BOARD DECISIONS ON INTERNATIONAL FINANCIAL REPORTING STANDARDS

IASB UPDATE

July 2003

The International Accounting Standards Board met in London on 22 – 24 July 2003, when it discussed:

- Business combinations
- Convergence issues
- Disclosures of risks arising from and other disclosures relating to financial instruments
- Financial instruments
- Improvements to existing IFRSs
- Measurement objectives
- Reporting comprehensive income
- Revenue recognition
- Share-based payment
- Small and medium-sized entities

Business combinations (phase I)

Analysis of comments received on ED 3

The Board continued its consideration of the analysis of comments received on goodwill issues in ED 3 *Business Combinations*, and related issues of testing for and recognising impairment of goodwill exposed in [draft] IAS 36 *Impairment of Assets*. The Board also considered an analysis of the main issues raised during the field visits and roundtable discussions on the following:

- allocating goodwill to cash-generating units for impairment testing purposes
- measuring the recoverable amount of a cash-generating unit to which goodwill has been allocated (ie the first step of the impairment test)
- allocating an impairment loss for a cash-generating unit to the assets in that unit (ie the second step of the impairment test).

Initial recognition of goodwill

The Board considered whether goodwill acquired in a business combination should be recognised as an asset. The Board reaffirmed its previous conclusion that when goodwill is measured as a residual, it could comprise any one or more of the following components:

- the fair value of the 'going concern' element of the acquiree.
- the fair value of the expected synergies and other benefits from combining the acquiree's net assets with those of the acquirer.
- overpayments by the acquirer.
- measurement errors.

The Board agreed that the first two of these elements meet the *Framework*'s definition of an asset, and that, because it is not feasible to disaggregate the residual measure into its component parts, the total amount of the residual should be recognised as an asset.

Subsequent accounting for goodwill

Measuring goodwill at cost less accumulated impairment losses

ED 3 proposed to prohibit amortisation of goodwill. Instead it would be measured at cost less accumulated impairment losses. The Board noted that its previous decision to adopt a non-amortisation approach for goodwill was contingent on its ability to devise a sufficiently rigorous yet operational impairment test. Therefore, the question of whether goodwill should be amortised is inextricably linked to the form of the goodwill impairment test. After considering the comments received on the proposed subsequent accounting for goodwill, including the proposed 'two step' impairment test (see below), the Board reaffirmed its previous decision that goodwill should not be amortised but instead should be measured at cost less accumulated impairment losses.

Determining whether goodwill is impaired

[Draft] IAS 36 proposed that the recoverable amount of a cash-generating unit to which goodwill has been allocated should be measured as the higher of the unit's value in use and net selling price. The Board confirmed this decision, concluding that it should not adopt a measure of recoverable amount different from that currently in IAS 36 (higher of value in use and net selling price) until the Board resolves the broader issue of the appropriate measurement objective(s) in accounting.

[Draft] IAS 36 proposed a 'two-step' approach for impairment testing goodwill. The first step involves using a screening mechanism for identifying potential goodwill impairments, whereby goodwill allocated to a cash-generating unit would be identified as potentially impaired only when the carrying amount of the unit exceeds its recoverable amount. If an entity identifies the goodwill allocated to a cash-generating unit as potentially impaired, the second step involves measuring the amount of the impairment loss (if any) for the goodwill. The Exposure Draft proposed that the amount of the impairment loss for goodwill would be measured as the excess of the goodwill's carrying amount over its implied value. The Exposure Draft proposed measuring implied value of goodwill as the excess of the recoverable amount of the cash-generating unit to which the goodwill has been allocated, over the net fair value of the identifiable assets, liabilities and contingent liabilities the entity would recognise if it acquired that cash-generating unit in a business combination on the date of the impairment test.

The Board noted that it was the second step of the proposed impairment test and the method for measuring any impairment loss for the goodwill that caused the greatest concern for both respondents and field visit participants. The Board noted that the impairment model proposed in the Exposure Draft,

(continued...)

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Business combinations (phase I) *(continued)*

although based on the ‘two-step’ approach included in FASB Statement 142 *Goodwill and Other Intangible Assets*, differed from the FAS 142 test and would be unlikely to result in convergence for the following reasons:

- the recoverable amount of a unit to which goodwill is allocated under the IASB’s proposal would be the higher of the unit’s value in use and net selling price, rather than fair value. Board members noted that many of the field visit participants that were US registrants stated that the measure of recoverable amount they would use under the IASB’s proposals would differ from the fair value measure they would be required to use under FAS 142.
- the level at which goodwill is tested for impairment under FAS 142 will often be higher than the level at which it would be tested under the IASB’s proposals. Board members noted that many of the field visit participants that were US registrants stated that, under the IASB’s proposals, goodwill would be tested for impairment at a *lower* level than under FAS 142 either because of (i) the limit FAS 142 places on how far goodwill can be ‘pushed down’ for impairment testing (one level below an operating segment); or (ii) the requirement in FAS 142 to aggregate components with similar economic characteristics. Nevertheless, these participants unanimously agreed that the IASB’s approach provides users and management with more useful information. Board members also noted that many of the North American roundtable participants stated that they (or, in the case of the audit firm participants, their clients) manage and have available information about their investments in goodwill at a level lower than a reporting unit as defined in FAS 142. Many of these participants expressed a rather high level of dissatisfaction at being prevented under FAS 142 from recognising goodwill impairments that they knew existed at these lower levels, but which ‘disappeared’ once the lower level units were aggregated with other units containing sufficient ‘cushions’ to offset the impairment loss.

The Board also noted that, unlike the FASB, it had, as its starting point, an impairment model in IAS 36 that integrates the impairment testing of *all* assets within a cash-generating unit, including goodwill. Unlike US GAAP (which uses an undiscounted cash flow screening mechanism for impairment testing long-lived assets other than goodwill), IAS 36 requires the recoverable amount of an asset or cash-generating unit to be measured *whenever* there is an indication of possible impairment. Therefore, if at the time of impairment testing a ‘larger’ unit to which goodwill has been allocated there is an indication of a possible impairment in an asset or ‘smaller’ cash-generating unit included in that larger unit, an entity is *required* to test that asset or smaller unit for impairment first. Consequently, the Board agreed that it would be reasonable to presume that an indicated impairment loss for the larger unit would, after assessing all other assets and smaller units for impairment, be likely to relate to the goodwill in the unit.

The Board also was not convinced that the FAS 142 approach to impairment testing goodwill would provide information that was superior to an approach under which goodwill is tested for impairment at a lower level (thereby removing many of the ‘cushions’ protecting the goodwill from impairment) but with the amount of any impairment loss for goodwill measured in accordance with the current ‘one-step’ approach in IAS 36.

The Board concluded that the complexity and costs of applying the two-step approach proposed in the Exposure Draft would outweigh the benefits of that approach. The Board therefore agreed to retain the current IAS 36 approach to measuring impairments of goodwill. Thus any excess of the carrying amount of a cash-generating unit to which goodwill has been allocated over its recoverable amount would be recognised as an impairment loss for goodwill. Any excess remaining after the carrying amount of goodwill has been reduced to zero would be recognised by being allocated to the other assets of the unit pro rata to their carrying amounts.

Allocating goodwill to cash-generating units

The Board considered an analysis of the comments received on the proposal that:

- the carrying amount of goodwill should, for impairment testing purposes, be allocated to each of the cash-generating units to which a portion of that carrying amount can be allocated on a reasonable and consistent basis;
- a portion of the carrying amount of goodwill should be regarded as capable of being allocated to a cash-generating unit on a reasonable and consistent basis only when that cash-generating unit represents the lowest level at which management monitors the return on investment in assets that include the goodwill. That cash-generating unit cannot be larger than a segment based on the entity’s primary reporting format determined in accordance with IAS 14 *Segment Reporting*.

The Board confirmed that its intention was that there should be a link between the level at which goodwill is tested for impairment and the level of internal reporting that reflects the way an entity manages its operations. The Board noted, however, that respondents’ and field visit participants’ comments indicated that the Board’s intention relating to the level of the test had been widely misunderstood, with many concluding that testing would need to be performed at a much lower level than intended.

The Board also noted the comment from a number of respondents and field visit participants that for some organisations, particularly those managed on a matrix basis, the proposal for cash-generating units to which the goodwill is allocated to be no larger than a segment based on the entity’s *primary* reporting format could result in an outcome that is inconsistent with the Board’s intention—ie that there be a link between the level at which goodwill is tested for impairment and the level of internal reporting that reflects the way an entity manages its operations. The following example illustrates this point:

> A company managed on a matrix basis is organised primarily on a geographical basis, with product groups providing the secondary basis of segmentation. Goodwill is acquired as part of an acquisition of a product group that is present in several geographical regions, and is then monitored on a continuing basis for internal reporting purposes as part of the product group/secondary segment. It is feasible that the secondary segment might, depending on the definition of ‘larger’, be ‘larger’ than a primary segment.

The Board therefore agreed:

- to redraft paragraphs 73-77 of [draft] IAS 36 to reflect better its intention relating to the level of the test, and to clarify that acquired goodwill shall, from the acquisition

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date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.
- to replace the proposal that cash-generating units or groups of units to which goodwill is allocated should be no larger than a segment based on the entity's *primary* reporting format, with the requirement that they should be no larger than a segment based on either the entity's primary or secondary reporting format.

The Board also considered comments on the proposed allocation of goodwill when an entity reorganises its reporting structure or disposes of an operation within a cash-generating unit to which goodwill has been allocated. The Board agreed to modify its proposals as follows:

- if an entity disposes of an operation within a cash-generating unit and goodwill has been allocated to that cash-generating unit, the goodwill associated with the operation disposed of shall be measured on the basis of the relative values of the operations disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.
- if an entity reorganises its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the way in which the goodwill has been reallocated.

Frequency and timing of impairment tests

In relation to the *frequency* of impairment testing, the Board reconfirmed its decision that an entity should:

- assess at each balance sheet date whether there is any indication that an asset (including goodwill or an intangible asset with an indefinite useful life) may be impaired and
- impairment test annually acquired goodwill and intangible assets that have indefinite useful lives or are not yet available for use.

In relation to the *timing* of impairment tests for goodwill, the Board confirmed its decision to permit the annual impairment test for a cash-generating unit to which goodwill has been allocated to be performed at any time during an annual reporting period, provided the test is performed at the same time every year.

The Board also decided to amend its proposal on the timing of impairment tests for intangible assets that have indefinite useful lives or are not yet available for use to be consistent with that for goodwill, instead of requiring the impairment tests to be carried out at the *end* of each annual reporting period.

Measuring value in use

The Board confirmed its decision to clarify in the Standard that the following elements should be reflected in an asset's value in use:

- an estimate of the future cash flows the entity expects to derive from the asset
- expectations about possible variations in the amount and/or timing of those future cash flows
- the time value of money, represented by the current market risk-free rate of interest
- the price for bearing the uncertainty inherent in the asset
- other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

The Board also confirmed its decision to clarify in the Standard that the second, fourth and fifth elements can be reflected either as adjustments to the future cash flows or adjustments to the discount rate.

The Exposure Draft proposed in paragraph 27(a)(ii) that the assumptions on which cash flow projections are based should take into account both past actual cash flows and management's past ability to forecast cast flows accurately. The Board considered a number of concerns raised by commentators on this issue and agreed to delete paragraph 27(a)(ii) of [draft] IAS 36, replacing it with a paragraph to clarify that:

- management should assess the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of past differences between actual cash flows and prior forecasts.
- management should ensure the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, taking into account, if appropriate, the effects of subsequent events or circumstances that did not exist when those past actual cash flows were generated.

The Board also considered comments received on the additional guidance in proposed Appendix B to [draft] IAS 36 on using present value techniques in measuring an asset's value in use. The Board reaffirmed its decision to include this guidance in the Standard. However, a number of respondents asked for additional guidance to clarify the role of internal transfer pricing versus prices in an arm's length transaction when developing cash flow forecasts. The Board agreed to address this issue by amending paragraphs 63 and 64 of [draft] IAS 36 so that those paragraphs deal more broadly with cash-generating units whose cash flows are affected by internal transfer pricing, rather than just cash-generating units whose internally consumed output could be sold on an active market.

Reversals of impairment losses for goodwill

The Board confirmed its decision to prohibit reversals of impairment losses recognised for goodwill.

Convergence issues

IAS 12 *Income Taxes*

The Board continued its discussions of differences between the exceptions to the basic principle in IAS 12 *Income Taxes* and FASB Statement 109 *Accounting for Income Taxes*. Currently, IAS 12 provides an exception from the recognition of a deferred tax liability for taxable temporary differences relating to investments in subsidiaries. The Board tentatively decided that this exception should be eliminated. The Board also tentatively decided that an entity should recognise the income tax consequences of all temporary differences arising in the consolidated financial statements. An implication of this decision is that an entity should take into account any taxes payable by a subsidiary on the distribution of earnings to the parent in determining the tax rate to be used to measure its consolidated deferred tax liability.

In addition, the Board tentatively decided to eliminate from IAS 12 the notion of 'branches'. The Board noted that 'branches' are not defined in IAS 12 but the general understanding is that they relate to a separate tax jurisdiction, but not a separate legal entity. Given the Board's decision to eliminate the exception for investments in subsidiaries, it saw no reason to continue to differentiate a 'branch'. Furthermore, this converges with US GAAP.

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IAS 19 Employee Benefits

For defined benefit plans, the Board agreed to require the disclosure of five-year histories of:

(a) the present value of plan liabilities, the fair value of plan assets and the surplus/deficit in the plan and

(b) the experience gains/losses arising on the plan liabilities expressed as (i) an amount and (ii) a percentage of plan liabilities at the balance sheet date.

Disclosures of risks arising from and other disclosures relating to financial instruments

(Formerly referred to as "Financial activities" or "Deposit-taking, lending and securities activities")

Proposed standard and implementation guidance

The Board considered a proposed Standard and Implementation Guidance prepared by the Financial Activities Advisory Group. The proposed Standard builds on the principle that an entity should disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity was exposed during the reporting period and at the reporting date.

The proposed Standard would require disclosure of (a) qualitative information about risk exposures arising from financial instruments, and (b) quantitative data based on management's risk management system. In addition, the proposed Standard would specify minimum disclosures about credit risk, liquidity risk, and market risk (including interest rate risk).

The Board reached the following tentative decisions:

- The application guidance, which would be an integral part of the Standard, should be useful to a broad range of entities and not limited to financial institutions.
- The Standard should apply to all entities. The Board will consider any possible limitations in application as part of the Accounting by Small and Medium-sized Entities Project.
- The Standard should include a requirement to disclose information about collateral obtained.
- The definition of interest rate risk should include both cash flow interest rate risk and fair value interest rate risk.
- When the sensitivity analysis disclosure is unrepresentative of the risk inherent in the financial instrument, information, such as significant terms and conditions whose effect is not otherwise apparent and certain aspects of market risk related to liquidity or the relative size of the holding, should be disclosed.
- Risks other than credit risk, liquidity risk and market risk (eg residual value risk) arising from financial instruments should be disclosed.

The Board also tentatively decided that because the Standard should encompass other risks associated with financial instruments, it should be referred to as 'disclosures of risks arising from financial instruments' rather than 'financial risk disclosures'.

Capital disclosure requirements

The Board confirmed its May 2003 decision that a disclosure requirement should be incorporated in IAS 1 *Presentation of Financial Statements* that focuses on (a) how an entity manages its capital resources and how externally imposed capital requirements (eg by a regulator) are incorporated into the entity's management of its capital resources and (b) when an entity does not comply with externally imposed capital requirements during the period, the consequences and plans for rectification of such non-compliance.

The Board:

- confirmed that the phrase 'externally imposed capital requirements' is appropriate and should remain
- the phrase "shall not be provided to the extent it is not prohibited by law" should not be added to the capital disclosure requirements as had been suggested.

In addition, the Board directed the staff to include an example that illustrates the application of the capital disclosure requirements for a non-financial institution.

Amendments to IAS 32

The Board accepted the proposed amendments to IAS 32 *Financial Instruments: Disclosure and Presentation* that build on the principle that an entity should disclose information that enables users of its financial statements to evaluate the significance of financial instruments to an entity's financial position and performance and include disclosure requirements for:

- balance sheet and income statement amounts aggregated on the measurement basis of the financial asset or financial liability under IAS 39 *Financial Instruments: Recognition and Measurement*
- significant items of income and expense, specifically fee income and expense
- information about the allowance account ("reserve account"), when an allowance account is used instead of recognising an impairment adjustment directly against the asset.

Next steps

The Board confirmed its support for the Advisory Group's proposals and tentatively agreed that the aim is to have a proposed Standard and other amendments published for public comment in mid-2004 and issued early in 2005. The proposed Standard and other amendments would be effective for accounting periods beginning after 1 January 2007, with earlier adoption permitted or encouraged.

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Financial instruments

Improvements to IAS 32 *Financial Instruments: Disclosure and Presentation*

Fair value disclosures

The Board considered a proposal to revise paragraph 77B in the Exposure Draft relating to fair value disclosures. The Board tentatively agreed to clarify that disclosure of sensitivity of a fair value estimated using a valuation technique to *all* valuation assumptions not supported by observable market prices is not required. Rather, the sensitivity disclosure is required only if the fair value is sensitive to a particular assumption, a range of reasonable alternatives for that assumption would produce a materially different result, and that assumption is not supported by observable market values.

The Board also asked the staff to clarify that it is not necessary to reflect all interdependencies between assumptions when making the disclosure.

Transition and effective date

The Board tentatively agreed the following for first-time adopters of IFRSs and those already reporting under IFRSs:

- the effective date would be 1 January 2005
- early adoption would be permitted
- the transitional requirements would require retrospective application.

Improvements to IAS 39 *Financial Instruments: Recognition and Measurement*

Hedge accounting for a portfolio hedge of interest rate risk

In June 2003, the Board tentatively agreed to issue an exposure draft of an amendment to IAS 39. The exposure draft will propose an approach that would permit an entity to use fair value hedge accounting for a portfolio hedge of interest rate risk (see *IASB Update,* June 2003, for more details of the proposed approach). This approach assumes that the entity analyses the portfolio into time periods, with the scheduling being based on expected, rather than contractual, repricing dates.

In July, the Board tentatively agreed the following:

- The hedged item should be designated as a percentage of the assets (or liabilities) in each time period.
- Demand deposits and similar items with a demand feature (referred to below as 'core deposits') cannot be designated as the hedged item in a fair value hedge for any period beyond the shortest period in which the counterparty can demand repayment. The Board noted that this decision was consistent with its tentative decision made in April 2003 that the fair value of a financial liability that the holder can redeem on demand is not less than the amount payable on demand.
- For both of the above decisions, the basis for conclusions on the exposure draft should discuss the alternative approaches the Board considered, the arguments for those approaches and the reasons the Board rejected them. The Board also agreed that the invitation to comment in the exposure draft should ask a question about both these decisions.
- If the entity changes its estimate of the time periods in which items are expected to repay or mature (eg in the light of recent prepayment experience), ineffectiveness will arise, regardless of whether the revision in estimates results in larger or smaller amounts in a particular time period. The amount of any such ineffectiveness is calculated by applying the initial hedge ratio to the revised estimate of the amount in the time period. For example, assume an entity estimated that it would have 100 of assets in a particular time period and had decided to hedge an amount of 20, using an interest rate swap with a notional principal amount of 20. Assume that the entity then re-estimates the amount of assets as 120. The initial hedge ratio is 20 per cent (20/100 x 100). This percentage is applied to the revised estimate of 120, resulting in a revised hedged item of 24. Ineffectiveness is the difference between the change in fair value of this revised hedged item (24) that is attributable to the hedged risk, and the change in fair value of the hedging derivative (whose notional principal is 20).
- To propose an effective date of 1 January 2005. This is consistent with the effective date the Board tentatively agreed for the rest of IAS 39.
- To propose that the approach set out in the exposure draft should be applied prospectively.
- The comment period for the exposure draft should be no less than 60 days. The Board will try to finalise the exposure draft as quickly as possible to permit a longer comment period. However, the Board agreed that the comment period should end no later than the middle of November, to allow the proposed amendment to be finalised and issued by March 2004.

Miscellaneous issues

Purchased loans. The Board discussed whether IAS 39 should permit purchased loans to be classified as originated loans. The Board tentatively agreed that if an entity buys a loan that meets the definition of a loan originated by the entity (except for the fact that it is purchased), the entity may classify it as an originated loan. The Board also tentatively agreed that if the entity purchases such a loan at a substantial discount, eg because the loan became impaired after its origination, the entity determines the effective interest rate based on the expected repayment amount (rather than the contractual amount).

Transaction costs. The Board discussed whether the definition of transaction costs should be amended. The Board tentatively agreed that transaction costs should be defined as "incremental costs that are directly attributable to the acquisition or disposal of a financial asset or financial liability." The Board also tentatively agreed that the Standard should clarify that transaction costs are included in the measurement of items other than those measured at fair value with changes in fair value recognised in profit or loss.

Loan commitments. The Board discussed whether to proceed with the proposal in the Exposure Draft to exclude from IAS 39 loan commitments that cannot be settled net (unless the entity elects to designate a loan commitment as being measured at fair value with changes in fair value recognised in profit or loss). The Board tentatively agreed to proceed with the proposal, except that a commitment to extend a loan at a below-market interest rate would be initially recognised at fair value, and subsequently measured at the higher of (a) the amount determined under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and (b) the amount initially recognised.

Financial guarantees. The Board discussed whether the scope for financial guarantees in the Exposure Draft should be amended. The Board tentatively agreed that IAS 39 should clarify that financial guarantees are recognised initially at fair value, and subsequently measured at the higher of (a) the amount determined under IAS 37 and (b) the amount initially recognised, until the guarantee is discharged or cancelled, or expires.

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Hedging interest rate risk on held-to-maturity financial assets. The Board discussed whether IAS 39 should permit financial assets that are classified as held to maturity to be hedged items with respect to interest rate risk. The Board tentatively agreed to confirm that financial assets that are classified as held to maturity cannot be hedged items with respect to interest rate risk.

Changes in credit risk in the fair value measurement of financial liabilities. The Board discussed whether to proceed with its tentative decisions that when the option to measure any financial instrument at fair value with changes in fair value recognised in profit or loss is applied to a financial liability, (a) changes in the credit risk of the liability should be included in the change in fair value; and (b) no disclosure should be required of the effect on profit or loss of changes in a financial liability's credit quality. The Board tentatively decided to proceed with its decision that, when the option to measure any financial instrument at fair value with changes in fair value recognised in profit or loss is applied, changes in the credit risk of a financial liability should be included in the change in fair value. However, the Board tentatively agreed that, entities should disclose the amount of change in the fair value of financial liabilities that is not caused by changes in a benchmark risk-free interest rate. Finally, the Board tentatively agreed that IAS 39 should clarify that it is the credit quality of the instrument that affects fair value (not necessarily the creditworthiness of the entity).

Effective interest rate calculations. The Board tentatively agreed to clarify the definition of effective interest rate to be consistent with IAS 18 *Revenue* on fee recognition. When a fee is not an integral part of the effective yield of a financial instrument, the requirements in IAS 18 apply. It also agreed to include in IAS 39 an example, which would demonstrate that if an entity receives fees to compensate for an off-market interest rate, demonstrating that the entity should account for such fees as an adjustment of the effective interest rate and not recognise an upfront fee income.

The Board considered what period should be used when calculating the effective interest rate for financial instruments with a call, put, prepayment or term-extension option. The Board decided to explore further various possibilities at the next meeting, including the consequences of not amending IAS 39.

The Board considered accounting for subsequent changes in the estimated cash flows used to calculate the effective interest rate for groups of financial assets. The Board will consider further in September 2003 whether to clarify that if an entity revises its estimate of the cash flows, it should recalculate the effective interest rate to reflect actual and revised expected payments.

Initial measurement of financial instruments. The Board discussed whether the initial measurement principles of financial instruments as set out in the ED should be changed to those in IAS 16 *Property, Plan and Equipment*. The Board tentatively agreed to retain the initial measurement principles of financial instruments and clarify that the initial measurement is at fair value (plus transactions costs in appropriate cases – see the decision above) even in the rare event that fair value differs from the amount of cash paid or received.

Prospective effectiveness test. The Board discussed whether to amend IAS 39 to permit the prospective effectiveness to be within the range of 80-125 per cent rather than "almost fully offset". The Board tentatively agreed that the principle should be that to qualify for hedge accounting the hedging relation both at inception of the hedge and in future shall be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. A hedge will be regarded as highly effective retrospectively if the results of the hedge are within the range of 80-125 per cent.

Designation of a derivative. The Board discussed whether to change IAS 39 so as to permit a derivative to be designated as a hedging instrument for only a portion of the time period during which the derivative is outstanding. It tentatively agreed not to change IAS 39 to allow such a designation.

IAS 32 and IAS 39: Application/ implementation guidance

The Board discussed how to finalise IAS 39 with respect to questions and answers (Q&As) issued by the IAS 39 Implementation Guidance Committee (IGC). The Board tentatively agreed that for IGCs:

- *incorporated into the Exposure Draft* – to withdraw them.
- *not incorporated into the Exposure Draft* – and the answer is consistent with the Board's tentative decisions in finalising IAS 39 – to retain them in the form of implementation guidance for the revised IAS 39.
- *not incorporated into the Exposure Draft and needing amendment to be consistent with the Board's tentative decisions in finalising IAS 39* – to retain them in the form of implementation guidance for the revised IAS 39 after amending them as necessary to agree with the Board's decisions.
- *not incorporated into the Exposure Draft – and not consistent with the Board's tentative decisions in finalising IAS 39* – to withdraw them.

Transition and effective date

For first time adopters of IFRSs:

For first time adopters of IFRSs, the Board tentatively agreed the following:

- The effective date of the Standard would be 1 January 2005.
- Early adoption of the revised Standard would be permitted.
- The transition to IAS 39 would be as specified in IFRS 1 *First-time Adoption of International Financial Reporting Standards*, except that a first-time adopter who had derecognised financial assets or financial liabilities under its previous GAAP before 1 January 2004 would not be required to recognise those assets and liabilities under IFRSs, unless they qualify for recognition as a result of a later transaction or event. (At present, IFRS 1 requires recognition of financial assets and financial liabilities derecognised under previous GAAP after 1 January 2001.)
- Entities adopting IFRSs for the first time in 2005 would not be required to restate comparative financial statements to incorporate the requirements of IAS 39. However, such entities would be required to provide a reconciliation between amounts recognised at the end of the comparative period (for an entity with a December year-end, 31 December 2004) and those recognised at the beginning of the next period (for an entity with a December year-end, 1 January 2005).

For entities already reporting under IFRSs:

For entities already reporting under IFRSs, the Board tentatively agreed the following:

- The effective date of the amendments would be 1 January 2005.
- Early adoption of the amendments to the revised Standards would be permitted.
- The transition to the amendments to IAS 39 would be as set out in the 2002 Exposure Draft. However, an entity would not be required to reinstate transactions that it had

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derecognised under the current IAS 39 but do not meet the derecognition criteria as clarified in revised IAS 39, provided that such transactions were entered into before 1 January 2004.

Improvements to existing IFRSs

The Board discussed issues on the following Standards revised in its project on 'Improvements to International Accounting Standards':

- IAS 1 *Presentation of Financial Statements*
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 16 *Property, Plant and Equipment*
- IAS 17 *Leases* and IAS 40 *Investment Property*

IAS 1 *Presentation of Financial Statements*

Effects of post-balance sheet events on the classification of liabilities

The Board received a report on the FASB's deliberations on the effect of post-balance sheet events on the classification of liabilities in the context of the two Boards' joint project on Short-term Convergence.

The Board noted that the FASB decided to converge with the IASB position except for the classification of a liability when the entity breached a covenant but the lender agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during that time the lender cannot demand immediate repayment.

The FASB decided that such a liability should be classified as *non-current* at the balance sheet date if by the time the financial statements are authorised for issue it is *probable* that the entity will cure the breach.

In November 2002, the IASB decided that such a liability should be classified as *current* at the balance sheet date unless the breach was cured by the time the financial statements were authorised for issue.

In July 2003, the Board considered whether there should be any exception to the general principle that a liability's classification should be determined by circumstances at the balance sheet date. Thus, if settlement more than twelve months after the balance sheet date is not assured, the liability should be classified as current at the balance sheet date, even if an agreement to refinance the liability or to reschedule the payments on a long-term basis was completed after the balance sheet date.

The Board decided that there should be no exception to this general principle. Therefore, a liability that is in breach of a covenant should be classified as current at the balance sheet date unless, by the balance sheet date, the lender agreed a period of grace that is greater than twelve months after the balance sheet date, even if the breach was cured after the balance sheet date and before the financial statements were issued.

The Board instructed the staff to report this decision to the FASB to determine whether the FASB wishes to redeliberate this issue in view of the Board's decision to eliminate all exceptions to the principle.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The Board noted that the FASB had decided to converge with the Board's decision on the treatment of voluntary changes in accounting policies, ie a voluntary change in an accounting policy should be applied retrospectively with restatement of prior periods presented.

With a view to convergence, the Board considered additional guidance and additional disclosure requirements proposed by the FASB in its revision to APB 20 *Accounting Changes*.

Additional guidance on the meaning of 'impracticable'

The Board decided to include in the revised IAS 8 additional guidance on the meaning of 'impracticable' to clarify that it is impracticable to apply retrospectively a change in accounting policy when:

- the effect of the new accounting policy on prior periods is not determinable,
- the determination of the effect of the new accounting policy on prior periods would require assumptions about management's intent in a prior period, or
- retrospective application of the new accounting policy would require the use of hindsight.

Limited retrospective application when full retrospective application is impracticable

The Board decided to clarify in the definition of 'retrospective application' that when it is impracticable for management to apply the new accounting policy as if it had always been in use, management should apply the new accounting policy to as many prior periods (including prior periods not presented in the financial statements) as practicable.

Additional disclosures for changes in accounting policies

The Board decided that for a voluntary change in accounting policy management should disclose the following information in addition to the disclosure requirements in the exposure draft for IAS 8 issued in May 2002:

- the nature of the change and the reason why the new accounting policy is preferable ;
- the effect of the change on each financial statement line item and any earnings per share amounts affected for the current period and any prior period presented.

Guidance on the treatment of a change in accounting policy as a result of a change in other standard-setting bodies' pronouncements

The Board decided that a change in accounting policy resulting from a change in another standard-setting body's pronouncement (because the entity is applying the other body's pronouncement in accordance with the hierarchy in [draft] IAS 8) should be applied in the same way as a voluntary change in accounting policy, ie retrospectively with restatement of prior periods presented.

Terminology

The Board decided that the restatement of prior periods' financial statements should be described as a 'retrospective application' when it results from a change in an accounting policy and 'retrospective restatement' with it is attributable to the correction of an error.

The Board instructed the staff to liaise with the FASB to agree on the use of a single term, ie either 'retroactive' or 'retrospective', to describe the treatment of an accounting change as taking effect from a date in the past.

IAS 16 *Property, Plant and Equipment*

Recognition

An entity should evaluate whether to capitalise subsequent expenditures on its property, plant and equipment assets using the general recognition principle in IAS 16. Thus, an entity charges to expense expenditures for the day-to-day repairs and

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maintenance of those assets. If, under the principle, an entity capitalises the cost of replacing part of a property, plant and equipment asset, then it derecognises the carrying amount of the replaced part whether or not that part had been depreciated separately.

An entity should evaluate whether to capitalise the cost of regular, major inspections of property, plant and equipment assets under the general recognition principle in IAS 16.

Initial measurement

An entity that incurs an obligation for dismantlement, removal and restoration costs as a consequence of producing inventories should classify those costs in accordance with IAS 2 *Inventories* rather than in accordance with IAS 16.

Subsequent measurement

An entity should begin applying its depreciation policy for an item of property, plant and equipment when that item is capable of operating in the manner intended by management.

Transition

Entities are precluded from adjusting retrospectively previous asset exchanges that lacked commercial substance. Thus no such transactions should be restated as a result of the implementation of these revisions.

Consequential amendments

A venturer that contributes a non-monetary asset to a jointly controlled entity should consider the commercial substance of that transaction in determining whether to recognise the portion of its gain or loss attributable to the equity interests of the other venturers in the contributed asset.

Interaction between IAS 17 *Leases* and IAS 40 *Investment Property*

The Board considered the following issues in the context of a lease of both land and buildings:

The interaction of IAS 17 and IAS 40 for the purpose of lease classification

The Board decided to clarify in IAS 40 that IAS 17 should be applied to determine the classification of a lease prior to applying IAS 40.

Additional guidance on the apportionment between the land and buildings elements in a lease of both land and buildings

The Board decided to clarify in the revised IAS 17 that the allocation of the minimum lease payments at the inception of a lease of both land and buildings is based on the relative fair values at the inception of the lease of the leasehold interests in the land element and the buildings element.

Treatment of upwards only rent reviews

In November 2002, the Board confirmed its proposal to permit lessees whose interests in a property comprising both land and buildings is held under a long-term lease (often classified as operating lease under the existing requirement in IAS 17) to classify the leased asset as investment property provided:

- the rest of the definition of an investment property is met,
- the lease is accounted for as a finance lease, and
- management applies the fair value model in IAS 40.

The Board noted that the terms of some leases that may now be classified as investment property contain 'upward only rent reviews' clauses that meet the definition of contingent rent in IAS 17. The Board instructed the staff to research the interrelation, if any, between IAS 39 in its treatment of embedded derivatives and the treatment of contingent rents in IAS 17.

Valuation of leasehold property interests in the fair value model in IAS 40 Investment Property

The Board decided to clarify in the revised IAS 40 that the fair value of a property interest held under a long-term lease, classified as an investment property asset under the fair value model in IAS 40, should be determined by reference to the rights given by the lease and that the obligation under the lease should be accounted for as a liability.

Measurement objectives

The Canadian Accounting Standards Board (AcSB) is undertaking a research project on measurement objectives for recognised assets and liabilities. The purpose of the project is to identify, consider, and make recommendations with respect to, issues related to the selection of an appropriate measurement objective or set of objectives. The project is intended to provide the Board with a basis for a project to amend the IASB *Framework* in respect of measurement.

At this meeting, the Board considered sections of a draft discussion paper, Measurement Bases for Financial Reporting, prepared by the AcSB staff. The sections include discussion of:

- sources of limitations on reliable measurement of an asset or liability
- how disclosing measurement uncertainties can enhance the reliability of information about assets and liabilities under different measurement objectives
- potential sources of measurement uncertainty arising when estimating the fair value of an asset or liability.

The Board expressed its satisfaction with the direction the AcSB's research project is taking. No Board decisions were made about the selection of an appropriate measurement objective.

The Board will consider the recommendations in the AcSB's discussion paper at future meetings, following completion of that paper.

Reporting comprehensive income

The Board continued its discussion of issues relating to international field visits with preparers and users. The following decisions were made

Financial and financing

- A 'business profit' subtotal should not be required (ie that there should not be a requirement for a total, drawn before financing expenses, of operating, other business profit and financial income). This enhances an entity's ability to present its treasury activities in the way in which they are managed.
- The current definitions of the financial and financing categories should be retained.
- Entities should be allowed a choice of subtotals between either the other business profit subtotal or a total of the operating and other business profit categories (this could be termed 'profit before financial income' or something similar).

Tax

The Board reaffirmed its position that tax should be reported as a single number and not allocated across columns.

Earnings and earnings per share

The Board reaffirmed its position that companies should not be prohibited from displaying additional subtotals or amounts per share, but that any such amounts should not be displayed with greater prominence than comprehensive income (or comprehensive income per share), and that any differences

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between such amounts and comprehensive income (or comprehensive income per share) must be transparently reconcilable.

Function vs. nature

The Board decided not to require entities to report by function or by nature, nor to prohibit a mixed presentation.

Descriptors

The Board decided that 'comprehensive income', 'statement of comprehensive income' and 'before remeasurements' should be used as working terms for, respectively, the bottom line, the statement and the middle column.

Presentation on the face of the statement

The Board decided that presentation of all three columns on the face of the statement should be mandatory for the reporting period, but not for comparatives. For comparatives, entities would be permitted to present the total column on the face, and the other columns in the notes.

Discussion of financial institutions, segment reporting and the cash flow statement was postponed until a later meeting.

Revenue recognition

At its June meeting, the Board discussed the basic features of a proposed conceptual model for analysing whether assets and liabilities stem from contractual rights and obligations and how to measure those assets and liabilities. The model focuses on contracts for the sale and purchase of standard goods. The Board tentatively agreed with the model.

At this meeting, the Board extended and refined its analysis of contractual rights and obligations. The main questions the Board discussed were:

- Do contracts need to be enforceable before assets and liabilities arise from them?
- To identify pre-performance assets and liabilities arising from a contract, under which circumstances should the 'unit of account' (the subject of recognition) be:
  - the individual assets and liabilities arising from the unconditional rights and unconditional obligations embodied in the contract, or
  - the contract as a whole?

The Board tentatively decided that:

- Contracts need to be enforceable for assets and liabilities to arise from them. An entity's contractual obligations are not enforceable if the entity can cancel the contract without incurring a penalty.
- The unit of account should be based on the legal remedies for a breach of contract that are available to the contracting parties. The legal remedy of specific performance for a breach of contract will be available to an entity if the item it is to sell or purchase is such that it would not be adequately compensated by an award of money damages.
- For contracts for which the only legal remedy for a breach of contract is money damages the only outcome that could occur from settling the contract before performance of the items specified in the contract is a flow of cash in one direction between the contracting parties. As a result:
  - one party has a pre-performance asset and the other a pre-performance liability and
  - the unit of account should be the contract as a whole and a net amount recognised.
- For contracts having the legal remedy of specific performance for a breach of contract:
  - That legal remedy renders unconditional the rights to performance of the items specified in the contract and the related performance obligations for the contracting parties.
  - The only outcome that could occur from settling the contract at any time (unless one of the parties forgoes its right to specific performance) is flows of assets in both directions from the contracting parties. As a result:
    - each contracting party would have at least one asset and one liability; and
    - the unit of account for each party should be the individual assets and liabilities arising from its contractual rights and obligations reported on a gross basis.
- The fact that the legal remedy of specific performance renders *unconditional* the rights to performance of the items specified in the contract does not justify accounting for performance (for example, a sacrifice of assets) before it occurs.

The Board will consider at future meetings:

- case studies illustrating the application of the conceptual model for contractual rights and obligations tentatively agreed to, including long-term construction contracts.
- a list of increases in economic benefits that should be excluded from revenues, and reasons for the proposed exclusions.
- the UK Accounting Standards Board's paper entitled *Revenue recognition: the EITF approach, the wholesale approach and the retail approach*, which discusses the case studies in EITF Issue 00-21 *Revenue Arrangements with Multiple Deliverables* discussed by the Board in November 2002.

Share-based payment

The Board continued its redeliberations of the proposals in ED 2 *Share-based Payment*, in the light of comments received. The Board's discussion included considering a staff analysis of related comments received from respondents to ED 2. The staff analysis of comments on valuation issues was considered at the June 2003 meeting.

Valuation issues

The Board continued its discussions of valuation issues, including the valuation of employee share options. The Board also received a staff report of a meeting of the FASB's Option Valuation Group, held on 8 July. The Board made the following tentative decisions:

- In the absence of a market price, the fair value of a share option should be estimated using an option pricing model.
- The IFRS should not specify which option pricing model should be applied. However, at a future meeting the Board will consider whether to provide guidance on the circumstances in which particular types of option pricing models are more appropriate than others, for example, to take into account the effects of early exercise (see below).
- An option pricing model should take into account the share price, exercise price, expected volatility, expected dividends, risk-free interest rate and the option's life.
- The IFRS should include implementation guidance on estimating the inputs to an option pricing model, eg expected volatility and expected dividends, as proposed in ED 2. In some instances, improvements should be made to

the guidance proposed in ED 2, such as the guidance on expected volatility.

- The effect of specific features of options that result in their early exercise (eg non-transferability) should be taken into account when estimating the grant date fair value of the option. The Board will consider whether to encourage or require the application of a more sophisticated approach in particular circumstances (eg modelling early exercise in a binomial model instead of using expected life in a Black-Scholes model).
- The guidance in ED 2 relating to the inability to exercise an option during the vesting period should be retained and should also be applied if there are other times during an option's life when it cannot be exercised (eg during black-out periods).
- No other adjustment is needed for the effects of restrictions on transfer or exercise of an option during the vesting period.
- The proposed guidance in ED 2 relating to reload features should be retained.
- The IFRS should clarify that the objective is to measure fair value, ie an estimate of the price that a willing and knowledgeable buyer would place on the option. Hence, factors that affect the value of the option only from the employee's perspective are irrelevant. Furthermore, the entity should apply models and assumptions that market participants would apply to estimate fair value.
- The purpose of providing guidance is to clarify the fair value objective, eg to give guidance on approaches for achieving that objective, rather than a detailed 'how to' guide. Hence, the guidance will not be a substitute for a proper understanding of option valuation methodologies.
- The Board will consider adding some more examples on applying the IFRS to common types of employee share schemes.

At future meetings, the Board will consider valuation issues relating to restricted stock.

The Board also tentatively decided to retain the requirement that, for transactions with employees, the entity must measure the services received based on the fair value of the equity instruments granted, because that fair value is more reliably measurable than the fair value of the employee services received.

Measurement of transactions with parties other than employees

For equity-settled share-based payment transactions with parties other than employees, ED 2 proposed a rebuttable presumption that the fair value of the goods or services received is more readily determinable than the fair value of the equity instruments granted. Many respondents who addressed this issue supported the proposal in ED 2. Some respondents disagreed for a variety of reasons, eg some thought the presumption too strong, some disagreed with having a presumption, and some argued that no distinction should be made between transactions with employees and transactions with parties other than employees.

ED 2 also proposed that the fair value of the goods or services received should be measured at the date of receipt. The views of respondents who addressed this issue were divided; some supported the proposals in ED 2, others disagreed. Of those who disagreed, many argued that the fair value of the goods or services received should be measured at grant date. Some also argued that the date of measurement should be the same, no matter which side of the transaction is measured.

If the transaction is measured based on the fair value of the equity instruments granted, ED 2 proposed that those equity instruments should be measured at grant date (ie the same as for transactions with employees). This differs from US GAAP, under which the fair value of the equity instruments issued to parties other than employees is measured at the earlier of (i) the date a performance commitment is reached or (ii) the date performance is complete. Many respondents who addressed this issue agreed with the proposal in ED 2 and disagreed with the approach in US GAAP, although some expressed the opposite view. Some supported neither approach.

The Board did not reach any conclusions on these issues and will continue its discussions at a future meeting.

Cash-settled transactions

ED 2 proposed that cash-settled share-based payment transactions, such as share appreciation rights (SARs), should be measured at fair value, with the liability remeasured at each reporting date until settlement. Many respondents who addressed this issue agreed with the proposals. Some disagreed, eg because they thought that the liabilities should be measured at intrinsic value, or because they did not agree with having different measurement principles for cash and equity-settled transactions. Some respondents argued that the remeasurement of the liability should be treated as finance costs, rather than as part of the cost of the goods or services received.

The Board tentatively decided:

- To retain the proposal in ED 2 to measure cash-settled transactions at fair value, with the liability remeasured until settlement.
- To clarify that the effects of remeasurement should be recognised in the profit or loss, and therefore if the goods or services received were recognised as an asset in the entity's balance sheet, the carrying amount of that asset is not adjusted for the effects of the liability remeasurement.

Repricings (and other modifications) and cancellations

For a repricing (or other modification), ED 2 proposed that the measurement of the services received (and hence the resulting expense) should include the incremental value granted on repricing, in addition to the amount calculated based on the fair value of the options at grant date. FASB Statement 123 *Accounting for Stock-Based Compensation* contains similar requirements. ED 2 contained an example that illustrated the application of the proposed requirements, along with an alternative method for allocating the incremental value granted. Many respondents who answered this question agreed with the proposed requirements. Some who disagreed suggested alternative approaches, such as treated a repricing as a new arrangement, rather than as a modification of the existing arrangement. Of the two methods proposed in ED 2 to account for the incremental value granted, some respondents supported the first method although there was more support for the second method.

The Board tentatively agreed to retain the approach to repricing proposed in ED 2, ie recognise the incremental value granted on repricing, in addition to continuing to recognise amounts based on the fair value of the original grant. The Board also tentatively agreed to adopt the same method as in FAS 123, which is similar to the second method proposed in ED 2.

The Board also tentatively agreed to clarify the guidance, to make it clear that the requirements on repricing also apply if an option is repriced after vesting date.

For settlements, including cancellations, ED 2 proposed that the entity should continue to account for services received (and

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hence the resulting expense) over the remainder of the vesting period, as if that grant had not be settled/cancelled. This differs from FAS 123, which treats a settlement (including cancellations) as resulting in the equity instruments having immediately vested. Therefore, the amount of compensation expense measured at grant date but not yet recognised is recognised at the date of settlement. ED 2 also proposed that if a cash payment is made on cancellation, the payment should be accounted for as a deduction from equity, representing the repurchase of an equity interest. However, if the payment exceeds the fair value of the equity instruments at the date of the cancellation, the excess should be recognised as an expense. If replacement options are granted on cancellation, ED 2 proposed that the replacement options should be accounted for in the same manner as a repricing of options.

Many respondents who addressed these issues disagreed with the proposals in ED 2. They commented that it was inappropriate to continue recognising an expense after a grant has been cancelled. Some suggested other approaches, including the approach applied in FAS 123.

The Board tentatively agreed:

- For cancellations/settlements of share/option plans during the vesting period, to adopt the same approach as in FAS 123 to account for cancellations/ settlements, given that the Board has tentatively agreed to replace the units of service method with the modified grant date method in FAS 123.
- If a cash payment is made on cancellation, the proposals in ED 2 should be retained.
- For replacement options granted upon cancellation of a scheme, the proposal in ED 2 should be retained in the IFRS.

Accounting for tax effects of share-based payment

ED 2 proposed that all tax effects of share-based payment transactions should be recognised in profit or loss. This differs from the approach taken in FAS 123, which requires any realised tax benefits in excess of the tax benefits on the total amount of remuneration expense recognised to be credited direct to equity as additional paid-in capital. Conversely, if the realised tax benefits are less than the tax benefits based on the total remuneration expense recognised for accounting purposes, under FAS 123 that difference (ie the excess deferred tax asset) is recognised in profit or loss to the extent that there is no remaining additional paid-in capital from excess tax deductions from previous share-based payment transactions.

Most respondents who addressed this issue supported the proposals in ED 2 and disagreed with the approach in FAS 123. Some respondents took the opposite view, and some supported neither approach. Some respondents commented that the issue should be dealt with in more general terms, so that the IFRS could be applied in different tax jurisdictions.

The Board tentatively agreed that the proposals in ED 2, whereby all tax effects are recognised in profit or loss, should be retained.

Small and medium-sized entities

The Board discussed a proposed approach to this project and made the following tentative decisions:

- The basic intention of the project would be to reduce the financial reporting burden on SMEs. Among the ways that the burden might be reduced are:
  - Tailoring IFRSs to their needs, for instance, by extracting and publishing the principles without the guidance for relatively uncommon circumstances; by restructuring standards; by providing a decision pathway through complex standards; and by a 'plain English' presentation.
  - Providing disclosure and presentation simplifications. The existing disclosure exemptions for non-public companies in IAS 14 *Segment Reporting* and IAS 33 *Earnings per Share* are examples. Recognition and measurement principles of IFRSs would be preserved unless, with Board approval, a case can be made on cost-benefit grounds for simplifications.
  - Providing implementation tools such as model financial statements, disclosure checklists, and charts of accounts.
- In launching this project, a four-step approach to the project was agreed:
  - *Step 1*. Extract from all existing IFRSs and Interpretations the basic principles. This is likely to include many of the principles in the 'black letter' paragraphs of those standards, plus key elements of the *Framework*, plus principles in IASB and IFRIC exposure drafts that have not yet been finalised.
  - *Step 2*. Reorganise the principles topically, perhaps in financial statement order, if this makes the presentation of the principles clearer.
  - *Step 3*. Review the material for principles or guidance that have been omitted in the original Step 1 extraction but are necessary to make the standards operational, and add these principles to those extracted in Step 1.
  - *Step 4*. Review the results of Step 3 to identify and propose simplifications for deliberation.
- Among the issues to be addressed at future meetings are:
  - Which disclosure and presentation differences and specific simplifications to recognition and measurement principles should apply to SMEs.
  - How to describe the standards in the basis of presentation note to the financial statements and in the auditor's report.
  - Definition of entities within the scope of the project, if necessary.
  - Whether the guidance for SMEs should be promulgated (i) as separate sections in or exemptions from individual IFRS; (ii) in a separate document or (iii) both.

The target is to issue a document for public comment by June 2004 with finalisation by December 2004.

Meeting dates: 2003

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

17—19 September; 22 and 23 September‡

22—24 October, Toronto, Canada§

17—21 November†

17—19 December

† Includes a meeting with the Standards Advisory Council

‡ Includes meetings with partner and other national standard-setters

§ Includes meetings with the Canadian and US national standard-setters

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