Progress Report on Commitment to Convergence of Accounting Standards and a Single Set of High Quality Global Accounting Standards

24 June 2010

In our November 2009 joint statement (Statement), we, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB), again reaffirmed our commitment to improving International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP) and achieving their convergence. That Statement affirmed June 2011 as the target date for completing the major projects in our Memorandum of Understanding issued in 2006 and updated in 2008 (MoU), described project-specific milestone targets, and acknowledged the need to intensify our standard-setting efforts to meet those targets.

Reflecting our commitment to timely completion of the major MoU projects, we have significantly intensified our interaction. We are now meeting jointly for consecutive days on a monthly basis, either in person or by video. We have called, and will continue to schedule, special joint meetings to address issues requiring timely joint resolution.

In our Statement, we committed to providing transparency and accountability by reporting periodically on our progress. Our first report, dated 31 March 2010 (March 2010 Report), described the progress we had made to date, explained some of the challenges we face in improving and converging our standards in certain areas, and reported changes made to certain project-specific milestone targets.

As noted in our March 2010 Report, we recognise the challenges that arise from seeking effective global stakeholder engagement on a large number of projects. Since publishing that report, stakeholders have voiced concerns about their ability to provide high quality input on the large number of major exposure drafts planned for publication in the second quarter of this year. As described in the joint Statement we issued on 2 June, we have developed a modified work plan to take account of those concerns that would:

- prioritise the major projects in the MoU to permit a sharper focus on the issues and projects for which we believe the need for improvement of both IFRSs and US GAAP is the most urgent.
- phase the publication of exposure drafts and related consultations (such as public round-table meetings) to enable the broad-based and effective stakeholder participation in due process that is critically important to the quality of our standards. We are limiting to four the number of significant or complex exposure drafts issued in any one quarter.

- issue a separate consultation document seeking stakeholder input about effective dates and transition methods.

The modified strategy retains the target completion date of June 2011 or earlier for the MoU projects for which we believe the need for improvement is the most urgent. Projects we believe are a relatively lower priority or for which further research and analysis is necessary are now targeted for completion after the original June 2011 target date.

We are publishing this progress report to provide timely communications about the details of our modified work plan.

Overview of the Modified Strategies and Work Plan

We prioritised the major projects in the MoU to permit a sharper focus on issues and projects that we believe will bring about significant improvement and convergence of IFRSs and US GAAP.

We have made a priority our joint projects on financial instruments, revenue recognition, leases, the presentation of other comprehensive income, and fair value measurement. We decided to issue separate exposure drafts of proposals to address differences in our standards for balance sheet netting of derivative contracts and other financial instruments that can cause significant differences in reporting by financial institutions. The IASB has also made a priority improved disclosures about derecognised assets and other off-balance sheet risks (aligning with recently issued US GAAP requirements), consolidations (particularly in relation to structured entities) and its project on insurance contracts. The target completion dates for these priority projects remains June 2011 or earlier.

We reassessed and revised our strategies for financial statement presentation, financial instruments with characteristics of equity, consolidations, and derecognition.

- In the light of stakeholder feedback received, we decided to engage in additional outreach and analysis before finalising and publishing exposure drafts on financial statement presentation (including issues relating to discontinued operations) and financial instruments with characteristics of equity.
- We believe that our consolidation requirements (including disclosures) relating to entities used as vehicles for securitisation, structured investment, and other similar activities will substantially be converged as a result of our separate, yet co-operative standard-setting projects (the FASB recently amended its consolidation guidance and the IASB will finalise its consolidation project in 2010 as planned). The Appendix describes our plans for improving and converging other aspects of our consolidation standards.

- Our separate but co-operative projects on derecognition reduced the differences between IFRSs and US GAAP in areas highlighted by the recent financial crisis. We decided to focus in the near term on improving and converging disclosure requirements. We will undertake a post-implementation review of our recent changes to evaluate whether further improvements and convergence are necessary.

We are phasing the publication of exposure drafts and related consultations (such as public round-table meetings) to enable the broad-based and effective stakeholder participation in due process that is critically important to the quality of our standards.

We are limiting to four the number of significant or complex exposure drafts issued in any one quarter. This change is intended to address stakeholder concerns about their capacity to respond. It also reduces the number of major proposals we are re-deliberating at the same time, improving our ability to focus on the input received and reconcile differences in views in ways that produce improved and more internationally comparable financial reporting.

We will issue a separate consultation document seeking stakeholder input about effective dates and transition methods.

Completion of our work plan would represent a major change to financial reporting internationally, and we recognise an important role we play in the change management process is establishing reasonable effective dates and transition methods. Through this separate consultation we will gather information to help us establish reasonable effective dates and transition methods for the major MoU projects taken as a whole. Consistent with its present practice, the IASB will consider permitting early adoption of its standards for new adopters of IFRS.

Concluding Comments

Our revised strategies and work plan set targeted completion dates of June 2011 or earlier for those priority projects we believe will bring about significant improvement and convergence of IFRSs and US GAAP.

We believe this revised strategy and work plan would provide a stable platform of standards for those countries adopting IFRSs in 2011 or 2012, while assisting other countries, including Japan and the United States, in their evaluation of the role IFRSs might play in their capital markets. It also is responsive to the call by the G20 leaders in September 2009 that we redouble our efforts to achieve a single set of high quality, global accounting standards within the context of our independent standard-setting processes and complete our convergence project by June 2011.

We recognise that our modified work plan still involves major changes to accounting and financial reporting. Finalising these new standards will require significant effort and focused intensity by both us and our stakeholders. Our

over-arching goal remains arriving at high quality, improved and converged standards developed using robust due process and deliberation. The nature of the comments received on our exposure drafts will determine the extent of the redeliberations necessary and other steps and efforts that will be required to reach this goal.

The Appendix describes our revised strategies, plans, and milestone targets for each project.

Appendix

This Appendix describes our strategies, plans, and milestone targets for the major MoU projects and other joint projects, as of the end of May 2010.

MoU Projects

Consolidations

The 2006 MoU included a joint project to eliminate differences between US GAAP and IFRS consolidation requirements through the development of an improved, common standard.

Differing imperatives arising from the recent financial crisis, however, caused us to adopt different strategies and timetables for improving our standards.

- As part of its comprehensive review of off-balance sheet activities, the IASB published in 2008 an exposure draft of a comprehensive replacement of its consolidation requirements that included a new definition of control of an entity that would apply to a wide range of situations and be more difficult to evade by special structuring. The exposure draft also proposed enhanced disclosures about 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.

- In June 2009, the FASB completed a project that amended and improved US GAAP to address reporting issues in standards for consolidation of variable interest entities (and related disclosures) highlighted by the recent financial crisis.

When those separate standard-setting efforts are completed, US GAAP and IFRS requirements relating to the consolidation of structured investment vehicles and other special purpose entities will substantially converge and related disclosures will align. The boards think these are the aspects of US GAAP and IFRS consolidation guidance for which improvement and convergence should be the highest, near-term priority. Differences will remain, however, between US GAAP and IFRS requirements for consolidation of investment companies and other so-called voting interest entities. In November 2009, the boards agreed that, ideally, their standards for consolidation should include common objectives and principles for assessing control that would be applied consistently for all types of entities and produce globally comparable results. The boards' plan as of March

2009 was to jointly deliberate the issues with the expectation they would produce improved and common final standards in the third quarter of 2010.

By May, after a series of monthly joint meetings, the boards had agreed on common consolidation requirements for investment companies and were well advanced in their plans to expose proposals in this area. However, the boards still had not resolved all matters relating to voting interest entities and, in May, agreed to the following revised strategy that focuses on arriving at timely, improved, and converged standards relating to structured entities, a key risk area identified during the recent financial crisis:

Milestone targets for consolidations	
Q3 2010	The FASB plans to hold a public round-table meeting to discuss the IASB's proposed consolidation standard with US stakeholders.
Q4 2010	The IASB plans to publish an exposure draft of proposed changes to its consolidation requirements relating to investment companies to align with existing US GAAP. The FASB will issue an exposure draft of amendments to US GAAP, as necessary, to achieve fully converged standards relating to investment companies. The IASB expects to finalise and publish its consolidation standard by the end of 2010 (including improved disclosures about structured entities). The standard is expected to result in the same consolidation decisions about structured entities by companies applying IFRSs or US GAAP. The FASB will consider US stakeholder input and decide whether to proceed with an exposure draft that is consistent with the IASB's published requirements (eliminating differences between our standards relating to voting interest entities).
Q2 2011	The boards plan to publish improved and converged standards relating to consolidation of investment companies.

Derecognition

The 2006 MoU also included a project to improve and converge US GAAP and IFRS standards for derecognition.

The boards needed to take separate strategies to improve their standards in response to the recent financial crisis.

- In June 2009, the FASB finalised amended and improved requirements relating to the derecognition of financial assets and liabilities. The changes (in particular, the elimination of the QSPE concept), reduced the differences between IFRSs and US GAAP.

- As part of its comprehensive review of off-balance sheet activities, the IASB added 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 IASB published proposals in 2009 and the responses showed stronger support for the alternative derecognition requirements described in the exposure draft.

As planned previously, the IASB developed more fully the alternative model described in its exposure draft and the boards' discussed it together during several joint meetings. In May, the boards reconsidered their strategies and plans for derecognition in light of:

- their joint discussions of the alternative derecognition model developed by the IASB
- the recent FASB amendments that reduce the differences between IFRSs and US GAAP
- the guidance the IASB received from National Standards-Setters on the largely favourable effects of the IFRS derecognition requirements during the financial crisis.

The boards agreed that their near-term priority should be on increasing the transparency and comparability of their standards by improving and converging US GAAP and IFRS disclosure requirements for financial assets transferred to another entity. The boards also decided to conduct additional research and analysis, including a post-implementation review of the FASB's recently amended requirements, as a basis for assessing the nature and direction of any further efforts to improve or converge IFRSs and US GAAP.

Milestone targets for derecognition	
Q3 2010	The IASB will finalise improved disclosure requirements published in 2009 that are similar to recently amended US GAAP requirements.
2012	The FASB will conclude its post-implementation review of the application of its amended derecognition requirements. The boards will make a decision about the nature and scope of any further improvement and convergence efforts.

Balance Sheet Netting of Derivatives and Other Financial Instruments

In response to stakeholders' concerns (including those of the Basel Committee on Banking Supervision and the Financial Stability Board), the boards decided to jointly issue a separate exposure draft proposing changes to address differences in our 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 boards understand the importance of this issue, which is one of the more significant financial instrument presentation differences between IFRSs and US GAAP.

Milestone targets for netting of derivatives and other financial instruments	
Q4 2010	The boards plan to publish exposure drafts of converged requirements relating to the balance sheet netting of derivative contracts and other financial instruments, and related disclosures.
Q1 2011	The boards plan to hold a public round-table meeting.
Q2 2011	The boards plan to publish improved and converged standards on this topic at the same time that they finalise other changes to their financial instrument standards.

Financial instruments

The 2006 MoU also included a broad project on financial instruments. US GAAP and IFRS requirements differed in numerous ways, and both sets of standards were criticised for their complexity. The recent financial crisis further demonstrated the need for improvements and convergence in this area.

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

Our efforts to improve our requirements and converge them have been complicated by differing 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.

Our broad strategy for addressing those differences remains the same—each board will 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. We will consider together the comment letters and other feedback we receive in an effort to reconcile our differences in ways that foster improvement and convergence. Additionally, our *expert advisory panel* is helping the boards identify and resolve operational aspects of our respective credit impairment models.

In May, the IASB published an exposure draft on the fair value option for financial liabilities and the FASB issued its comprehensive proposal addressing recognition and measurement, impairment, and hedge accounting requirements. In the third quarter of 2010, the IASB plans to publish an exposure draft of proposed hedge accounting requirements.

We expect to begin joint deliberations in the second half of 2010, following a series of FASB public round-tables, in which the IASB will participate. Although we have demonstrated our ability to work together to resolve differences between our views in many projects, we understand the difficulties we face in reconciling our differing views on this project.

In May, we agreed to the following milestone targets for this project:

Milestone targets for financial instruments	
Q3 2010	The IASB will publish proposals on hedge accounting (previously scheduled for Q2 2010).
Q4 2010	The FASB will hold public round-table meetings with stakeholders, in which the IASB also will participate.
Q2 2011	The boards expect to complete their joint consideration of feedback received and finalise and issue new standards (previously scheduled for Q1 2011).

Financial statement presentation—presentation of other comprehensive income

In late 2009, the boards decided to accelerate the portion of their financial statement presentation project that would improve and converge IFRS and US GAAP standards for presentation of items of other comprehensive income. The objective of the separate project is to develop presentation standards that would improve the transparency of reported items of other comprehensive income and make it easier to compare income statements prepared using IFRSs or US GAAP.

The boards published exposure drafts in May so that stakeholders could evaluate the proposed presentation requirements at the same time that they consider exposure drafts on financial instruments (FASB and IASB) and pensions (IASB) that would require additional items be reported in other comprehensive income. The proposed presentation requirements would, however, apply to all items of other comprehensive income.

Milestone targets for financial statement presentation of other comprehensive income	
Q4 2010	The IASB and FASB aim to finalise improved and converged standards.

Financial statement presentation—main project

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 implemented the decisions reached in the first phase of this project into IFRSs. Accordingly, a future FASB exposure draft 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. The boards actively reconsidered the discussion paper proposals in the light of the comments received, the results of their other outreach activities with preparers and users, and academic research assessing the utility of certain proposals from a user perspective.

Through comment letters on the discussion paper, discussions with the boards' respective advisory councils, and other constituent outreach, preparers

communicated to both boards their concerns about whether the benefits of the proposed changes justify the expected implementation costs, which could be significant. Because this project will shape the presentation of financial information for many years to come, the boards decided in May to modify their strategies and work plan to ensure this important project has the best possible outcome.

In particular, the boards decided to engage in additional outreach activities before finalising and publishing an exposure draft. Those outreach activities will focus primarily on two issues: (1) the perceived benefits and costs of the proposals and (2) the implications of the proposals for financial reporting by financial institutions. After completing those outreach activities, the boards will consider whether to change any of their tentative decisions in response to the input received.

The following are the revised milestone targets for this project:

Milestone targets for financial statement presentation—main project	
Q3 2010	The IASB and FASB expect to post to their websites a staff draft of proposed standards that reflect tentative decisions made to date, as a basis for extended stakeholder outreach activities.
Q4 2010	The boards and staff will complete their extended stakeholder outreach programmes.
Q1 2011	The IASB and FASB plan to publish an exposure draft of a comprehensive standard.
Q3 2011	The boards plan to hold public round-table meetings.
Q4 2011	The IASB and FASB aim to issue improved and converged standards.

Financial statement presentation—discontinued operations

As of November 2009, the boards had decided to accelerate the portion of the financial presentation project to eliminate differences between the IFRS and US GAAP definitions of discontinued operations and related disclosures and, as of March 2010, had agreed on converged requirements.

In May, the boards decided to align the project timetable with the main financial statement presentation project.

Milestone targets for financial statement presentation of discontinued operations	
Q1 2011	The IASB and FASB plan to publish an exposure draft of a converged definition of discontinued operations and related disclosures.
Q4 2011	The IASB and FASB aim to issue improved and converged standards.

Financial instruments with characteristics of equity

Existing IFRS and US GAAP requirements are similar in many respects but also differ in certain respects, such as the accounting for convertible debt. Moreover, some aspects of the current IFRS and US GAAP requirements have been criticised for their complexity or inconsistency. As a result, the IASB and FASB decided to include in the 2006 MoU a joint project 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.

By early 2010, the boards had jointly developed a proposed standard using existing IFRSs as a starting point. External stakeholders that reviewed a staff draft of that proposal raised concerns about the meaning, enforceability, and internal consistency of some of the proposed requirements. In May, the boards decided that more time was required to work through these concerns and to consider whether clarifications or other changes are required, particularly its likely affect for those applying US GAAP. Accordingly, the boards agreed to the following modified milestone targets for this project:

Milestone targets for financial instruments with characteristics of equity	
Q1 2011	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.
Q3 2011	The boards plan to hold public round-table meetings.
Q4 2011	The boards expect to issue improved and converged standards.

Leases

The boards included a leases project in the 2006 MoU because their highly similar standards are in significant need of improvement. The objective of this project is to develop common lease accounting requirements that would improve financial reporting by ensuring that all assets and liabilities arising from lease contracts are recognised in the statement of financial position. The project will provide accounting standards for both a lessor and a lessee.

Consistent with their decision last March, the boards have been exploring two different approaches to the accounting by lessors. As a result of the time taken for those deliberations, the expected publication date for an exposure draft has moved to early third quarter of 2010.

Milestone targets for leases	
Q3 2010	The IASB and FASB will publish exposure drafts proposing the accounting for leases, from the perspective of the lessor and the lessee.
Q4 2010	The boards plan to hold public round-table meetings.
Q2 2011	The IASB and FASB aim to issue improved and converged standards.

Fair value measurement

The objective of this project is to develop a converged definition of fair value and common implementation guidance, such as guidance on measuring fair value when markets are illiquid. Achieving convergence of the definition of fair value is necessary to achieving full convergence of any standards that require a fair value measure. The boards' goal is to express the definition and related implementation guidance using common language.

The converged fair value measurement requirements will apply whenever US GAAP or IFRS requires a fair value measurement; they will not change existing US GAAP or IFRS requirements that determine when a fair value measure is required.

The FASB issued Statement No. 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 May, the boards affirmed their previously established milestone targets for this project:

Milestone targets for fair value measurement	
Q2 2010	The FASB plans to issue an exposure draft of minor amendments to its fair value definition and related implementation guidance to achieve convergence with the proposed IFRS. The IASB also plans to re-expose one matter related to disclosure to gather additional stakeholder input.
Q1 2011	The boards plan to issue final, converged standards.

Revenue Recognition

The boards included revenue recognition in the 2006 MoU to develop a single, common revenue recognition model that can be applied to a wide range of industries and transaction types. US GAAP often is criticised for its complexity; it includes many industry-specific revenue recognition requirements that require different accounting treatments for economically similar arrangements. IFRSs are perceived as lacking necessary application guidance. The standards resulting from this project would 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 or 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.

In May, the boards affirmed their milestone targets for this project:

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.
Q4 2010	The boards will hold public round-table meetings.
Q2 2011	The IASB and FASB aim to issue improved and converged standards.

Post-employment benefits

In April 2010 the IASB published an exposure draft of proposed amendments that, like recent amendments of US GAAP, would improve reporting by eliminating provisions that permit off-balance sheet reporting of post-employment

benefit obligations. Comments are due in September 2010 and the IASB expects to publish a revised standard in the first quarter of 2011.

Other Joint Projects

Insurance Contracts

The IASB has had a major insurance contracts project on its agenda for many years. That project is important because IFRSs currently lacks specific accounting requirements for insurance contracts. In 2007, the IASB published 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 contracts to its agenda and the boards agreed to undertake it jointly. The boards began discussing the project together in 2009 and, to date, have reached different conclusions on several important technical issues.

The IASB plans to publish an exposure draft in the third quarter of 2010 (July). In the light of their differing views, the FASB plans to decide in July the best means for obtaining stakeholder input on the IASB proposal (for example, by publishing it as an exposure draft or in some other way).

Emissions Trading Schemes

Both boards understand the importance of **emissions trading schemes** as a mechanism to help manage carbon dioxide emissions. The financial reporting consequences of the many different allocation and trading systems will become increasingly important as more and more countries adopt them.

In May, the boards agreed that other MoU projects had a higher priority. The boards now expect to publish an exposure draft together in the second half of 2011 with the aim of issuing converged standards in 2012.