

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 Statement, Interpretation or Exposure Draft.

The International Accounting Standards Board met in London on 18 – 21 July, when it discussed:

- Business Combinations II
- Insurance
- Accounting standards for small and medium-sized entities
- IAS 37 redeliberations
- Proposed amendments to IFRS 2
- Conceptual Framework
- Revenue recognition
- Short-term convergence: segment reporting
- Short-term convergence: joint ventures
- Consolidations (including special purpose entities)
- Financial statement presentation
- Update on IFRIC activities
- Employee benefits (pensions)
- Process for non-urgent, minor amendments to standards
- Leasing
- IAS 24 *Related Party Disclosures*

Business

Combinations II

Identifying the components of a business combination

The Board tentatively decided that the final standard should include guidance on assessing which component of a business combination is the acquisition of assets and assumption of liabilities that constitute the acquiree and which components are related, but separate, transactions. The acquisition of assets and assumption of liabilities that constitute the acquiree should be accounted for using the acquisition method. Other transactions should be accounted for separately in accordance with other IFRSs.

The Board reaffirmed that the principles for identifying separate transactions in a business combination should be based on determining whether a transaction was arranged by or on behalf of the acquirer or initiated primarily for the economic benefit of the acquirer or combined entity. The staff will revise the guidance proposed in the Exposure Draft to make the principles clearer.

Restructuring costs

The Board reaffirmed the proposal in the Exposure Draft (which is consistent with IFRS 3) that an acquirer should recognise liabilities for restructuring or exit activities in a business combination only if they meet the recognition criteria in IAS 37 as of the acquisition date.

Costs associated with restructuring or exit activities that do not meet the recognition criteria in IAS 37 as of the acquisition date are not liabilities at the acquisition date and, therefore, should be recognised as separate transactions when a liability is incurred.

Equity instruments issued as consideration in a business combination

The Board discussed whether the fair value of equity instruments issued as consideration in a business combination should be measured at the agreement date or at the acquisition date. The Board observed that there are valid conceptual arguments for measuring equity instruments at either date. However, aligning the date on which all components of the acquisition are measured is compelling. Therefore, the Board tentatively decided to require that equity instruments issued as consideration should be measured at the acquisition date.

Insurance

The Board discussed the presentation of premiums, and unit-linked and index-linked contracts.

Premium presentation

The Board discussed whether an insurer should present all premiums as revenue, all premiums as deposit receipts, or some premiums as revenue and some premiums as deposit receipts. The Board also discussed whether an insurer should

split premiums for some or all insurance contracts into a revenue component and a deposit component. The Board decided that the discussion paper should review the alternatives but not express a preliminary view on this topic.

The Board then reviewed the presentation of the income that arises when the initial premium received exceeds the initial measurement of the insurance liability. The Board decided tentatively that this income is revenue, rather than a gain.

Unit-linked and index-linked contracts

The Board continued its discussion of contracts that link the benefit amount directly to the fair value of a designated pool of assets operated in a way similar to a mutual fund. The Board began by considering whether there are circumstances in which an insurer:

- should not recognise those assets, and the related part of the obligation to pay policyholder benefits, or
- should recognise those assets and the related part of the obligation, but should present those assets as a single line item, separate from the insurer's other assets.

The Board then discussed the effects on profit or loss and equity that arise if the pool of assets is recognised and includes investments that are not measured at fair value through profit or loss. In May, the Board observed that it would be preferable to eliminate such effects, but noted that eliminating them might create inconsistencies with other requirements of IFRSs.

(Continued ...)

Copyright © IASB Update is published after every IASB meeting by the IASCF, 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

Insurance (continued)

At this meeting, the Board continued a discussion of several alternatives to address this concern, including an adjustment to the measurement of the assets or the related part of the obligation and the recognition of items (such as treasury shares or internally generated goodwill) that would not qualify for recognition as assets in other circumstances. The Board noted that these effects do not occur if the insurer does not recognise the assets and the related part of the obligation. The Board decided that the discussion paper should review the alternatives, but not express a preliminary view on these matters.

Lastly, the Board discussed the treatment of contracts that link the benefit amount directly to an index but do not require the issuer to hold the assets underlying the index. There is an effect on profit or loss if the issuer holds the underlying assets and does not measure them at fair value through profit or loss. The Board decided tentatively not to introduce exceptions to normal recognition and measurement criteria for those assets or the related liabilities.

Next steps

The staff are drafting a discussion paper, with the aim of publishing it by the end of the year. A few significant matters still require Board input before the discussion paper can be finalised. The staff expect that the necessary Board discussions will be completed by October.

Accounting standards for small and medium-sized entities

The Board continued its discussions of a draft Exposure Draft (ED) of an International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

Financial instruments

The Board discussed a revised draft of the section of the draft ED dealing with financial instruments. The draft section would simplify the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* for SMEs in three main areas:

Classification of financial instruments. Financial instruments that meet specified criteria would be measured at cost or amortised cost, and all others at fair value through profit and loss. The available-for-sale and held-to-maturity classifications in IAS 39 would not be available. Financial instruments measured at cost or amortised cost would be:

- normal receivables, payables, and similar debt instruments;
- commitments to make or receive loans that cannot be settled in cash and that, when settled, will result in delivery of a financial instrument that qualifies for recognition at cost or amortised cost; and
- equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably, and options on such instruments.

The entity could choose to measure the first two types of instruments at fair value through profit or loss or at amortised cost.

Derecognition. The draft proposed a simple principle for derecognition, specifically that an entity would derecognise a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire or are settled; or
- the entity transfers to another party all of the significant risks and rewards relating to the financial asset; or
- the entity transfers physical control of the asset to another party and the transferee (i) has the practical ability to sell the asset in its entirety to an unrelated third party and (ii) is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Hedge accounting. The draft focused on the types of hedging that an SME was likely to do, specifically hedges of:

- interest rate risk of a debt instrument measured at amortised cost;
- the foreign currency exposure in a commitment or a highly probable forecast transaction;
- the commodity price risk exposure in a commitment or highly probable forecast transaction; or
- the foreign currency risk exposure in a net investment in a foreign operation.

The Board asked the staff to explore two approaches to hedge accounting simplification. One would impose strict conditions on the designation of a hedging relationship with subsequent hedge effectiveness assumed without the need to measure ineffectiveness. The other would require periodic measurement of ineffectiveness, but under less strict conditions than those in IAS 39.

The Board tentatively decided that an SME should have a choice of following either the requirements for financial instruments in the IFRS for SMEs or the requirements of IAS 39 in accounting for all of its financial instruments.

Income taxes

The staff briefly explained a timing difference approach to accounting for income taxes in the IFRS for SMEs that it plans to develop and present to the Board in September. Under that approach:

- An SME would recognise current tax as a liability to the extent unpaid or as a receivable to the extent overpaid and recoverable.
- An SME would recognise deferred tax on all differences between income and expenses recognised in measuring taxable income and income and expenses recognised for accounting purposes either in measuring accounting profit or loss or directly in equity. Timing differences are differences that originate in one period and reverse in one or more subsequent periods.

The staff will develop the income tax section of the IFRS for SMEs on the basis of this principle. The Board also requested the staff to identify circumstances in which this approach might result in the recognition in the balance sheet of items that do not meet the conceptual framework definition of assets or liabilities.

IAS 37 redeliberations

The Board continued its consideration of issues associated with the recognition principle proposed in the IAS 37 Exposure Draft (ED).

Eliminating the term ‘contingent liability’

The ED clarifies that only present obligations (not possible obligations) give rise to liabilities. To emphasise this point, the ED proposes eliminating the term ‘contingent liability’.

The Board noted that some respondents disagreed with the proposal, arguing that the term ‘contingent liability’ is well understood and consistently applied in practice. But other respondents agreed with the Board’s earlier analysis of issues associated with the term, as explained in the ED, namely that:

- The current definition of a ‘contingent liability’ is confusing because it is used to describe two distinct notions: an unrecognised present obligation and a possible obligation.
- Describing a present obligation as a contingent liability is contradictory.
- It is misleading to describe possible obligations as liabilities, even with the modifier ‘contingent’. This is because the *Framework* states that the existence of a present obligation is an essential characteristic of a liability.

Additionally, the Board noted that the term creates tension between IAS 37 and other standards that address liabilities. Items that are deemed to be liabilities in other standards (and recognised as such) would be described as contingent liabilities (and therefore not recognised) following the guidance in IAS 37

Therefore, the Board affirmed its proposal to eliminate the term ‘contingent liability’.

Disclosure requirements for potentially significant risks

The Board considered respondents’ concerns that eliminating the term ‘contingent liability’ would result in a loss of disclosure about items that do not meet the definition of a liability at the balance sheet date.

The Board observed that the current disclosure requirements for contingent liabilities that are possible obligations are narrower than suggested by some respondents. This is because they capture only possible obligations existing at the balance sheet date, rather than all business risks.

The Board discussed the possibility of developing a disclosure principle that would allow users to evaluate an entity’s determination of whether a liability exists in cases in which there is uncertainty about that determination. The Board, however, was concerned that such a principle would be impracticable. Therefore, the Board directed the staff to explore more specific disclosure requirements, for example to capture asserted legal claims for which the entity concludes that it has no present obligation.

Recognition of a liability prejudicing the outcome of legal proceedings

The Board resumed its discussion on applying the principles in the ED to a liability that is the subject of litigation. Specifically, the Board considered respondents’ concerns that recognising such a liability can prejudice the entity’s position in the litigation.

The Board concluded that it would not be possible to accommodate concerns about the operation of different legal

jurisdictions in one standard. Furthermore, it noted that any such accommodation would compromise the usefulness of information provided in the financial statements. The Board observed that it had proposed retaining the existing prejudicial disclosure exemption (paragraph 92 of IAS 37) and concluded that no further exemptions were required.

Round-table discussions

The Board noted that invitations to take part in round-table discussions had been sent to all constituents who submitted a comment letter on either the ED or the FASB’s related Invitation to Comment on *Selected Issues Relating to Assets and Liabilities with Uncertainties*.

The Board decided that, in this instance, constituents who did not submit a comment letter originally would also be eligible to take part in the round-table discussions. However, the Board would request a written response on the proposed amendments to IAS 37 that were to be discussed at the round-tables. Because of space limitations, priority would be given to constituents who originally submitted a comment letter on the ED.

IAS 37 round-table discussions

As previously announced, the IASB will host round-table discussions focusing on the proposed amendments to the recognition and measurement principles in IAS 37. The dates and locations are as follow:

Thursday 30 November 2006, Connecticut (US)

Friday 8 December 2006, London (UK)

Wednesday 20 December 2006, Melbourne (Australia)

Requests to take part in the round-table discussions should be sent to fdavitt@iasb.org.uk by Tuesday 1 August.

Proposed amendments to IFRS 2

The Board held a preliminary discussion of the comments received on the Exposure Draft of proposals to amend IFRS 2 Share-based Payment—*Vesting Conditions and Cancellations*.

The staff presented an analysis of the comments received in respect of vesting conditions and cancellations. The comments about transition requirements and consistency with SFAS 123 will be discussed at a future meeting.

Vesting conditions

The Exposure Draft proposed that vesting conditions should be restricted to service conditions and performance conditions. Most respondents supported the proposal, although some asked for further clarification of the definition of a performance condition.

The Board reaffirmed its proposal to restrict vesting conditions to service conditions and performance conditions. However, noting that the rationale for the amendment was given in the Basis for Conclusions, the Board asked the staff to consider revising the definition of a vesting condition in the standard to incorporate the information currently given in the Basis.

The Board also asked the staff to propose a definition of a performance condition, that would clarify the categorisation of conditions that affect whether an equity instrument could be received by a counterparty, including non-compete provisions.

Lastly, the Board accepted the staff’s proposal to expand the Implementation Guidance for IFRS 2 on the categorisation of all the conditions (including performance conditions) that determine whether a counterparty obtains the equity

instruments granted. The extra guidance could take the form of a simple organisation chart or table and should not necessitate re-exposure of the proposed amendments.

Cancellations

The Exposure Draft proposed that all cancellations, whether by the entity or a counterparty, should receive the same accounting treatment.

Many respondents disagreed with this proposal, arguing either that cancellations by counterparties and cancellations by an entity are economically different or that there should be an exemption for some types of plans eg Save As You Earn (SAYE) plans.

The Board noted that the rationale for the proposal, as stated in the Basis for Conclusions, is that there exist no non-arbitrary or unambiguous criteria for distinguishing a cancellation by a counterparty from a cancellation by an entity. Because no evidence has been presented that it is possible to make such a distinction, the Board reaffirmed its decision to require the same accounting treatment for all cancellations. The Board also reaffirmed the provisions in the ED that the amendment should apply to all share-based payment plans and that no exemptions should be made for SAYE or similar plans.

However, the Board asked the staff to explore whether there might be some types of events (for example, when an employee exercises a choice to stop making contributions to an SAYE) that are not one of the stated possible events under IFRS 2 and that might, therefore, require an accounting treatment, different from that of a lapse, forfeiture or cancellation.

The Board will discuss these issues and other issues arising from the responses to the Exposure Draft at a future meeting.

Conceptual Framework

The Board resumed its discussion of Phase B: Elements and Recognition of the joint IASB/FASB Conceptual Framework project. The Board discussed the following proposed working definition of an asset:

An asset is a present economic resource to which an entity has a present right or other privileged access. An asset of an entity has three essential characteristics:

- (a) there is an economic resource.
- (b) the entity has rights or other privileged access to the economic resource.
- (c) the economic resource and the rights or other privileged access both exist at the financial statement date.

The Board approved continuing to develop the proposed working definition. The Board asked the staff to give further consideration to some aspects of the definition and amplifying text, including the following:

- Explain more clearly the distinction between economic resources and rights.
- Clarify that an economic resource exists when there is a non-zero probability of generating inbound cash flows or reducing outbound cash flows.
- Consider whether it might be preferable to refer to economic benefits rather than to economic resources.
- Develop further examples of assets that show the scope of the proposed working definition.
- Demonstrate how the proposed working definition is an improvement on those in use at present.

Examples of assets provided in support of the definition will be adjusted to reflect the Board's comments. The proposed working definition of a liability, together with revisions to the proposed working definition of an asset, will be discussed by the Board in September 2006. The FASB will discuss similar issues concerning the proposed working definition of an asset on 26 July 2006.

Revenue recognition

At its joint meeting with the FASB in April, the Board decided to explore revenue recognition based on the following criterion:

Revenue should be recognised if the customer must accept performance to date. That is, the contract's legal remedy for breach is, or is like, specific performance, or in the event of customer cancellation, the customer is obligated to pay damages reflecting performance to date.

At this meeting, the Board discussed the application of this criterion to an example of a reporting entity's production contract with a customer in four scenarios. (The examples are included in the observer notes for the meeting, available at www.iasb.org/meetings/obnotesjuly2006.asp.)

In the first scenario, the contract required a legal remedy of specific performance if the customer breached it (ie the customer would be required to perform as promised under the contract). The Board tentatively decided that in this scenario revenue would be recognised as the entity created (produced) the asset for the customer. This is because the entity's production results in a right to consideration. The Board noted that in this scenario the customer could be regarded as implicitly accepting the entity's performance continuously.

In the second scenario, the contract required a legal remedy of monetary damages if the customer breached it. Those damages would reimburse the entity for its costs to date plus a profit margin. The Board tentatively decided that in this scenario revenue recognition would be similar to the first scenario.

In the third scenario, the contract would also require a remedy of monetary damages if the customer breached it. However, in this scenario the customer was required to compensate the entity for the difference between the contracted price for the completed asset and the price (if any) at which the entity would be able to resell the asset to another customer. The Board tentatively decided that revenue recognition would be similar to the first two scenarios. It noted that until the customer breached the contract the entity would be establishing a claim against the customer for its performance to date. In addition, if the customer breached the contract the entity would have a claim against the customer and potentially an asset to sell to another customer. The Board added that it will need to consider the effects on the entity's assets and liabilities of uncertainty about enforcement of the legal remedies.

In the fourth scenario, the contract contained explicit acceptance provisions, ie on completion of a specified part of the construction, the customer would be required to accept that part and be unconditionally obligated to pay for it. The scenario also assumed that there would be no other legal remedies if the customer breached the contract. The Board tentatively decided that under the model it is exploring, revenue would be recognised only at the acceptance points, ie when the customer was unconditionally required to pay for the entity's performance.

Short-term convergence: segment reporting

The Board discussed the analysis of comment letters received in response to ED 8 *Operating Segments*, in respect of the following issues:

- adoption of the management approach
- scope of the standard
- exemption for separate financial statements
- competitive-harm exemption
- minor issues on the scope.

Adoption of the management approach

The Board supported the adoption of the management approach as set out in ED 8.

Scope of the standard

The Board tentatively decided that the standard should not apply to entities that hold assets in a fiduciary capacity. However, the Board took the view that publicly accountable entities should be within the scope of the standard, and that a future amendment of the scope of the standard should be proposed to include publicly accountable entities. The proposed amendment is likely to be exposed around the same time as the ED of the IFRS for SMEs.

Exemption for separate financial statements

The Board tentatively decided to include in the standard a scope exemption similar to that in paragraph 6 of IAS 14. That paragraph gives an exemption from segment reporting in the separate financial statements of a parent when a financial report contains both consolidated financial statements, including segment reporting, and the parent's separate financial statements.

Competitive-harm exemption

The Board tentatively decided not to include an exemption in the standard allowing entities to limit their segment reporting disclosures on the ground of competitive disadvantage or harm.

Minor issues on the scope

- The Board tentatively decided that if an entity that is not required to apply the standard chooses to disclose segment information that does not fully comply with the standard, it should disclose that the segment information does not comply with the standard.
- The Board tentatively decided that there is no need to include in the standard a reference to not-for-profit entities, since standards are designed for profit orientated entities.
- The Board tentatively decided to change the wording of the scope paragraphs of the segment reporting standard and IAS 33 Earnings per Share to clarify that the entity referred to in the scope paragraph is the parent preparing consolidated financial statements, and that the standard applies to entities that are presently required to file their financial statements with a regulator.

The remaining issues arising from the comments on ED 8 will be discussed by the Board at its meeting in September.

Short-term convergence: joint ventures

The Board supported a staff proposal that interests venturers have in joint arrangements should be classified as either:

- direct interests in the underlying single assets or liabilities, whereby venturers have rights to individual assets or direct obligations for individual liabilities, or a share of them, within a group of assets or liabilities; or
- indirect interests in the 'net' outcome expected to be generated from a group of assets and liabilities under the joint control of all of the venturers.

The Board also tentatively decided that, in the absence of circumstances indicating otherwise, an interest in a jointly controlled business would represent an indirect interest in the arrangement. The existence of a business is an indicator that an indirect interest exists, but it is not conclusive in itself. Venturers should consider all the contractual rights and obligations they have in the arrangement.

The Board also tentatively decided that:

- in assessing the types of interests a venturer has in a joint arrangement, legal form matters, although the existence of a legal entity is not determinative;
- if the elements of an indirect interest exist, whether the output generated by a group of assets and liabilities is tradeable on an active market is not relevant for determining the nature of the interests participants have; and
- the disclosure requirements should not be amended as part of the short-term project.

The Board asked the staff to continue their research and discussions with preparers, users and other interested parties so that the Board can make a more informed assessment about the likely impact of the proposed amendments on current practice. The Board observed that the main objective of the project is to converge with the US accounting literature for jointly controlled entities by removing proportionate consolidation, rather than to harmonise with existing US practice generally. The proposal would be an improvement in the accounting for interests in joint arrangements by reducing the level of accounting discretion available to venturers.

Consolidations (including special purpose entities)

The Board discussed a preliminary description of the framework the staff is developing for a proposed revised standard on consolidation. The framework is designed to accommodate all entities and investments including the type commonly referred to as special purpose entities (SPEs). The Board expressed support for shifting the focus of control onto the assets and liabilities of the entity rather than the entity per se. The Board also supported assessing the existence of control using indicators. Some indicators will be presumptive. Others are unlikely to be sufficient on their own to establish the existence of control, but when considered with other indicators cumulatively establish that control exists.

The Board will discuss in September the first of the papers addressing SPEs within the context of this framework.

Financial statement presentation

The Board discussed the overall format for presenting information within the statement of financial position, the statement of recognised income and expense, and the statement of cash flows.

The Board tentatively decided that cohesiveness of the financial statements should be the governing working principle in developing the working format (sections and categories) for the financial statements. That means that assets or liabilities and changes in them should be categorised consistently in each of the financial statements.

The Board tentatively decided that the primary sections in each of the financial statements should be business and financing. Although financing would be defined to include liabilities for which an accounting standard requires the separate calculation of interest income or expense, an entity would be permitted to exclude liabilities from the financing section and include them in the business section if specified criteria are met, including that the entity views the activity as part of its overall business and not as a financing activity.

In addition to financing liabilities, the financing section would include all equity items and would not include any assets.

Changes in financing liabilities and equity items would be presented as follows:

- In the statement of cash flows, cash flows from financing transactions with owners (equity) would be presented separately from cash flows from financing transactions with non-owners (non-equity).
- In the statement of recognised income and expense, the financing section would include any related financing expenses.

An entity would be required to disclose its rationale for determining which liabilities that meet the financing definition are excluded from the financing section as an accounting policy choice. The notes to the financial statements should include a reconciliation of the financing amounts reported on the face of the financial statements and those that would have been reported in the absence of any exclusions.

The Board tentatively decided that the business section should include a treasury category and an operating category. In the statement of financial position, the treasury category would include financial assets (as defined in accounting standards).

For presentation purposes, an entity would be permitted to exclude financial assets (other than cash and cash equivalents) from the treasury category and include them in the operating category. An entity would be required to disclose in the notes to the financial statements the financial assets it excluded from the treasury category and rationale for doing so. This, too, would be an accounting policy choice. Cash and cash equivalents would be presented as a separate line item within the treasury category; bank overdrafts would not be included in cash and cash equivalents. The Board expressed an interest in modifying the definition of cash and cash equivalents, which it will consider at a future meeting. Cash flows related to treasury assets would be presented as treasury cash flows in the statement of cash flows. Income related to items classified as treasury assets would be presented as treasury income in the statement of recognised income and expense.

An asset or liability not classified as a treasury asset or a financing liability would be included in the operating category in the business section of the statement of financial position.

The Board tentatively decided that an entity should classify operating assets and liabilities (the operating category) into

‘operating working capital’ and ‘other operating assets and liabilities’ on the basis of its operating cycle. An operating cycle would be defined as “the average time between the acquisition of materials or services entering the process and their final conversion to cash.” Thus, assets and liabilities expected to be realised or settled in the operating cycle would be classified in the operating working capital subcategory. All other assets and liabilities would be classified in the other operating subcategory.

The Board tentatively decided that the following supplementary information should be provided in the notes to the financial statements:

- A schedule that separates the short-term assets and short-term liabilities from the long-term assets and long-term liabilities (based on whether conversion or settlement is expected in one year or less (short-term) or more than one year (long term))
- Total amounts for assets, liabilities, and equity.

In a statement of cash flows, cash flows related to items classified as operating assets and liabilities would be presented as operating cash flows. In the statement of recognised income and expense, income and expenses related to items classified as operating assets and liabilities would be presented as operating income.

The Board decided that the operating category in the statement of cash flows and the statement of recognised income and expense should not be further disaggregated into subcategories as in the statement of financial position.

Having tentatively decided on a working format for the financial statements, in September the Board plans to discuss application of the remaining working principles, including disaggregation of information in the financial statements, subtotals, totals, and the reclassification (recycling) of items within the statement of recognised income and expense.

Update on IFRIC activities

The staff reported on the IFRIC meeting held in July, details of which will be published in IFRIC Update. For the first time, a live audio transmission of the IFRIC meeting had been made and is to be available on the IASB Website.

The IFRIC had approved for publication two Draft Interpretations, subject to negative clearance by the Board and final editing. One addresses the asset ceiling under IAS 19 *Employee Benefits* and the effects of a minimum funding requirement; the other addresses the application of IAS 18 *Revenue* to customer loyalty programmes.

Progress had also been made on Service Concession Arrangements, which the IFRIC hopes can be brought to the Board for approval to issue as a final Interpretation in the fourth quarter of 2006.

The staff highlighted an issue that the IFRIC will be referring to the Board: in particular, guidance on when a ‘portion’ of an exposure is eligible for hedge accounting. The staff also draw the Boards attention to IFRIC agenda decisions to be published in IFRIC Update: in particular whether a contract indexed to an entity’s own revenue or EBITDA meets the definition of a derivative.

Employee benefits (including pensions)

The Board resumed its discussion of whether to add a project to its agenda on employee benefits (including pensions).

The staff presented an agenda proposal for a comprehensive long-term project, to be conducted in two phases, which would involve a fundamental review of all aspects of pension accounting. The first phase would consider issues that could be resolved within the next four years, with a view to issuing an interim standard that would significantly improve pension accounting by 2010.

The issues that would be included in the first phase of the project are:

- presentation and disclosure
- definition of defined benefit and defined contribution arrangements and accounting for cash balance plans
- smoothing and deferral mechanisms
- treatment of settlements and curtailments

The Board noted that the definition of defined benefit/defined contribution arrangements and accounting for cash balance plans component of the project could be difficult. If resolving the issues in this component jeopardises the timing of completing the other components it could be treated as a discrete project.

The Board also noted that the FASB had initiated a comprehensive examination of pension accounting as part of a two-phase pension project. The Board observed that it is important to monitor the FASB's progress and reiterated that, although the timing and scope of the first phases might differ, the objective of both boards is ultimately, to develop a converged standard.

The Board decided to add the project to its agenda.

Process for non-urgent, minor amendments to standards

The Board considered a proposal to introduce a procedure for making non-urgent, minor amendments to standards. The Board noted that changes to standards, however small, are time-consuming for the Board and burdensome for constituents. Consequently this proposal is intended to ease the burden for all concerned, while observing the requirements of the IASB's Due Process Handbook. Under the proposed procedure, to be known as the Annual Improvements process, non-urgent, minor amendments would be collected and published annually in a single exposure draft.

The amendments envisaged would resolve inconsistencies between standards or clarify unclear wording. The Board expects that the primary source of proposed amendments will be the IFRIC, but recommendations from other sources would also be considered.

The staff proposed that the annual exposure draft should be exposed for 90 days and that the amendments, if confirmed, should be effective 12 months after the end of the exposure period.

The Board decided to adopt the proposed procedure. The first annual improvements exposure draft is expected to be published in October 2007. The final amendments to standards are expected to be published in April 2007 with an effective date of the year commencing 1 January 2008.

Leasing

The Board voted to add to its agenda a project on lease accounting. The project will be conducted jointly with the US Financial Accounting Standards Board (FASB) and is expected to result in the publication of a joint discussion paper in 2008. The project will reconsider all aspects of lease accounting and is expected to fundamentally revise the way lease contracts are recognised in the financial statements of lessees and lessors. The Board directed the staff to establish a working group of individuals with significant experience and expertise in lease accounting to assist the staff and the Board with this project.

IAS 24 Related Party Disclosures

The Board decided to add to its agenda a project to amend IAS 24 *Related Party Disclosures*. The project will focus on two aspects of IAS 24:

- the requirements of IAS 24 for entities with significant state ownership when they have transactions with similar entities; and
- whether, when an associate of an entity is preparing its own financial statements, the requirements of IAS 24 should include as related party transactions the transactions between an associate and a subsidiary of the associate's significant investor.

The project aims to publish an exposure draft by the end of 2006. The amended standard is expected to be issued during the second half of 2007 with an effective date some time later.

Meeting dates: 2006

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

18—22 September

16—20 October

23—24 October (joint with FASB), Norwalk, Connecticut, USA

13—17 November

11—15 December