

IASB and FASB focus on high priority projects

Highlights of the modified work plan

The work plan focuses standard-setting activities on projects where the need for improvement in IFRS and US GAAP is most urgent. The work plan:

- ▶ Prioritises the major projects to be completed before June 2011
- ▶ Limits to four the number of EDs in any one quarter
- ▶ Announces consultation with stakeholders on effective dates and transition methods

Significant changes to projects include:

- ▶ **Consolidation**
 - ▶ Boards to issue converged guidance on consolidation by investment companies
 - ▶ GAAP differences may still exist for voting interest entities, FASB to decide in the future whether to converge consolidation models
- ▶ **Financial instruments**
 - ▶ GAAP differences will need to be reconciled due to differing decisions and project timetables
- ▶ **Derecognition**
 - ▶ IASB to focus on disclosure of continuing involvement of financial assets transferred
- ▶ **Balance sheet netting of derivatives and other financial instruments**
 - ▶ Boards to issue ED on converged requirements and related disclosures

The International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) (together, the Boards) have jointly issued a progress report¹ on their major projects. Consistent with an earlier announcement by the Boards, the report includes a modified work plan that reflects a modified strategy.

Background

At the Pittsburgh Summit in September 2009, the G20 leaders asked the “international accounting bodies 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 IASB’s institutional framework should further enhance the involvement of various stakeholders.”

Following the Pittsburgh Summit, the Boards set out to aggressively work towards this target and committed to completing, by June 2011, the major projects in the 2006 Memorandum of Understanding (MoU), as updated in 2008.

However, stakeholders have subsequently voiced concerns about their ability to provide high quality input on the large number of exposure drafts (EDs) planned for publication in the second quarter of this year. Due to the volume, complexity and interdependency of the joint projects, concerns were also expressed regarding the ability of the Boards to adequately address matters raised in response to the EDs. As stakeholder involvement is a priority when developing high-quality accounting standards, the Boards have released a modified work plan and convergence strategy.

The modified work plan focuses on those projects for which the need for improvement of IFRS and US GAAP is the most urgent. The targeted completion date of June 2011 has been retained for these projects. For other lower priority projects, or projects where further analysis is needed, a later completion date has been set.

¹ The complete joint progress report is available on both the IASB and FASB websites.

Prior to the release of the modified work plan, the Boards held discussions with their respective oversight bodies and regulators, including members of the IASC Foundation Monitoring Board. Importantly, the US Securities and Exchange Commission's (SEC) chairperson, Mary L Schapiro, has previously noted that she does not expect any changes to the SEC's own work plan, announced in February 2010, to consider whether and how to incorporate IFRS into the US financial system, because of the Boards' modified work plan (see *IFRS outlook* – June 2010).

The modified work plan will allow for more effective stakeholder participation in the standard-setting process. Additionally, the Boards note that the modified work plan will provide a stable accounting platform for countries adopting IFRS in 2011 or 2012, while also assisting countries that are considering to convert (such as, Japan and the United States) in their evaluation of adopting IFRS.

Main features of the modified work plan

The work plan:

- ▶ Prioritises the major joint projects to be completed before June 2011, specifically:
 - ▶ Financial instruments
 - ▶ Revenue recognition
 - ▶ Leases
 - ▶ The presentation of other comprehensive income
 - ▶ Fair value measurement
- ▶ Limits to four the number of EDs issued in any one quarter (to enable effective stakeholder participation)
- ▶ Announces consultation with stakeholders on effective dates and transition methods

The amended timing of the projects addressed by the work plan is included in the appendix to this publication.

Projects not mentioned in the work plan

The work plan only addresses joint projects and, as such, makes no mention of the following IASB projects: income taxes, joint ventures, extractive industries, liabilities, management commentary and rate-regulated activities. Finally, although it is a joint project, the work plan does not address the conceptual framework project.

Impact of the work plan

In addition to amending the timing of some projects (see the appendix), the following are the significant impacts of the work plan on existing projects.

Consolidation

When the separate standard-setting efforts are completed (2008 IASB ED and 2009 FASB improved US GAAP for consolidation of variable interest entities), US GAAP and IFRS will be aligned for the consolidation of structured investment vehicles and other special purpose entities (including disclosures). Differences in the consolidation of voting interest entities will still exist. The FASB will consider whether to issue an ED, which is consistent with the IASB's requirements, to eliminate the remaining differences in the last quarter of 2010.

The IASB plans to issue an ED of proposed changes to its consolidation requirements related to investment companies in the last quarter of 2010. The FASB will also expose amendments to achieve converged standards on investment companies.

Financial instruments

Differences in accounting for financial instruments exist, and convergence efforts have been aggravated by the Boards' differing development timetables and priorities. The work plan acknowledges that the Boards have differing views on accounting for financial instruments and that reconciling them will be difficult. Nevertheless, the Boards will continue to work on their respective financial instruments projects and will consider together the comment letters received in an effort to reconcile the differences "in ways that foster improvement and convergence".

Derecognition

The IASB will now only focus on improved disclosure requirements of continuing involvement of financial assets transferred to another entity that will improve convergence between IFRS and US GAAP. The IASB had been developing a new derecognition model; however, the FASB has recently made amendments to US GAAP reducing the differences with IFRS. Additionally, National Standards-Setters have commented favourably on how the IFRS derecognition requirements have performed through the financial crisis.

Balance sheet netting of derivatives and other financial instruments

Stakeholders, including the Basel Committee on Banking Supervision and the Financial Stability Board, have noted that there are material differences between IFRS and US GAAP relating to netting of derivatives and other financial instruments. Therefore, the Boards plan to publish EDs of converged requirements and related disclosures in the last quarter of 2010.

Financial statement presentation

The Boards have accelerated their project to improve and converge IFRS and US GAAP for the presentation of items of other comprehensive income and will finalise converged standards in the last quarter of 2010.

On the main project, stakeholder feedback has led the Boards to engage in additional outreach activities to consider the cost/benefit of the proposals and the implications on financial institutions, before issuing an ED in the first quarter of 2011. The Boards are planning to issue an improved and converged standard in the last quarter of 2011.

Insurance contracts

The IASB is moving forward independently on this project. The FASB will decide how to solicit input on the IASB's proposal and will then determine next steps.

How we see it

We support the Boards' decision to delay certain projects to allow adequate time for Board deliberations and due process. Even with the planned delays, the agenda remains extremely ambitious and will place considerable pressure on constituents to provide quality feedback on the proposals.

While we understand the reasons for the deviation in the Boards' respective timetables, the Boards' ability to promote convergence when they are operating on different timetables and, in some cases, without the FASB's commitment to issue revised guidance, is cause for concern. As demonstrated by the financial instruments project, developing standards on different timelines often results in different conclusions that are difficult to reconcile later. However, we are hopeful that the Boards' continued commitment to work together, as evidenced by their success in reaching the same decisions on other projects (e.g., revenue recognition, financial statement presentation), will help them overcome the challenges arising from different timetables.

Appendix – IASB project timetables per the modified work plan

Project	2010			2011				Notes
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Consolidation								
▶ Main project			IFRS					Q3 2010 – FASB to hold public RT on IASB proposals. Q4 2010 – FASB to decide if ED is necessary.
▶ Investment companies			ED		IFRS			Q4 2010 – FASB to issue ED if necessary.
Financial instruments								
▶ Main project			RT		IFRS			Q2 2010 – FASB issues ED. Q4 2010 – FASB public RT, IASB to participate. Joint deliberations to resolve differences. New standards to be issued in Q2 2011 – IASB projects on impairment of amortised cost assets, and classification and measurement of financial liabilities not specifically mentioned.
▶ Derecognition – improved disclosure requirements		IFRS						2012 – FASB to complete post-implementation review of US GAAP requirements. Boards to make a decision about any further improvements and convergence.
▶ Balance sheet netting of derivatives and other financial instruments			ED	RT	IFRS			Q4 2010 – Separate US GAAP and IFRS EDs in response to concerns about differences.
▶ Hedge accounting		ED			IFRS			
Financial instruments with characteristics of equity								
				ED		RT	IFRS	
Financial statement presentation								
▶ Main project		SD		ED		RT	IFRS	Q3 2010 – SD to reflect tentative decisions taken to date.
▶ Statement of other comprehensive income	ED		IFRS					
▶ Discontinued operations				ED			IFRS	
Leases								
		ED	RT		IFRS			
Fair value measurement								
	ED			IFRS				Q2 2010 – IASB re-exposed one matter related to disclosure. FASB to issue ED on minor amendments to definition of fair value and related implementation guidance.
Revenue recognition								
	ED		RT		IFRS			
Post employment benefits								
	ED			IFRS				
Insurance contracts								
		ED		IFRS				Q3 2010 – IASB to issue ED in July. FASB to obtain stakeholder input on IASB proposal.
Emissions trading schemes								
						ED		

Key:

SD – Staff draft
 ED – Exposure draft
 RT – Round table
 IFRS – Standard

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