

Joint Project Watch

FASB/IASB joint projects from a US GAAP perspective

August/September 2011

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

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

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Background

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

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

Other references

- ▶ [To the Point, New credit impairment approach takes shape \(SCORE No. BB2161\)](#)
- ▶ [Technical Line, Financial instruments – a new classification and measurement model on the horizon \(SCORE No. BB2157\)](#)
- ▶ [To the Point, A new approach to credit impairment is in the works \(SCORE BB2149\)](#)
- ▶ [Technical Line, Hedge accounting: Is convergence possible? \(SCORE No. BB2125\)](#)
- ▶ [To the Point, Credit impairment accounting continues to take shape \(SCORE No. BB2108\)](#)
- ▶ [Technical Line, FASB makes progress on classifying and measuring financial instruments \(SCORE No. BB2295\)](#)
- ▶ [To the Point, Hedge accounting – FASB seeks reaction to IASB's proposed model \(SCORE No. BB2088\)](#)
- ▶ [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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- ▶ Equity method investments would be measured at fair value through net income if the investment is held for sale. That determination would be made based on certain criteria upon initial qualification for the equity method of accounting and could not subsequently be changed.
- ▶ Similar to an earlier decision that would permit a conditional fair value option (FVO) to avoid bifurcation of an embedded derivative in a hybrid financial liability, there would be a conditional FVO for hybrid financial assets that are determined to contain an embedded derivative feature that otherwise would require bifurcation and separate accounting.
- ▶ Groups of financial assets and financial liabilities may be measured at fair value with changes in fair value recognized in net income if the entity (1) manages the net exposure relating to those financial assets and financial liabilities (which may be derivative instruments) and (2) provides information on that basis to the reporting entity's management.
- ▶ Expanded disclosures would be provided about liquidity risk (for all companies) and interest rate risk (for financial institutions only). Nonfinancial institutions with a subsidiary or reportable segment that engages in transactions that involve lending to or financing the activities of others would be required to present financial institution disclosures for its finance subsidiary or segment.

Other key developments to date

- ▶ Financial assets would be classified into one of three categories – amortized cost, fair value through net income (FV-NI) or fair value through other comprehensive income (FV-OCI) – based on the financial asset's characteristics and the entity's business strategy for the financial asset.
- ▶ Changes in fair value that have been recognized in OCI would be recognized in net income (i.e., recycled) when these gains or losses are realized either through sales or settlements.
- ▶ All marketable equity securities would be measured at FV-NI. Public entities would also be required to measure nonmarketable equity securities at FV-NI. Nonpublic entities would be given a practicality exception to allow measurement of nonmarketable equity securities at cost less any other-than-temporary impairment, but must adjust the carrying value for both upward and downward observable price changes. Impairment would be recognized when qualitative factors indicate it is more likely than not that the fair value of the nonmarketable equity security is less than its carrying value.

- ▶ Financial liabilities meeting the characteristics criterion would generally be measured at amortized cost, with certain exceptions that would require classification at FV-NI.
- ▶ Financial instruments that will be subsequently measured at FV-NI would initially be measured at fair value. Financial instruments that will be subsequently measured at amortized cost or FV-OCI would initially be measured at transaction price. Investment companies would continue to initially measure financial instruments at transaction price.
- ▶ The Board decided to retain bifurcation and separate accounting of embedded derivative features for all hybrid financial instruments, consistent with current requirements. For issuers, convertible debt instruments that currently are accounted for as a single instrument would continue to be measured at amortized cost in their entirety.
- ▶ The proposed “related operations” criterion would not be required to qualify for equity method accounting, leaving the criteria unchanged from current US GAAP. No fair value option would be permitted for equity method investments, but in some circumstances such investments would be required to be measured at FV-NI. Qualitative factors would be assessed to determine whether an equity method investment is impaired, and once recognized, impairment would not be reversed.
- ▶ If financial assets will be used to settle nonrecourse financial liabilities, the financial liabilities would be measured in the same way as the associated financial assets.
- ▶ Loan commitments, revolving lines of credit and standby letters of credit would be measured at FV-NI when the business strategy for the underlying loans, when issued, is to hold them for sale. In other circumstances, measurement would be at amortized cost, with any fees recognized in accordance with existing guidance.
- ▶ Reclassifications between categories would not be permitted, even when there is a change in business strategy. Also, financial assets that qualify for the amortized cost category but are subsequently identified for sale should continue to be classified and measured at amortized cost (less impairment), and those sales would not “taint” the remaining financial assets classified that way.

What's next

The FASB hopes to complete its redeliberations on classification and measurement in the fourth quarter of 2011. The FASB will at a minimum expose the proposed amendments to the Codification, and may decide to fully re-expose the model, most likely in the first half of 2012. The IASB will then expose the FASB's final decisions on classification and measurement to its constituents.

Summary and observations – impairment

Background

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

August/September 2011

- ▶ The Boards instructed the staff to pursue an absolute credit quality approach for the three-bucket impairment model, under which originated loans would initially be included in one of the three buckets based on the credit quality of each loan upon origination. This is a change from the Boards' previous plan to pursue a relative credit risk approach, under which all purchased and originated loans would initially be included in Bucket 1, regardless of credit quality. Under the absolute credit quality approach, loans would move between buckets based on changes in credit quality.
- ▶ The Boards will consider the application of an absolute credit quality approach on (1) “geographies” that originate loans of lower credit quality (e.g., subprime loans) and (2) purchased impaired loans.

Other key developments to date

- ▶ Loans would be split into three buckets based on their underlying credit risk characteristics.
 - ▶ Bucket 1 – loans evaluated individually or collectively that do not meet the criteria for Bucket 2 or 3
 - ▶ Bucket 2 – loans for which possible future defaults may occur, but the specific loans that may default have not been identified
 - ▶ Bucket 3 – individual loans for which available information indicates that credit losses are expected to, 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 loans 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 plan to expose that approach early in 2012.

Summary and observations – hedging

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

Background

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.

August/September 2011

- ▶ The FASB discussed feedback on its February 2011 discussion paper soliciting comments on the IASB's hedge accounting proposal.

Other key developments to date

- ▶ The FASB exposed its model in May 2010, while the IASB exposed 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 has largely concluded its redeliberations of its model and is preparing to finalize its standard by year-end.

What's next

The FASB will consider whether and how to incorporate some of the IASB's concepts into the FASB hedging model.

Summary and observations – balance sheet offsetting

Q1 2011
Exposure draft

Q2 2011
Roundtables

Q4 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.

August/September 2011

- ▶ The FASB and IASB agreed separately to retain their respective current balance sheet offsetting models. The IASB also tentatively agreed to clarify certain concepts in IAS 32, including the legal right of setoff and circumstances in which gross settlement may be considered the functional equivalent of net settlement.
- ▶ The Boards agreed to require the revised disclosures for annual and interim reporting periods beginning on or after 1 January 2013 with retrospective application.

Other key developments to date

- ▶ The Boards agreed to develop common disclosure requirements that would enable users to reconcile balance sheets prepared under US GAAP and IFRS and agreed to the following disclosure requirements for certain financial assets and financial liabilities: (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 collateral); and (4) the entity's net exposure.

What's next

The IASB staff and FASB staff will draft amendments to their respective standards for balloting. Final standards are expected to be issued in the fourth quarter of 2011.

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 the good or service is transferred to the customer.

Other references

- ▶ [Technical Line, A snapshot of the new joint revenue model \(SCORE No. BB2164\)](#)
- ▶ [To the point, Boards to re-expose revenue proposal \(SCORE No. BB2144\)](#)
- ▶ [Technical Line, Another step toward a final revenue standard \(SCORE No. BB2119\)](#)
- ▶ [Technical Line, New revenue recognition model is taking shape \(SCORE No. BB2110\)](#)
- ▶ [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

August/September 2011

- ▶ The FASB decided that the effective date for nonpublic companies would be at least one year after the effective date for public companies (i.e., at the earliest, annual periods beginning on or after 1 January 2016).

Other key developments to date

- ▶ The Boards decided to formally expose their joint revenue recognition proposal for a second time because they made significant changes 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 should be recognized 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 guidance will be provided to help entities make that determination.
- ▶ An entity's commitment to provide a bundle of goods and 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 apply only to performance obligations satisfied over time (e.g., long-term contracts).
- ▶ 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. 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 maximizing observable inputs. However, when prices are highly variable or uncertain (e.g., software licenses) a residual technique could be used to estimate standalone selling prices.
- ▶ Assets arising from fulfillment costs and contract acquisition costs would be amortized, at times, over periods longer than the term of the initial contract (i.e., including expected renewals). As a practical expedient, immediate expense recognition would be allowed for acquisition costs related to contracts with a duration of one year or less. The capitalized assets would be assessed for impairment.
- ▶ The Boards did not reach a firm decision on the effective date of the revenue project; however, the FASB decided that the effective date would be no earlier than annual periods beginning on or after 1 January 2015 for public companies. Early adoption would not be permitted (FASB only).
- ▶ The FASB decided not to give nonpublic companies additional relief from full retrospective application beyond the relief granted to all entities.

What's next

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

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 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 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

- ▶ [Practical matters for the c-suite, Lease accounting proposals: simplified, but not simple \(SCORE No. BB2169\)](#)
- ▶ [To the Point, Boards to re-expose leases – a new approach for lessors selected \(SCORE No. BB2162\)](#)
- ▶ [Technical Line, Lessee model comes together as leases project progresses \(SCORE No. BB2156\)](#)
- ▶ [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

August/September 2011

- ▶ Lessors should refer to existing financial instrument guidance to assess the impairment of the lease receivable and to existing guidance for plant, property and equipment to assess the impairment of the residual asset.
- ▶ Amounts expected to be received under residual value guarantees would be recognized only at the end of the lease.

Other key developments to date

- ▶ 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 recognized 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 customization or installment costs). The accounting for purchase options included in lease arrangements would be consistent with the accounting for options to extend a lease.
- ▶ Variable lease payments based on performance or usage would not be included in the amounts recognized on the balance sheet but instead would be recognized as 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 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 property carried at fair value) and recognize a lease receivable and a residual asset for each lease. The lessor would recognize 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 recognize income related to interest on the receivable and accretion of the residual asset.
- ▶ Both lessees and lessors would be allowed to apply current operating lease accounting to short-term leases.
- ▶ 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 transition and a number of lessor-specific presentation and disclosure matters.

Background

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

Other references

- ▶ [Insurance Accounting Alert, IASB opens the residual margin; Boards define acquisition costs \(SCORE No. AU0904\)](#)
- ▶ [Insurance Accounting Alert, Boards discuss reinsurance topics \(SCORE No. AU0866\)](#)
- ▶ [Insurance Accounting Alert, Boards remain split on the approach to margins \(SCORE No. AU0863\)](#)
- ▶ [Insurance Accounting Alert, Boards disagree on measurement of certain participating contracts \(SCORE No. AU0857\)](#)
- ▶ [Insurance Accounting Alert, Boards seek an approach to unbundling that is consistent with revenue recognition \(SCORE No. AU0848\)](#)
- ▶ [Insurance Accounting Alert, Boards continue discussions; focus on discount rate \(SCORE No. AU0830\)](#)
- ▶ [Insurance Accounting Alert, IASB and FASB make further progress \(SCORE No. AU0811\)](#)
- ▶ [Practical matters for the c-suite, Insurance contracts: profound changes for accounting and the business \(SCORE No. BB2011\)](#)
- ▶ [Insurance Accounting Alert, FASB provides preliminary views on insurance accounting \(SCORE No. BB2008\)](#)

Summary and observations

August/September 2011

- ▶ The FASB decided that under the premium allocation approach, the liability for incurred claims should be measured as the discounted unbiased cash flows without a single margin.
- ▶ The FASB decided that under the building block approach, an insurer should recognize the single margin in income as it is released from risk, the determination of which will depend on the nature of the uncertainty in the cash flows.
- ▶ 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 settlement outcomes or a fixed liability that has the same expected present value of cash flows of the insurance contract.

Other key developments to date

- ▶ The standard will not prescribe a particular method for determining the discount rate (e.g., top-down or bottom-up approach), but the rate should reflect the characteristics of the liability and should be a current rate that is updated each reporting period. The objective of the discount rate is the same for nonparticipating 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.
- ▶ The FASB tentatively decided that the measurement of an insurance contract liability should include a single margin. The IASB tentatively decided that the measurement model should contain an explicit risk adjustment and residual margin. The Boards will evaluate how differences in approach might be addressed through disclosures. The IASB tentatively decided that the residual margin would be adjusted (i.e., unlocked), on a prospective basis, for changes in estimates of cash flows, and that the residual margin would be amortized over the coverage period. The FASB would not favor unlocking the residual margin if it were to adopt an approach that included a residual margin.
- ▶ Insurers should not recognize insurance contract assets and liabilities until the coverage period begins, although the contract would be subject to an onerous test.
- ▶ The Boards continue to believe that certain portions of insurance contracts should be unbundled and will decide on the specific criteria at a later date.
- ▶ The IASB decided that the fulfillment cash flows relating to policyholder participation features should be measured on the same basis as the underlying items in which the policyholder participates. The FASB did not make a decision.
- ▶ Acquisition costs included in the cash flows of insurance contracts would include only direct costs. The FASB reaffirmed that only costs related to successful efforts would be included, while the IASB would continue to include costs associated with both successful and unsuccessful efforts.
- ▶ The Boards clarified that certain reinsurance contracts would meet the definition of insurance even if there is no expected loss to the reinsurer.

What's next

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

Other joint projects

Consolidation

Q4 2010
Roundtables

Q4 2011
Exposure drafts

Background

The IASB issued new consolidation guidance establishing a single control model for all entities. The new IASB guidance is similar to the US GAAP guidance for the consolidation of variable interest entities (VIEs), but creates new differences between US GAAP and IFRS in some areas, and some long-standing differences also remain. While consolidation accounting was once a joint project, the FASB will make only limited changes to its consolidation guidance. Accordingly, the 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. Also, the Boards are continuing to consider issues relating to consolidation accounting for investment companies.

August/September 2011

- ▶ The IASB issued its proposed amendments to IFRS for investment companies in August 2011. The IASB’s proposed definition of an investment company is expected to be largely converged with the definition under US GAAP. However, unlike the FASB’s expected proposal, the IASB’s proposal requires an investment company to account for all of its investments at fair value and generally prohibits consolidation.
- ▶ Consistent with current US GAAP, the FASB tentatively decided that an investment company would account for controlling and noncontrolling interests in operating companies at fair value. However, in a change from current US GAAP, the FASB tentatively decided that an investment company would be required to consolidate another investment company or investment property entity (a newly defined term) when it has a controlling financial interest. Noncontrolling interests in an investment company or investment property entity would be accounted for at fair value.
- ▶ The FASB tentatively decided that an entity regulated under the Investment Company Act of 1940 would qualify as an investment company regardless of whether the entity meets the proposed definition.

Other key developments to date

- ▶ The FASB tentatively decided to amend its principal-agent guidance for VIEs. Consistent with the new IASB guidance, 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 eliminate the

existing deferral for asset managers related to certain provisions of the VIE consolidation model.

- ▶ The FASB also plans to amend certain guidance for voting interest partnerships (and similar entities) to improve consistency in the US GAAP consolidation literature.
- ▶ The Boards diverged on whether an investment company’s fair value accounting would be retained by a non-investment company parent in consolidation, with the FASB favoring retention.
- ▶ The FASB tentatively decided that an investment company that is required to consolidate an investment property entity should present in its financial highlights its proportionate share of the consolidated entity, thereby excluding amounts related to noncontrolling interest holders of the investment property subsidiary. The expense ratio would be presented both including and excluding investment property subsidiaries. The FASB also tentatively decided that an investment company would account for any noncontrolling interest holders in accordance with consolidation accounting guidance under ASC 810 and not as a separate class of investors.

What’s next

The FASB plans to issue its proposals on consolidation accounting and for investment companies in the fourth quarter of 2011.

Other references

- ▶ [To the Point, Key differences between IASB’s new consolidation guidance and US GAAP \(SCORE No. BB2133\)](#)

Reporting discontinued operations

Background

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

Key developments to date

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

What's next

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

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 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 \(SCORE No. BB1967\)](#)

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.

Joint projects completed in 2011

Projects completed in prior months

Presentation of other comprehensive income

New guidance issued in June 2011

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

Other references

- ▶ [To the Point, Other comprehensive income is moving \(SCORE No. BB2146\)](#)

Fair value

New guidance issued in May 2011

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

Other references

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

Joint projects timeline

		2010	Q1 - Q2 2011	Q3 2011	Q4 2011	2012
Statement of Comprehensive Income	Joint	ED	Final			
Fair Value Measurement	Joint	ED ¹	Final ²			
Financial Instruments						
Classification and measurement	FASB	ED ³	RT			ED ⁴
	IASB	Final ⁵				
Impairment	FASB	ED ³	RT	SD		ED ⁴
	IASB			SD	ED ⁶	
Hedging	FASB	ED ³	RT	DP		
	IASB	ED			Final ⁷	ED ⁷
Balance Sheet – Offsetting	FASB		ED	RT	Final	
	IASB		ED	RT	Final	
Revenue Recognition	FASB	ED	RT		ED	⁸
	IASB	ED	RT		ED	Final
Leases	FASB	ED	RT			ED ⁸
	IASB	ED	RT			ED Final
Insurance Contracts	FASB	DP	RT			ED
	IASB	ED	RT		ED ⁶	
Consolidation	Joint ⁹			ED ⁹		
	FASB	RT			ED ¹⁰	
	IASB	Staff draft	Final			
Financial Statement Presentation	Joint	Staff draft				
Reporting Discontinued Operations	FASB					
	IASB					
Financial Instruments with Characteristics of Equity	Joint					
Emissions Trading Schemes	Joint					
Effective Dates and Transition	Joint	DP/RV ¹¹				

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 are being separately analyzed.

³ The FASB issued a single comprehensive proposal on all three phases of this project.

⁴ 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.

⁵ IASB's final IFRS on classification and measurement for liabilities. In Q3 2011, the IASB issued an ED to defer the mandatory effective date of IFRS 9.

⁶ The IASB will issue an ED or review draft.

⁷ The IASB expects to finalize the general hedge accounting phase and issue a separate ED on macro hedge accounting.

⁸ Our expectation is that the FASB will follow timing that is similar to the IASB on finalizing the Revenue and Leases projects.

⁹ IASB and FASB project related only to consolidation by investment companies. The IASB issued its ED in Q3. An ED will be issued by the FASB in Q4 2011.

¹⁰ FASB amendments to principal-agent guidance in ASC 810.

¹¹ FASB DP and IASB request for views.

Note: FASB timing for some projects has been based on discussions with staff and/or Board members and may differ from the FASB site technical plan.

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