BOARD DECISIONS ON INTERNATIONAL FINANCIAL REPORTING STANDARDS

IASB

UPDATE

February 2008

IASB Update *is published as a convenience for the Board's constituents. All conclusions reported are tentative and may be changed or modified at future Board meetings.*

Decisions become final only after completion of a formal ballot to issue a Standard or Interpretation or to publish an Exposure Draft.

The International Accounting Standards Board met in London on 18 – 22 February, when it discussed:

- Annual improvements
- IAS 19 *Employee Benefits*
- Conceptual framework
- Liabilities: amendments to IAS 37
- Liabilities and equity
- Insurance contracts

Annual improvements

The Board discussed

- a summary of a preliminary analysis of comments received on the exposure draft of proposed improvements to IFRSs
- the project plan for redeliberations.

The Board also discussed general comments received on the project, including the need to reconsider the scope of proposed amendments for inclusion, early adoption and transitional provisions, consequential amendments, and due process for future improvements projects. The Board will consider early adoption and transitional provisions standard by standard as it deliberates the specific amendments. The Board will consider the scope and due process for future improvements projects after the publication of the first set of finalised improvements.

Noting the large number of proposed amendments and comments received, the Board approved the project plan and a timetable for publication in May 2008. To keep to this timetable, the Board will exclude the following proposals from its current redeliberations:

- Restructuring of IFRS 1
- Statement of compliance with IFRSs (IAS 1)
- Current/non-current classification of convertible instruments (IAS 1)
- Classification of leases of land and buildings (IAS 17)
- Contingent rent (IAS 17)
- Definition of derivatives (IAS 39)
- Treating loan prepayment penalties as closely related embedded derivatives (IAS 39)

The Board will issue the amended IFRS 1 as a single stand-alone standard, separately from the other improvements. Redeliberations of the other excluded proposals will be deferred until after the other proposed amendments are issued, either because a significant amount of staff work remains that cannot be completed in time or because the Board may consider treating them separately from the annual improvements project.

The Board reaffirmed 16 of the proposed amendments without redeliberation; all had either received broad support subject to minor changes or had attracted little or no comment. These proposed amendments are:

- Dividends declared after the end of the reporting period (IAS 10)
- Recoverable amount (IAS 16)
- Cost of originating a loan (IAS 18)
- Plan administration costs (IAS 19)
- Guidance on contingent liabilities (IAS 19)
- Consistency of terminology with other IFRSs (IAS 20)
- Consistency of terminology with other IFRSs (IAS 29)
- Earnings per share disclosure in interim financial reports (IAS 34)
- Definition of a financial instrument classified as held for trading (IAS 39)
- Reclassification into or out of the fair value through profit or loss category (IAS 39)
- Designating and documenting hedges at the segment level (IAS 39)
- Applicable effective interest rate on cessation of fair value hedge accounting (IAS 39)
- Consistency of terminology with IAS 8 (IAS 40)
- Investment property held under a lease (IAS 40)
- Discount rate for fair value calculations (IAS 41)
- Examples of agricultural produce and products (IAS 41)

The Board also redeliberated eight of the other proposals and tentatively decided to issue final amendments, subject to additional drafting changes, as summarised below. The Board will review the comment analysis for the remaining ten proposals at the March Board meeting.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – Plan to sell the controlling interest in a subsidiary

The Board tentatively decided:

- to add a paragraph in the section 'Presenting discontinued operations' that would require the parent to disclose information for discontinued operations when the subsidiary to be disposed of meets the definition of a discontinued operation in accordance with IFRS 5;
- to clarify in the amendment that the criteria for classification as held for sale in paragraphs 6□8 of IFRS 5 need to be met;
- to align the effective date of the amendments to IFRS 5 with that of the January 2008 amendment to IAS 27.

Copyright © IASB *Update* is published after every IASB meeting by the IASC Foundation, Publications Department, 30 Cannon Street, London EC4M 6XH United Kingdom
Tel: +44 (0)20 7332 2730
Fax: +44 (0)20 7332 2749
Website: www.iasb.org
Email: publications@iasb.org
ISSN 1474-2675

Text printed on 55 per cent recycled paper

IAS 16 *Property, Plant and Equipment* – Sale of assets held for rental

The Board tentatively decided to clarify that IFRS 5 does not apply when assets are transferred to inventories which are held for sale in the ordinary course of business.

IAS 19 *Employee Benefits* – Curtailments and negative past service cost

The Board tentatively decided to amend its proposals on the distinction between a curtailment and negative past service cost to clarify that a change in the extent to which benefit promises are affected by future salary increases is a curtailment. In addition, IAS 19 will be amended to clarify that a negative past service cost occurs when there is a reduction in the present value of the defined benefit obligation.

The Board also tentatively decided that the amendments will apply to changes to benefit promises made on or after the effective date of the final amendment.

IAS 19 *Employee Benefits* – Replacement of term 'fall due'

The Board amended its proposals on the distinction between short-term and long-term benefits to clarify that the distinction is determined by whether the employee benefits are due to be settled within twelve months after the end of the period in which the employee renders the related service.

IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures* – Required disclosures when investments in associates or interests in jointly controlled entities are accounted for at fair value through profit and loss

The Board tentatively decided to explain in the basis for conclusions the reason for limiting the disclosures to those in paragraph 37(f) of IAS 28 and paragraphs 55 and 56 of IAS 31, in addition to the disclosures required by IFRS 7 *Financial Instruments: Disclosures* and IAS 32 *Financial Instruments: Presentation.*

IAS 28 *Investments in Associates* – Impairment of investment in associate

The Board tentatively decided to explain in the basis for conclusions why, after applying the equity method, any additional impairment recorded by the investor with respect to its investment in an associate should not be allocated to any assets, including goodwill, that constitute the carrying amount of the investment. The Board also affirmed the proposal to require such an impairment loss to be subsequently reversed to the extent that the recoverable amount of the investment increases.

IAS 38 *Intangible Assets* – Advertising and promotional activities

The proposed amendment to IAS 38 would require an entity to recognise an expense in respect of advertising and promotional activities when it receives services or, in the case of a supply of goods, when it receives access to those goods. The Board tentatively decided:

- to modify the proposed change to require that, in the case of a supply of goods, an entity should recognise an expense when it has the right to access those goods.
- to add an explanatory paragraph to IAS 38 stating that when an expense should be recognised depends on the terms of the contract to supply the related goods or services:

    - in the case of services, the entity recognises the expense as the services are performed in accordance with the terms of the contract.

    - in the case of goods, a right to access is received when the goods have been completed by the supplier in accordance with the terms of the contract and have been made available to the entity.
- to explain in the basis for conclusions that one reason why advertising and promotional material cannot be recognised as an asset is that it has no alternative use. Thus, stationery to be used for advertising may be recognised as an asset until such time as it is printed on, at which point it no longer has an alternative use.
- to state that catalogues are a form of advertising.

IAS 40 *Investment Property* – Treatment of investment property under construction

Some respondents had observed that, if entities were unable to measure reliably the fair value of an item of investment property under construction, including it within the scope of IAS 40 might result in the investment property being required to be carried at cost even after construction was completed.

The Board tentatively decided that, in addition to including within the scope of IAS 40 investment property under construction, it would amend IAS 40 to state that, if an entity has a policy of measuring investment property at fair value and is unable to determine reliably the fair value of an item of investment property under construction then it may use cost as a proxy for fair value until such time as construction is complete. The change will be applied prospectively except to the extent that fair values have previously been determined for investment property under construction.

IAS 19 *Employee Benefits*

The Board discussed some sweep issues on the measurement of the liability for contribution-based promises arising from the review of a draft of the Discussion Paper on Amendments to IAS 19. The Board decided to describe the measurement attribute for contribution-based promises as fair value assuming the terms of the benefit promise do not change. This measure would:

- include credit risk; and
- exclude the possibility that the entity might reduce the terms of the benefits for past service.

The Board noted that the European Financial Reporting Advisory Group and the United Kingdom Accounting Standards Board recently published a discussion paper The Financial Reporting of Pensions. The Board will invite constituents to comment on whether there any issues addressed in that discussion paper that the IASB should address in its project.

Conceptual framework

The Board discussed three issues that arose during the review of the pre-ballot draft of the forthcoming Exposure Draft on the objectives of financial reporting and qualitative characteristics of financial information. They are:

- How to address constituents' concerns about the potential implications for the reporting entity phase and other phases of the project of selecting the entity perspective in developing the objective of financial reporting. Board members affirmed their agreement with the conclusion that general purpose financial reporting is directed at the reporting by an entity to its capital providers rather than reporting from the perspective of a particular class of capital providers. The Board noted, however, that some constituents have expressed the view that they have not been given a sufficient opportunity to debate the merits of the so-called proprietary perspective. The staff will prepare an analysis of the implications of selecting the entity perspective, which will be presented to the Board at a later date.
- Whether to use the term 'accuracy' or the term 'free from error' to describe a component of faithful representation. The Board expressed its preference for the term 'free from material error', which is not new to IASB constituents. Board members noted that the use of the term 'accuracy' has translation difficulties in some languages and also may not clearly convey the Board's intention.
- How to strengthen the discussion of comparability in the conceptual framework. The Board affirmed the conclusion that comparability is an enhancing characteristic and provided suggestions for stressing the importance of comparability.

Liabilities – amendments to IAS 37

The Board considered two issues arising from comments received on the Exposure Draft of proposed amendments to IAS 37.

Measurement of liabilities

The Exposure Draft proposed that an entity should measure a liability at the amount the entity would rationally pay to settle the present obligation or to transfer it to a third party on the balance sheet date.
The Board considered suggestions for clarifying this requirement. It tentatively decided:

- To clarify that 'settle' means settle by paying the counterparty at the balance sheet date;
- To clarify that, if the amount the entity would have to pay to settle the obligation is different from the amount it would have to pay to transfer the obligation to a third party, the amount that it would rationally pay is the lower of these two amounts;

The Board noted that there is not a market for most liabilities within the scope of IAS 37 and hence entities would have to estimate the amount that a third party would demand to take over an obligation. The Board tentatively decided to emphasise that, in such circumstances, the calculations (a) should assume the third party has the same information as the entity about the obligation and (b) would be based on the entity's own estimates of the future cash flows required to discharge the obligation (adjusted if there is evidence that a third party's cash flows would be different).

The Board tentatively decided not to give further guidance in IAS 37 about the risks that should be taken into account when applying a risk adjustment to the expected cash flows.

Probability recognition criterion

At present, IAS 37 requires entities to recognise liabilities only if it is probable that an outflow of economic benefits will be required to settle them. The Exposure Draft proposed to remove this aspect of the recognition criteria.

The Board considered views from some respondents that the criterion should be retained because it is a practical means of identifying—and avoiding the need to recognise—liabilities for which the costs of recognition exceed the benefits to users. The Board rejected these arguments and confirmed its previous decision to remove the criterion.

Liabilities and equity

Liabilities and Equity is a modified joint project on which the FASB has taken the lead for the research stage. In November 2007 the FASB published a Preliminary Views document Financial Instruments with Characteristics of Equity.

Their Memorandum of Understanding commits the IASB and the FASB to publish a due process document on liabilities and equity. To meet this commitment, the Board tentatively decided that an IASB discussion paper on liabilities and equity should contain an IASB Invitation to Comment and the FASB Preliminary Views document.

In January, the Board discussed a staff draft of the discussion paper and asked the staff to prepare a ballot draft. At this meeting, the Board decided that the discussion paper should alert readers to another discussion paper Distinguishing between Liabilities and Equity published in January 2008 by the European Financial Reporting Advisory Group (EFRAG) on behalf of the Pro-active Accounting Activities in Europe (PAAinE). The Board expects to publish its discussion paper in the next few weeks.

Insurance contracts

The staff presented:

- a high-level overview of responses to the discussion paper *Preliminary Views on Insurance Contracts*.
- an overview of two issues identified in many of the responses:
  (a) Is the objective to account for insurance contracts as a whole, or to account for the separate rights and obligations that the contracts create?

  (b) Should the measurement of insurance liabilities incorporate the notion of settlement with the policyholder over the life of the contract?

  The discussion of these issues was exploratory and no decisions were made.
- a preliminary project plan.

The Board's Insurance Working Group (IWG) meets on 1 and 2 April 2008 in London. The meeting is open to members of the public who register in advance through the IASB's Website www.iasb.org. The Board decided not to hold public round-table meetings at this stage of the project, noting that the IWG's members supply input from a wide range of perspectives.

Future Board meetings

The Board will meet in public session on the fo
Meetings take place in London, UK, unless oth

2008

10—14 March

14—18 April

21—22 April (joint with FASB)

19—23 May

16—20 June

21—25 July

15—19 September

13—17 October

20—22 October (joint with FASB), Norwalk, Cc

17—21 November

15—19 December

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) 2008

The only *official* printed edition of the consolidated text of the IASB's authoritative pronouncements

This edition presents in a single volume the latest version of International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), IFRIC and SIC Interpretations and the supporting documents–application guidance, illustrative examples, implementation guidance, bases for conclusions and dissenting opinions–as approved for issue by the IASB at 1 January 2008.

The main changes in this 2008 edition of the Bound Volume include:

- a revised IAS 1 *Presentation of Financial Statements*;
- a revised IFRS 3 *Business Combinations*;
- a revised IAS 23 *Borrowing Costs*;
- an amended IAS 27 *Consolidated and Separate Financial Statements*;
- two new Interpretations – IFRIC 13 *Customer Loyalty Programmes* and IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*;
- amendments to IFRS 2 *Share-based Payment*;
- amendments to other IFRSs resulting from these pronouncements; and
- the *IFRIC Due Process Handbook*.

The volume also includes the IASC Foundation Constitution, the IASB Framework for the Preparation and Presentation of Financial Statements, the Preface to International Financial Reporting Standards, the Due Process Handbook for the IASB, an updated Glossary of Terms, and a comprehensive Index.

To find out more visit the bookshop at www.iasb.org

Publication Date: March 2008
ISBN: 978-1-905590-54-4
Product Code: 10118
Price: £60 *(plus shipping)*

International Accounting Standards Board®

