

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 19 – 23 May, when it discussed:

- Annual improvements process
- IFRS for private entities (small and medium-sized entities, or SMEs)
- First-time adoption of IFRSs
- IAS 33 *Earnings per Share*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- Revenue recognition
- Liabilities
- Fair value measurement
- Update on IFRIC activities
- Emissions trading schemes

Annual improvements process

Scope and process for future *Improvements to IFRSs*

The staff presented the analysis and recommendations for two issues arising from the general comments received on the exposure draft published in October 2007: the scope and process for future improvements. At its meeting in February 2008, the Board decided to reconsider these issues given the comments received on the exposure draft.

On the staff's analysis, the Board decided that:

- the project scope should not be determined by a definition of 'minor amendments';
- the Board will continue to use a single exposure draft to publish proposed improvements to IFRSs, unless the changes relate to unusually significant or broad issues;
- the evaluation of whether to publish an amendment as a stand-alone document or with a group of others requires judgement.

The Board decided to adopt the changes the staff proposed to the process for issuing future *Improvements to IFRSs* to improve efficiency and ease the consultation process. These process changes are focused on five main areas:

- communication content on the project's Webpage
- structure and content of agenda papers for future proposals
- timing of balloting and drafting of individual proposals
- format of future exposure drafts
- timing of future project cycles

The Board decided that the meeting in June 2008 will be the last meeting to discuss and approve any new proposals for inclusion in the exposure draft for the next round of improvements.

IAS 38 *Intangible Assets* – valuation guidance

The Board was made aware that a literal reading of paragraph 41 of IAS 38 could lead entities to measure the fair value of intangible assets inappropriately and could be misinterpreted in practice. To address this, the Board tentatively decided to amend paragraphs 40 and 41 of IAS 38 to clarify the description of the valuation techniques commonly used to measure intangible assets at fair value when they are not traded in an active market. The Board also tentatively decided that the amendments should be applied prospectively because a retrospective application might require some entities to remeasure the fair values for transactions at a past date. The Board directed the staff to draft amendments to paragraphs 40 and 41 of IAS 38.

IAS 38 *Intangible Assets* – consequential amendments from IFRS 3 (as revised in 2008)

When the Board revised IFRS 3 *Business Combinations* (in 2008), it decided that if an intangible asset acquired in a business combination is identifiable, sufficient information exists to measure reliably the fair value of the asset. The Board tentatively decided to make consequential amendments to paragraphs 36 and 37 of IAS 38 to reflect that decision clearly. The proposed effective date of the amendments is 1 July 2009, consistent with the revised IFRS 3. The

Board directed the staff to draft amendments to paragraphs 36 and 37 of IAS 38

IFRS for private entities (small and medium-sized entities, or SMEs)

The Board began the process of redeliberating the proposals in the exposure draft (ED) of a proposed IFRS for SMEs by considering some of the main issues identified in comment letters and field tests. The staff had previously presented those issues to the Board in educational sessions at the Board meetings in March and April.

The IASB's Working Group met in April 2008 to discuss the issues raised by respondents to the ED. A summary of the views and recommendations of working group members arising from that meeting was provided to the Board.

At this meeting the Board redeliberated general matters (those not related to a particular section of the ED). It also discussed issues relating to Sections 1–3 of the ED. The outcome from those discussions is summarised below.

General issues not relating to specific sections in the ED

Title of the standard. The title of the standard should be changed to International Financial Reporting Standard for Private Entities, with private entities defined similarly to the definition of SMEs in the ED.

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- The standard should be stand-alone, with no cross-references to full IFRSs. Requirements currently available by cross-reference will be either addressed in the standard or eliminated.
- In general, all accounting policy options in full IFRSs should be available to private entities. As in the ED, the body of the standard should include the simpler option. The more complex options would be in a separate appendix. While the appendix will increase the overall size of the standard, the length of the body of the document will be relatively unaffected. An entity choosing only the simpler options would not need to refer to the appendix.
- The standard should address directly the following topics, which the exposure draft addressed by cross-reference to the related full IFRS: lessor accounting for finance leases, share-based payment, fair value of agricultural assets, and hyperinflation. The standard would not address the following topics: segment information, earnings per share and interim reporting; if an entity presented such information it would be required to explain the basis of preparing the data.

Small listed entities. Small listed entities should not be included in the intended scope of the IFRS for Private Entities.

Entities that receive funds in a fiduciary capacity. An entity whose primary business is holding funds in a fiduciary capacity is publicly accountable and hence should be outside the scope of the standard. An entity that holds funds in a fiduciary capacity as a sideline to its principal business, for example a utility company or travel agency that takes deposits, should be permitted to use the standard if it otherwise qualifies.

Restatements. An ‘undue cost or effort’ principle should not be added wherever the standard requires restatement. The exemption for ‘impracticability’ is sufficient.

Fair value measurement. The staff proposed that when a current remeasurement is required, that requirement should clearly describe in simple language what the basis for measurement is rather than use the generic term ‘fair value’. The Board asked the staff to present a proposal for each required measurement at a future Board meeting. The Board asked the staff, in developing the proposal, to consult the IASB staff teams working on fair value measurements and the measurement phase of the conceptual framework project.

Structure of the standard. The standard does not need an overall restructuring.

Post-implementation assessment. The Board decided that an assessment of implementation problems should be undertaken when two years of financial statements using the standard are available for a broad range of entities.

Issues relating to Sections 1–3

Subsidiary of an IFRS entity. The Board decided that if a subsidiary of an IFRS entity uses the recognition and measurement principles in full IFRSs it must provide the disclosures required by full IFRSs, not merely the disclosures required by the IFRS for private entities.

Objective and qualitative characteristics. The objective of financial statements of SMEs and the qualitative characteristics of information in such financial statements, as set out in Section 2 of the ED, reflect only partially the changes to the IASB *Framework* proposed in an exposure draft to be published shortly after the meeting. The Board will decide at a

future meeting, whether the final IFRS for private entities should reflect those proposed changes.

Concepts and pervasive principles. While acknowledging that some respondents to the ED would prefer the concepts and pervasive principles in Section 2 to be rewritten in a more prescriptive rather than descriptive way, Board members expressed the view that the concepts and broad principles should not be significantly different from those in full IFRSs. Nor should they try to resolve issues that the Board is currently considering in other projects. The Board asked the staff to review Section 2 with that in mind.

Objectives. The Board decided that determination of taxable and distributable income should not be added to the objectives of financial statements of private entities.

Financial statement presentation. The Board decided:

- The standard should not prescribe financial statement formats, titles, subtotals, minimum line items, sequencing, and note disclosures with more specificity than in the ED.
- The standard should incorporate the requirements of IAS 1 *Presentation of Financial Statements* (as revised in 2007). This would mean, among other things, that SMEs would present a statement of comprehensive income. Also, the final IFRS for Private Entities would use new titles for financial statements used in IAS 1; however, as for entities using full IFRSs, those new titles would not be required in private entities’ financial statements.

First-time adoption of IFRSs

In March 2008 staff of the Canadian Accounting Standards Board (AcSB) presented proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* to address challenges likely to be faced by jurisdictions and companies that are adopting IFRSs in the near future. The Board added a project to its agenda to address those matters and reached tentative decisions on some of them. At this meeting the Board completed those discussions, tentatively deciding to propose amendments to IFRS 1 as follows:

- IFRSs may require an entity to determine the accounting for particular transactions on the basis of an assessment of facts and circumstances in accordance with specific criteria. If the entity did not make the assessment at the time required in IFRSs, IFRS 1 may require an assessment at the date of transition to IFRSs on the basis of facts and circumstances at that date. The Board decided to introduce a principle in IFRS 1 that a first-time adopter need not carry out the assessment required by IFRS 1 if it had performed an identical assessment under previous GAAP at a date before its date of transition. A first-time adopter electing not to reassess its previous accounting in such circumstances would continue to use the assessment made for previous GAAP. This would, for example, permit an entity not to reassess whether an arrangement contains a lease, if it had made such an assessment for previous GAAP in the same manner as required by IFRSs.
- IFRSs may require transactions to be recognised at fair value when they were recognised at other amounts under previous GAAP. IFRS 1 would require a first-time adopter to determine the fair value at which to recognise those transactions in periods before its date of transition. The Board decided to introduce a principle prohibiting

determination of fair values as of dates before the date of transition to IFRSs unless the information needed to determine those fair values was available when IFRSs would have required them to be determined. If fair value information was not available, an entity would use the carrying amount under its previous GAAP.

- IFRS 1 may require an entity to restate exploration, evaluation, development and production assets on transition to IFRSs. The Board decided to permit oil and gas entities using full cost accounting to measure exploration, evaluation, development and production assets on transition to IFRSs by allocating the amount recognised under the entity's previous GAAP. When an entity uses this election, it would disclose the basis for that allocation and test the allocated amounts for impairment at the date of transition to IFRSs.
- IFRS 1 may require a rate-regulated entity to restate property, plant and equipment on transition to IFRSs. The Board decided to introduce an exemption for property, plant and equipment of a rate-regulated entity. For this purpose, an entity is subject to rate regulation if it provides regulated services or products to customers at prices established by a regulator or other authorised body that are designed to recover the cost of providing the services or products (and earn a fair return on investment). The exemption would apply if it is impracticable (as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) to identify amounts that were capitalised for previous GAAP but that do not qualify for capitalisation under IFRSs. The exemption would permit the rate-regulated entity to elect to use the carrying amount of all such items at the date of transition to IFRSs as their deemed cost, subject to an impairment test at that date.

The Board asked the AcSB staff to develop an exposure draft of proposed amendments to IFRS 1 for ballot. When published, the exposure draft would have a 120-day comment period.

IAS 33 Earnings per Share

The Board reached the following tentative conclusions on issues that it had identified when reviewing a pre-ballot draft of an exposure draft proposing amendments to IAS 33 *Earnings per Share*:

- In February 2008 the Board amended IAS 32 *Financial Instruments: Presentation*. That amendment classifies some puttable financial instruments and obligations as equity. At this meeting, the Board decided tentatively that this classification should also apply for IAS 33. The exposure draft will not include specific material on the treatment for earnings per share (EPS) of a financial liability that is subsequently reclassified to equity.
- The exposure draft will clarify that the method described in paragraphs 45 – 47 of IAS 33 should apply to a forward contract to sell an entity's own shares. US GAAP refers to this method as the treasury stock method.
- Share-based payment awards might give rise to a tax deduction that exceeds the related cumulative remuneration expense. IAS 12 *Income Taxes* states that an entity should recognise the resulting current or deferred tax directly in equity. The exposure draft will clarify that, in calculating EPS, an entity should include this tax benefit in the proceeds from the assumed exercise of dilutive share-based payment awards.

- The Board affirmed the proposed principles for the EPS calculation of gross physically settled forward contracts to buy an entity's own shares. For EPS, those ordinary shares should be treated as repurchased. IAS 32 states that those forward purchase contracts give rise to a liability measured at the present value of the redemption amount. The Board clarified that if dividends on ordinary shares subject to a forward purchase contract are not remitted back to the entity, the liability meets the definition of a participating instrument in IAS 33. The method described in paragraphs A13 and A14 of IAS 33 would apply (described in US GAAP as the two-class method). In contrast, if dividends are remitted back to the entity, the liability does not meet the definition of a participating instrument. The staff will consider when finalising the drafting how those principles would apply to forward purchase contracts and written put options that have a settlement price different from fair value.
- The exposure draft will propose that the principles for gross physically settled forward contracts to buy an entity's own shares should also apply to mandatorily redeemable ordinary shares.
- Early application of the proposed amendments to IAS 33 should not be permitted.

The Board discussed whether the amendments to IAS 1 to introduce a comprehensive income figure point to a need for further amendments to IAS 33. The Board observed that this question is outside the scope of the short-term convergence project.

IAS 39 Financial Instruments: Recognition and Measurement

The Board published the exposure draft *Exposures Qualifying for Hedge Accounting* in September 2007. The comment period ended in January 2008. In April the Board tentatively decided that any amendments to IAS 39 should address only two situations:

- the designation of a purchased option in its entirety as a hedging instrument of an item that contains no optionality, in such a way that no ineffectiveness results
- the hedging of inflation risk in particular situations.

At this meeting the Board tentatively decided to confirm the proposals for these two situations. It also tentatively decided on an effective date of 1 January 2009, and that the amendments should be applied retrospectively. The Board instructed the staff to prepare a ballot draft of the amendments.

Revenue recognition

The Board discussed a draft chapter on measurement for its forthcoming discussion paper on revenue recognition. The chapter considers the fundamental issues involved in measuring a contract with a customer, including:

- how the performance obligations in a contract should be measured at contract inception;
- whether those measurements should be updated after contract inception for changes other than those that result from the entity's performance (ie remeasured), or whether they should be 'locked in'.

The draft chapter develops two measurement approaches. In the *customer consideration* approach, the performance

obligations are initially measured by allocating a proportion of the contract price to each individual obligation. Subsequently a performance obligation is remeasured only if it is deemed onerous. In the *current exit price approach*, performance obligations are measured at exit price both initially and subsequently.

The draft chapter was in the observer notes for the meeting, available on the Website. The Board tentatively decided that the discussion paper should express a preliminary view in favour of the customer consideration approach. It was also decided that in at least some cases performance obligations would need to be remeasured other than when deemed onerous. The cases in which such remeasurement would be required will be discussed at a future meeting. The Board discussed briefly whether a contract asset could be recognised at inception in some cases and will discuss this further at a future meeting.

Liabilities

In 2005, the Board published an exposure draft of proposed amendments to IAS 37 and IAS 19. At this meeting, the Board considered comments received on the exposure draft's proposals for termination benefits and made the following tentative decisions:

- In the proposed definition of voluntary termination benefits, the term 'short period' refers to a period between the offer for voluntary termination and the actual termination of the employment.
- If an entity offers voluntary termination benefits and cannot withdraw that offer, the entity should recognise a liability in the same way as for involuntary termination benefits.
- Before an obligation exists for involuntary termination benefits, employees need to know whether they are in the class of employees whose employment will be terminated.
- Because the definition of voluntary termination benefits refers to a short period, voluntary termination benefits do not relate to future services.

Fair value measurement

The Board announced its plans for forming an expert advisory panel, as recommended in the report of the Financial Stability Forum (FSF), *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience*. The FSF report recommends that the IASB should enhance its guidance on valuing financial instruments when markets are no longer active by creating an expert advisory panel that will assist it in:

- reviewing best practices in the area of valuation techniques, and
- formulating sound practice guidance on valuation methods for financial instruments and related disclosures when markets are no longer active.

The expert advisory panel will comprise experts from preparers and users of financial statements, as well as regulators and auditors. The discussions of the panel members over the next few months will inform the Board as to the type and extent of guidance that is necessary in this area and how any such guidance should be issued.

Update on IFRIC activities

The Director of Implementation Activities reported on the IFRIC's meeting on 8 May. Details of the meeting had been published in IFRIC *Update*. The IFRIC had completed its

redeliberations of draft Interpretations D21 *Real Estate Sales* and D22 *Hedges of a Net Investment in a Foreign Operation*, voted and confirmed each consensus. Subject to drafting changes, the IFRIC directed the staff to present the final Interpretation to the IASB for approval at its meeting in June 2008.

On D21, the staff had developed a flow chart to illustrate how to determine whether an agreement for the construction of real estate was in the scope of IAS 18 or IAS 11. The IFRIC had concluded that the flow chart provided useful guidance and that it should be included in the final Interpretation. At this meeting the staff presented a revised version of the flow chart to provide an opportunity for the Board to ask questions about the logic underlying the final Interpretation. If the Board agreed with the IFRIC's conclusions reflected in the flow chart, its review of the Interpretation should focus on ensuring those conclusions were clearly set out. The Board identified a few areas it would specifically consider to ensure that the flow chart was clear when considered in conjunction with the complete Interpretation.

The IFRIC was undertaking the preliminary consideration of comments received on the Board's exposure draft *Group cash-settled share-based payment transactions* and had approved the staff's project plan for the redeliberations. In response to constituents' comments, the Board directed the staff to draft the final amendments to incorporate both IFRIC 8 and IFRIC 11 into the body of IFRS 2.

The IFRIC confirmed as final two tentative agenda decisions that had been published and published one tentative agenda decision for comment. The staff had presented a proposed plan for developing an agenda decision recommendation on regulatory liabilities (and assets). Several new issues had been submitted and the staff hoped to present most of them to the IFRIC for tentative agenda decisions at the meeting in July 2008.

Emissions trading schemes

In December 2007 the Board activated work on its emissions trading schemes project. At this meeting, the Board discussed the scope of the project. It tentatively decided to address the accounting for all tradable emissions rights and obligations arising under emissions trading schemes. In addition, it will address the accounting for activities that an entity undertakes in contemplation of receiving tradable rights in future periods, eg certified emissions reductions (CERs). The Board confirmed that in addressing the accounting issues the staff should not be constrained by existing IFRSs, but the Framework would still be relevant.

Future Board meetings

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

2008

16—20 June

21—25 July

15—19 September

13—17 October

20—22 October (joint with FASB), Norwalk, Connecticut, USA

17—21 November

15—19 December