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International
Accounting Standards
Committee
Foundation

*This document is provided as a convenience to observers at IASCF meetings, to assist them in following the discussion.*

**INFORMATION FOR OBSERVERS**

**AP6B**

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# Potential Agenda Items

1. The current work plan (agenda) of the IASB has been provided as an attachment.

***The process of adding an item to the IASB's agenda***

2. Each year the IASB considers potential items for addition to its agenda. Generally we do this at the July board meeting, but because of the pressure of work towards meeting the objectives of the MoU we have delayed the agenda decisions for 2007 to the December board meeting.

3. The IASB's discussion of potential projects and its decisions to adopt new projects take place in public IASB meetings. Before reaching such decisions the IASB consults the SAC on proposed agenda items and priorities.

4. The development of a single set of global standards relevant to users' needs is the foremost objective of the IASB. Accordingly, the IASB evaluates the merits of adding a potential item to its agenda primarily on the basis of the needs of users of financial statements.

5. The IASB considers the following factors when adding agenda items:

(a) The relevance to users of the information involved and the reliability of information that could be provided

(b) Existing guidance available

(c) The possibility of increasing convergence

(d) The quality of the standards to be developed

(e) Resource constraints.

6. At the June SAC meeting we had a preliminary discussion on the potential projects listed below. The fully developed agenda proposals will be taken to the SAC November meeting to complete the consultation process.

   (a) Intangible assets

   (b) Management commentary

   (c) Common control transactions.

7. Reactivation of a project on emission rights will also be considered.

8. We have also received requests from constituents to consider adding projects on extractive activities and a review of IAS 41 *Agriculture*.

***Intangible assets***

9. Staff at the Australian Accounting Standards Board has been undertaking research work preparatory to an agenda proposal on intangibles. Their view is that an Intangible Assets project should be added to the IASB's and FASB's active agendas. The suggested scope of such a project would be the initial accounting for internally generated intangible assets and the subsequent accounting for all intangible assets.

10. Intangible assets are a significant class of assets for a wide range of entities across many jurisdictions and information about intangible assets is important to the needs of users. The current requirements in IAS 38 *Intangible Assets* are out of date and the information it

generates does not appropriately reflect economic conditions or results. Minor amendments to IAS 38 would not be sufficient to significantly improve current requirements. However, resolving the diverse user views that currently exist on how best to remedy the problems (for example, a recognition versus disclosure-only solution) will be challenging for the Boards. In making their agenda decision the Boards need to determine whether a technically feasible solution is achievable and whether the expected benefits of improved financial reporting of intangible assets will exceed the costs.

***Management commentary***

11. In October 2002 a meeting between the IASB and its partner national standard setters recommended that work should begin on a project to examine the potential for the IASB to develop standards or guidance for management commentary. Initial work was undertaken by a project team of staff from a number of national standard setters. A discussion paper *Management Commentary* was published in October 2005 with a six month comment period to the end of April 2006. Appendix A of the discussion paper included the Management Commentary project team's preliminary views of what should be included in a standard or guidance relating to management commentary.

12. A total of 116[1] comment letters were received from constituents in 26 countries. This includes 14 responses from users and user organisations, who collectively manage funds in excess of £7.5 trillion. Respondents to the discussion paper generally agree that management commentary is an integral part of financial reports. They were also generally supportive of the content for a standard or guidance. However, they differed as to whether the output from the project should be a standard which is mandatory or a best practice statement providing guidance without being mandatory. Several respondents consider that guidance should be a first step – leaving open the possibility that they would support a standard at a later stage.

***Common control***

[1] A total of 117 comment letters were received. Respondent 117 was a late submission and while acknowledging that the project is a significant task facing the International Business community: it did not answer the specific questions in the discussion paper.

13. A combination is between entities or businesses under common control when the controlling party before and after a business combination is the same. An example is a group restructuring which might be carried out for reasons of tax efficiencies, regulatory requirements, the release of distributable reserves from 'dividend traps' or in preparation of a spin-off.

14. IFRSs do not provide any guidance about the accounting for business combinations between entities or businesses under common control. Such transactions are excluded from the scope of IFRS 3 *Business Combinations*. As a consequence, divergence in practice has arisen on the accounting treatment for those transactions.

15. The following accounting methods are commonly advocated in practice:

    (a) *Acquisition method*: The common control transaction would be accounted for as if it were a business combination between unrelated parties. That is, IFRS 3 would be applied to the transaction, one part would be identified as the acquirer, and the assets and liabilities of the other party measured at their fair values.

    (b) *Fresh start method*: All parties involved in the common control transaction are controlled by the same party or parties who can structure the transaction according to their wishes. As a consequence, identifying one entity as the acquirer and another entity as the acquiree might not always be representationally faithful. Under the fresh start method all assets and liabilities of the newly formed group would be measured at their fair values.

    (c) *Uniting of interests method*: According to this view, the assets and liabilities of the involved parties would not be remeasured; rather the acquiree's book values would be carried over in the acquirer's financial statements. However, it is not always clear which book values should be carried over into the acquirer's financial statements. Should the book values be the carrying values in the individual financial statements or in the consolidated financial statements, and in a complex group structure should be consolidated financial statements be those of the group consolidation or a sub-group consolidation.

16. In addition to determining the method to be applied, there are a number of other issues to be considered in a project on common control transactions, such as the definition of a common control transaction, whether the existence of a non-controlling interest should affect the accounting, and how a common control transaction should be accounted for in the acquirer's separate financial statements.