International Accounting Standards Board®

Press Release

London, Tuesday, 31 July, 2001

IASB Announces Agenda of Technical Projects

After extensive consultation with its Standards Advisory Council, national accounting standard setters, regulators, and other interested parties, the International Accounting Standards Board (IASB) today announced its initial agenda of nine technical projects.

IASB Chairman, Sir David Tweedie, observed, "The IASB was formed with a clear mandate – to promote convergence on a single set of high-quality, understandable, and enforceable global accounting standards. This is the first step towards that goal. Four projects provide leadership or convergence, which of course is our Board's primary purpose, two others are designed to make existing standards easier to apply, and three more aim to improve the basic standards we inherited from our predecessor organization. We're on our way."

Projects intended to provide leadership and promote convergence include:

- Accounting for Insurance Contracts
- Business Combinations
- Performance Reporting
- Accounting for Share-Based Payments

Projects intended to provide for easier application of International Financial Reporting Standards include:

- Guidance on First-Time Application of International Financial Reporting Standards
- Activities of Financial Institutions: Disclosure and Presentation

Projects intended to improve existing International Financial Reporting Standards include:

- Preface to International Financial Reporting Standards
- Improvements to Existing International Financial Reporting Standards
- Amendments to IAS 39, *Financial Instruments: Recognition and Measurement*

In addition to these, 16 other issues are being worked on by one or more of our national standard setting partners. The IASB will be working with these partners, or at least monitoring these efforts, in order to ensure that any differences among national standard setters or with the IASB are identified and resolved as quickly as possible.

In commenting on this second group of issues, Sir David said, "This shows the strength of our liaison relationship with national standard setters. We intend to operate as a partnership. We could never deal with all of these issues alone, but we can pool resources, monitor each others' work and develop new standards together as we seek to remove the major differences between our existing standards."

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The International Accounting Standards Board based in London, UK, was instituted earlier this year. It is funded by contributions from central banks, the major accounting firms, financial institutions and industrial companies throughout the world. Its 14 Board Members (12 of whom are full time) come from nine countries and have a variety of functional backgrounds. The Board is committed to developing, in the public interest, a single set of global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of the is objective, the Board cooperates with national accounting standard setters to achieve convergence in accounting standards around the world.

For Press Enquiries: **Sir David Tweedie**, IASB Chairman, Telephone: +44 (020) 7246 6480
Thomas Jones, IASB Vice-Chairman, Telephone: +44 (020) 7246 6446

In Australia: **Warren McGregor,** Telephone: +61 39 707 0449
In Canada: **Tricia O'Malley,** Telephone: +1 (416) 204 3314
In France: **Gilbert Gelard**¸ Telephone**:** +33 1 53 44 52 10
In Germany: **Hans-Georg Bruns,** Telephone: +49 30 20 64 12 20
In Japan: **Tatsumi Yamada**, Telephone: +81 33 818 5722
In South Africa: **Robert Garnett,** Telephone: +27 (011) 622 6655
In Switzerland: **Harry Schmid,** Telephone: + 41 21 943 2747

In the United Kingdom:

Geoff Whittington, Telephone: +44 (020) 7246 6410

In the United States of America:

James Leisenring, Telephone: +1 (203) 847 0700 Ext. 232
Tony Cope, Telephone: +1 (508) 748 6601
Mary Barth¸Telephone: +1 (650) 723 8536
Robert Herz, Telephone: +1 (973) 236 7217

BACKGROUND INFORMATION, PROJECTS ON THE INITIAL IASB AGENDA

Accounting for Insurance Contracts

Insurance is an increasingly global business and insurance accounting varies considerably across jurisdictions. A number of jurisdictions have little or no guidance on the accounting for insurance contracts in general-purpose financial statements. This project will seek to develop a standard on accounting for insurance contracts that is consistent with the conceptual framework definitions of assets and liabilities.

Business Combinations

Business combination accounting is an area of considerable divergence across jurisdictions. The first phase of this project is intended to converge existing standards on the definition of a business combination, the appropriate method(s) of accounting for a business combination (purchase or pooling/merger accounting), and the accounting for goodwill and intangible assets acquired in a business combination. This project could result in the amendment or replacement of IAS 22, *Business Combinations*.

Performance Reporting

This project will address broadly the issues related to the display and presentation in the financial statements of all recognized changes in assets and liabilities from transactions or other events except those related to transactions with owners as owners (comprehensive income). Thus, it will consider items that presently are reported in the income statement, cash flow statement, and statement of changes in equity. Issues addressed in this project include distinguishing revenues and expenses from other sources of comprehensive income or expense, reporting of holding gains and losses, and distinguishing operating and nonoperating items.

Accounting for Share-Based Payments

Share-based compensation plans are becoming more prevalent worldwide. Few countries have standards for recognition and measurement of share-based payment and many believe that those standards that do exist are inadequate or outdated. The IASB has the opportunity to provide leadership and a basis for convergence. This project will seek to develop a standard on all aspects of accounting for share-based payments to employees (including employee stock options and their repricing), suppliers, creditors, and others.

Guidance on First-Time Application of International Financial Reporting Standards

In the coming years, entities in many jurisdictions will adopt international financial reporting standards for the first time. The problems faced by an entity that adopts an entire accounting regime for the first time are somewhat different from those faced by an entity that adopts an individual change in an existing body of accounting standards. Some constituents, including public accounting firms and entities in Europe, have expressed concerns about the complexity of this task and the existing guidance on first-time application. The Board plans to review the existing guidance with an eye to developing an approach that is both workable and conceptually sound.

Activities of Financial Institutions: Disclosures and Presentation

This project will update existing requirements related to disclosing information and presenting financial statements that reflect the specific characteristics of the business activities of banks and other institutions whose business is to take deposits, grant credits or provide other financing or investment services. This project has been supported by both financial institutions and the Basel Group of regulators as a way to bring together existing and forthcoming requirements from different organizations.

Preface to International Financial Reporting Standards

The *Preface to Statements on International Accounting Standards* was last revised in 1982. The revisions under consideration reflect changes in the *IASC Constitution* and Board decisions about the format and style of future International Financial Reporting Standards (IFRS). The Board expects to expose the proposed changes for public comment in the near future.

Improvements to Existing International Financial Reporting Standards

The objective of an improvements project is to add clarity and consistency to the requirements of existing Standards issued by the Board's predecessor. The specific topics to address come from information already provided by sources such as International Organization of Securities Commissions, comparisons of international and national standards undertaken by various organizations, national standard setters, and the Standarding Interpretation Committee. The

Board intents to address these issues immediately so that companies adopting IFRSs for the first time will not be faced with significant additional change after they adopt.

Amendments to IAS 39, *Financial Instruments: Recognition and Measurement*

In this project, the Board will consider amendments designed to clarify application of IAS 39, based on issues identified by constituents and the IAS 39 implementation guidance committee.

BACKGROUND INFORMATION, OTHER TOPICS

The IASB has identified 16 topics being studied by one or more national accounting standard setters. In some cases, that work involves analysis of comments received on earlier discussion documents. In other cases, the work involves the initial definition of the problem, the issues, and the possible solutions. The Board expects to consider adding these projects to its agenda in the future.

Accounting Measurement

This project would seek to resolve issues related to selection of the appropriate measurements of items recognized in the financial statements. The project would be likely to result in amendment or expansion of the discussion of measurement in the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*).

Accounting by Extractive Industries

The extractive industries (mining and oil and gas production) are an important economic sector in many economies and few jurisdictions have standards in this area. This project would seek to develop an internationally acceptable approach to resolving accounting issues in the extractive industries.

Accounting for Financial Instruments, Comprehensive Project

Under IAS 39, some financial assets and liabilities are measured at cost, while others are measured at fair value. The IAS 39 "mixed-attribute" measurement model leads to a number of difficulties and complexities, and this project could consider moving toward a fair value model for measurement of virtually all financial instruments. The result would be an IFRS to replace all or most of IAS 39 and, perhaps, amend IAS 32, *Financial Instruments: Disclosure and Presentation.*.

Accounting for Leases

Leasing is a global business, and differences in accounting standards can lead to considerable noncomparability. This project would seek to improve the accounting for leases by developing an approach that is more consistent with the conceptual framework definitions of assets and liabilities. The project would result in an amendment or replacement of IAS 17, *Leases*.

Accounting by Small and Medium Entities and in Emerging Economies

This project would explore whether there is a need for special guidance to clarify financial reporting requirements in the context of financial reports used in emerging economies or for certain types of enterprises, for example, for small enterprises or for privately-held enterprises.

Accounting for Taxes on Income (Convergence Topics)

This project would examine the differences in accounting for income taxes in the accounting literature of various jurisdictions.

Business Combinations, Phase Two

The objective of this project would be to develop a single standard to converge the approaches in various existing standards on the accounting procedures for business combinations including issues such as purchase price allocation, liability and asset recognition at date of combination, contingent consideration, planned restructurings, transactions involving entities under common control (including joint ventures), step acquisitions, and new-basis issues.[1] This project would result in the amendment of IAS 22 or the issuance of a new IFRS with guidance to supplement IAS 22. Another group of issues involve questions broadly described as business combination or consolidation "procedures" and would be considered in either this project or a separate stage of a consolidations project.

Consolidation Policy

The objectives of this project would be to reconfirm the basis upon which an entity should consolidate its investments and to provide more rigorous guidance around the concept of "control." Most standard setters (including the IASB) have identified control as the appropriate basis for consolidation, however, there appear to be differences in the way "control" is interpreted in deciding whether consolidation is required. The end product would likely amend or supplement IAS 27, *Consolidated Financial Statements and Accounting for Subsidiaries*.

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[1] *New-basis* refers, for example, to the situations in which assets contributed to a joint venture or other entity are measured at their fair value (new basis) rather than at the amount at which they were measured in the transferor's financial statements (carryover basis).

Definitions of Elements of Financial Statements

This project would explore similarities and differences between the definitions of the elements (assets, liabilities, equity, revenues, expenses, gains, and losses) in the existing conceptual frameworks of the IASB and national standard setters to determine whether there are differences that are impediments to convergence.

Derecognition Issues, Other Than Those Addressed in IAS 39

Derecognition refers to the removal of an asset or liability (or a portion thereof) from an entity's balance sheet. Derecognition questions can arise with respect to all types of assets and liabilities and often arise in connection with off-balance-sheet financing schemes. Derecognition questions also arise when considering certain special purpose entities and whether those entities should be included in a set of consolidated financial statements.

Employee Benefits (Convergence Topics)

This project would examine the differences in accounting for employee benefits (including retirement benefits) in the accounting literature of various jurisdictions.

Impairment of Assets

This project would examine a limited number of issues addressed in existing standards on impairment in various jurisdictions to arrive at a common resolution. Issues might include: use of impairment triggers, definition of impairment, and reversals of impairment losses. A final product on this project would likely amend IAS 36, *Impairment of Assets.*

Intangible Assets

This project would seek to develop a consistent approach to recognition and measurement of intangible assets, including purchased and internally generated intangible assets not related to a business combination. Although many support the approach taken in IAS 38, *Intangible Assets,* many also are concerned that guidance in IAS 38 is not sufficiently robust. The project would result in an amendment or replacement of IAS 38.

Liabilities and Revenue Recognition

This heading includes three potential projects that are grouped here under a single heading because of the significant relationships between the issues in each.

- The first project would explore the distinction between liabilities and equity.

- The second project would explore liability recognition, including the need for more robust guidance on whether an item meets the definition of a liability and, if so, under what circumstances it should be recognized in the financial statements.

- The third project would seek to establish workable general principles as a basis for determining when revenue should be recognized in the financial statements.

Management's Discussion and Analysis

This project would explore whether the IASB should provide guidance on the presentation of information presented outside the financial statements in the form of management's explanation of the enterprise's financial condition, changes in financial condition, results of operations, and causes of changes in material line items.

Revaluations of Certain Assets

This project would seek to converge the various approaches in different jurisdictions to accounting for revaluations of assets. It would be a limited-scope project to ensure that whenever and wherever revaluations are permitted they are measured and reported consistently and in a comparable fashion.