principal/agent guidance for VIEs, the FASB plans to amend certain guidance for voting interest partnerships (and similar entities) to promote greater consistency in the US GAAP consolidation literature.
- ▶ The Boards plan to proceed with converged proposals related to the definition of an investment company and the measurement requirements for its investments (i.e., fair value).

What's next

The FASB plans to propose amendments to the principal/agent and partnership guidance in ASC 810 in May 2011. The Boards plan to issue their proposals for investment companies in Q2 2011.

Other references

- ▶ [Hot Topic, FASB to reconsider convergence with IASB consolidation guidance \(SCORE No. BB2020\)](#)

Emissions trading schemes

Background

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

Key developments to date

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

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 of both US GAAP and IFRS requirements. The existing guidance is 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 financial position, performance and cash flows. It would also require more disaggregation of information within the primary financial statements.

Key developments to date

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

What's next

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

Other references

- ▶ [Hot Topic, FASB staff draft of a new presentation model for financial statements \(SCORE No. BB1967\)](#)

Joint projects timeline

		2010		Q1 2011	Q2 2011	Q3 2011	Q4 2011
Statement of Comprehensive Income	Joint	ED			Final		
Fair Value Measurement	Joint	ED ¹			Final ²		
Financial Instruments	FASB	ED	RT	SD/DP ³		Final ⁴	
	IASB	ED ⁵	Final ⁶	SD ³		Final ⁷	
Balance Sheet – Offsetting	FASB			ED	RT	Final	
	IASB			ED	RT	Final	
Revenue Recognition	FASB	ED	RT			Final	
	IASB	ED	RT				Final
Leases	FASB	ED	RT			Final	
	IASB	ED	RT				Final
Consolidation	Joint ⁸				ED	Final	
	FASB	RT			ED ⁹	Final ⁹	
	IASB	Staff draft			Final		
Financial Statement Presentation	Joint	Staff draft					
Reporting Discontinued Operations	FASB				ED	Final	
	IASB						
Financial Instruments with Characteristics of Equity	Joint						
Insurance Contracts	FASB	DP	RT			ED	
	IASB	ED	RT				Final
Emissions Trading Schemes	Joint						
Effective Dates and Transition	Joint	DP/RV ¹⁰					

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

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

² The disclosures related to measurement uncertainty will be finalized separately from the main project.

³ The Boards issued a joint supplementary document on impairment in January 2011. The FASB issued a DP requesting input on the IASB's hedging proposal.

⁴ 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.

⁵ IASB ED related to the hedging portion of its project.

⁶ IASB's final IFRS on classification and measurement for liabilities.

⁷ The IASB's impairment and general hedge accounting phases of this project. A separate ED on portfolio hedge accounting is expected in the second half of 2011.

⁸ IASB and FASB project related only to consolidation by investment companies.

⁹ FASB amendments to principal-agent guidance in ASC 810.

¹⁰ FASB DP and IASB request for views.

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