The topics discussed at the joint IASB/FASB meeting were:

- Asset and liability offsetting
- Effective dates
- ICAS and NZICA disclosure report: education session
- Impairment
- Insurance contracts
- Leases

The topics discussed at the IASB meeting were:

- Agenda consultation report
- Asset and liability offsetting
- IFRS 9: Financial instruments: hedge accounting
- IFRS Interpretations Committee: update from last meeting
- IFRS 9—effective dates

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Future Board meetings

The IASB meets at least once a month for up to five days.

The next Board meetings in 2011 are:

28 July
6&7 September
19-23 September (Norwalk, US)
17-21 October

To see all Board meetings for 2011, **click here**.

Archive of IASB Update Newsletter

Click here for archived copies of past issues of IASB Update on the IASB website.

Podcast summaries

To listen to a short Board meeting audio summary (podcast) of previous Board meetings, **click here**.

IASB/FASB sessions

Asset and liability offsetting

The IASB and FASB discussed revisions to the proposed offsetting disclosures. The boards tentatively

decided to:

a. retain the objective for the offsetting disclosures, namely, 'An entity shall disclose information about rights of set-off and related arrangements (such as collateral arrangements) associated with the entity's financial assets and financial liabilities to enable users of its financial statements to understand the effect of those rights and arrangements on the entity's financial position';
b. modify the scope of the disclosure requirements so that they apply only to instruments under an enforceable master netting agreement or similar arrangement (eg derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities lending arrangements), and
c. clarify that an entity need not provide the required disclosures if the entity 'has no qualifying assets or liabilities that are subject to a right of set-off (other than collateral agreements) at the reporting date.'

This decision was supported by all members of the IASB and six members of the FASB.

The boards also tentatively decided to require entities to disclose the following:

a. the gross amounts of financial assets and financial liabilities,
b. the amounts of financial assets and financial liabilities offset in the statement of financial position,
c. the net amount after taking in account (a) and (b), (which should be the same as the amounts reported in the statement of financial position),
d. the effect of rights of set-off that are only enforceable and exercisable in bankruptcy, default, or insolvency of either party not taken into account in arriving at the amounts presented in the statement of financial position (including collateral) and
e. the net exposure after taking into account the effect of items (b) and (d).

This decision was supported by 14 members of the IASB and 6 members of the FASB.

Effective dates

The IASB and FASB discussed the results of additional outreach with software providers and investors as input in considering the effective dates and transition methods for the four major projects—financial instruments, insurance, leases, and revenue recognition. The FASB also discussed the results of additional outreach with users and preparers of financial statements of nonpublic entities (which include non-publicly-listed companies and not-for-profit organisations).

The boards discussed whether to permit early application of the standards resulting from the four major projects. The FASB unanimously agreed that early application should generally not be permitted; however, when making a final decision the Board will consider the facts and circumstances of each individual project. The IASB decided to permit early application of new IFRSs by first-time adopters of IFRSs. The IASB will consider the issue of early application by other entities on a standard-by-standard basis.

Revenue recognition

The IASB and FASB then discussed effective dates in relation to the revenue recognition project. The boards tentatively decided that the effective date of the revenue standard would be set to ensure that the start of the earliest comparative period for an entity that is required to present two comparative annual

periods (in addition to the current annual period) would be a few months after the standard is issued. Consequently, the boards noted that based on their current timetable for the project, the effective date of the revenue standard would not be earlier than annual periods beginning on or after 1 January 2015.

This decision was supported by all members of both boards.

The boards discussed whether early application of the revenue standard should be permitted. The FASB tentatively decided unanimously that early application should not be permitted. The IASB tentatively decided that early application of the revenue standard should be permitted. Eight members of the Board agreed with that decision.

The IASB will discuss at a future meeting whether the transition reliefs to retrospective application in the proposed standard should be extended to first-time adopters of IFRSs.

ICAS and NZICA disclosure report: education session

The IASB received a report prepared by a working group that included members from NZICA (the New Zealand Institute of Chartered Accountants) and members from ICAS (the Institute of Chartered Accountants of Scotland). The report identified changes to the disclosure requirements in IFRSs that working group members believe should be made to reduce the absolute level of disclosures in financial reports. The report is available on the websites of ICAS and NZICA—**click here**.

Impairment

The IASB and FASB continued to discuss an approach to expected losses for the impairment of financial assets subject to accounting for impairment (such as those measured at amortised cost. The guiding principle of the approach is to reflect the general pattern of deterioration of credit quality of financial assets.

The boards discussed approaches for classifying and transferring financial assets into and between three categories (or 'buckets'). The boards agreed to develop an approach based on credit risk management systems, recognising that credit risk management is a holistic process that includes evaluating all available information.

The boards considered whether an 'absolute' or a 'relative' credit risk model should underpin the transfer and classification of financial assets between the three buckets and decided to develop the relative credit risk model. The overall objective of this approach is to reflect the deterioration or improvement in the credit quality of financial assets, thus making the maximum use of credit risk management practices. Under this approach, all originated and purchased financial assets would initially start in Bucket 1 and will move into Bucket 2 and Bucket 3 as credit loss expectations deteriorate, affecting the uncertainty in collectability of cash flows. Loans acquired at a discount because of credit losses were outside the scope of the discussion and will be addressed at a future meeting.

The boards also discussed the measurement of expected loss on financial assets in Bucket 1. The boards agreed to keep the calculation of the impairment allowance for Bucket 1 operationally simple and directed the staff to explore approaches that would calculate the allowance using 12 or 24 months' worth of losses

that are expected to occur. The boards also agreed that the calculation of 12 months' worth of expected losses in Bucket 1 will be based on an '*annual*' rather than an 'annualised' loss rate (that is, looking to the losses that are expected to occur in the next 12 months, as opposed to calculating the lifetime losses and dividing by the number of years remaining). The same logic would apply if a 24-month horizon was used.

Insurance contracts

The IASB and FASB continued their discussions on insurance contracts. They received an oral report on recent investor outreach activities and considered when insurers should apply the premium allocation approach to short-duration contracts. No decisions were made.

Next steps

Both boards expect to continue their discussion of insurance contracts in September 2011.

Leases

The IASB and the FASB discussed re-exposure of the proposed standard, lessor accounting, the accounting for lease payments that depend on an index or a rate, the accounting for embedded derivatives in lease contracts, lessee presentation and disclosure, presentation: lessee statement of financial position and lessee statement of cash flows.

Re-exposure of the proposed standard

The boards agreed unanimously to re-expose their revised proposals for a common leasing standard. Re-exposing the revised proposals will provide interested parties with an opportunity to comment on revisions that the boards have undertaken since the publication of an exposure draft on leasing in August 2010.

The boards made this decision earlier in the process than normal to give interested parties some certainty about the project plan. The boards have still to consider some aspects of the leases project and expect to conclude their discussions in September. At that time the boards will confirm the comment period for the revised exposure draft and will be in a better position to provide more information about the timing of the project.

Lessor accounting

The boards tentatively decided that a lessor should apply a 'receivable and residual' accounting approach as follows:

1. The lessor would recognise a right to receive lease payments and a residual asset at the date of the commencement of the lease.
2. The lessor would initially measure the right to receive lease payments at the sum of the present value of the lease payments, discounted using the rate that the lessor charges the lessee.
3. The lessor would initially measure the residual asset as an allocation of the carrying amount of the

underlying asset and would subsequently measure the residual asset by accreting it over the lease term using the rate that the lessor charges the lessee.

4. If profit on the right-of-use asset transferred to the lessee is reasonably assured, the lessor would recognise that profit at the date of the commencement of the lease. The profit would be measured as the difference between (a) the carrying amount of the underlying asset and (b) the sum of the initial measurement of the right to receive lease payments and the residual asset.
5. If profit on the right-of-use asset transferred to the lessee is not reasonably assured, the lessor would recognise that profit over the lease term. In that case, the lessor would initially measure the residual asset as the difference between the carrying amount of the underlying asset and the right to receive lease payments. The lessor would subsequently accrete the residual asset, using a constant rate of return, to an amount equivalent to the underlying asset's carrying amount at the end of the lease term as if the underlying asset had been subject to depreciation.
6. If the right to receive lease payments is greater than the carrying amount of the underlying asset at the date of the commencement of the lease, the lessor would recognise, as a minimum, the difference between those two amounts as profit at that date.

Nine IASB members and five FASB members agreed.

The boards also tentatively decided that the following should be excluded from the scope of the 'receivable and residual' approach to lessor accounting:

1. Leases of investment property measured at fair value (all IASB and FASB members agreed)
2. Short-term leases (all IASB members and six FASB members agreed).

For those excluded leases, a lessor should (1) continue to recognise and depreciate the underlying asset and (2) recognise lease income over the lease term on a systematic basis.

Lease payments that depend on an index or a rate

The boards discussed the measurement of lease payments that depend on an index or on a rate that is included in the lessee's liability to make lease payments and the lessor's right to receive lease payments and tentatively decided that:

1. Lease payments that depend on an index or a rate should be measured initially using the index or rate that exists at the date of commencement of the lease. Twelve IASB members and five FASB members agreed.
2. Lease payments that depend on an index or a rate should be reassessed using the index or rate that exists at the end of each reporting period. Thirteen IASB members and five FASB members agreed.
3. Lessees should reflect changes in the measurement of lease payments that depend on an index or a rate (a) in net income to the extent that those changes relate to the current reporting period and (b) as an adjustment to the right-of-use asset to the extent that those changes relate to future reporting periods. All IASB and FASB members agreed.

The boards will discuss at a future meeting how a lessor should reflect changes in the measurement of

lease payments that depend on an index or a rate.

Embedded derivatives in lease contracts

The boards tentatively decided that an entity should assess whether a lease contract includes embedded derivatives that should be bifurcated and accounted for in accordance with applicable US GAAP and IFRS requirements on derivatives. Fourteen IASB members and all FASB members agreed.

Lessee presentation and disclosure

The boards discussed lessee disclosures and tentatively decided that a lessee should disclose the following:

1. A reconciliation of the opening and closing balance of right-of-use assets, disaggregated by class of underlying asset. Fourteen IASB members and all FASB members agreed.
2. A reconciliation of the opening and closing balance of the liability to make lease payments (unlike the proposal in the exposure draft, a lessee would not be required to disaggregate the reconciliation by class of underlying asset). Fourteen IASB members and all FASB members agreed.
3. A maturity analysis of the undiscounted cash flows that are included in the liability to make lease payments. The maturity analysis should show, at a minimum, the undiscounted cash flows to be paid in each of the first five years after the reporting date and a total of the amounts for the years thereafter. The analysis should reconcile to the liability to make lease payments. All IASB and FASB members agreed.
4. Information about the principal terms of any lease that has not yet commenced, if the lease creates significant rights and obligations for the lessee. Thirteen IASB members and four FASB members agreed.
5. Information required in paragraphs 73(a)(ii)-73(a)(iii) of the exposure draft (the boards will provide guidance, illustrations, or both about those requirements). All IASB and FASB members agreed.
6. All expenses relating to leases recognised in the reporting period, in a tabular format, disaggregated into (a) amortisation expense, (b) interest expense, (c) expense relating to variable lease payments not included in the liability to make lease payments, and (d) expense for those leases for which the short-term practical expedient is elected, to be followed by the principal and interest paid on the liability to make lease payments. Ten IASB members and all FASB members agreed.
7. Qualitative information to indicate whether circumstances or expectations about short-term lease arrangements are present that would result in a material change to the expense in the next reporting period as compared with the current reporting period. Ten IASB members and five FASB members agreed.

The boards also tentatively decided that a lessee should:

1. Present or disclose separately interest expense and interest paid relating to leases. All IASB and FASB members agreed.
2. Not combine interest expense and amortisation expense and present it as lease or rent expense. All IASB and FASB members agreed.

In addition, the boards tentatively decided that a lessee is not required to disclose the following:

1. The discount rate used to calculate the liability to make lease payments. Thirteen IASB members and six FASB members agreed.
2. The range of discount rates used to calculate the liability to make lease payments. Thirteen IASB members and all FASB members agreed
3. The fair value of the liability to make lease payments. Eleven IASB members and all FASB members agreed.
4. The existence and principal terms of any options for the lessee to purchase the underlying asset, or initial direct costs incurred on a lease. Eight IASB and five FASB members agreed.
5. Information about arrangements that are no longer determined to contain a lease. Fourteen IASB members and all FASB members agreed.

With regard to future contractual commitments:

1. The IASB tentatively decided that a lessee is not required to disclose the future contractual commitments associated with services and other non-lease components that are separated from a lease contract. Ten IASB members agreed.
2. The FASB tentatively decided that a lessee should disclose the future contractual commitments associated with services and other non-lease components that are separated from a lease contract. Four FASB members agreed.

Presentation: lessee statement of financial position

The boards discussed presentation in the lessee statement of financial position and tentatively decided that a lessee should:

1. Separately present in the statement of financial position, or disclose in the notes to the financial statements, right-of-use assets and liabilities to make lease payments. If right-of-use assets and liabilities to make lease payments are not separately presented in the statement of financial position, the disclosures should indicate in which line item in the statement of financial position the right-of-use assets and liabilities to make lease payments are included. Ten IASB members and five FASB members agreed.
2. Present the right-of-use asset as if the underlying asset were owned. All IASB and FASB members agreed. The boards also decided that it is not necessary to clarify whether the right-of-use asset is a tangible or an intangible asset. Thirteen IASB and six FASB members agreed.

Presentation: lessee statement of cash flows

The boards discussed the lessee's statement of cash flows and tentatively decided that a lessee should:

1. Classify cash paid for lease payments relating to the principal within financing activities. Thirteen IASB members and five FASB members agreed.
2. Classify or disclose cash paid for lease payments relating to interest in the statement of cash flows in accordance with applicable IFRSs or US GAAP. Thirteen IASB members and five FASB members agreed.
3. Classify as operating activities cash paid for variable lease payments that are not included in the measurement of the liability to make lease payments. Thirteen IASB members and four FASB members agreed.

4. Classify as operating activities cash paid for short-term leases that are not included in the liability to make lease payments. All IASB members and six FASB members agreed.

The boards tentatively decided that a lessee should disclose:

1. The expense recognised in the reporting period for variable lease payments that are not included in the liability to make lease payments. All IASB and FASB members agreed.
2. The acquisition of a right-of-use asset in exchange for a liability to make lease payments as a supplementary non cash transaction disclosure. All IASB and FASB members agreed.

IASB sessions

Asset and liability offsetting

Following the boards' preference for different offsetting approaches and hence the decision not pursue a common offsetting model (at the June 2011 joint meeting), the staff asked the IASB to reconfirm whether they would like to:

a. move forward with the exposure draft *Offsetting Financial Assets and Financial Liabilities*, as modified, or
b. retain the current offsetting requirements in IAS 32 *Financial Instruments: Presentation*.

Moving forward with the exposure draft would involve finalising the offsetting approach that was proposed in the ED, with some clarifications. The ED proposed requiring an entity to offset a recognised financial asset and a recognised financial liability when the entity:

a. has an unconditional and legally enforceable right to set off the financial asset and financial liability and
b. intends either:
   i. to settle the financial asset and financial liability on a net basis or
   ii. to realise the financial asset and settle the financial liability simultaneously.

IAS 32 requires that a financial asset and a financial liability must be offset in the statement of financial position when and only when the entity:

a. currently has a legally enforceable right to set off the recognised amounts; and
b. intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Eight members supported retaining the existing requirements, with seven supporting completing the ED. However, the Board also noted that during the project inconsistencies in the application of the offsetting requirements in IAS 32 were highlighted. The Board therefore asked the staff to prepare a paper that would consider whether those inconsistencies should be addressed and, if so, how.

Agenda consultation report

The IASB discussed the forthcoming public consultation on its agenda, including feedback received from the Trustees' discussion of the consultation proposals. The Board agreed with the consultation proposals and all Board members approved the publication of the consultation document.

IFRS 9: Financial instruments: hedge accounting

The IASB continued its redeliberations on the exposure draft *Hedge Accounting* (the ED) and discussed accounting for forward points, aggregated exposures, and groups and net positions.

Accounting for forward points

The Board discussed whether the proposals in the ED for the time value of options should be extended to forward points, as requested by many respondents to the ED.

The Board noted that, at present, using the forward rate method in IAS 39 *Financial Instruments: Recognition and Measurement* leads to an equivalent accounting outcome as the tentatively confirmed decision on time value of options for transaction related hedged items. However, entities cannot achieve an equivalent accounting outcome for forward points regarding time period related-hedged items—the forward points cannot be amortised on a rational basis.

The Board tentatively decided to permit forward points that exist at inception of the hedging relationship to be recognised in profit or loss over time on a rational basis and to accumulate subsequent fair value changes in accumulated other comprehensive income. This is to provide a better representation of the economic substance of the funding swap transaction and the performance of the net interest margin.

This decision was supported by 14 Board members with 1 Board member disagreeing.

Aggregated exposures

The Board discussed the feedback on the designation of an aggregated exposure as the hedged item. The ED proposes that if an entity combines an exposure with a derivative creating a different aggregated exposure that is managed as one exposure for a particular risk (or risks), that aggregated exposure may be designated as a hedged item. The feedback showed overwhelming support for the proposals.

The Board discussed suggestions for clarification to the proposals and tentatively decided:

- to confirm the proposal for allowing designating an aggregated exposure as the hedged item in a hedging relationship; [Supported by 12 Board members with 3 against]
- that illustrative examples should accompany the final standard based on examples discussed at this meeting; [Supported by 14 Board members with 1 abstention]
- to explicitly clarify in the final standard that the proposal does not allow 'synthetic accounting'; [Supported by all Board members]

- not to impose any specific restrictions (eg requiring that hedge accounting should be achieved) on the combinations of the exposure and the derivative that constitute the aggregated exposure as a precondition for the aggregated exposure being eligible as the hedged item; [Supported by 10 Board members with 5 against] and
- to provide additional clarification by:
  - explaining how aggregated exposures relate to forecast transactions; and
  - adding application guidance on how to apply the general requirement in the context of aggregated exposures. [Supported by 14 Board members with 1 against]

Net position cash flow hedges

The Board discussed the feedback on the criteria for the eligibility of groups of items as a hedged item. The feedback showed strong support for the proposals that would facilitate hedge accounting for groups and net positions.

The Board considered the restriction that for a cash flow hedge of a net position the offsetting cash flows in a net position must affect the income statement in the same reporting period.

The Board tentatively decided that cash flow hedges of net positions would only be available for hedges of foreign currency risk. The Board also tentatively decided to remove the restriction that the offsetting cash flows in a net position must affect the income statement in the same reporting period. Instead, the eligibility criteria would be extended to require that the items within the net position must be specified in such a way that the pattern of how they will affect the income statement is set out as part of the initial hedge designation.

[Supported by 9 Board members with 6 Board members against]

Net presentation in a separate line item in the income statement

The Board discussed the feedback on presentation of gains and losses on the hedging instrument in the income statement for net position hedges.

The feedback showed strong support for the proposals that would require the gains or losses on the hedging instrument to be presented in a separate line item for a net position hedge.

The Board tentatively confirmed the proposals in the ED regarding presentation in the income statement and that the separate line item for hedging gains and losses also includes the gains or losses on forecast transactions deferred to later periods.

[Supported by all IASB members]

IFRS Interpretations Committee: update from last meeting

The IASB received an update from the July 2011 meeting of the IFRS Interpretations Committee. Details of the meeting were published in IFRIC Update, which is available by **clicking here**.

IFRS 9—effective dates

The IASB discussed whether the mandatory effective date of IFRS 9 should be changed from annual periods beginning on or after 1 January 2013. The Board tentatively decided that:

1. the mandatory effective date of IFRS 9 should be changed to annual periods beginning on or after 1 January 2015,
2. early application should continue to be permitted, and
3. they supported the staff recommendation that an exposure draft should be issued with a comment period of a minimum of 60 days.