

IASB and FASB Commitment to Memorandum of Understanding

Quarterly Progress Report

31 March 2010

Introduction

In November 2009, we, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB), released a joint statement in which we:

- reaffirmed our commitment to improving International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP) and achieving their convergence.
- agreed to intensify our efforts to complete the major joint projects described in the 2006 Memorandum of Understanding (MoU), as updated in 2008.
- described our plans for completing those major projects, including milestone targets for each project.
- Committed to providing transparency and accountability regarding those milestones by reporting quarterly on our progress and making those reports available on our websites.

This is the joint progress report for the quarter ended 31 March 2010. The chairmen of the FASB and IASB discussed a draft of this report with the joint working group of their respective oversight bodies at a meeting on 29 March.

As of 31 March 2010, we had achieved substantially all of the milestone targets for the first quarter of 2010. As we explain more fully in a later section of this report:

- for five of the major MoU projects, we are on track to publish, by mid-2010, exposure drafts that would improve and achieve substantial convergence of US GAAP and IFRSs in those areas.
- on two major projects, financial instruments and insurance contracts, we have reached different conclusions on some important technical issues. Addressing those differences in ways that foster convergence could affect the project timetables described in this report.
- the boards also agreed in late March to explore an alternative approach to lessor accounting. That decision could affect the project timetables described herein.

The exposure drafts scheduled for publication in the second quarter of 2010 are significant both in nature and number (eleven for the FASB (eight on major projects) and eleven for the IASB (seven on major projects)). We will provide comment periods commensurate with the degree of change and complexity of each exposure draft. However, we recognise the effort that will be required by stakeholders to consider carefully and respond thoughtfully to these many different proposals. We are developing outreach programmes to provide potential respondents with enhanced opportunities to engage with the boards to help them consider the proposals.

That outreach will also provide the boards with more opportunities to hear and absorb that input and thoughtfully complete their redeliberations.

The boards are also aware of the significant challenges that will arise from implementing the many major MoU standards targeted for completion in mid-2011. The boards will publish a separate discussion paper to seek views on ways to implement these improvements so as to minimise the disruption and cost to the financial reporting system.

This remainder of this report is presented in three parts:

- The first part describes changes the boards have made to their work methods to foster completion of their joint projects by the June 2011 target.
- The second part describes progress made on each project since the November 2009 report and updated milestone targets.
- The third part is a complete list of all documents the FASB and IASB expect to publish in connection with the completion of the MoU and the expected publication timing.

Part 1: Work method improvements

We changed our work methods to enhance the likelihood that we will complete the major MoU projects in the time frame outlined in the MoU and that the resulting standards will both improve IFRSs and US GAAP and reduce the differences between them.

- **Intensification of work programme:** We fulfilled our November 2009 commitment to meet jointly at least every month. The boards had full-day meetings on three consecutive days in each of November, December, January and February. In March, the boards met jointly for three consecutive afternoons by video, followed the next week by a three-day, face-to-face joint meeting in London.
- **Willingness to schedule special meetings to address key issues:** To address issues requiring their joint attention, the boards called seven further special sessions during this period.
- **Continuing work:** The boards have meetings scheduled for 8 April, 20-22 April, 4 May, 17-19 May, 1 June and 15-17 June.
- **Enhanced stakeholder outreach on projects:** We are developing extensive outreach programmes to ensure broad stakeholder participation in the standard-setting due process (we will post those programmes on our websites). Those programmes will include public educational outreach sessions in Asia-Oceania, North America and Europe. We have already scheduled such sessions for August in Tokyo, Norwalk in early September (hosted by the FASB) and London in mid-September (hosted by the IASB).

Part 2: Updates on convergence projects

Financial instruments

Our goal is to issue comprehensive improvements to this complex and contentious area that will foster international comparability of financial information about financial instruments.

As we noted in our November statement, each board has faced different imperatives that pushed our development timetables out of alignment. In particular, the IASB has been replacing its financial instrument requirements in a phased approach, whereas the FASB has been developing a comprehensive proposal. Those differing development timetables and other factors have contributed to the boards reaching differing conclusions on a number of important technical issues (a summary description of those differences is available on our websites).

Our strategy for addressing those differences calls for each board to publish its proposals and that of the other board, as a way of giving interested parties the opportunity to compare and assess the relative merits of both boards' proposals. Additionally, we established an *expert advisory panel* to help the boards identify and resolve operational aspects of their respective credit impairment models.

Our strategy also calls for us to consider together the comment letters and other feedback we receive in an effort to reconcile our differences in ways that foster convergence. We expect to begin those joint discussions in the third quarter of 2010. Although our recent experiences with joint meetings show that we have been able to resolve differences on several projects, there is no guarantee we will be able to resolve all, or any, of our differences on this project.

First quarter 2010 milestone targets achieved

The following first quarter milestones were achieved in accordance with the timetable published in November.

- The IASB issued new requirements for the classification and measurement of financial assets in early November 2009.
- On 5 November 2009 the IASB published for public comment an exposure draft on the amortised cost measurement and impairment of financial instruments, with comments due by 30 June 2010.

Updated milestone targets

Milestone targets for financial instruments	
Q2 2010	<p>The IASB has been developing improved financial reporting requirements for financial instruments in phases, in response to requests to accelerate particular parts of the project. In the next phase the IASB will publish in April proposals for the classification and measurement of financial liabilities, rather than by March as previously planned. (The IASB published proposals for the classification and measurement of financial liabilities in July 2009 but decided not to include financial liabilities within the scope of the first phase of the financial instruments project).</p> <p>The FASB expects to publish its comprehensive proposal covering classification and measurement, impairment and hedging during the first week of May 2010 rather than March as previously planned. As part of that proposal, the FASB will solicit views on the IASB's proposals for recognition and measurement (of both assets and liabilities) and impairment. The IASB also will publish a request for views on the FASB's comprehensive exposure draft.</p> <p>Since November, the IASB has decided to include non-financial hedges in the phase of the project addressing hedge accounting. As a consequence, the IASB will publish its initial proposals on hedge accounting in mid-2010 (rather</p>

	than by March as previously planned). The IASB will review the application of its requirements for classification and measurement of financial assets by those entities adopting the requirements early.
Q3 2010	The boards will begin to consider together the comment letters and other feedback received on each of the boards' various proposals.
Q4 2010 / Q1 2011	The boards will complete their joint consideration of feedback received and expect to finalise and issue new requirements.

Consolidations

The agendas of both boards include projects on consolidation. In 2008 the IASB published an exposure draft of a comprehensive replacement of its consolidation requirements, and in 2009 the FASB finalised one aspect of that project that amended and improved US GAAP relating to consolidation of variable interest entities and related disclosures.

The boards concluded last November that, ideally, their standards for consolidation would include objectives and principles for assessing control that would be applied consistently for all types of entities and produce globally comparable results. Consistently with that conclusion:

- the IASB agreed in November 2009 to amend its timetable to give the boards the opportunity to jointly deliberate the consolidation requirements.
- the FASB set a goal of publishing an exposure draft in the second quarter of 2010.
- the IASB agreed to make available a staff draft of its proposed standard and publish a request for views on the FASB's proposal.
- the two boards agreed to jointly deliberate the issues with the expectation they would produce improved and common final standards by the third quarter of 2010.

The IASB proposal, originally published in 2008, included enhanced disclosures about unconsolidated entities. The IASB decided in February 2010 to accelerate its work plan and issue in the second quarter of 2010 final disclosure requirements for securitisation and investment vehicles (such as special purpose entities and structured investment vehicles) that an entity has sponsored or with which it has a special relationship, but does not control.

First quarter 2010 milestone targets achieved

There were no first quarter 2010 milestone targets for this project.

Updated milestone targets

Milestone targets for consolidations	
Q2 2010	<p>The IASB expects to finalise and publish required disclosures about securitisation and investment vehicles that any entity does not control but has sponsored or with which it has a special relationship (which the IASB had previously planned for publication in Q4 2010).</p> <p>The FASB expects to publish a comprehensive exposure draft on consolidations that is not expected to significantly affect consolidation of variable interest entities (previously expected in Q1 2010).</p> <p>The IASB will make available a staff draft of its proposed standard and will also publish a request for views on the FASB's proposals.</p>
Q4 2010 or Q1 2011	The IASB and FASB aim to issue common standards on consolidation covering all entity types.

Derecognition

In late 2009 the FASB finalised a project to amend and improve its requirements in relating to the derecognition of some financial assets and liabilities.

The IASB is also undertaking a project to improve the derecognition requirements for financial assets and to provide users with better information about an entity's exposure to the risks of transferred financial assets. The current requirements are perceived as complex and difficult to understand and apply in practice. The IASB published proposals in 2009 and the responses showed stronger support for the alternative model proposed. The IASB has completed development of that alternative and in April the FASB will consider that model.

In their next quarterly update the boards expect to provide further details on their plans to improve and develop common standards for derecognition of financial assets and liabilities

First quarter 2010 milestone targets achieved

There were no first quarter 2010 milestone targets for this project.

Updated milestone targets

Milestone targets for derecognition	
Q2 2010	<p>The IASB staff will present to the FASB a proposed model for derecognition of financial assets and liabilities.</p> <p>The boards will develop and provide further details regarding their plans and milestone targets for this project.</p>

Fair value measurement

The FASB issued Statement 157 *Fair Value Measurements* in 2006 and those requirements have been in effect since November 2007. In May 2009 the IASB published an exposure draft of an IFRS on fair value measurement. The exposure draft is largely consistent with the FASB requirements.

In November, the boards reached agreement on the following:

- Their objective is to ensure that fair value has the same meaning in US GAAP and IFRSs, by making US GAAP and IFRS fair value measurement requirements the same other than minor necessary differences in wording or style.
- The boards agreed to consider together the comments received on the IASB's exposure draft. The FASB agreed to propose amendments to US GAAP fair value measurement requirements, if necessary.
- The boards also agreed that if they become aware of perceptions that the FASB and IFRS fair value measurement requirements are different they will work together to address those perceptions.

First quarter 2010 milestone targets achieved

The IASB held public round-table meetings in Asia, Europe, and North America in conjunction with the FASB.

Updated milestone targets

Milestone targets for fair value measurement	
Q2 2010	The FASB expects to issue an exposure draft of proposed amendments to its fair value measurement requirements that would improve them and achieve convergence with the proposed IFRS (previously expected to be issued in Q1 2010).
Q3 2010	The FASB expects to hold a public round-table meeting to discuss its proposal.
Q4 2010	After the close of the public comment period for the FASB exposure draft, the boards will deliberate issues jointly, with a goal of issuing common standards in the fourth quarter.

Revenue Recognition

The boards are working together to provide a single revenue recognition model that can be applied to a wide range of industries and transaction types. US GAAP currently has many industry-specific requirements that are not always consistent with each other. IFRSs are perceived as lacking necessary application guidance. The new model will eliminate weaknesses and inconsistencies in the existing standards.

The boards published a joint discussion paper in December 2008 that proposed a single revenue recognition model built on the principle that an entity should recognise revenue when it satisfies its performance obligations in a contract by transferring goods and services to a customer. That principle is similar to many existing

requirements. However, the boards think that clarifying that principle and applying it consistently to all contracts with customers will improve the comparability and understandability of revenue for users of financial statements.

The boards have been considering the comments received on their discussion paper as well as feedback from their outreach programmes.

First quarter 2010 milestone targets achieved

The boards conducted a series of workshops to learn how various types of entities would apply the proposed requirements. The feedback received was positive and provided additional comfort that the proposals are operational.

Updated milestone targets

Milestone targets for revenue recognition	
Q2 2010	The IASB and FASB expect to publish an exposure draft that would improve their respective requirements and achieve convergence.
Q2 2011	The IASB and FASB aim to issue improved and common standards.

Leases

The IASB and FASB are developing together a new single approach to lease accounting that would ensure that all assets and liabilities arising under lease contracts are recognised in the statement of financial position. The project is addressing the accounting from the perspective of both the lessor and lessee.

The boards continued to deliberate technical issues during the first quarter of 2010.

First quarter 2010 milestone targets achieved

There were no first quarter 2010 milestone targets for this project.

Updated milestone targets

Although the boards have retained their second quarter 2010 milestone target for publishing exposure drafts, their decision in March to explore an alternative approach to the accounting by a lessor may affect that milestone target.

Milestone targets for leasing	
Q2 2010	The IASB and FASB will publish exposure drafts proposing the accounting for leases, from the perspective of the lessor and the lessee.
Q2 2011	The IASB and FASB aim to issue improved and common standards.

Financial instruments with the characteristics of equity

The FASB and IASB have been working together to improve and, as a consequence, simplify, the financial reporting requirements for financial instruments with characteristics of equity. The purpose of this project is to develop a better way to distinguish instruments that are equity from those that are assets or liabilities. Some aspects of the current IFRS and US GAAP requirements have been criticised for their complexity or inconsistency.

As of November 2009, the boards had agreed to assess the feasibility of an approach that would classify as equity particular share-settled instruments. The boards noted they were unable to establish a timetable until they completed that assessment.

First quarter 2010 milestone targets achieved

- The boards completed their assessment and decided to propose for public comment an approach that would classify as equity particular share-settled instruments.
- The boards agreed on milestone targets for this project.

Updated milestone targets

Milestone targets for liabilities and equity	
Q2 2010	The FASB and IASB expect to publish exposure drafts of proposed requirements for identifying financial instruments that should be classified as equity and those that should be classified as an asset or as a liability. The exposure drafts will have a 120-day comment period.
Q2 2011	The boards expect to issue improved and common standards.

Financial statement presentation

The FASB and IASB are working together to establish a common standard that would improve how information is organised and presented in the financial statements. The IASB has already implemented the decisions reached in the first phase of this project into its existing IFRS for the presentation of information in financial statements. Accordingly, the FASB's proposals will include improvements related to that phase as well as the matters the boards are currently discussing together.

In 2008 the boards published a discussion paper in which they set out the principles for presenting financial statements in a manner that portrays a cohesive financial picture of an entity's activities, disaggregates information so that it is useful in predicting an entity's future cash flows and helps users to assess an entity's liquidity and financial flexibility.

As of November, the Boards had decided to accelerate aspects of this project relating to the presentation of other comprehensive income and discontinued operations. In particular:

- the boards agreed to publish together a proposal that would make it easier to compare income statements prepared in accordance with IFRSs or US GAAP. The proposals are designed to improve how items of other comprehensive income are presented in the financial statements.
- the boards agreed to explore a definition of discontinued operations based on existing IFRSs and to work together to improve related note disclosures.

First quarter 2010 milestone targets achieved

- The boards agreed to base the definition of discontinued operations on existing IFRSs and agreed on improvements to related note disclosures.

Updated milestone targets

Milestone targets for financial statement presentation	
Q2 2010	<p>The IASB and FASB expect to publish in April exposure drafts proposing improvements to how items of other comprehensive income items are presented in the financial statements (the previous report called for an ED in March).</p> <p>The FASB and IASB expect to publish in April exposure drafts that would bring together their requirements for defining discontinued operations and improve related disclosure requirements (the previous report called for an ED in March).</p> <p>The IASB and FASB both expect to publish an ED on <i>Financial Statement Presentation</i> with a five-month comment period.</p>
Q4 2010	The IASB and FASB aim to finalise amendments to their requirements for reporting discontinued operations.
Q1 2011	The IASB and FASB aim to finalise improvements to how items of other comprehensive income are presented in the financial statements.
Q2 2011	The IASB and FASB aim to issue improved and common standards on <i>Financial Statement Presentation</i> .

Other MoU projects

The IASB has been developing proposals to improve the accounting for **joint ventures**, and remove differences between IFRSs and US GAAP. The IASB plans to finalise its new requirements in June 2010, which includes removing the ability to use proportionate consolidation for joint ventures, thereby providing a more representative portrayal of the assets the reporting entity controls.

In response to calls from preparers and users of financial statements, the IASB is conducting a project that will result in significant improvements to the accounting for **post-employment benefits**. Having reviewed comments received on a discussion paper published in March 2008, the IASB focused on improvements to the recognition and presentation of changes in defined benefit obligations and plan assets. The resulting proposals, which include eliminating the corridor approach and revised disclosure requirements, will be published in April.

Other joint projects

The boards are also working together on other projects that are not part of the MoU. They have been developing together a new **Conceptual Framework**. The first two chapters of the Framework, which address the *objectives* and *qualitative characteristics* of financial reporting, will be published in the second quarter of 2010 (rather than towards the end of 2009, as indicated in the previous report). As indicated in the previous report, in the first quarter of 2010 the boards published together an exposure draft for a chapter addressing the *reporting entity*.

Both boards understand the importance of **emissions trading schemes** as a mechanism to help manage CO₂ emissions. The financial reporting consequences of the many different allocation and trading systems will become increasingly important. The boards have been working together on this project and expect to publish an exposure draft together in 2010 with the aim of issuing common standards in 2011.

The IASB published in 2007 a discussion paper *Preliminary Views on Insurance Contracts* and has been developing proposals on the basis of that discussion paper, in the light of comments received. In 2007, the FASB issued an Invitation to Comment containing the IASB's discussion paper to solicit input on whether it should undertake a comparable project jointly with the IASB. In October 2008 the FASB added a project on insurance to its agenda and the boards agreed to undertake it jointly. They began discussing the project together in 2009 and, to date, have reached different conclusions on several important technical issues (a summary of those differences is available on our websites). While the boards have a milestone target of publishing together exposure drafts in Q2 2010 (with a view to finalising a high quality common standard by mid-2011), the nature and timing of the milestone targets may change depending on the outcome of our efforts to reconcile our differences

Part 3: Publications expected in the second quarter of 2010

A clear sign of continued progress towards completing the improvements to IFRSs and US GAAP identified in our November statement is the forthcoming publication of proposals on the topics listed below.

IASB

- Consolidation: Disclosures about unconsolidated SPEs/structured entities (IFRS)
- Financial Instruments - Classification and Measurement: Financial Liabilities (exposure draft)
- Financial Instruments – Hedge Accounting (exposure draft)
- Joint Arrangements (IFRS)
- Post-employment Benefits – Defined Benefit Plans (exposure draft)
- Derecognition (exposure draft)

FASB

- Financial Instruments (exposure draft)
- Consolidation (exposure draft)
- Fair Value Measurement (exposure draft)

IASB and FASB

- Financial Statement Presentation – organisation and presentation of information in the financial statements (exposure draft)
- Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (exposure draft)
- Financial Statement Presentation – Discontinued Operations (exposure draft)
- Financial Instruments with Characteristics of Equity (exposure draft)
- Revenue Recognition (exposure draft)
- Leases (exposure draft)
- Insurance Contracts (exposure draft)

Appendix A to this quarterly update includes a comprehensive a schedule of all publications relating to joint and MoU standards projects.

TIMETABLE FOR DOCUMENT PUBLICATION—APRIL 2010 to DECEMBER 2011

	Q2	2010 Q3	Q4	Q1	2011 Q2	H2
Financial instruments:						
IASB proposal: liability classification and measurement	ED (May)		IFRS			
IASB proposal: hedging	ED (June)		IFRS			
FASB: comprehensive proposal (including request for comment on the IASB proposal)	ED (May)			Final		
IASB: request for views on FASB proposal	DP (April)					
Consolidations:						
IASB: Disclosures about securitisation and investment vehicles	IFRS (June)					
FASB: Exposure draft of a comprehensive standard on consolidation that is not expected to significantly affect the consolidation of variable interest entities.	ED (May)		Final			
IASB: staff draft of proposed standard and request for views on FASB proposal	May		IFRS			
Derecognition						
IASB proposal: timing to be determined						
FASB proposal: timing to be determined						
Fair value measurement						
FASB proposal: changes to improve requirements and converge with IASB proposed standard IASB: final IFRS	ED (May)		Final			
Revenue recognition			IFRS			
IASB proposal: comprehensive standard	ED (May)				IFRS	
FASB proposal: comprehensive standard	ED (May)				Final	
Leasing						

TIMETABLE FOR DOCUMENT PUBLICATION—APRIL 2010 to DECEMBER 2011

	Q2	2010 Q3	Q4	Q1	2011 Q2	H2
IASB proposal: comprehensive standard	ED (June)				IFRS	
FASB proposal: comprehensive standard	ED (June)				Final	
Financial Instruments with characteristics of equity						
IASB proposal: comprehensive standard	ED (June)				IFRS	
FASB proposal: comprehensive standard	ED (June)				Final	
Financial Statement Presentation						
IASB: reporting comprehensive income	ED (April)			IFRS		
IASB: disclosures about discontinued operations	ED (April)		IFRS			
IASB: main standard, replacement of IAS 1 and IAS 7	ED (May)				IFRS	
FASB: reporting comprehensive income	ED (April)			Final		
FASB: disclosures about discontinued operations	ED (April)					
FASB: comprehensive standard	ED (May)				Final	
Other MoU Projects						
Joint ventures: IASB only		IFRS (June)				
Pension accounting: IASB only	ED (April)			IFRS		
Other Joint Projects						
Emissions trading – both FASB and IASB, timing to be determined						
Insurance – both FASB and IASB	ED (June)				Final	