IASB Update

From the International Accounting Standards Board

February 2013

Welcome to the IASB *Update*

The IASB met in public from 18-22 February 2013 at the IASB offices in London, UK. The FASB joined the IASB for some of the sessions via video from its offices in Norwalk.

The topics for discussion were:

- Conceptual Framework
- Fair Value Measurement: unit of account
- IFRIC Update
- Annual improvements 2010-2012
- Financial Instruments: Hedge accounting
- Leases
- Insurance Contracts
- Revenue Recognition
- Matters arising from the IFRS Interpretations Committee
- IAS 41 *Agriculture*: Bearer Biological Assets
- Guide for micro-sized entities in applying the IFRS for SMEs
- Rate-regulated Activities

Contact us

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Tel: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
E-mail: **info@ifrs.org**
Website:**http://www.ifrs.org/**

Future Board meetings

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

The next Board meetings in 2013 are:

14-22 March
17-26 April
16-24 May

To see all Board meetings for 2013, **click here**.

Archive of IASB *Updates*

To view archived copies of past issues of IASB *Update* on the IFRS website, **Click here**.

Podcast summaries

To listen to short Board meeting audio summaries (podcasts) of previous Board meetings, **click here**.

Conceptual Framework

The IASB discussed an early draft of sections of a Discussion Paper on the Conceptual Framework, addressing:

a. the purpose of the Conceptual Framework;
b. the definitions of the elements of financial statements: asset, liability, equity, income and expense;
c. unit of account;
d. recognition and derecognition;

e. the boundary between liabilities and equity;
f. measurement; and
g. reporting entity.

In addition, the IASB also had education sessions on the following topics, on which no decisions were taken:

a. research undertaken by the Accounting Standards Board of Japan on the use of other comprehensive income (OCI) by entities in various countries and industries; and
b. feedback on the IASB's disclosure forum held in late January 2013, and the results of a related survey on disclosures. A feedback statement is expected to be published in the second quarter of 2013.

Purpose of the Conceptual Framework (Agenda Paper 3A)

The IASB tentatively decided that the primary purpose of the Conceptual Framework is to assist the IASB in the development of future IFRSs and in its review of existing IFRSs. The Conceptual Framework may also assist preparers of financial statements in developing accounting policies for transactions or events that are not covered by existing IFRSs.

The Conceptual Framework is not an IFRS and does not override IFRSs. The IASB tentatively decided that this would continue to be the case.

In rare cases, the IASB may issue a new or revised IFRS that conflicts with some aspect of the Conceptual Framework if this is necessary to meet the overall objective of financial reporting. The IASB tentatively decided that it would need to describe and explain any such departure in the Basis for Conclusions on that IFRS.

Definition of the elements of financial statements (Agenda papers 3B and 3C)

Definitions of an asset and a liability

The IASB discussed the definitions of an asset and a liability. The existing definitions are:

a. An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
b. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

The IASB discussed the following possible changes to the definitions of an asset and a liability, which could be implemented by amending the definitions or adding guidance:

a. emphasising that the asset is the resource and a liability is an obligation, rather than the economic benefits that may flow from the resource or obligation; and
b. removing the term 'expected' from the definition. This will avoid implying that an item will not qualify as an asset or liability if the probability of an inflow or outflow does not reach some minimum threshold. In the IASB's view, as long as an item is capable of producing an inflow or outflow of resources, it can meet the definition of an asset or liability, even if the probability of an inflow or outflow is very low (eg out of the money options). Removing the reference to 'expected' flows from the definition would also remove confusion over how that reference interacts with the reference to probability in the recognition criteria (see below for a discussion of recognition criteria).

The IASB also discussed whether to make the following further changes to the definitions:

a. Remove the reference to 'past events', and instead emphasise that an asset is a present resource and a liability is a present obligation.

b. Move the reference to 'control' from the definition of an asset to the recognition criteria (see the discussion of recognition criteria below).

Agenda Paper 3B suggested that the following revised definitions of an asset and a liability would reflect all the changes discussed above:

a. An asset is a present economic resource.
b. A liability is a present obligation to transfer an economic resource.
c. An economic resource is a scarce item that is capable of producing economic benefits to the party that controls the item.

Additional guidance on applying the definitions

The IASB also discussed additional guidance to support the definitions of an asset and a liability:

a. Clarifying what is a resource is: the IASB tentatively decided to clarify that:
    i. a resource can have different forms ie enforceable rights (eg trade receivables) and other economic resources (eg knowhow).
    ii. for a physical object, eg an item of property, plant and equipment, the economic resource is not the underlying object but a set of rights to obtain the economic benefits generated by the physical object.
b. Executory contracts: the IASB discussed whether in principle, a net asset or net liability arises under a contract for which neither party has performed if the contract is enforceable (an executory contract). The IASB noted that these contracts are typically initially measured at zero.

With regard to additional guidance for a liability, the IASB discussed three approaches for identifying present obligations:

a. Approach 1—apply a principle that obligations must be unconditional. For as long as an entity could avoid the transfer of resources through its future actions, it does not have a present obligation.
b. Approach 2—modify the principle in Approach 1 so that an unconditional obligation is not the only type of liability. Applying Approach 2 means that a present obligation also exists if both the following conditions are met:
    i. an obligation accumulates over time or as the entity receives goods or services and those goods or services have already started to accumulate; and
    ii. although there is a theoretical possibility that a final condition will not be met, that possibility is not realistic.
c. Approach 3—focus on past events instead of future events. Applying Approach 3 means that a present obligation will arise if, as a result of past events, the entity has an obligation to transfer economic resources to another party on more onerous terms than would have been required in the absence of those past events.

No preliminary views were reached on these approaches and the IASB instructed the staff to include a description of all three approaches in the Discussion Paper.

Definitions of income and expense and other elements of the financial statements

The IASB discussed the existing definitions of income and expense and noted that significant changes were probably unnecessary. The IASB will consider in March 2013 whether to provide additional definitions of elements to distinguish items presented in profit or loss from items presented in other comprehensive income.

The IASB also noted that the Discussion Paper may discuss whether there is a need to define elements for statements of cash flows and of changes in equity, eg cash receipts, cash payments, contributions to equity, distributions of equity and transfers between classes of equity.

Recognition and derecognition (Agenda Paper 3E)

Recognition criteria

The existing Conceptual Framework includes the following recognition criteria:

> An item that meets the definition of an element should be recognised if:

a. it is probable that any future economic benefit associated with the item will flow to or from the entity; and
b. the item has a cost or value that can be measured reliably.

The IASB discussed the following possible improvements to the recognition criteria:

a. Removing the term 'probable' from the recognition criteria:
    i. The IASB tentatively agreed that the Discussion Paper should explain the difference between uncertainty about whether an asset or liability exists (sometimes called 'existence uncertainty' or 'element uncertainty') and uncertainty of outcome.
    ii. Uncertainty over the existence of the asset or liability: in most cases, it is clear whether an asset or liability exists, but in some cases this may be uncertain. The IASB tentatively decided that the Discussion Paper will discuss the different approaches for such cases. The issues to be considered include whether to apply an explicit probability threshold in such cases, what the threshold should be (eg virtually certain, probable) and whether the threshold for an asset should be the same as for a liability.
    iii. Uncertainty of outcome: the IASB tentatively decided that although an asset or a liability must be capable of generating inflows or outflows of economic benefits, there is no minimum probability threshold that those inflows or outflows must reach before a resource or an obligation qualifies as an asset or a liability.
b. Providing additional guidance on when an entity controls an asset: the IASB tentatively decided that the Discussion Paper will include a definition of control that is based on IFRS 10 *Consolidated Financial Statements* and the IASB's Exposure Draft (ED) *Revenue from Contracts with Customers*.

The IASB also tentatively decided that:

a. in general, recognising items that meet the definition of assets or liabilities is likely to provide useful information for assessing:
    i. the amount, timing and uncertainty of future cash flows; and
    ii. how effectively and efficiently management is using the entity's resources;
b. however, there may be cases for which an entity should not recognise some asset or liability, either because recognising the element may not provide relevant information, or because the cost to provide the information is more than the benefits of providing the information.

Derecognition criteria

The existing Conceptual Framework does not define 'derecognition' and does not describe when derecognition should occur.

At this meeting, the IASB discussed whether the derecognition criteria should be the mirror image of the recognition criteria. The IASB tentatively decided that an entity should derecognise an asset or a liability when it no longer meets the recognition criteria. However, when the entity has retained some component of an asset or liability, the IASB will determine, at a standards level, how best to portray the change in those rights or obligations. Possible approaches include:

- enhanced disclosures;
- presenting any rights or obligations retained on different lines from the line used for the original rights or obligations, to highlight the difference in risk profiles; or
- continuing to recognise the original asset or liability, and treating the proceeds received or paid for the transfer as a loan

received or granted.

Boundaries between liabilities and equity (Agenda Paper 3D)

The existing Conceptual Framework defines equity as the residual interest in the assets of the entity after deducting all its liabilities. The existing definition of a liability focuses on whether the entity has an obligation to transfer economic benefits. However, some Standards (eg IAS 32 *Financial Instruments: Presentation*) use complex exceptions to these basic definitions when distinguishing between liabilities and equity instruments. These exceptions are difficult to understand and apply.

The IASB discussed a possible approach that:

a. retains the existing definition of a liability; and
b. remeasures equity claims through a statement of changes in equity to show wealth transfers between different classes of equity holders.

The IASB directed the staff to develop this approach further for inclusion in the Discussion Paper.

Measurement

The existing Conceptual Framework lists four measurement bases and does not provide any guidance for when to use them.

General principles for measurement (Agenda Paper 3F)

At this meeting, the IASB discussed, and made tentative decisions on, the following principles of measurement. These principles are derived from the objective of financial reporting and the qualitative characteristics of useful financial information as described in Chapters 1 and 3 of the Conceptual Framework.

a. Principle 1: the objective of measurement is to represent faithfully the most relevant information about the economic resources of the reporting entity, the claims against the entity, and how efficiently the entity's management and governing board have discharged their responsibilities to use the entity's resources.
b. Principle 2: although measurement generally starts with an item in the statement of financial position, the relevance of information provided by a particular measurement method also depends on how it affects the statement of comprehensive income and if applicable, the statements of cash flows and of equity and the notes to the financial statements.
c. Principle 3: the cost of a particular measurement must be justified by the benefits of reporting that information to existing and potential investors, lenders, and other creditors.

The IASB noted that it will need to consider all three principles in selecting an appropriate measurement. The IASB also acknowledged that, at a practical level, many transactions are reflected in the income statement as they take place. Application of the three principles is therefore more relevant when those transactions create assets or liabilities that cross reporting dates. In applying the three principles, none has a higher priority than the others.

Some IASB members suggested adding an additional principle, namely, that the number of measurements used should be the minimum number necessary to provide relevant information.

Initial and subsequent measurement (Agenda Paper 3G)

The IASB tentatively decided that the most relevant measurement method will depend on:

a. how the value of the asset will be realised. The value of an asset can be realised by, for example:
   i. using it;
   ii. selling it;

    iii. holding it; or
    iv. charging others for the right to use it.
b. how the obligation will be fulfilled or settled. An obligation can be fulfilled or settled by:
    i. settling the obligation according to its terms;
    ii. performing services, or hiring others to perform services, to satisfy a claim with no stated amount;
    iii. settling a claim that has no stated or determinable amount by negotiation or in litigation; or
    iv. transferring the obligation to another party and being released by the creditor or other claimant.

The IASB discussed the different measurement bases for initial measurement and when they might be appropriate:

a. cost (subject to a recoverability or adequacy test);
b. fair value; and
c. other bases if they will be used for subsequent measurement. The IASB will discuss such bases in March 2013.

Reporting entity (Agenda Paper 3H)

The IASB have previously issued a Discussion Paper and then an Exposure Draft on the reporting entity. Consequently, the IASB tentatively decided that it will not discuss the reporting entity proposals, including comments received on the 2010 ED, in detail until it begins to develop the Conceptual Framework Exposure Draft. The Discussion Paper will include an appendix that summarises the content of the 2010 Exposure Draft and of the comment letters that were received on it.

Next steps

In March 2013, the IASB expects to discuss the following issues:

a. presentation (including what should be included in other comprehensive income);
b. disclosure;
c. constructive obligations; and
d. other measurement approaches.

In April 2013, the IASB expects to discuss a revised draft of the Discussion Paper that will reflect comments received at the February and March 2013 meetings.

The IASB also noted that the Accounting Standards Advisory Forum (ASAF) will discuss the Conceptual Framework at its first meeting in April 2013.

Fair value measurement: unit of account

The IASB discussed the unit of account for investments in subsidiaries, joint ventures and associates. The IASB had received two letters asking whether the unit of account for such investments is the investment as a whole or the individual financial assets that make up the investment. The IASB also discussed the interaction between the unit of account of those investments and their fair value measurement.

The IASB did not make a decision and asked the staff to perform additional analysis and bring the topic again to a future meeting.

IFRIC Update

The IASB received an update from the January 2013 meeting of the IFRS Interpretations Committee. Details of the meeting were published in IFRIC *Update*, which is available by clicking here.

Annual improvements 2010-2012

The IASB discussed four of the eleven proposed Improvements to IFRSs from the Exposure Draft published in May 2012. On the basis of the comments that the IASB received from respondents and the recommendations of the IFRS Interpretations Committee, the IASB tentatively decided to finalise the following four proposed amendments:

a. IFRS 2 *Share-based Payment*—Definition of 'vesting conditions';
b. IFRS 8 *Operating Segments*—Aggregation of operating segments;
c. IFRS 8 *Operating Segments*—Reconciliation of the total of the reportable segments' assets to the entity's assets; and
d. IFRS 13 *Fair Value Measurement*—Short-term receivables and payables.

All IASB members agreed subject to some minor wording amendments.

Financial Instruments: Hedge accounting

Novation of derivatives

At the January 2013 IASB meeting, the IASB agreed to grant relief from the requirement to discontinue hedge accounting in the circumstance in which a derivative is required to be novated to a central counterparty (CCP) when the novation is required by laws or regulations. To provide this relief, the IASB had agreed to propose narrow-scope amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*.

At this meeting, the staff presented an oral update on developments since the last IASB meeting. The staff informed the IASB that some stakeholders had advised that the novation to a CCP would in many cases be accompanied by some other changes to the derivative beyond merely the change of counterparty. For example, changes to collateral requirements of the novated derivative may be required.

Consequently the staff recommended that the intended relief from the discontinuation of hedge accounting, should be permitted if such changes accompany the novation. The staff also noted that changes to the collateral requirements for the novated derivative would affect the fair value of that derivative, and that this change in fair value would need to be reflected in measurement of the derivative and in the assessment of the effectiveness of the hedge relationship.

The IASB agreed with the staff's observations and to the change needed to the proposed amendment.

The staff also informed the IASB that the Trustees' Due Process Oversight Committee (DPOC) had approved the 30-day comment period of the proposed amendment.

Next steps

The staff will prepare an Exposure Draft based on these decisions and will begin the balloting process for publication.

Leases

The IASB met on 18 February 2013 to discuss how to account for right-of-use assets that meet the definition of investment property in accordance with IAS 40 *Investment Property* as a consequence of the changes being proposed to lease accounting.

The IASB tentatively decided to require an entity to account for right-of-use assets in accordance with IAS 40 if the leased property meets the definition of an investment property.

All IASB members agreed.

(IASB-only education session)

The IASB held an education session on 19 February 2013 to discuss the transition proposals for leases that are currently classified as finance leases under IAS 17 *Leases*.

No decisions were made.

(IASB decision making session, jointly with FASB)

In this meeting, the IASB and the FASB discussed the transition proposals relating to leases that are classified as finance, capital, sales-type or direct financing leases in accordance with the existing requirements.

Transition: Capital/Finance Leases

The FASB and the IASB tentatively decided to provide specific transition relief for existing finance, capital, sales-type, and direct financing leases. Lessees and lessors would not be required to make any adjustments to the carrying amount of any assets and liabilities associated with those leases at transition. Specific guidance on the subsequent measurement of those assets and liabilities will be provided in the revised Leases Exposure Draft. The boards' intention in including that guidance is to provide accounting that is consistent with how most of those leases would have been accounted for under IAS 17 Leases and Topic 840 Leases in the *FASB Accounting Standards Codification*®. The revised Leases Exposure Draft will supersede IAS 17 and Topic 840.

All IASB members and six FASB members agreed.

Transition: Leveraged Leases (FASB-only)

The FASB tentatively decided that a lessor should apply the proposed leases guidance to existing leveraged leases retrospectively.

Six FASB members agreed.

Next steps

The Exposure Draft is planned for publication in the first half of 2013.

Insurance Contracts

(IASB education session)

The IASB held an education session on 18 February 2013 in preparation for its decision on whether to proceed to ballot the revised Exposure Draft *Insurance Contracts*.The IASB was presented with an overview of the proposed model for accounting for insurance contracts. In addition, the IASB considered the ways in which it had addressed the comments of respondents on the 2010 Exposure Draft *Insurance Contracts*.

No decisions were made.

(IASB decision-making session)

The IASB met on 19 February 2013 to complete its planned technical discussions of the proposed model for accounting for insurance contracts. The IASB discussed the transition requirements for contracts acquired through a business combination and reviewed the due process necessary before beginning the balloting process. The IASB staff requested permission to begin the balloting process for the revised Exposure Draft.

Transition requirements for contracts acquired through a business combination

The IASB tentatively decided that:

a. in applying the transition requirements for insurance contracts, an insurer should account for the in-force contracts that were previously acquired through a business combination using:
    i. the date of the business combination as the date of inception of those contracts; and
    ii. the fair value of those contracts at the date of the business combination as the premium received.
b. when an insurer first applies the forthcoming Insurance Contracts Standard to insurance contracts that were previously acquired through a business combination, any gains or losses should adjust retained earnings (rather than goodwill).

All IASB members agreed.

Permission to ballot a revised Exposure Draft for insurance contracts

In September 2012, the IASB agreed to publish a revised Exposure Draft of the proposals on accounting for insurance contracts but to seek feedback only on the following issues:

a. treatment of participating contracts;
b. presentation of premiums and claims in the statement of comprehensive income;
c. treatment of the unearned profit in an insurance contract;
d. presenting, in other comprehensive income, the effect of changes in the discount rate used to measure the insurance contract liability; and
e. the approach to transition.

At its meeting in September 2012, the IASB noted that, while the revised Exposure Draft would include the full text of the proposed Standard, it would also be necessary to clearly inform stakeholders that the IASB does not intend to revisit aspects of the proposed Standard other than the areas it has targeted for re-exposure.

At this meeting, the IASB concluded that it had met the due process requirements to begin the balloting process. The IASB also noted that it has undertaken extensive outreach and comprehensively addressed the comments from respondents to the 2010 Exposure Draft *Insurance Contracts*. The IASB intends to undertake fieldwork with preparers and users of financial statements during the comment period to assess the costs and benefits of the targeted proposals. Accordingly, the IASB gave permission to begin the process of balloting the revised Exposure Draft.

All IASB members agreed. One member noted his intention to dissent from the publication of the revised Exposure Draft.

The IASB tentatively decided that the revised Exposure Draft should be open for comments for 120 days.

All IASB members agreed.

Next steps

The IASB will proceed with the balloting process and plans to publish the revised Exposure Draft for comment in Q2 2013.

Revenue Recognition

(IASB education session)

On 19 February 2013, the IASB held an education session on Revenue Recognition to discuss disclosure, transition, effective date and early adoption. No decisions were made.

(IASB decision making session, jointly with FASB)

The IASB and the FASB met on 20 February 2013 to continue their joint redeliberations on the revised Exposure Draft, *Revenue from Contracts with Customers* ('the 2011 ED'). The boards discussed the following topics:

a. disclosures
    i. Disaggregation of revenue (paragraphs 114–115 of the 2011 ED);
    ii. Reconciliation of contract balances (paragraph 117 of the 2011 ED);
    iii. Analysis of remaining performance obligations (paragraphs 119–121 of the 2011 ED);
    iv. Assets recognised from the costs to obtain or fulfil a contract with a customer (paragraphs 128–129 of the 2011 ED);
    v. Onerous performance obligations (paragraphs 122–123 of the 2011 ED);
    vi. Qualitative information about performance obligations (paragraph 118 of the 2011 ED) and significant judgements (paragraphs 124–127 of the 2011 ED);
b. disclosures: Interim requirements; and
c. transition, effective date and early application.

Paper 7A—Disclosures: Disaggregation of Revenue (paragraphs 114—115 of the 2011 ED)

The boards tentatively decided to retain both the requirement to disaggregate revenue and the objective for that requirement in paragraph 114 of the 2011 ED as follows:

An entity shall disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The boards also tentatively decided to include implementation guidance to explain that in determining categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors, an entity should consider how revenue may be disaggregated in:

a. disclosures presented outside the financial statements, for example, in earnings releases, annual reports or investor presentations;
b. information reviewed by management for evaluating the financial performance of operating segments; and
c. (other relevant analysis in which the entity or its users evaluate performance or resource allocation.

The boards tentatively decided to move the example of categories included in paragraph 115 of the 2011 ED to the implementation guidance and to clarify that an entity is not required to use a minimum number of categories.

The boards tentatively decided that an entity should explain how the disaggregated revenue information correlates with its reportable segments as required to be disclosed under IFRS 8 *Operating Segments*/Topic 280 *Segment Reporting* of the *FASB Accounting Standards Codification®*.

Thirteen IASB members and all FASB members agreed. One IASB member abstained.

Paper 7B—Disclosures: Reconciliation of Contract Balances and Analysis of Remaining Performance Obligations

Reconciliation of Contract Balances (paragraph 117 of the 2011 ED)

The boards tentatively decided to replace the requirement in paragraph 117 of the 2011 ED to reconcile the contract balances with a combination of quantitative and qualitative disclosures including:

a. the opening and closing balances of contract assets, contract liabilities and receivables from contracts with customers (if not separately presented);
b. the amount of revenue recognised in the current period that was included in the contract liability balance;
c. an explanation of how the entity's contracts and typical payment terms will affect the entity's contract balances; and
d. an explanation of the significant changes in the balances of contract assets and liabilities, which should include both qualitative and quantitative data. Examples of significant changes could include:
    i. changes to contract balances arising from business combinations;
    ii. cumulative catch-up adjustments to revenue (and to the corresponding contract balance) arising from a change in the measure of progress, a change in the estimate of the transaction price or a contract modification;
    iii. impairment of a contract asset; or
    iv. a change in the time frame for a right to consideration becoming unconditional (that is, re-classified as a receivable) or for a performance obligation to be satisfied (that is, the recognition of revenue arising from a contract liability) that has a material effect on the contract balances.

The boards also tentatively decided to require disclosure of revenue recognised in the period that arises from amounts allocated to performance obligations satisfied (or partially satisfied) in previous periods (this may occur as a result of changes in transaction price or estimates related to the constraint on revenue recognised).

Ten IASB members and all FASB members agreed. One IASB member abstained.

Analysis of Remaining Performance Obligations (paragraphs 119–121 of the 2011 ED)

The boards tentatively decided to retain the requirement to disclose information related to the remaining performance obligations in paragraph 119 of the 2011 ED and to clarify that:

a. renewals (that do not represent a material right) are not included in the disclosure of remaining performance obligations;
b. the aggregate amount of the transaction price disclosed in paragraph 119(a) of the 2011 ED is the amount that would not be subject to a significant revenue reversal (that is, the constrained amount); and

c. an entity is not precluded from including in the disclosures remaining performance obligations contracts with an original duration of less than one year.

In addition, the boards tentatively decided to clarify that disclosure about the significant payment terms relating to an entity's performance obligations (paragraph 118(b) of the 2011 ED) would include a qualitative discussion about any significant variable consideration that was not included in the disclosure of remaining performance obligations (paragraph 119(a) of the 2011 ED).

Twelve IASB members and all FASB members agreed. One IASB member abstained.

Paper 7C—Disclosures: Contract Costs, Onerous Performance Obligations and Qualitative information

Assets Recognised from the Costs to Obtain or Fulfil a Contract with a Customer (Contract Costs) (paragraphs 128–129 of the 2011 ED)

The boards tentatively decided to replace the requirement in paragraph 128 of the 2011 ED to reconcile the opening and closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer with a combination of quantitative and qualitative disclosures including:

a. the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraphs 91 and 94 of the 2011 ED), by main category of asset (for example, costs to obtain contracts with customers, pre contract costs and setup costs);
b. the amount of amortisation recognised in the period; and
c. the method the entity uses to determine the amortisation for each reporting period.

Eleven IASB members and all FASB members agreed. One IASB member abstained.

Onerous Performance Obligations (paragraphs 122–123 of the 2011 ED)

The boards tentatively decided to remove the proposed disclosure requirements for onerous performance obligations in paragraphs 122 and 123 (and the reference to onerous performance obligations in paragraph 127) from the 2011 ED.

Fourteen IASB members and all FASB members agreed. One IASB member abstained.

Qualitative Information about Performance Obligations (paragraph 118 of the 2011 ED) and Significant Judgements (paragraphs 124–127 of the 2011 ED)

The boards tentatively decided to retain the qualitative disclosures about performance obligations proposed in paragraph 118 of the 2011 ED and significant judgements as proposed in paragraphs 124–127 of the 2011 ED. The boards also tentatively decided to require the following additional qualitative disclosures:

a. the judgements made in determining the amount of the costs to obtain or fulfil a contract with a customer capitalised in accordance with paragraphs 91 and 94 of the 2011 ED;
b. the methods and assumptions an entity uses when determining the amount of the transaction price that will not be subject to a revenue reversal (that is, the constrained amount); and
c. a description of the practical expedients used in an entity's accounting policies related to:
    i. adjusting the transaction price for the effects of the time value of money (paragraph 60); and
    ii. recognising the incremental costs of obtaining a contract as an expense (paragraph 97).

Ten IASB members and all FASB members agreed. One IASB member abstained.

Paper 7D-Disclosures: Interim Requirements

The IASB tentatively decided to amend IAS 34 *Interim Financial Reporting* to require an entity to disaggregate revenue in its interim financial statements in accordance with paragraph 114 of the 2011 ED (as amended, as discussed above). For the other revenue disclosure requirements, the IASB observed that an entity would need to consider the general principles of IAS 34.

Eleven IASB members agreed. One IASB member abstained.

The FASB tentatively decided to retain the proposal in the 2011 ED to amend Topic 270 *Interim Reporting* in the *FASB Accounting Standards Codification*®, to require an entity to provide the quantitative disclosures proposed in the 2011 ED (including any tentative amendments to those quantitative disclosures explained above) in its interim financial statements. Those quantitative disclosures (as tentatively amended) are:

a. disaggregated revenue;
b. the opening and closing balances of contract assets, contract liabilities and receivables from contracts with customers (if not separately presented);
c. the amount of revenue recognised in the current period that was included in the contract liability balance;
d. those that relate to the entity's remaining performance obligations; and
e. any adjustment to revenue in the current period that relates to performance from a performance obligation satisfied (or partially satisfied) in a previous period.

Four FASB members agreed.

Paper 7E—Transition, Effective Date and Early Application

Transition

The boards tentatively decided that an entity could apply the new revenue Standard retrospectively including the optional practical expedients in paragraph 133/C3(a), (b) and (d). However, the boards tentatively decided that an entity could also elect an alternative transition method that would require an entity to:

a. apply the new revenue Standard only to contracts that are not completed under legacy IFRSs/US GAAP at the date of initial application (for example, 1 January 2017 for an entity with a 31 December year-end, based on the effective date decision below);
b. recognise the cumulative effect of initially applying the new revenue Standard as an adjustment to the opening balance of retained earnings in the year of initial application (that is, comparative years would not be restated); and
c. in the year of initial application, provide the following additional disclosures:
    i. the amount by which each financial statement line item is affected in the current year as a result of the entity applying the new revenue Standard; and
    ii. an explanation of the significant changes between the reported results under the new revenue Standard and legacy IFRSs/US GAAP.

Eight IASB members and five FASB members agreed. One IASB member abstained.

Effective date

The boards tentatively decided to require an entity to apply the revenue Standard for reporting periods beginning on or after 1 January 2017.

The boards noted that the period of time from the expected issue of the Standard until its effective date is longer than usual. However, in this case the boards decided that a delayed effective date is appropriate because of the unique attributes of the Revenue Recognition project, including the scope of the entities that will be affected and the potentially significant effect that a change in revenue recognition has on other financial statement line items.

Early application

The FASB reaffirmed its tentative decision in the 2011 ED to prohibit early application. The IASB tentatively decided to change its proposal in the 2011 ED and tentatively decided also to prohibit early application for entities already applying IFRSs (that is, the IASB would not prohibit early application for first-time adopters of IFRSs).

Nine IASB members and all FASB members agreed. One IASB member abstained.

Next steps

The boards have completed their substantive redeliberations of the 2011 ED. As a result, the staff will begin drafting the final revenue Standard. The staff will bring any remaining and any new 'sweep' issues to a future board meeting. In addition, the staff will complete the steps required by each board's respective due process.

Matters arising from the IFRS Interpretations Committee

The IASB discussed two matters arising from the IFRS Interpretations Committee relating to the application of IAS 19 *Employee Benefits*.

IAS 19 Employee Benefits—*Actuarial assumptions: discount rate*

In October 2012, the Interpretations Committee received a request for guidance on the determination of the rate used to discount post-employment benefit obligations. In particular, the submitter asked the Interpretations Committee whether corporate bonds with an internationally recognised rating lower than 'AA' can be considered to be high quality corporate bonds (HQCB).

In its January 2013 meeting, the Interpretations Committee requested the staff to consult with the IASB:

a. to confirm that the underlying principle for the determination of the discount rate is set out in paragraph 84 of IAS 19 (2011), and is described as "the discount rate reflects the time value of money but not the actuarial or investment risk";
b. to provide clarity about this sentence in paragraph 84;
c. to ask whether this sentence in paragraph 84 means that the objective for the discount rate for post-employment benefit obligations should be a risk free rate; and
d. to confirm that IAS 19 should be amended to clarify that when government bonds are used to establish the discount rate in the absence of HQCBs, those government bonds used must themselves be of high quality.

At the February 2013 IASB meeting, the staff consulted the Board on these matters. The IASB was asked if it agreed:

a. that the objective for the determination of the discount rate is paragraph 84 of IAS 19, ie "the discount rate reflects the time value of money but not the actuarial or investment risk". Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.;
b. that the Interpretations Committee should clarify the sentence "the discount rate reflects the time value of money but not the actuarial or investment risk". Specifically, that this sentence does not mean that the discount rate for post-employment benefit obligations should be a risk free rate; and
c. that the discount rate should reflect the credit risk of HQCB, that a reasonable interpretation of HQCB could be corporate

bonds with minimal or very low credit risk.

Twelve IASB members agreed.

The IASB was also asked if it agreed that the Interpretations Committee should propose amendments to IAS 19 to specify that when government bonds are used to determine the discount rate those bonds should be of high quality.

Eleven IASB members agreed.

Next steps

The staff will report the views of the IASB to a future Interpretations Committee meeting, along with proposals for guidance to clarify the requirements of IAS 19 consistently with the IASB's views.

IAS 19 Employee Benefits—*Measurement of the net DBO for post-employment benefit plans with employee contributions*

The Interpretations Committee received two requests, in May and September 2012 respectively, seeking clarification of paragraph 93 of IAS 19. That paragraph refers to the accounting for employee contributions set out in the formal terms of a defined benefit plan. The submitters specifically request guidance on the accounting for employee contributions in respect of service. The Standard is effective for annual periods beginning on or after 1 January 2013.

At its January 2013 meeting, the Interpretations Committee decided to propose to the IASB that the IASB should consider a narrow-scope amendment to IAS 19. Under the proposal, contributions from employees or third parties are treated as a reduction in short-term employee benefit cost and accounted for in that same period, if they are linked solely to the employee's service rendered in the same period in which they are paid, for example if the contributions are a fixed percentage of salary throughout the entire period of the employment.

At the February 2013 IASB meeting, the IASB discussed the Interpretations Committee's proposal.

The IASB tentatively decided that it should make a narrow-scope amendment to IAS 19 on this issue but that contributions from employees or third parties should be a reduction in service cost instead of a reduction in short-term employee benefit cost.

All IASB members agreed with this decision.

Next steps

The staff will prepare an Exposure Draft based on these decisions and will begin the balloting process for publication.

Disclosures—Transfers of Financial Assets (Amendments to IFRS 7)—Scope of disclosures

The IASB issued *Disclosures—Transfers of Financial Assets* (Amendments to IFRS 7) (the transfer disclosures) in October 2010. The transfer disclosures amend IFRS 7 *Financial Instruments: Disclosures* to require an entity to disclose information related to the transfer of financial assets, including its continuing involvement in the transferred assets. The amendment to IFRS 7 also included a description of the term 'continuing involvement' in paragraph 42C for the purpose of the transfer disclosures.

In October 2012 the IFRS Interpretations Committee received a request to seek clarification through an Annual Improvement on whether servicing rights and obligations are continuing involvement for the purpose of the transfer disclosures. The staff discussed this issue at the January 2013 Interpretations Committee meeting, where the Interpretations Committee noted that, based on the wording in IFRS 7 paragraph 42C, it was not clear whether servicing arrangements are continuing involvement for the purposes of applying the transfer disclosure requirements. Consequently, the Interpretations Committee recommended that the IASB should consider clarifying the requirements for continuing involvement in paragraph 42C of IFRS 7.

In this meeting, the IASB indicated that their intention was that servicing arrangements would meet the definition of continuing involvement and that paragraph 42C includes servicing arrangements in the transfer disclosure requirements. The IASB asked the staff to report this view to the Interpretations Committee and to ask the Interpretations Committee whether, and if so how, it thinks that clarification should be given to clarify that servicing agreements are in the scope of the transfer disclosures.

Next steps

The staff will report the results of this discussion to the Interpretations Committee at a future meeting.

IAS 41 *Agriculture*: Bearer Biological Assets

At this meeting the IASB discussed the remaining issues in the limited scope project on bearer biological assets (BBAs).

Requirements for the bare BBAs (ie not including the produce growing on the BBAs)

The IASB tentatively decided that the recognition requirements of IAS 16 *Property, Plant and Equipment* (covering unit of measure, initial costs and subsequent costs) could be applied to BBAs without modification. All IASB members agreed with this decision. A few IASB members highlighted areas where additional clarification might be useful for BBAs and the staff will consider those areas during drafting.

The IASB tentatively decided that the disclosure requirements of IAS 16 could be applied to BBAs without modification. The IASB also tentatively decided to ask a question in the Exposure Draft seeking feedback on whether the following disclosures are important to investors:

a. disclosures about the fair values of the BBAs (including assumptions and inputs used);
b. disclosures about the significant inputs that would be required to determine the fair value of BBAs (but without the need to disclose the fair value of the BBAs); and
c. other disclosures about productivity, for example age profile, estimates of the physical quantities of BBAs and output of agricultural produce etc.

All IASB members agreed with this decision.

The IASB made the following tentative decisions:

a. The revaluation model should be permitted for BBAs. All IASB members agreed with this decision.
b. BBAs should be included within the scope of IAS 16, rather than adding requirements to IAS 41 *Agriculture*. Ten IASB members agreed with this decision.

Requirements for the produce growing on the BBAs

The IASB made the following tentative decisions:

a. The reliability exception in IAS 41.30 should not be modified for produce growing on BBAs. Twelve IASB members agreed with this decision.
b. The produce should remain in the scope of IAS 41. All IASB members agreed with this decision.

Transition requirements

The IASB made the following tentative decisions:

a. The amendments to IAS 16 should permit use of fair value as deemed cost for items of BBAs at the start of the earliest comparative period presented in the financial statements to avoid the need to reconstruct cost information. All IASB members agreed with this decision.
b. The amendments to IAS 16 and IAS 41 should be available for early adoption. All IASB members agreed with this decision.
c. The deemed cost exemptions provided for PPE in IFRS 1 *First-time Adoption of International Financial Reporting Standards* should also be available for items of BBAs. All IASB members agreed with this decision.

Next steps

The IASB has now completed discussing the main issues in the limited scope project on bearer biological assets. The next step will be for the IASB staff to present to the IASB and the Due Process Oversight Committee a summary of the due process steps undertaken, before preparing an Exposure Draft of proposed amendments to IAS 16 and IAS 41.

Guide for micro-sized entities applying the IFRS for SMEs

At this meeting the staff updated the IASB on development of *A Micro-sized Entity's Guide for Applying the IFRS for SMEs* (the Guide). The Guide is intended to accompany the *IFRS for SMEs* and contains guidance to help micro-sized entities apply the requirements of the *IFRS for Small and Medium-sized Entities* (IFRS for SMEs). It is not a separate Standard for micro-sized entities.

Rate-regulated Activities

Interim Standard

On Friday, 22 February 2013, the IASB continued its discussions on a proposal for an interim Standard for Rate regulated Activities that would allow entities adopting IFRS to continue to use their local GAAP requirements for rate-regulated activities until the main project is completed.

Interaction with other Standards

The IASB discussed the interaction of other Standards with the regulatory deferral account balances that might be recognised as a result of the interim Standard proposal. All IASB Members agreed.

IAS 33 Earnings per Share (EPS)

The IASB tentatively decided that an entity should present, with equal prominence, an EPS ratio including the movements in the regulatory balances, and an EPS ratio excluding the movements in the regulatory balances. All IASB members agreed.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The IASB tentatively decided that regulatory deferral account balances should be outside the scope of the measurement requirements of IFRS 5. The IASB also tentatively decided that an entity should present regulatory balances that form part of a discontinued operation and/or disposal group within the appropriate regulatory line items. However, the entity should apply judgement to decide whether to highlight the discontinued/disposal amount by presenting it alongside that regulatory balance or instead, by identifying it as part of the analysis of the regulatory line item in the relevant disclosure note. All IASB Members agreed.

IAS 36 Impairment of Assets

The IASB previously decided that regulatory deferral account balances should be outside the scope of IAS 36 and, instead, an entity should continue to apply its existing local GAAP impairment policy for such balances. At this meeting, the IASB confirmed that decision but clarified that the existing requirements of IAS 36 should apply to any cash-generating unit (CGU) that includes regulatory balances, without modification of those existing requirements, in the same way as they apply when other specific items that are excluded from the scope of IAS 36 are included in the CGU. All IASB members agreed.

IAS 12 Income Taxes

The IASB tentatively decided that deferred tax should be calculated on regulatory deferral account balances in accordance with IAS 12, but that the amounts recognised should be included within the regulatory line items, instead of within the tax line items, with clear disclosure. Twelve IASB members agreed.

Other Standards

The IASB tentatively decided that the proposed interim Standard should include brief application guidance to clarify that, when an existing Standard interacts with a regulatory deferral account balance (for example, when a regulatory balance is initially determined in a foreign currency but then has to be translated in the IFRS financial statements), the existing requirements of IFRS should apply to that regulatory balance, unless otherwise specified in the interim Standard (for example, the specific exceptions and presentation requirements relating to the Standards discussed in this meeting). All IASB members agreed.

Next steps

The staff will prepare an Exposure Draft for the interim Standard based on these decisions and will begin the balloting process for publication.

Comprehensive project

The IASB decided to publish a *Request for Information* to gather more factual evidence about different types of rate regulation. The Request for Information will provide a 60-day comment period. All IASB members agreed.

Next steps

The staff will prepare the Request for Information for publication.

Work plan—as at 26 February 2013

Major IFRSs

Next major project milestone				
	2013 Q1	**2013 Q2**	**2013 Q3**	**2013 Q4**
IFRS 9: *Financial Instruments* (replacement of IAS 39)				
Classification and Measurement (Limited amendments) [comment period ends 28 March 2013]		Redeliberations		
Impairment	Target ED			
Hedge Accounting		Target IFRS		
Accounting for macro hedging	Target DP			

	2013 Q1	**2013 Q2**	**2013 Q3**	**2013 Q4**
Insurance Contracts		Target ED		
Leases		Target ED		
Rate-regulated Activities				
Interim IFRS		Target ED		
Comprehensive project		Target RFI		Target DP
Revenue Recognition		Target IFRS		
IFRS for SMEs: Comprehensive Review 2012-2014 - see **project page**				

Implementation

Next major project milestone				
Narrow-scope amendments	**2013 Q1**	**2013 Q2**	**2013 Q3**	**2013 Q4**
Acquisition of an Interest in a Joint Operation (proposed amendment to IFRS 11) [comment period ends 23 April 2013]				Target IFRS
Annual Improvements 2010-2012			Target IFRS	
Annual Improvements 2011-2013			Target IFRS	
Annual Improvements 2012-2014			Target ED	
Bearer Biological Assets (proposed amendments to IAS 41)		Target ED		
Clarification of Acceptable Methods of Depreciation and Amortisation (proposed amendments to IAS 16 and IAS 38) [comment period ends 2 April 2013]			Target IFRS	
Equity Method: Share of Other Net Asset Changes (proposed amendments to IAS 28) [comment period ends 22 March 2013]			Target IFRS	
Defined Benefit Plans: Employee Contributions (proposed amendments to IAS 19)	Target ED			
Novation of OTC derivatives and continued designation for hedge accounting (proposed amendments to IAS 39 and IFRS 9)	Target ED			

Recognition of Deferred Tax Assets for Unrealised Losses (proposed amendments to IAS 12)				Target ED
Recoverable Amount Disclosures for Non-Financial Assets (proposed amendments to IAS 36) [comment period ends 19 March 2013]		Target IFRS		
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28) [comment period ends 23 April 2013]			Target IFRS	
Separate Financial Statements (Equity Method) (proposed amendments to IAS 27)		Target ED		

Interpretations	2013 Q1	2013 Q2	2013 Q3	2013 Q4
Levies Charged by Public Authorities on Entities that Operate in a Specific Market		Target Interpretation		
Put Options Written on Non-controlling Interests				Target Interpretation

Post-implementation reviews	2013 Q1	2013 Q2	2013 Q3	2013 Q4
IFRS 8 *Operating Segments*		Publish report on post-implementation review		
IFRS 3 *Business Combinations*		Initiate review		

Conceptual Framework

Next major project milestone

	2013 Q1	2013 Q2	2013 Q3	2013 Q4
Conceptual Framework (chapters addressing elements of financial statements, measurement, reporting entity and presentation and disclosure)		Target DP		
Disclosures: Discussion Forum		Target Feedback Statement		

Research projects

Research projects involve preliminary research to help the IASB evaluate whether to add a topic to its work plan. The IASB will begin research on the following topics in due course.

Business combinations under common control	
Discount rates	
Emissions trading schemes	
Equity method of accounting	

Extractive activities	
Financial instruments with characteristics of equity	
Financial reporting in high inflationary economies	
Foreign currency translation	
Income taxes	
Intangible assets	
Liabilities—amendments to IAS 37	
Post-employment benefits (including pensions)	
Share-based payments	

Completed IFRSs

Major projects	Issued date	Effective date	
Amendments to IAS 19 *Employee Benefits*	June 2011	01 January 2013	
IFRS 9 *Financial Instruments*	October 2010	01 January 2015	
IFRS 10 *Consolidated Financial Statements*	May 2011	01 January 2013	
IFRS 11 *Joint Arrangements*	May 2011	01 January 2013	
IFRS 12 *Disclosure of Interests in Other Entities*	May 2011	01 January 2013	
IFRS 13 *Fair Value Measurement*	May 2011	01 January 2013	

Narrow-scope amendments	Issued date	Effective date	

Annual Improvements 2009-2011
• **IFRS 1 *First-time Adoption of International Financial Reporting Standards***:
  ○ Repeated application of IFRS 1
  ○ Borrowing costs
• IAS 1 *Presentation of Financial Statements*—Clarification of the requirements for comparative information
• IAS 16 *Property, Plant and Equipment*—Classification of servicing equipment
• IAS 32 *Financial Instruments: Presentation*—Tax effect of distribution to holders of equity instruments
• IAS 34 *Interim Financial Reporting*—Interim financial reporting and segment information for total assets and liabilities
	May 2012	01 January 2013	

IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Government Loans	March 2012	01 January 2013	

***Disclosures-Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7)**	December 2011	01 January 2013	
IFRS 9 *Financial Instruments*—Mandatory effective date of IFRS 9 and transition disclosures	December 2011	01 January 2015	
***Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11, and IFRS 12)**	June 2012	01 January 2013	
***Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27)**	October 2012	01 January 2014	
IAS 32 *Financial Instruments: Presentation*—Offsetting Financial Assets and Financial Liabilities	December 2011	01 January 2014	
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	October 2011	01 January 2013	

Agenda consultation

Next major project milestone

	2013	2014	2015
Three-yearly public consultation [Feedback Statement published 18 December 2012] [Next consultation scheduled 2015]			Initiate second triennial public consultation

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