What Major Projects to Expect in 2013?

April 2013

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In this article, the MASB staff explains the IASB's most recent project work plan - namely on the major projects, limited amendments to existing Standards, the Annual Improvements and Conceptual Framework – and all these form a considerable part of the International Accounting Standards Board (IASB) work plan for 2013.

Introduction

2013 is a year of continuing work on the four major projects of the IASB. Based on its work plan as at 30 April 2013[1], the IASB is expected to publish various draft pronouncements and pursue its deliberation on the four major projects, namely, IFRS 9 *Financial Instruments* (on limited amendments to the classification and measurement of financial assets, impairment and hedge accounting), Insurance Contracts, Leases and Revenue Recognition (collectively known as the "Big 4"). These long-awaited projects are considered the "big movers" for the accounting industry due to its implication across the various major industries.

Apart from the Big 4 which has been the subject of discussion over the past few years, the IASB has recently included the subject Rate Regulated Activities as another major project. The IASB also took cognisance of the need to allocate its resources to other smaller projects and has included a number of limited amendments to some existing Standards besides the annual agenda on Annual Improvements.

[1] IASB Work Plan as at 30 April 2013 <www.ifrs.org>

For the Annual Improvements project, as the name suggests, it is an annual project undertaken with the objective of proposing limited amendments to a collection of existing IFRSs in a single Exposure Draft. The aim of this project is to clarify unclear wording or resolve conflict between existing Standards so as to maintain consistency across Standards. It is important to note that the Annual Improvements project is not designed to introduce new principles or make changes to existing ones.

Last but not least, the much awaited revision on Conceptual Framework is also included in the To-Do-List of the IASB. The project was initiated in 2004 but was put aside in 2010; however, there was strong call from the feedback from the Agenda Consultation 2011 that the IASB should take on board the revision on Conceptual Framework. Thus, the IASB decided to restart the project by focusing on five topics – Reporting Entity, Presentation (including other comprehensive income), Disclosure, Elements and Measurement[2].

The Big 4 in a nutshell

Financial Instruments

The IASB has recently issued a revised Exposure Draft (ED) on impairment and also plans to publish a Standard on hedge accounting by the third quarter of this year. Both projects on impairment and hedge accounting are Phase II and Phase III respectively of IFRS 9, the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

The foundation of the project is Phase I which is on classification and measurement that was completed by the IASB in 2010 to be effective on 1 January 2015. Though Phase I is not yet effective, late last year, the IASB has already issued an Exposure Draft, ED/2012/4, proposing limited changes to the classification and measurement requirements for financial assets (Phase I), among others, by introducing a fair value through other comprehensive income (FVOCI) category for debt instruments that are held within a business model whereby they are managed both in order to collect contractual cash flows and for sale. The exposure period for ED/2012/4 ended on 28 March 2013.

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[2] IASB Feedback Statement: Agenda Consultation 2011 <www.ifrs.org>

Phase II of the project focuses on the impairment of financial assets. In March 2013, the IASB issued an Exposure Draft, ED/2013/3 on Financial Instruments: Expected Credit Losses. The expected credit losses model proposed in this ED differs from the incurred loss model currently applied under IAS 39 which requires that a loss event occurs before a provision can be made. During the financial crisis, the incurred loss model was criticised for delaying the recognition of losses that are associated with loans and other financial instruments. In this ED, the IASB proposes a model in which entities would recognise expected credit losses on financial assets which are measured at amortised cost and fair value through comprehensive income and on commitments to extend credit. Under this expected credit loss model, impairment would be measured as either 12 month expected credit losses or lifetime expected credit losses when there is a significant increase in credit risk. Expected credit losses are an estimate of the present value of all cash flows expected over the life of the asset. This ED/2013/3 is open for comment until 5 July 2013.

The idea to separate the Financial Instruments project into three phases originated from publication of a Discussion Paper on *Reducing Complexity in Reporting Financial Instruments* by the IASB and the US Financial Accounting Standards Board (FASB) in March 2008. Also in line is the planned issuance of a Discussion Paper on accounting for macro hedging in the second half of 2013.

Given the complexity, this Standard is not expected to be implemented any earlier than 2015.

Insurance Contract

The IASB aims to re-expose the draft pronouncement on Insurance Contracts during the second quarter of 2013.

The Exposure Draft on Insurance Contract was first published by the IASB in July 2010 with the aim to eliminate inconsistencies and weaknesses in existing practices, by replacing IFRS 4 *Insurance Contracts*. Whilst there is a burning need to establish a practicable Standard based on current measurement as soon as possible, it is also imperative that the IASB gets this Standard right.

Therefore in September 2012, the IASB decided to seek feedback on a limited range of questions, which will lead to a targeted re-exposure planned to happen during the first half of this year.

Leases

The IASB has also paved a similar work plan for the Leases project. Initially, the idea to develop a new approach to lease accounting was derived from the drawbacks of the existing models for leases. Accordingly, in August 2010, the IASB together with the FASB published their joint proposals to develop a new approach to lease accounting with the aim to improve the reporting of lease contracts.

However, after taking into consideration the comprehensive comments received, both Boards unanimously decided to issue a revised Exposure Draft which is expected to take place in the second quarter of this year.

Revenue

The much anticipated Standard on Revenue Recognition is planned to be issued in the third quarter of the year. The project which is jointly conducted with the FASB had published two Exposure Drafts - the first Exposure Draft was published in June 2010 and the revised Exposure Draft was exposed in November 2011.

The revenue project is aimed to improve financial reporting by creating a common revenue recognition requirement for IFRSs[3] and US GAAP[4]. It is for mandatory adoption tentatively on 1 January 2017. Early application is permitted.

Rate Regulated Activities

Originally an Exposure Draft was issued in July 2009 but was put aside. However, it was recently included in the work plan in view of the feedback to Agenda Consultation in which respondents commented that there was a lack of guidance and there was too much diversity in practice on how companies are accounting for rate-regulated activities. This is particularly the case in certain jurisdictions whereby

[3] International Financial Reporting Standards

[4] Generally Accepted Accounting Principles

companies are applying different accounting frameworks to similar transactions since there is no equivalent guidance in IFRSs[5].

Consequently, the IASB at its September 2012 meeting decided that a Discussion Paper should be developed to assess whether and how the IASB should develop an IFRS (or amend the existing IFRSs) to reflect the impact of rate regulation[6].

Updates of Limited Amendments to Existing Standards

There are 14 proposals for limited changes to existing Standards in the plan. During the first quarter of this year, the IASB has exposed 7 of the 14 planned limited amendments.

The 7 Exposure Drafts issued were:

- ED/2012/3: Equity Method: Share of Other Net Assets Changes (Proposed amendments to IAS 28)
- ED/2012/5: Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)
- ED/2012/6: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28)
- ED/2012/7: Acquisition of an Interest in a Joint Operation (Proposed amendments to IFRS 11)
- ED/2013/1: Recoverable Amount Disclosures for Non-financial Assets (Proposed amendments to IAS 36)
- ED/2013/2: Novation of Derivatives and Continuation of Hedge Accounting (Proposed amendments to IAS 39 and IFRS 9)
- ED/2013/4: Defined Benefit Plans: Employee Contributions (Proposed amendments to IAS 19)

For the first six of the Exposure Drafts, the exposure periods have ended in March and early April while the exposure period for the remaining one Exposure Draft will end in July. One of the Exposure Drafts may have significant implication to certain

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5 "IASB Meeting Staff Paper", 26 January 2012 <www.ifrs.org>

6 "IFRS Advisory Council Meeting Staff Paper", 22 – 23 October 2012 <www.ifrs.org>

entities, i.e. ED/2012/5 Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38).

IASB's proposed amendments to IAS 16 and IAS 38 was a request submitted to the IFRS Interpretations Committee (IFRS IC) to clarify the meaning of the term 'consumption of the expected future economic benefits embodied in the asset' when determining the appropriate amortisation method for intangible assets of service concession arrangements that are within the scope of IFRIC 12 *Service Concession Arrangements*[7]. An amendment was originally proposed to be made to IFRIC 12, however, the IFRS IC had proposed that amendments to be made instead to IAS 16 and IAS 38[8].

ED/2012/5 proposes to prohibit the use of revenue-based as an amortisation method because such method reflects a pattern of future economic benefits being generated from the asset, rather than a pattern of consumption of the future economic benefits embodied in the asset.

This issue is not new in Malaysia as divergent in views were brought to the attention of the MIA FRSIC (Financial Reporting Standards Implementation Committee) back in 2007. Following the differing views, the MASB had in 2011 requested the IFRS Interpretations Committee to provide clarification to address this urgent issue to ensure the meaning of "consumption of economic benefits" is interpreted consistently by IFRS users.

The balance of the 7 Exposure Drafts in the pipelines are:

- Bearer plants (Proposed amendments to IAS 41)
- Disclosure Requirements about Assessment of Going Concern (Proposed amendments to IAS 1)
- Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)
- Actuarial Assumptions: Discount Rate (Proposed amendments to IAS 19)
- Separate financial statements (equity method) (Proposed amendments to IAS 27)

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[7] "IFRS Interpretations Committee Meeting Staff Paper", 3 – 4 November 2011 <www.ifrs.org>

[8] "IFRS Interpretations Committee Meeting Staff Paper", March 2012 <www.ifrs.org>

- Fair Value Measurement: Unit of Account (Proposed amendments to IFRS 13)
- Put Options Written on Non-controlling Interests (Proposed amendments to IAS 32)

Of the 7, one of the potential Exposure Drafts will have an implication to the agriculture industry, i.e. the limited amendments to IAS 41 *Agriculture* which will see a review in the accounting treatment for bearer biological assets. The gist of the proposal is that bearer biological assets should be accorded the same measurement basis as prescribed in IAS 16 *Property, Plant and Equipment*. The proposal to amend IAS 41 is supported by the Issues Paper produced by the Asian-Oceanian Standard-Setters Group (AOSSG) – which MASB is a member, as well as the IASB's Emerging Economies Group (EEG) who stated that this project is important for emerging economies[9]. The AOSSG Issues Paper - Agriculture can be downloaded at www.aossg.org.

An outlook on Annual Improvements Project

The IASB formally adopted the Annual Improvements Project back in July 2006 with the objective to enhance the quality of the Standards by way of amending existing IFRSs to clarify guidance and wording, or to correct relatively minor unintended consequences, conflicts or oversights[10].

The inclusion of amendments to IFRSs in the Annual Improvements Project is guided by the enhanced criteria within the IASB Due Process Handbook as approved by the Trustees of the IFRS Foundation in February 2011. The enhanced criteria as detailed in paragraphs 27A and 65A of the IASB Due Process Handbook are also used to determine whether a matter relating to the clarification or correction of IFRSs, should be amended through the annual improvements process[11]. Any issue that undergoes the assessment must meet all of the criteria to qualify for inclusion in annual improvements.

In dealing with the annual improvements requests, the IASB will consider the issues submitted by the constituents and will then decide upon and accumulate the proposed improvements to IFRSs prior to publishing it in a form of an omnibus

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[9] "IASB Meeting Staff Paper", September 2012 <www.ifrs.org>

[10] "More about the Annual Improvements Project" <www.ifrs.org>

[11] "Due Process Handbook for the IASB", February 2012 <www.ifrs.org>

Exposure Draft for public comment. After having considered the comments received, the IASB usually aims to issue the final amendments in the following second quarter with an effective date of 1 January of the subsequent year. Starting from January 2010, the IFRS Interpretations Committee (IFRS IC) has assumed an accompanying role of reviewing proposed amendments within the annual improvements process and making recommendations to the IASB.

This year, the IASB has lined-up three Annual Improvements Project in the pipeline. The IASB is expected to finalise the Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle in the third and fourth quarter of 2013 respectively. The Exposure Draft issued on Annual Improvements to IFRSs 2010–2012 Cycle covered eleven subjects of amendments while the Exposure Draft issued on Annual Improvements to IFRSs 2011-2013 Cycle covered four proposed amendments. The year dates of both cycles (2010–2012 / 2011–2013) indicate that issues discussed by the IASB began in 2010 and 2011 respectively.

In addition to the finalised amendments, the IASB also plans to issue an Exposure Draft on Annual Improvements to IFRSs 2012–2014 Cycle in the fourth quarter of this year. There is no limit to the subject matters that needed to be covered in Annual Improvement – it all depends on the matters under discussion during those respective periods.

Proposals of the Annual Improvements are generally exposed to the public with a comment period of 90 days. For its other consultation documents, the IASB normally permits a period of 120 days for the public to put forth their comments. However, depending whether the proposal is exceptionally urgent or otherwise, the length of time of the comment period can vary.

The Much Awaited Conceptual Framework

The IASB plans to issue a Discussion Paper by the second quarter of this year.

Briefly, the project is conducted in a number of phases. Phase A of the overall Conceptual Project has been completed following the publication of *Conceptual Framework for Financial Reporting 2010* in September 2010. This year, the IASB is expected to issue a Discussion Paper that covers chapters addressing elements of financial statements, measurement, reporting entity and presentation and disclosure.

Conclusion

The project work plan shows that there are a lot on IASB's plate and it is a clear indication of a productive year ahead.

The IFRS users can expect the finalisation of major IFRSs i.e. on Revenue and Hedge Accounting along with the issuance of several limited amendments, including two Annual Improvements.

In addition, the IFRS users also have to get ready for the Exposure Drafts on Insurance Contracts and Leases as well as the seven proposed limited amendments, which have yet to be issued.

Stay tune for the updates and more importantly keep abreast of the ongoing developments of IFRSs. Ignorance is no defense!