

IASB/FASB update status of convergence projects

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IN THE HEADLINES

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Resetting convergence expectations

The IASB and FASB (the 'Boards') recently issued a [joint progress report](#) on the Boards' convergence activities. The progress report:

- identifies **mid-2013** as the new target for completion of major work on convergence;
- explains how the Boards plan to pursue convergence; and
- summarises convergence efforts to date.

The Boards remain focused on their four major convergence projects.

Financial instruments

- With the IASB's decision to reconsider some classification and measurement requirements, the prospects for closer alignment in this area have improved.
- The Boards are reaching agreement on nearly all key impairment issues, and plan to issue exposure drafts in the second half of 2012.
- The Boards are still out of sync on hedge accounting.

Revenue recognition

- The Boards' deliberations to date have resulted in agreement on all key issues.

Leases

- The Boards' current focus is on the profit or loss profile over the life of a lease, and whether all leases should be accounted for in the same way.

Insurance contracts

- The Boards are making further efforts to narrow differences before they issue their next due process documents.

Financial instruments

The IASB is working to develop a replacement for IAS 39 *Financial Instruments*. The IASB initially structured its project in three phases:

- Phase 1: Classification and measurement of financial assets and financial liabilities
- Phase 2: Impairment methodology
- Phase 3: Hedge accounting

The FASB has not followed the same phased approach as the IASB and had reached different tentative conclusions from the IASB on classification and measurement and on hedge accounting.

Classification and measurement

The IASB issued IFRS 9 (2009) and IFRS 9 (2010), which contain the requirements for the classification and measurement of financial assets and financial liabilities. Those standards have an effective date of 1 January 2015; early adoption is available.

The IASB is currently considering limited changes to the classification and measurement requirements of IFRS 9, to provide an opportunity for the Boards to reduce key differences between their models. This will include considering a fair value through other comprehensive income ('FVTOCI') category for some debt assets, as well as the interaction with the insurance contracts project.

The deliberations to date have shown the Boards moving closer together, but not aligning fully, on classification and measurement.

Impairment

The Boards are working jointly on a 'three-bucket' model for recognising and measuring impairment of financial assets

based on expected credit losses and the extent of credit quality deterioration since initial recognition. This model is a change from the Boards' previously issued exposure documents on impairment.

Hedge accounting

The IASB has split the hedge accounting phase into two parts: general hedging and macro hedging. The IASB has nearly completed work on its general hedge accounting model, which is expected to have major differences from existing hedge accounting requirements. The FASB has not yet deliberated the IASB's new general hedge accounting model.

Next steps

Classification and measurement

The Boards expect to issue exposure drafts in the second half of 2012, and to finalise new standards in the first half of 2013.

Impairment

The Boards expect to issue exposure drafts in the second half of 2012, and to finalise new standards in the first half of 2013.

General hedge accounting

The IASB expects to post a review draft on its website for 90 days in the first half of 2012, during which time it will undertake an extended fatal flaw review and outreach activities; the IASB is targeting a final standard in the second half of 2012.

Macro hedge accounting

The IASB expects to publish a discussion paper or an exposure draft in the second half of 2012.

Revenue recognition

The objective of this project is to develop a comprehensive principles-based model that would be applied by all entities when recognising revenue from contracts with customers. The model would apply irrespective of the entity's industry; financial instruments, insurance contracts and leases would be outside the scope.

The resulting standard will replace IAS 11 *Construction Contracts* and IAS 18 *Revenue*, as well as a significant amount of industry-specific FASB guidance. The new standard is also expected to include some requirements on cost measurement and recognition.

The Boards exposed revised joint proposals in November 2011, and the comment deadline closed in March 2012. The Boards are currently redeliberating their proposals and recently completed a series of public round tables.

Next steps

The Boards expect to complete their discussions in 2012, with a final standard scheduled to be issued in 2013.

Leases

The objective of this project is to reconsider the accounting requirements for leases. The resulting standard will replace IAS 17 *Leases*.

The Boards exposed joint proposals in August 2010, and are now redeliberating their proposals. The Boards continue to believe that lessees should recognise assets and liabilities arising from leases within the scope of the proposals. The Boards' current focus is on the profit or loss profile over the life of a lease, and whether all leases should be accounted for in the same way.

Next steps

The Boards plan to publish revised proposals in the second half of 2012, with a final standard scheduled to be issued in mid-2013.

Insurance contracts

The objective of this project is to develop a comprehensive model for accounting for insurance contracts. The resulting standard will replace IFRS 4 *Insurance Contracts*. In July 2010, the IASB published ED/2010/8 *Insurance Contracts*, and is currently considering the comments that it received.

Although the insurance contracts project is not formally part of the Boards' joint work programme, the Boards have been deliberating jointly. There are a number of significant issues on which they have reached different tentative decisions – e.g. use of a single margin vs a risk margin plus a residual margin.

The Boards are using their current deliberations to test whether they can narrow differences, even if a fully converged standard is not achieved. Key issues for consideration are:

- the volatility that would be reported in profit or loss under the proposed models; and
- the possible use of other comprehensive income for measuring insurance contracts and financial assets.

Next steps

The Boards are working towards their next publications for the second half of 2012. The IASB is considering whether it should publish another exposure draft. Doing so would align the Boards' consultative processes, since the FASB published a discussion paper in 2010 and has yet to publish an exposure draft. On the basis of that plan, final standards could be issued in 2013.

Other IASB/FASB convergence projects

The Boards' joint progress report also updated the status of other projects that were part of the Boards' 2006 memorandum of understanding on convergence activities, but that have not yet been completed.

Investment entities

The IASB and FASB published proposals in August and October 2011, respectively; the Boards plan to start joint redeliberations of their proposals in the second quarter of 2012, with a final standard targeted for the end of 2012.

Investment property entities

The FASB issued a proposal in October 2011 to require investment property entities to measure their investment properties at fair value; the comment period ended in February 2012.

Income tax

The IASB published an exposure draft in 2009. The Boards reassessed the project as having a lower priority, and it is not currently being pursued actively.

Financial instruments with the characteristics of equity

A joint discussion paper was published in 2008. The Boards reassessed the project as having a lower priority, and it is not currently being pursued actively.

For more information

For more information, please speak to your usual KPMG contact or visit KPMG's *Global IFRS Institute* at <http://www.kpmg.com/ifrs> to access KPMG's most recent publications on the Boards' projects, including:



[IFRS – Financial Instruments Newsletter](#), which follows the progress of the project.



[IFRS – Leases Newsletter](#), which follows the progress of the project.

You can also visit the [IFRS – leases](#) hot topics page.



[New on the Horizon: Revenue from contracts with customers](#), which discusses the November 2011 exposure draft in detail.

You can also visit the [IFRS – revenue](#) hot topics page.



[IFRS – Insurance Newsletter](#), which follows the progress of the project.

You can also visit the [IFRS – insurance](#) hot topics page.

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