

*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 11 – 14 December, when it discussed:

- Agenda proposals
- Technical plan
- Annual improvements process
- Fair value measurements
- Revenue recognition
- IAS 37 redeliberations
- Conceptual framework
- Preface to International Financial Reporting Standards
- Post-employment benefits
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- Derecognising assets and liabilities
- Puttable financial instruments and obligations arising on liquidation
- Liabilities and Equity

## Agenda proposals

The Board discussed the following agenda proposals:

### *Intangible assets*

The Board decided not to add a project on intangible assets to its active agenda. The Board acknowledged the importance of addressing the accounting issues relating to intangible assets, noting concerns with current requirements that lead to inconsistent treatments for particular types of intangible assets depending on how they arise. However, the Board noted that properly addressing the accounting for intangible assets would impose a large demand on the Board's limited resources. Instead, the Board expressed a desire that the research work begun as part of the development of the agenda proposal should continue until the Board could consider it again for addition to the active agenda. Consideration will now be given to determining the scope and a

process for continuing such research work.

### *Emission trading schemes*

The Board decided to activate work on its Emissions Trading Schemes project. There has been a void in authoritative guidance in this area since the withdrawal of IFRIC 3 *Emission Rights* and it appears that considerable diversity in practice has arisen. The Board observed that the topic is of international relevance, with many jurisdictions implementing or discussing emissions trading schemes. The Board has received requests from several national standard-setters to address the topic. In addition, the FASB has added an Emissions Allowances project to its agenda, providing the boards with an opportunity to co-ordinate their efforts in this area. The Board decided to limit the scope of the project to the issues that arise in accounting for emissions trading schemes, rather than addressing broadly the accounting for all government grants (which would have involved activating the project to amend IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*).

### *Common control transactions*

The Board decided to add to its active agenda a project on common control transactions. Business combinations involving entities or businesses under common control are excluded from the scope of IFRS 3 *Business Combinations*. As a consequence, practice diverges on the accounting for those transactions in the acquirer's consolidated and separate financial statements. The project on common control transactions will examine the definition of a business combination involving entities or businesses under common control and the methods of accounting for those transactions in the acquirer's consolidated and separate financial statements. The Board observed that similar issues arise with respect to the accounting for demergers, such as the spin-off of a subsidiary or business. Therefore, the Board decided to include demergers in the scope of the project.

### *Management commentary*

The Board voted to move the management commentary project from its research agenda to its active agenda. The need for this narrative report stems from the increased complexity of both the global business environment and the transactions that underpin the financial statements.

The Board decided that work on the project should result in the production of a guidance document based on the *Management Commentary* discussion paper issued in October 2005. The document would describe useful approaches to management commentary but would not be part of the suite of mandatory provisions of IFRS. Deliberations will include consideration of respondents' comments on the discussion paper, the interaction of management commentary with the Conceptual Framework project and how the IASB's due process applies to the production of a guidance document. Making the output a guidance document should allow the Board an opportunity to publish management commentary guidance in the near term.

## Technical plan

The Board made its quarterly review of its Technical Plan. The Plan sets out the expected timetable over the next 18-24 months for projects on the IASB's active agenda. The Board publishes the revised timetable on its Website following each review. Updated project summaries are available on the IASB Website at: <http://www.iasb.org/Current+Projects>

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## Annual improvements process

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The Board discussed four issues for the annual improvements process. This process is intended to eliminate inconsistencies between standards and to clarify wording. Proposed amendments to IFRSs resulting from this process are accumulated and published in a single exposure draft each year. The first exposure draft of proposed improvements was published in October.

### Disclosure requirements of segment assets

The Basis for Conclusions to IFRS 8 *Operating Segments* (BC35) states the reasons for the Board's decision to require a measure of segment profit or loss and segment assets to be disclosed, regardless of whether those measures are reviewed by the chief operating decision maker. One reason given is that the Board thought that doing so would converge with US GAAP. However, some read this as contradicting a long-standing interpretation in the US and as creating an unintended difference from existing US practice.

The Board reconsidered the reasons documented in BC35, and discussed the interaction between the disclosure and measurement requirements in the IFRS (paragraphs 23 and 25). The Board noted that there could be cases when giving no disclosure of segment assets would be in accordance with the IFRS. Although no changes to the IFRS would be necessary, the Board directed the staff to amend BC35 and to publicise this amendment through the next annual improvements process.

### Application of IAS 39

The Board considered three issues related to IAS 39 *Financial Instruments: Recognition and Measurement*.

1. Scope of paragraph 11A of IAS 39 – Application of the fair value option
2. Application of paragraph AG33(d)(iii) – Bifurcation of embedded foreign currency derivatives
3. Hedge accounting issues

#### Fair value option

Paragraph 11A of IAS 39 specifies that if a contract contains one or more embedded derivatives, subject to requirements in paragraph 11A(a) and (b), an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss.

The IFRIC asked the Board to clarify the wording of paragraph 11A to eliminate diversity in practice. Some entities have applied paragraph 11A to particular contracts that are not within the scope of IAS 39 but also contain embedded derivatives. The Board decided to replace the term 'contract' with the term 'financial instrument in the scope of IAS 39' to clarify that paragraph 11A applies only to financial instruments in the scope of IAS 39 that contain embedded derivatives.

#### Foreign currency embedded derivatives

Paragraph AG33(d)(iii) of IAS 39 specifies that a foreign currency derivative embedded in a non-financial or insurance contract that requires payment in a currency that is commonly used in non-financial contracts in the economic environment in which the transaction takes place should not be separated and accounted for as a derivative in accordance with IAS 39.

The IFRIC asked the Board to clarify the wording of paragraph AG33(d)(iii) to eliminate uncertainty about how to apply that paragraph.

The Board noted that paragraph AG33(d) is intended to prohibit the separation of embedded foreign currency derivatives if the embedded derivatives are integral to the contractual arrangement.

The Board noted that embedded foreign currency derivatives are likely to be integral to the contractual arrangement if the foreign currency has one or more of the characteristics of a functional currency as set out in paragraph 9 of IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Accordingly, the Board decided to amend paragraph AG33(d)(iii) to refer to a currency that has one or more of the characteristics of a functional currency as set out in paragraph 9.

#### Cash flow hedges and reclassification of gains or losses

If a hedge of a forecast transaction results in the recognition of a financial asset or financial liability, paragraph 97 of IAS 39 requires gains or losses on the hedging instrument to be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

The Board has been informed that there is uncertainty how paragraph 97 should be applied if the designated hedged cash flows differ from the financial instrument subsequently recognised.

For example, an entity hedges the effects of interest rate changes on cash flows scheduled to occur in 3 months time, for a period of 3 months. However, the financial instrument arising from the hedged cash flows is a 5 year interest bearing instrument, which will affect profit or loss for 5 years. There is uncertainty as to whether the gains or losses should be reclassified over 3 months (the period for which the cash flows were hedged) or 5 years (the period during which the financial instrument acquired or assumed affects profit or loss).

The Board decided to amend paragraph 97 of IAS 39 to clarify that the gains or losses on the hedging instrument should be reclassified from equity to profit or loss in the period or periods that the hedged cash flows affect profit or loss. The Board also decided to amend paragraph 100 of IAS 39 to be consistent with paragraph 97 and to avoid similar confusion.

## Fair value measurements

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The Board began to discuss the market participant view in the FASB's SFAS 157 *Fair Value Measurements* and compared it with the concept of 'knowledgeable, willing parties in an arm's length transaction' in IFRSs. The Board decided that it was premature to reach a conclusion on the market participant view before considering cross-cutting issues. Because of the interaction between the topics to be deliberated, the Board will next discuss the fair value measurement project in March or April 2008 when it will consider a number of interrelated topics.

## Revenue recognition

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At its meeting in November, the Board began considering one of the two revenue recognition models that have been developed over the past year by the staff and a group of board members (drawn from both the IASB and FASB).

In that model, an entity would recognise the contract asset or liability that arises directly from the rights and obligations in an enforceable contract with a customer. It would measure that contract asset or liability at its current exit price. This is the price that a market participant would pay (or require) to obtain (or assume) the remaining rights and obligations in the contract. The contract asset or liability would be measured this way at inception and subsequently.

At this meeting, the Board considered how changes in the contract asset or liability should be presented in profit or loss. In particular, it considered whether the change in the carrying amount of a contract asset or liability arising from a change in the exit price of an underlying performance obligation should be presented separately from the change in the contract asset or liability arising from satisfying that obligation. It also considered various ways in which those changes could be presented separately.

The Board also considered whether, and if so how, the contract-based model summarised above should be extended in particular circumstances to capture a set of assets and liabilities broader than only those arising directly from the rights and obligations in the contract. In particular, it discussed whether production under contract could give rise to revenue or another component of comprehensive income.

The full description of the model was included in the observer notes for the meeting, available on the Website.

The meeting was educational and no decisions were made.

## IAS 37 redeliberations

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The Board resumed its consideration of the proposed amendments to IAS 37 in the light of responses to the exposure draft. At this meeting it discussed amendments to clarify the existing measurement requirements.

The Board considered concerns from respondents that the proposed amendments would change, but not clarify, the existing requirements. The Board acknowledged that IAS 37 is applied inconsistently but concluded that this is because the requirements are not clearly expressed and are misunderstood. It tentatively decided that the Basis for Conclusions on the revised standard should explain more fully how the proposed requirements derive from the existing ones.

The Board also discussed why it believes that the proposed measurement basis—ie the amount that an entity would rationally pay to settle an obligation or to transfer it to a third party at the measurement date—provides relevant and reliable information about liabilities within the scope of IAS 37. Lastly, the Board considered concerns that the proposed requirements remain unclear because they refer to both the amount to settle an obligation and the amount to transfer it to a third party. Constituents had pointed out that it is not clear whether there is a difference between the settlement amount and the transfer amount and, if so, whether entities have a free choice between the two different measurements. The Board will consider this question further, with view to clarifying this requirement in the revised standard.

## Conceptual framework

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The Board resumed its consideration of the interaction between Chapters 1 and 2 of the new framework and the existing *Framework* until the entire new framework is completed. The Board focused on issues arising from the proposal to replace the term ‘reliability’ with ‘faithful representation’. The Board noted potential implications of withdrawing guidance on how to apply ‘reliability’. Therefore, the Board decided that a rubric to the new framework should inform readers about the publication of Chapters 1 and 2 and the paragraphs that were superseded. In addition, a footnote will be added to carry forward the definition of the term ‘reliability’ when it first appears in the new framework.

### Elements: definition of a liability

The Board considered whether to modify its approach to developing a definition of a liability to align it more closely with alternatives being considered in the Board’s research project on liabilities and equity. That research project is expected to result in the publication of an IASB discussion paper accompanying the FASB’s recently released *Preliminary Views on Financial Instruments with Characteristics of Equity*. The Board considered an approach that would initially focus on defining the broader class of items that would be candidates for inclusion in a statement of financial position as either liabilities or equity, and subsequently subdivide that broader class into those items that constitute liabilities and those that constitute equity. The Board confirmed its intention to continue with an approach that converges and improves the definition of a liability, on the basis of its previous decisions to converge on and improve the definition of an asset.

The Board tentatively decided that the IASB and FASB definitions of a liability should converge by focusing on defining a liability as an economic obligation, rather than as probable future sacrifices; and should be improved by:

- removing the assessment of likelihood; and
- replacing references to past transactions or other events by a focus on the present.

Also, the Board tentatively decided that essential attributes of an enforceable obligation include the involvement of a separate party and the existence of a mechanism that is capable of forcing an entity to take a specified course of action.

The Board suggested additional examples against which to test the working definition of a liability, for consideration at a future meeting. Future discussions also will consider how to deal with uncertainty about whether a liability exists, whether it is the entity’s liability, and the interaction of a working definition of a liability with potential definitions of equity.

## Preface to International Financial Reporting Standards

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The Board approved consequential amendments to the *Preface* to reflect the amendment of the IASC Foundation’s Constitution, approved by the Trustees in October 2007, to enlarge the IFRIC from 12 to 14 members.

## Post-employment benefits

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The Board discussed sweep issues arising from its review of a draft of its discussion paper on post-employment benefits. The Board tentatively decided:

- (a) to retain the preliminary view that promises with a contribution element and a guaranteed fixed return should meet the definition of a contribution-based promise.
- (b) to add a preliminary view that promises of a known regular fixed amount after retirement are contribution-based promises.
- (c) to retain the preliminary view that defined contribution plans as currently defined in IAS 19 meet the definition of contribution-based promises.
- (d) to include more discussion about its preliminary views on the disaggregation and presentation for contribution-based promises. This would include discussion of the differences in presentation between contribution-based and defined benefit promises that result from those preliminary views and a question in the Invitation to Comment on these matters.
- (e) to retain its preliminary view that there should be no expected return on plan assets.
- (f) to expand the discussion on the imputed interest income approach in its discussion of presentation approaches for defined benefit promises.

The Board confirmed that it would proceed to publish the discussion paper.

## IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

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### Whether IFRS 5 should be applied to non-current assets that are held for distribution to owners

The Board discussed a proposal by the IFRIC for the Board to amend IFRS 5 so that its requirements would be applied to non-current assets held for distribution to owners as well as to assets held for sale.

The IFRIC concluded that, because the carrying amounts of the assets will no longer be recovered principally through use when an entity has an obligation to distribute the assets, the information required by IFRS 5 is important to users of the financial statements regardless of the method of disposal.

The IFRIC recommended that the proposed amendments to IFRS 5 should be included in the draft Interpretation *Distributions of Non-cash Assets to Owners* so that respondents could comment on all the proposals together.

The Board agreed with the IFRIC's conclusion that IFRS 5 should be amended. However, the Board noted that IFRS 5 requires an entity to classify a non-current asset as held for sale when the sale is highly probable and the entity is committed to a plan to sell. Consequently, instead of including the proposed amendments to IFRS 5 in the draft Interpretation, the Board directed the staff to include in the Invitation to Comment on the draft Interpretation questions about when an entity should apply the requirements in IFRS 5, ie should an entity apply IFRS 5 when it is committed to make a distribution or when it has an obligation to distribute the assets? If the former, what should be the indicators of commitment?

## Derecognising assets and liabilities

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The Memorandum of Understanding states that the boards expect to publish by 2008 a due process document on derecognition based on the results of staff research. In October the staff conducted an education session for the boards at a joint meeting on the core conclusions of their research.

At this meeting the Board discussed two views on linked presentation, which is when financial assets and financial liabilities could be presented together in the financial statements. No decisions were made.

## Puttable financial instruments and obligations arising on liquidation

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The Board published the exposure draft *Financial Instruments Puttable at Fair Value and Obligations arising on Liquidation* in June 2006. The comment period ended in October 2006. An analysis of the 87 comment letters received was presented to the Board in January 2007. Since then the Board has deliberated issues raised by respondents. In November 2007 the Board held two public round-table discussions to consider a staff draft of the proposed amendments.

At this meeting, the Board discussed a draft of the proposed amendments to clarify issues raised at the round-table discussions. The Board asked the staff to prepare a ballot draft of the proposed amendments. The Board also decided to publish a near-final draft of the proposed amendments on the subscriber area of the IASB Website.

## Liabilities and Equity

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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 issued a Preliminary Views document *Financial Instruments with Characteristics of Equity*.

In terms of the Memorandum of Understanding between the IASB and the FASB, the boards have committed to issue a due process document on liabilities and equity. To meet this commitment, the Board decided that an IASB discussion paper on liabilities and equity should contain an IASB Invitation to Comment and the FASB document. The Invitation to Comment will include background information relevant to IFRSs, the main differences between the approaches discussed in the FASB document and IFRS requirements, and any necessary additional questions for constituents. The Board expects to publish the discussion paper in the first quarter of 2008.

Also at this meeting, representatives from the FASB held an education session on the FASB document. No decisions were made.

### **Future Board meetings**

The Board will meet in public session on the following dates. Meetings take place in London, UK, unless otherwise noted.

#### **2008**

21—25 January

18—22 February

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, Connecticut, USA

17—21 November

15—19 December