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Decisions become final only after completion of a formal ballot to issue a Statement, Interpretation, or Exposure Draft.

The International Accounting Standards Board met in London on 24 – 25 January, when it discussed:

- Business Combinations II
- Financial Instruments and Insurance working groups: update
- Short-term convergence: borrowing costs
- Performance reporting
- Accounting standards for small and medium-sized entities
- Earnings per share
- Update on IFRIC activities

Business Combinations II

The Board discussed a strategy for redeliberating the proposed revised IFRS 3 *Business Combinations* and the proposed amendments to IAS 27 *Consolidated and Separate Financial Statements*, prepared jointly by staff of the IASB and the FASB. The staff informed the Board that the FASB was also discussing the strategy for redeliberating its exposure drafts, Business Combinations (BC ED), and Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries (NCI ED).

The staff restated the objectives of the Business Combinations project, which Board members indicated that they continued to support. The staff then discussed the nine principles reflected in the proposed IFRS 3, explaining that they intended to base the redeliberations on those principles. Board members agreed that these were the principles expressed in the proposals but indicated that some of the principles were more appropriately characterised as application consequences of the core principles. The Board will discuss the

principles when each topic is brought back for redeliberation.

The staff then gave the Board their initial assessment of the 282 comment letters on the IFRS 3 proposals (including the comment letters directed to the FASB BC ED), the 95 comment letters on the proposed amendments to IAS 27, the 49 comment letters on the FASB NCI ED, and the five round-table meetings held with about 50 of those respondents. The staff plan to bring back all of the proposals for redeliberation at future Board meetings. However, the amount of research and analysis they expect to undertake on each matter will vary. Board members commented on the staff's initial assessment of the matters that they expect to consume the most staff and Board time.

The staff outlined a redeliberation timetable, proposing that some of the more fundamental issues would be brought to the boards in the early months of redeliberations. Board members agreed with the general approach but asked the staff to bring the implications of the classification of non-controlling interests as equity back for redeliberation sooner than the staff had proposed.

The staff expect the redeliberations to take about a year. If the boards develop final Standards (IASB) and Statements (FASB) it is likely that they would be published in the middle of 2007. The staff will ask the boards to discuss the effective date of those Standards and Statements towards the end of the redeliberation process.

Financial Instruments and Insurance working groups: update

The staff reported on recent meetings of the Financial Instruments Working Group and Insurance Working Group. No decisions were made.

Short-term convergence: borrowing costs

At its meeting in November 2005, the Board decided to eliminate from IAS 23 *Borrowing Costs* the option of immediate recognition as an expense of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. In January the Board discussed the transitional provisions of the proposed amendments.

The Board noted that if an entity had not previously gathered the necessary information for capitalisation of borrowing costs, getting this retrospectively might be impracticable.

Therefore, the Board decided that:

- (a) existing IFRS users should apply the proposed amendments prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is after the effective date. They should be permitted to apply the proposed amendments to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is after any elected date before the effective date.
- (b) first-time adopters should apply transitional provisions equivalent to those available to existing IFRS users.
- (c) the comment period for the exposure draft should be 120 days.

Performance reporting

The Board discussed sweep issues identified in drafting the second pre-ballot draft of Proposed Amendments to IAS 1 *Presentation of Financial Statements*. [Contd.]

The Board reconfirmed that the Exposure Draft would propose that a complete set of financial statements would include a statement of financial position at the beginning of the period.

The Board decided that:

- IAS 34 *Interim Financial Reporting* will not be amended consequentially as a result of the inclusion of a statement of financial position at the beginning of the period in a complete set of financial statements. The Basis for Conclusions would explain why an amendment is unnecessary.
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* will be amended to require a first-time adopter to include, in its first IFRS financial statements, a reconciliation of total recognised income and expense under previous GAAP (or its equivalent) for the latest period in the most recent annual financial statements, to its total recognised income and expense under IFRSs for the same period.
- the titles of IAS 7 and IAS 10 will be amended to IAS 7 *Statement of Cash Flows* and IAS 10 *Events after the Reporting Date*. The staff will investigate whether 'reporting date' could be confused with regulatory or auditing terminology. If so, 'end of the reporting period' would be used rather than 'reporting date'.
- dividends recognised as distributions to equity holders will be presented in the statement of changes in equity or in the notes. Such dividends will not be permitted to be presented on the statement of recognised income and expense.
- it would determine whether to hold round-table meetings to discuss the Exposure Draft on Segment A at the end of the comment period.

The Board agreed with the following drafting suggestions:

- re-ordering some sections of IAS 1 to make the standard easier to read and understand. This would not involve changing the words of IAS 1; rather, it would involve moving some paragraphs.
- making editorial changes for consistency within IAS 1 and with other standards (eg to use 'an entity shall' throughout the standard).

The Exposure Draft should make clear that these are not substantive changes to the standard.

Accounting standards for small and medium-sized entities (SMEs)

The staff had distributed a preliminary draft of major portions of an Exposure Draft of an International Financial Reporting Standard for Small and Medium-sized Entities (SMEs). No decisions were made.

The Board discussed:

- the organisation and structure of the draft ED;
- the staff's approach to developing the draft ED, including which portions of IFRSs are included, which are not included, and what has been added;
- sections remaining to be drafted; and
- issues to consider in preparing for the Board's discussion of content at its next meeting.

The Board addressed:

- how the *Framework* should be incorporated into the SME standards. The draft ED currently includes extracts from the *Framework* covering objectives, qualitative characteristics, and elements definitions. An alternative would be to include the full *Framework* or to cross-refer back to the *Framework* but not include it.
- whether to retain or modify the 'pervasive principles' the staff included near the beginning of the ED. The staff intended them as a source of guidance for an SME in the absence of a specific standard. The Board was concerned that the principles in the draft were inconsistent with standards elsewhere in the ED or are inconsistent with provisions in full IFRSs. If the pervasive principles are retained they should be modified.
- the need for 'plain English' even if that means changing text that has been taken from IFRSs.
- benefits of moving all of the disclosures from the individual sections and putting them in a single Disclosures section, forming a type of disclosure checklist. Possibly this could be integrated with the Notes to the Financial Statements section.
- the need for a glossary, which would allow definitions to be removed from the standards sections.
- the need for a 'derivation table' that identifies the source in IFRSs for the paragraphs in the draft.

The Board will discuss the standards, section by section, from February onwards.

Earnings per share

The Board decided to amend IAS 33 *Earnings per Share* to require use of the treasury stock method for calculating the dilutive effect of convertible instruments. The treasury stock method replaces the 'if converted' method currently used in IAS 33.

The Board directed the staff to prepare an exposure draft of the proposed amendments to IAS 33.

Update on IFRIC activities

The IFRIC Chairman reported on the IFRIC meeting held in January, in particular the work on service concession arrangements and customer loyalty programmes. The IFRIC had reviewed a draft handbook on its due process, which will be presented to the Trustees in March 2006 for approval to publish the document for public comment. The IFRIC Chairman reported that the IFRIC had decided not to add to its agenda a question on the scope of IFRS 6 *Exploration for and Evaluation of Mineral Resources*, and would publish a tentative decision not to add to its agenda a question about separate financial statements issued before consolidated financial statements.

The IFRIC had completed its review of comments on D15 *Reassessment of Embedded Derivatives* and requested the Board to approve the Interpretation for issue. The Board suggested some clarification of the paragraph dealing with first-time adopters. The Board approved the Interpretation for issue, subject to editorial amendments.

Meeting dates: 2006

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

20—24 February

27—31 March

24—28 April (joint with FASB)

22—26 May

19—23 June

17—21 July

18—22 September

16—24 October (joint with FASB), Norwalk, Connecticut, USA

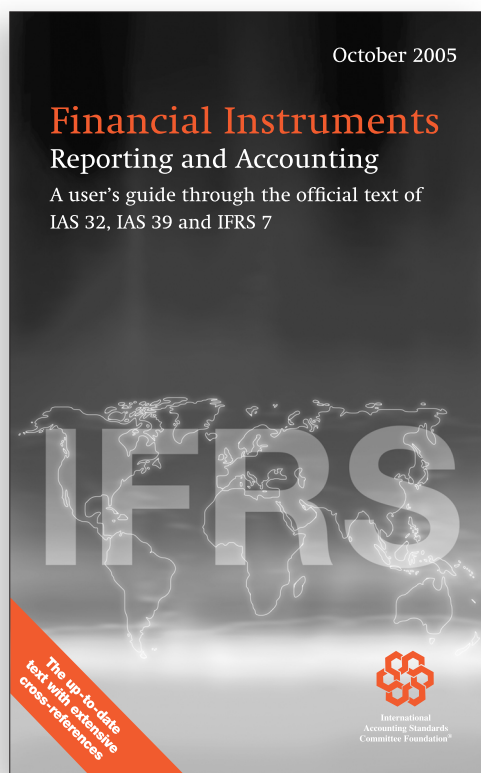
13—17 November

11—15 December

Financial Instruments

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