

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 16 – 19 October, when it discussed:

- Business Combinations II
- Insurance
- Financial statement presentation
- Accounting standards for small and medium-sized entities
- Conceptual framework
- IAS 37 redeliberations
- Financial instruments – hedge accounting
- IFRS 2 *Share-based payment*
- Post employment benefits
- IAS 24 *Related Party Disclosures*
- Annual improvements process
- Intangible assets research project
- Extractive activities
- Revenue recognition
- Short-term convergence: segment reporting
- IFRIC D17 IFRS 2 *Share-based payment*
- IFRIC Service concession arrangements

The IASB also met with the Financial Accounting Standards Board in a joint meeting on 23 and 24 October when they discussed:

- Insurance
- Conceptual framework
- Business Combinations II
- Revenue recognition
- Memorandum of Understanding
- Financial statement presentation
- Liabilities and Equity

Business Combinations II

The Board made tentative decisions about:

- (a) the accounting for the following types of intangible assets acquired as part of a business combination:
 - assembled workforce,
 - reacquired rights and pre-existing relationships, and
 - in-process research and development; and
- (b) whether an acquirer should recognise measurement period adjustments retrospectively or prospectively.

The Board also discussed the measurement attribute for business combinations and the measurement of non-controlling interests, as part of its preparation for its joint meeting with the FASB. No decisions were made on these two matters.

Assembled workforce

The Board tentatively decided not to continue with the proposal in the Business Combinations Exposure Draft to prohibit the recognition of an assembled workforce separately from goodwill.

The Board also tentatively decided to clarify that an assembled workforce is a collection of employees that allows an acquirer to continue to operate immediately following an acquisition. In other words an assembled work force has value because an acquirer does not need to go through the process of finding, recruiting and training the employees because they are already in place and operating at the time of the acquisition. The value of an assembled workforce does not represent the intellectual capital of the workforce of which the acquirer has obtained the benefit as a result of the acquisition.

Reacquired rights and pre-existing relationships

The Board tentatively affirmed the proposal in the Exposure Draft that the effective settlement of a pre-existing relationship between the acquirer and acquiree that results from a business combination should be accounted for

separately from the acquisition of the acquiree. An acquirer measures the gain or loss on the effective settlement of a pre-existing relationship and recognises it in post acquisition income.

The Board also tentatively affirmed the proposal in the Exposure Draft to account for a reacquired right in a business combination as a separately identifiable intangible asset. The new business combinations standard will specify that the useful life and initial measurement of a reacquired right should be based on the remaining life of the existing contract between the acquirer and acquiree. Any off-market component of a reacquired right should be recognised as a settlement gain or loss. If an acquirer reissues a reacquired right to an unrelated third party, the remaining unamortised balance of the reacquired right should be included in computing the gain or loss recognised when the right is reissued.

In-process research and development assets

The Board tentatively affirmed the proposal in the Exposure Draft (which was consistent with IFRS 3) that all identifiable research and development assets, including in-process research and development assets, acquired in a business combination should be recognised separately from goodwill.

Measurement period

The Board tentatively affirmed the proposal in the Exposure Draft (which was consistent with IFRS 3) that measurement period adjustments should be recognised retrospectively rather than prospectively.

Insurance

The Board reviewed its tentative conclusions on insurance contracts in the light of the education session led in September by representatives of the CFO Forum, the Group of North American Insurance Enterprises and four major Japanese life insurers. The Board reaffirmed its tentative conclusions, focusing on the following points:

- All insurance liabilities, including non-life insurance claims liabilities, should be measured on a discounted (present value) basis.
- Non-life pre-claim liabilities should, in line with the Board's tentative conclusions for all insurance liabilities, be measured at current exit value. For many short-duration contracts, unearned premium may be a reasonable approximation of current exit value, however, an insurer should not make this assumption without testing, particularly if a contract is likely to be highly profitable or highly unprofitable, or circumstances have changed significantly since inception.
- Some Board members believe that the observed price for the transaction with the policyholder, although useful as a reasonableness check on the initial measurement of the insurance liability, should not override an unbiased estimate of the margin another party would require if it took over the insurer's contractual rights and obligations. Other Board members believe that the margin should be calibrated to the observed price for the transaction with the policyholder and, in consequence, that an insurer should not recognise a net gain at inception. The discussion paper will explore the arguments for each position and summarise the narrow balance of views on the Board.
- The measurement of an insurance liability should include an explicit and unbiased estimate of the margin that market participants require for bearing risk (a risk margin) and, if applicable, for rendering other services (a service margin).
- The measurement attribute for insurance liabilities should be the amount the insurer would expect to have to pay today if it transferred all its remaining contractual rights and obligations immediately to another entity ('current exit value'). Measuring insurance liabilities at current exit value is not intended to imply that an insurer can, will or should actually transfer the liability to a third party. Indeed, in most cases, insurers cannot transfer the liabilities to a third party and would not wish to do so. Rather, the purpose of specifying this measurement is to provide information to help users make economic decisions.
- An insurer should use cash flow estimates that reflect the efficiency of market participants. This excludes from the measurement any cash flows that relate not to the liability itself but to synergies with other recognised or unrecognised assets or liabilities.
- All changes (adverse or favourable) in estimates of financial and non-financial variables should be recognised immediately.
- Discount rates should be consistent with observable market prices for cash flows whose characteristics match those of the insurance liability in terms of timing, currency and liquidity. They should exclude any factors that influence the observed rate but are not relevant to the liability (for

example, risks present in the instrument used as a benchmark but not present in the liability).

- For recognition and measurement purposes, an insurer should not unbundle insurance, deposit and service components of insurance contracts if the components are so interdependent that the components can be measured only on an arbitrary basis. Otherwise it should unbundle them. The discussion paper will consider whether an insurer should unbundle deposit and insurance components for the purpose of presenting premiums and claims, but it will not express a tentative conclusion.
- The current exit value of a liability reflects its credit characteristics. An insurer should disclose the effect of such credit characteristics at inception and subsequent changes, if any, in their effect.
- An insurer should recognise acquisition costs as an expense, not as an asset. The recovery of acquisition costs occurs either through cash flows that have been received or through future cash flows incorporated in the measurement of the liability.
- Although the proposed measurement of an insurance liability includes some cash flows that the Board regards as relating to a customer relationship, an insurer should not present the customer relationship separately from its insurance liability. The cash flows in question are ones the policyholder must pay to retain a right to guaranteed insurability. The staff intends to ask the Board to review the guaranteed insurability test again in November in the context of universal life contracts.

Next steps

The staff expects that the Board will continue its discussion of universal life contracts and participating contracts in November, and will not discuss other issues before the staff submits a draft discussion paper to the Board for approval. The staff expects the document to be published in the first quarter of 2007.

Financial statement presentation

The Board continued its discussion of the application of the project's working principles in developing a 'working' format for the financial statements (the sections and categories for each financial statement). The Board discussed the following issues:

- defining the financing section and the investing category
- presenting information about the short-term and long-term nature of assets and liabilities
- presenting information on measurement of assets and liabilities
- other comprehensive income, the mechanism of recycling, and the presentation of the statement of comprehensive income and related notes.

The Board did not reach any tentative decisions because the same issues were to be discussed at the joint meeting with the FASB.

Accounting standards for small and medium-sized entities

The staff presented four documents for the Board to review:

- a marked-up draft of an exposure draft of an IFRS for SMEs, reflecting changes from the draft discussed in September 2006
- an exposure draft of implementation guidance comprising illustrative financial statements and a disclosure checklist
- a preliminary draft of the basis for conclusions
- a preliminary draft of the invitation to comment.

The Board discussed those documents and made the following tentative decisions.

Exposure Draft

- Permit SMEs to use a liquidity presentation on their balance sheet.
- Do not require an SME to make disclosures relating to amendments to the IFRS for SMEs that have been adopted but are not yet effective.
- Replace the term 'net realisable value' relating to inventories with 'selling price less costs to complete and sell'.
- Clarify in the financial instruments section that incremental costs incurred in connection with the arrangement of borrowings should be reflected in calculating the effective interest rate (ie they should not be charged to expense at the time of the borrowing).
- Add guidance for when an entity moves from full IFRSs to the IFRS for SMEs.
- With regard to hedge accounting, require simplified effectiveness testing rather than the 'shortcut method' under which ineffectiveness is not measured or recognised.
- In the section on first-time adoption consider whether all the exemptions from retrospective restatement in IFRS 1 should be included in the IFRS for SMEs. Also consider whether additional transitional provisions should be included related to special provisions in the IFRS for SMEs.

Illustrative financial statements and disclosure checklist

- The staff should consider whether any disclosures currently presented in the illustrative notes might be more concisely presented on the face of the financial statements.
- Identify one or more persons to do an independent review of the illustrative financial statements.

Basis for conclusions

- Explain the Board's approach to deciding which disclosures in full IFRSs should be eliminated for SMEs, and which disclosures the Board has added for SMEs
- Acknowledge the encouragement of the Standards Advisory Council to undertake the project.
- Explain that addressing the needs of SMEs is part of the IASB's mission as set out in the IASC Foundation Constitution.

- Explain the hierarchy for choosing an accounting policy when the IFRS for SMEs does not specifically address a transaction, other event or condition.

Invitation to comment

- Add a general question on the proposed disclosures.
- When full IFRSs allow accounting policy options, the IFRS for SMEs includes only the simpler option, and the other option(s) are available to SMEs by cross-reference to the full IFRS. Add a question about whether the Board has chosen the appropriate options to include in the IFRS for SMEs.
- Add a general question on whether the transition guidance is adequate both for an entity that is moving from national GAAP to the IFRS for SMEs and for an entity that is moving from full IFRSs to the IFRS for SMEs.
- Add a general question on cross-references to full IFRSs that are in the IFRS for SMEs.
- Clarify the user needs and cost-benefit considerations the Board considered in making the recognition and measurement simplifications.
- Add a question about whether the few remaining circumstances in which items of income and expense are recognised directly in equity should (with the exception of hedges of future cash flows) be eliminated, requiring instead that they be recognised in profit or loss.

Indicative Board vote

After discussion of the four documents the Board directed the staff to prepare a pre-ballot draft.

Conceptual framework

What is an element? What is its significance?

At this meeting, the Board discussed the meaning of elements and the significance of an element as part of its deliberations for Phase B Elements and Recognition.

The Board tentatively concluded that elements should:

- (a) continue to focus on the economic things (resources and claims) and changes in them that pertain to a particular entity. Those things and changes in them are also called 'stocks' and 'flows'.
- (b) focus on the most basic of the real-world economic phenomena that pertain to an entity. Distinctions that are made for the purposes of financial statement display or presentation go beyond the notion of basic elements.

The FASB had also discussed these topics and reached similar conclusions.

Other discussions

The staff also briefed the Board on matters that were to be discussed at the joint meeting with the FASB. They included the process for finalising the framework and the status of and near-term plans for the project.

IAS 37 redeliberations

The Board continued its redeliberations of issues associated with the measurement principle proposed in the IAS 37 Exposure Draft. This principle would require an entity to measure a liability at the amount that it would rationally pay to settle the obligation or to transfer it to a third party on the balance sheet date.

Does the proposed measurement principle permit choice?

The Board noted that some respondents perceive that the proposed measurement principle permits choice. This is because the principle includes two phrases—‘amount to settle’ and ‘amount to transfer’. The Board did not believe that more than one measurement attribute was intended, consequently, the Board expressed a preference for removing one phrase.

The Board debated the relative merits of the two phrases. It noted that ‘amount to settle’ is broader than ‘amount to transfer’ and may be interpreted in different ways. Moreover, the counterparty might demand more than the rational economic value of a liability to ‘settle’ the liability on the balance sheet date. However, the Board was concerned that using ‘amount to transfer’ might imply that it was specifying fair value as the IAS 37 measurement objective—a decision that is beyond the scope of the project. The Board did not reach a conclusion on this issue.

The Board directed the staff to develop an example illustrating how an entity would measure a liability using the following draft guidelines:

- The proposed measurement principle is ‘the amount an entity would rationally pay to settle an obligation on the balance sheet date’—a current settlement notion. An entity may settle a liability on the balance sheet date in one of two ways: paying the counterparty to release the entity from its obligation or paying a third party to assume its obligation.
- An entity should give precedence to market information when available. In the absence of market information, entity-specific information is consistent with the measurement principle provided there is no indication it is inconsistent with information the market would use.

Financial instruments – hedge accounting

The IFRIC received submissions asking whether various risks associated with specific portions of a cash flow or fair value exposure might qualify for hedge accounting under IAS 39: for example, could inflation risk qualify as a hedged portion of an interest-bearing asset or liability.

In July 2006, the IFRIC asked for the Board’s views on the principles to be applied in identifying a portion of a hedged item’s cash flows or fair value that is eligible for hedge accounting.

The Board acknowledged that further guidance on what qualifies as a hedged portion under IAS 39 is needed. However, it made no decision on what should be included in that guidance or whether the guidance should be an amendment to IAS 39 or an IFRIC Interpretation.

The Board will consider both of these after further development by the staff.

IFRS 2 Share-based payment

The Board continued its redeliberations on the responses to the Exposure Draft of proposed amendments to IFRS 2 *Vesting Conditions and Cancellations*.

The Board asked the staff to revise the proposed definition of vesting conditions to clarify the following points:

- vesting conditions are the conditions that determine whether the counterparty is entitled to receive cash, other assets or equity instruments of the entity
- vesting conditions are either service conditions or performance conditions
- a share-based payment vests when the counterparty’s entitlement to it is no longer conditional on future service or performance.

The Board tentatively decided that the proposed definition of performance conditions should be included as a descriptive paragraph rather than as a definition.

The Board tentatively decided to clarify that all non-vesting conditions should be included in the grant date fair value of the equity instrument. Furthermore, if neither the entity nor the counterparty can choose whether a non-vesting condition is met, failure to meet the condition should be ignored, ie there should be no change to the accounting and the expense should continue to be recognised over the vesting period.

The Board concluded that if either the entity or the counterparty can choose whether to meet a non-vesting condition, failure to meet it (eg when an employee ceases to pay contributions to a Save As You Earn plan) should be treated as a cancellation.

The Board tentatively decided that no definition of a cancellation should be included in the revised IFRS. However, the implementation guidance should clarify:

- the treatment of all conditions that determine whether a counterparty becomes entitled to a share-based payment
- the accounting for the liability and equity components of Save As You Earn and similar plans.

As no significant changes to the principles proposed in the Exposure Draft were made, the Board directed the staff to proceed to prepare an amendment with an effective date of 1 January 2008 for approval by ballot.

Post employment benefits

In July, the Board decided to include the accounting for cash balance plans in phase one of its project on post-employment benefits. At this meeting, the Board held an education session on ‘cash balance’ plans. The term ‘cash balance’ plans is generally understood to refer to a narrower group of plans than those the Board plan to address in this phase of the project. Therefore, the term ‘intermediate risk’ plans better describes the type of plans under discussion.

Tim Reay (Hewitt) briefed the Board on the various designs, risk profiles and increasing prevalence of intermediate risk plans around the world, and Geert de Ridder (Deloitte) briefed the Board on the measurement and accounting challenges that intermediate risk plans present.

The presentations are available as observer notes for the meeting. The Board also discussed measurement approaches that it could consider. No decisions were made.

IAS 24 *Related party disclosure*

The Board discussed whether an associate and a subsidiary of the associate's significant investor are related parties, as defined in IAS 24. The Board confirmed that IAS 24 identifies these entities as related parties for both the associate's individual and the group's consolidated financial statements. However, the Board noted that under IAS 24 these entities are not related parties, for the subsidiary's individual financial statements.

The Board tentatively decided to amend IAS 24 to include an associate and a subsidiary of the associate's significant investor in the definition of a related party, for the subsidiary's individual financial statements, and to clarify the Board's intention to include these entities in the definition of a related party for the associate's individual and the group's consolidated financial statements.

The Board tentatively decided that transactions between associates of a common investor are not related party transactions in either the associate's individual or the investor's consolidated financial statements.

The Board also tentatively decided that its September 2006 decision to provide relief for state-controlled entities should be extended to include associates of the state.

Annual improvements process

The Board discussed two issues for the annual improvement process. This process is intended to eliminate inconsistencies between standards and to clarify wording. Proposed amendments to standards resulting from this process will be collected and published in a single exposure draft each year. The first batch of proposed improvements will be published in October 2007.

Investment property under construction

Investment property under construction is excluded from the scope of IAS 40 *Investment Property*. The Board tentatively decided to amend IAS 40 and IAS 16 to include investment property under construction within the scope of IAS 40.

Contingent rents

The IFRIC asked the Board to clarify the treatment of contingent rents relating to operating leases under IAS 17 *Leases*. A literal interpretation of the standard indicates that contingent rents should be recognised on a straight-line basis over the lease term. However, this is inconsistent with the accounting for contingent rents in finance leases. The Board tentatively decided to amend IAS 17 to require contingent rents relating to operating leases to be recognised as incurred.

Intangible assets research project

The Board discussed the scope, approach and timetable of the intangible assets research project, which is being led by the Australian Accounting Standards Board, in the context of the Memorandum of Understanding between the FASB and the IASB.

The Board decided that the project's objective should be to develop material that will facilitate an agenda decision at the Board's meeting in December 2007 on the scope and timing of an active agenda project addressing the initial accounting for internally generated intangible assets and the subsequent accounting for all intangible assets. Board members observed

that these topics have the greatest potential to result in improvements to the present requirements. The project will not encompass the requirements for the initial accounting for intangible assets acquired separately or in a business combination, or the initial and subsequent accounting for goodwill.

Next steps

The project team has made substantial progress on draft papers addressing the technical feasibility of applying the principles for the initial accounting for intangible assets acquired in a business combination to the same type of intangible assets that are internally generated. The Board intends to consider these papers in January 2007.

Extractive activities

The Board held its third education session on the extractive activities research project.

At this session, the project team discussed the suitability of fair value as the measurement objective in accounting for minerals and oil and gas reserves and resources. The team had consulted extensively with the project's international advisory panel and others on the measurement of reserve and resource volumes and values. Several concerns with estimating fair value for reserves and resources were identified, in particular:

- the uncertainties inherent in the assumptions required to estimate the volume and fair value of reserves and resources; and
- the effort required to estimate fair value as at the reporting date for an entity's reserve and resource assets in time to meet financial reporting deadlines.

The Board acknowledged difficulties in estimating fair value of reserve and resource assets. However, the Board agreed with the project team that historical cost does not provide the most relevant information for these assets. Therefore, the Board asked the project team to further research current value approaches as potential measurement bases. This research is to include consideration of current value methodologies that contain as many attributes of fair value as possible, but address the identified difficulties.

The Board also noted that it does not consider disclosing value-based information about reserves and resources is an acceptable alternative to recognition.

The Board acknowledged the contribution made by the advisory panel and other industry participants and encouraged the project team to continue to obtain further input from those parties as the project progresses.

Revenue recognition

In preparation for its meeting with the FASB, the Board discussed a paper considering (a) a revised approach for undertaking this project and (b) the nature of the initial due process document planned for issue next year. No decisions were made.

Short-term convergence: segment reporting

The Board discussed the following sweep issues arising from Board members' comments on the pre-ballot draft of the IFRS:

- Disclosure of information about major customers – entities under common state control
- Definition of listed companies

Disclosure of information about major customers – entities under common state control

The pre-ballot draft specified that a group of entities known by the reporting entity to be under common control be treated as a single customer. It also required a government and its controlled entities to be treated as a single customer, unless the existence of common state control has no impact on the terms of the entities' transactions with the reporting entity. The Board decided that determining the impact of control on transactions was not operational. The Board decided instead that the IFRS should require a group of entities known to the reporting entity to be under control of a government (national, state, provincial, territorial, local or foreign) to be treated as a single customer. The Board noted, however, that its decision is an interim solution because a similar issue is being discussed in IAS 24 *Related Party Disclosures*. When the proposals on IAS 24 are finalised, a consequential amendment to IFRS 8 will be considered to ensure consistent treatment of both issues.

Definition of listed companies

The Board decided that the scope paragraph should describe listed entities in the same way as paragraph 10 of IAS 27 *Consolidated and Separate Financial Statements*. The Board decided that the consequential amendment to IAS 33 *Earnings per Share* should be consistent with IAS 27.

IFRIC D17 IFRS 2 Share-based payment

The IFRIC asked the Board to approve for issue a final interpretation based on D17 IFRS 2 – *Group and Treasury Share Transactions*. Subject to some minor drafting points, the Board approved the Interpretation for issue.

IFRIC Service concession arrangements

The Board considered a request by the IFRIC to approve for issue an Interpretation that had been developed after review of comments received on D12–D14. The Board was satisfied that the proposed Interpretation correctly applied the IFRSs relevant to service concession contracts and gave clear and thorough explanations of its rationale. The Board noted that the project was by far the largest that the IFRIC had been asked to undertake and in many ways resembled a Board project. For this reason, before giving formal approval, the Board decided to invite those who had been following the IFRIC's work to express their views on the proposed Interpretation at a public meeting. In order not to delay finalisation of the project, the meeting would be held at an early date, if possible during the Board week in November. In the meantime, the draft considered by the Board would be posted on the IASB's Website as a near-final draft.

Joint Meeting – IASB and FASB

The IASB also met with the Financial Accounting Standards Board in a joint meeting on 23 and 24 October.

Insurance

The IASB staff summarised progress on phase II of the IASB's project on insurance contracts. No decisions were taken.

The IASB and the FASB are using the modified joint approach for this project. Under that approach, the IASB will publish for public comment a discussion paper containing its preliminary views. The FASB plans to seek input from its constituents on the IASB's preliminary views by publishing an Invitation to Comment containing the IASB's discussion paper. The FASB will use the comments it receives in deciding whether to add to its agenda a joint project with the IASB to develop a comprehensive standard on accounting for insurance contracts.

The IASB expects to publish its discussion paper in the first quarter of 2007. The FASB expects to publish its Invitation to Comment shortly afterwards, also during the first quarter of 2007.

Conceptual framework

At the joint meeting, the boards discussed:

- procedures for finalising the common conceptual framework
- project status and near-term plans, with a focus on the elements and recognition phase
- measurement bases in an introduction to Milestone I of Phase C Measurement.

The boards agreed that each board, within the context of its current GAAP hierarchy, will finalise the common framework as parts (chapters) are completed and noted that later parts may include consequential amendments to earlier parts. The boards noted that the decision of how to finalise the joint framework may need to be addressed when the boards discuss the placement of the framework within the IASB and FASB hierarchies.

On Phase B Elements and Recognition, the boards supported the staff's plan to consult on an informal basis selected technical experts, as well as the boards' advisory committees, about the definition of an asset while continuing work on remaining milestones within Phase B. The boards were also updated on the status and near-term plans for the framework project.

The boards discussed an inventory of current and proposed measurement bases for assets and liabilities, including new or revised terminology and definitions that might alleviate problems of communicating about measurement bases during the conceptual framework project. The boards generally supported the staff's work, but made no decisions about the inventory or terminology. The staff will continue to work on the inventory and terminology. Those items also will be included in the measurement round-table discussions scheduled for January and February 2007. After the round-tables and further refinement by the staff, the material discussed at the joint meeting will be taken to the boards again for their decisions.

Business Combinations II

Measurement attribute for business combinations

The FASB published SFAS 157 *Fair Value Measurements* in September 2006. The IASB plans to issue a discussion paper about fair value measurements by the end of this year. The IASB decided that in the final business combinations standard the term fair value should be as defined in IFRS 3. The IASB will revisit the measurement attribute in a business combination when it has concluded its deliberations on fair value measurements. The FASB did not make a decision on the measurement attribute, preferring to wait until the staff has considered whether there are likely to be material differences between fair value measured in accordance with IFRS 3 definition and fair value measured in accordance with SFAS 157.

Measurement of non-controlling interests

The boards also discussed the measurement attribute for non-controlling interests. The staff recommended the boards to decide on a measurement attribute for non-controlling interests, rather than describe the methodology for measuring non-controlling interests as proposed in the exposure draft. The boards asked the staff to develop this approach further. The boards also asked the staff to assess the implications of measuring non-controlling interests at fair value and of allowing an exception to this measurement principle.

Revenue recognition

The boards considered the nature of the due process document on revenue recognition that is planned for publication next year.

Over the past four years, the boards have been developing an asset and liability model for revenue recognition. In this model, revenue is viewed as a function of changes in assets and liabilities, consistent with the existing definition of revenue, and not overridden by tests based on the notions of realisation and the completion of an earnings process. Furthermore, the boards have narrowed the possible implementation of the asset and liability model to two broad models. In one (the fair value model) the performance obligations are initially measured at fair value, and in the other (the customer consideration model) they are initially measured by allocating the customer consideration amount.

The boards decided that the due process document should explain, illustrate and compare these models. They also decided that the staff (in consultation with board members) should develop the models before bringing them to the boards for evaluation, discussion and possible additional development.

Memorandum of Understanding

The boards discussed the state of work on projects included in their Memorandum of Understanding. No decisions were made. Board members emphasised the importance of timely completion of the Business Combinations standard.

Financial statement presentation

The boards continued their discussion of the application of the working principles to the statements of financial position, recognised income and expense, and cash flows of a non-financial institution.

The financing section and investing category

The boards agreed that in addition to equity, the financing section should include financial liabilities and financial assets (as defined in the standards) that management views as part of the financing of the entity's business activities; those items are referred to as financing assets and liabilities. Financing assets and related changes would be classified in the financing asset category in each of the financial statements. Financing liabilities and related changes would be classified in the financing liability category in each of the financial statements.

The boards agreed that the investing category in the business section should include assets and liabilities not classified in the financing section that management views as not integral to the entity's main business activities (referred to as investing assets and liabilities). Investing assets and liabilities and related changes would be classified in the investing category in each of the financial statements.

The boards directed the staff to develop similarly broad guidelines for classifying assets and liabilities in the operating category in the business section and agreed that an entity should be required to explain, as a matter of accounting policy, its basis (or bases) for classifying assets and liabilities in the financing categories, the investing category, and the operating category. Any change in the basis of classification would be viewed as a change in accounting policy and would require a restatement of financial statements of prior periods.

The boards agreed that the financial statement presentation project should address pension-related presentation issues, based on the current net reporting requirements for pensions, in both the statement of financial position and the statement of recognised income and expense. Thus, an entity's net pension obligation (or asset) would be classified in a single category in the statement of financial position (presumably the operating category) and the related net pension cost and cash flows would be classified in that same category in the statements of recognised income and expense and cash flows, respectively.

Presenting information about the short-term and long-term nature of assets and liabilities

The boards agreed that an entity should be required to present short-term and long-term subcategories in each of the categories or sections on the face of the statement of financial position. An asset or liability would be classified as short-term if the shorter of its (a) contractual maturity and (b) expected realisation or settlement is within one year. An entity with an operating cycle longer than one year would be encouraged to describe its operating cycle in the notes to financial statements.

Given that decision, the boards agreed that no other information about liquidity should be required to be presented in the financial statements except for details of the maturities of long-term assets and liabilities that have a contractual term (such as contractual receivables and lease obligations). That information would be presented in the notes to financial statements. Total short-term assets, total long-term assets, total assets, and similar totals for liabilities also would be disclosed in the notes to financial statements.

The boards confirmed that deferred taxes would be classified as short-term or long-term on the basis of the classification of the related asset or liability (the approach used in SFAS 109 *Accounting for Income Taxes*).

Measurement

The boards agreed to proposed modifications to the project working principle related to measurement. In applying that working principle, the boards agreed that an entity should disclose in the summary of significant accounting policies information about the measurement bases of the assets and liabilities presented on the statement of financial position. The boards also agreed that a line item in the statement of financial position should not include assets or liabilities that are measured differently.

The boards agreed that the financial statement presentation standard should include a general requirement for the notes to financial statements to describe any significant uncertainty in the current measure of assets and liabilities and explain why the measured amount was selected.

The boards agreed that the financial statements should provide information that will allow a user to distinguish between the various changes in assets and liabilities, noting that some are due to fair value changes and changes in estimates (ie remeasurements) while other changes in assets and liabilities are not due to remeasurements, but are due to cash transactions or accruals. The boards directed the staff to consider which types of changes should be presented separately, which should be aggregated, and the manner in which that information should be presented.

Other recognised income and expense and the mechanism of recycling

The boards agreed that the project should develop a financial statement presentation format that would accommodate their long-term goal of having all recognised income and expense items classified in the same manner. However, in the short term, it might be necessary to keep some recognised income and expense items in a separate section of the statement of recognised income and expense.

The boards agreed that in the long term none of the subtotals on the statement of recognised income and expense should have a 'timing' difference; in other words, the subtotals should be based on changes in assets and liabilities that have occurred in the current period, thus the mechanism of recycling should be eliminated. However, in the short term the changes in assets and liabilities that are currently reclassified (recycled) between other recognised income and expense and profit or loss might need to be shown separately from the current period changes. The boards acknowledged that given those decisions and the proposed working format there would not be a profit or loss subtotal in the statement of recognised income and expense.

Recognising that changes to current standards that give rise to other recognised income and expense items will need to be made to achieve those long-term goals, the boards directed the staff to develop a presentation format that could be used in the interim (until the long-term goal can be achieved). The boards also directed the staff to develop a plan for achieving that long-term goal, such as whether those issues would be addressed in separate projects or as part of the financial statement presentation project.

Liabilities and equity

The FASB staff summarised the current status of the FASB's liabilities and equity project by presenting three possible accounting approaches for financial instruments with characteristics of liabilities, assets and equity.

- The ownership settlement approach
- The ownership approach (a narrower view of equity)
- The reassessed expected outcomes approach

No decisions were taken. The FASB and the IASB are using the modified joint approach for this project. The FASB expects to publish for public comment its preliminary views in May 2007. The IASB plans to seek input from its constituents by issuing an invitation to comment on the FASB preliminary views document.

Meeting dates: 2006 and 2007

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

2006

13—17 November

11—15 December

2007

22—26 January

19—23 February

19—23 March

16—20 April

23—24 April (joint with FASB)

14—18 May

18—22 June

16—20 July

17—21 September

15—19 October

22—24 October (joint with FASB), Norwalk, Connecticut, USA

12—16 November

10—14 December