

IFRS in Focus

IASB and FASB modify convergence strategy

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Modified IASB work plan published June 2010

The Bottom Line

- The IASB and FASB have modified their convergence strategy in response to concerns about constituents' ability to provide comments on the large number of proposals that were expected to be published during the second quarter 2010.
- The IASB has issued a modified work plan that prioritises certain projects such as financial instruments, revenue recognition and leases and extends the timeline for others, specifically derecognition, financial instruments with characteristics of equity and the main project on financial statement presentation.
- The Boards have agreed to limit the number of significant or complex Exposure Drafts issued in any one quarter to four.
- A separate document will be published seeking constituent input about the effective date and transition methods for this package of new proposals.

The modified convergence strategy

On 2 June 2010, the International Accounting Standards Board (IASB) and U.S. Financial Accounting Standards Board (FASB) (collectively "the Boards") announced a modified strategy for the convergence of IFRS and U.S. GAAP. This comes at a time of unprecedented standard-setting activity. The Boards first entered into a Memorandum of Understanding (MoU) in 2006, which was updated in 2008. The MoU's objective is to improve and converge many of the Boards' respective accounting standards. A very aggressive work plan was established that contemplated the completion of the MoU projects by June 2011. The IASB also added many non-MoU projects to its agenda as an integral part of its overall work plan.

The G20 leaders have repeatedly endorsed the Boards' convergence efforts. In 2009, the G20 leaders called on the Boards "to redouble their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard setting process, and complete their convergence project by June 2011." The Boards responded to the G20 by reaffirming their commitment to improving their standards and intensifying their convergence efforts by meeting jointly and at least on a monthly basis. This increased level of activity would have resulted in issue of a significant number of proposals for comment in a very short period of time.

Constituents have expressed concern about their ability to provide meaningful input on these proposals given their number, significance and, in some cases, complexity. Concerns have also been voiced about the vast resources that would be necessary to implement such a large number of new standards in a short period of time.

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In response to these concerns, the Boards have released a joint press release announcing modifications to their convergence strategy as follows:

- major MoU projects will be rescheduled to prioritise those that will provide significant improvement and convergence between IFRS and U.S. GAAP,
- no more than four significant or complex Exposure Drafts will be issued in any one quarter to allow for full stakeholder participation in due process, and
- a separate document will be issued requesting constituent input on the proposed effective date and transition methods for the projects covered under the new work plan.

Observation

The Chairmen of the IASB and FASB sent a letter to the leaders of the G20 on 24 June 2010 explaining their modified convergence strategy and re-affirming that both Boards remain committed to the objective of achieving the development of a single set of high quality global accounting standards.

Following their summit meeting in Toronto on 26-27 June, the leaders of the G20 group of nations have issued a Declaration reaffirming their support for a single set of global accounting standards as a means for strengthening the global financial market infrastructure. Unlike the G20 leaders' Declaration in September 2009 following their Pittsburgh summit, this new Declaration does not make reference to a June 2011 deadline.

An extract from the Declaration: "We re-emphasized the importance we place on achieving a single set of high quality improved global accounting standards. We urged the International Accounting Standards Board and the Financial Accounting Standards Board to increase their efforts to complete their convergence project by the end of 2011. We encouraged the International Accounting Standards Board to further improve the involvement of stakeholders, including outreach to emerging market economies, within the framework of the independent accounting standard setting process."

Additionally, U.S. Securities and Exchange Commission (SEC) Chairman Mary Shapiro has released a statement in support of the Boards' assertion that increased time to allow stakeholders the ability to contribute quality feedback is time well invested and expressing the view that she did not foresee any impact of the change in their strategy on the SEC's 2011 date for determining whether to incorporate IFRS into the U.S. capital markets for domestic issuers.

The revised timetable

On 24 June 2010, the IASB issued a revised work plan for those MOU and non-MOU projects affected by the Boards' modified convergence strategy, confirming its goal of completion of several of these by June 2011 while extending the timeline for others considered non-urgent.

The joint projects on financial instruments, revenue recognition and leases are given priority. The projects on derecognition, financial instruments with characteristics of equity and the main project on financial statement presentation are delayed.

Specifically, the objective of the derecognition project has changed from convergence before 2012 to enhancement, in the near term, of the disclosure requirements regarding an entity's exposure to the risks of transferred assets under the Boards' existing derecognition models. Additional research and analysis will be carried out prior to the assessment of the nature and direction of any further convergence efforts.

Additionally, in response to stakeholders' concerns (including those of the Basel Committee on Banking Supervision and the Financial Stability Board), a new project on Balance Sheet Netting of Derivatives and Other Financial Instruments has been introduced. The Boards will issue a separate exposure draft proposing changes to address differences in their standards on balance sheet netting of derivative contracts and other financial instruments that can result in material differences in financial reporting by financial institutions.

The IASB's revised work plan for all projects as at 25 June 2010 is as follows:

Financial Crisis related projects	June Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012	MoU	Joint
Consolidation										
Consol – Replacement of IAS 27		RT	IFRS						√	√
Consolidation – Disclosures about unconsolidated SPEs/structured entities		RT	IFRS							
Consol – Investment companies		ED		IFRS						√
Derecognition										
Disclosures		IFRS							√	√
Fair value measurement guidance										
FVM – Guidance (full standard)				IFRS						
FVM – Disclosures	ED			IFRS					√	√
Financial Instruments (IAS 39 replacement)										
FI – Classification & measurement – financial liabilities			RT		IFRS				√	√
FI – Impairment			RT		IFRS				√	√
FI – Hedging		ED			IFRS				√	√
FI – Balance sheet netting of derivatives and other financial instruments			ED	RT	IFRS				√	√

Memorandum of Understanding projects	June Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012	MoU	Joint
Financial statement presentation										
FSP – Discontinued operations				ED		IFRS			√	√
FSP – Presentation of items of OCI			IFRS						√	√
FSP – Replacement of IAS 1 and IAS 7				ED		IFRS			√	√
FI with characteristics of equity				ED		IFRS			√	√
Income taxes		ED		IFRS					√	
Joint ventures		IFRS							√	
Leases		ED				IFRS			√	√
Post-employment benefits										
PEB – Defined benefit plans				IFRS					√	
PEB – Termination benefits		IFRS								
Revenue recognition					IFRS				√	√

Other projects	June Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012	MoU	Joint
Annual improvements 2009-2011			ED		IFRS					
Emissions trading schemes						ED		IFRS		√
Extractive Activities				AD						
Insurance contracts		ED				IFRS				√
Liabilities (IAS 37 amendments)				IFRS						
Management commentary		CG								
Rate-regulated activities				IFRS						

Conceptual Framework – Documents currently being developed	June Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012	MoU	Joint
Phase A: Objectives and qualitative characteristics		Final chapter								√
Phase B: Elements and recognition					TBD					√
Phase C: Measurement			DP			ED				√
Phase D: Reporting entity			Final chapter							√

Abbreviations

IFRS – International Financial Reporting Standard
ED – Exposure Draft
RT – Round tables

TBD – To be determined
AD – Agenda Decision
CG – Completed Guidance

Observation

At the 2010 IASC Foundation IFRS Conference, Sir David Tweedie, Chairman of the IASB, provided additional information that was not included in the revised work plan relating to the project on liabilities (IAS 37 amendments). Sir David indicated that the IASB would engage in additional outreach to understand further the concerns expressed by many during the comment letter process. Accordingly, it is uncertain if and when a final standard would be issued. Additionally, Sir David indicated that the final standard on joint venture accounting would be issued in conjunction with the issuance of the final consolidation standard.

Summary of key IASB projects included in the revised work plan

The following is a brief summary of the objectives of the IASB projects included in the revised work plan. Refer to iasplus.com for more detailed information on each of these projects:

Consolidation – the objective is to develop a single model for all entities based on control and require enhanced disclosures about a party's involvement with structured entities.

Fair value measurements – the objective is to develop a single source of guidance for all fair value measurements that clarifies the definition of fair value and enhances disclosures about fair value measurements.

Financial instruments: Characteristics of equity – the objective is to develop a model that distinguishes equity instruments from non-equity (liability) instruments and clarifies when to separate an instrument into liability and equity components.

Financial Instruments

Classification and measurement of financial liabilities (ED published May 2010) – the objective is to address, for financial liabilities designated under the fair value option, whether the changes in fair value attributable to changes in an entity's own credit risk should be presented outside of profit or loss in the statement of comprehensive income.

Hedge accounting – the objective is to review comprehensively and simplify the current hedge accounting model to provide clear principles for its use and ensure this results in decision-useful information.

Impairment (ED published November 2009) – the objective is to improve the transparency of provisions for credit losses and the credit quality of financial assets through the introduction of an expected loss model for financial instruments measured at amortised cost.

Financial statement presentation

Main Project – the objective is to address fundamental financial statement presentation issues, including how items across a set of financial statements relate to one another (the cohesiveness objective), and the aggregation and disaggregation of information, and to require the direct method of presenting operating cash flows.

Discontinued operations – the objective is to develop a common definition of discontinued operations and provide common disclosures relating to disposals of components of an entity.

Presentation of other comprehensive income (ED published May 2010) – the objective is to improve the transparency and presentation of items within other comprehensive income (OCI) by requiring all entities to present profit or loss and OCI in two distinct sections within a continuous statement and present separately those OCI items that will be reclassified into profit and loss and those that will not.

Insurance contracts – the objective is to develop a comprehensive insurance contract accounting model that will address recognition, measurement, presentation and disclosure requirements.

Leases – the objective is to develop a comprehensive lease accounting model that addresses both lessee and lessor accounting that would eliminate operating lease treatment to ensure that all assets and liabilities arising under lease contracts are recognised in the statement of financial position.

Post-employment benefits (ED on Defined Benefit Plans published April 2010 and IFRS on Termination Benefits expected Q3 2010) – the objective is to address the recognition, presentation and disclosure requirements for defined benefit plans and termination benefits including eliminating the corridor approach and requiring the presentation of all actuarial gains and losses immediately in OCI.

Revenue recognition (ED published June 2010) – the objective is to develop a single revenue recognition model based on the performance obligation concept to apply to all companies and industries, i.e. to all types of revenue-generating transactions.

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