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International
Accounting Standards
Board

This document is provided as a convenience to observers at Standards Advisory Council meetings, to assist them in following the Council's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff paper prepared for the Council. Paragraph numbers correspond to paragraph numbers used in the Council paper.

INFORMATION FOR OBSERVERS

SAC Meeting: **February 2008, London**

Project: **IASB Chairman's Report to SAC February 2008**

(Agenda Paper 2)

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1. As, at the time of writing, only two months have elapsed since the last SAC meeting, this Report is briefer than usual. We will, of course, be happy to answer questions on the work programme which is attached at Appendix A.

2. This report looks forward – noting the items added to the IASB's agenda in December 2007 and the goals for 2008 and beyond. The main efforts in 2008 will concentrate on

   (a) continuing the convergence efforts with the FASB outlined in the 2006 Memorandum of Understanding which forms the basis of our work programme;

   (b) completing the IFRS for small and medium enterprises;

   (c) assisting those countries which are in the process of transition to IFRSs; and

   (d) reacting to any future SEC decisions regarding the adoption of IFRSs in the US.

Extending the adoption of IFRSs – convergence initiatives

3. In 2007, for the first time, Chinese listed companies used standards designed to produce the same results as IFRSs. During that year three other major Asian economies proposed transitioning to IFRS namely Korea, India and Japan. Visits to discuss our technical

programme to the two latter countries by two Board members and the research director are already planned. We have not yet had a similar request from Korea, which is in the process of translating the IFRSs. Korea is adopting the standards, and not adapting them. Later in the year a similar team will visit Central/South America to encourage further convergence in the area following Brazil's recent initiative to require all listed companies and all companies under the supervision of the central bank and insurance regulator to move to IFRS in 2010.

Developments in the US

4. As SAC members will have noted, the SEC voted on 15 November to remove the reconciliation requirement for those foreign companies listed in the US markets thereby allowing the use of IFRS in financial reports filed by foreign private issuers registered with the SEC. The change gives foreign private issuers a choice between IFRS and US GAAP. In addition, the SEC has issued a Concept Release raising the possibility of treating US and foreign issuers similarly by allowing US issuers the choice to use IFRS.

5. The SEC held roundtables on the Concept Release in December 2007 the outcome of which seemed to be at least favourable to the idea of allowing American listed companies the option of using IFRSs rather than US GAAP. There was some pressure for the SEC to set a final date for a switch over from US GAAP to IFRSs at least for all major listed companies.

6. The Board, with the FASB, is monitoring the situation. Any proposals necessary to assist any such changes to financial reporting in the US will be developed in due course.

7. The SEC's decision to remove the reconciliation requirement was only for those companies using full IFRS. For two years, however, a transition period would enable those companies who were already listed in the US and using the EU carve-out to continue to use accounts reflecting the carve-out with a reconciliation to full IFRS. This decision clearly increases the pressure to solve the European problem by removing the carve-out and to that end staff and Board members have had two meetings in January to tackle the issue. A meeting to discuss what steps might be taken to work towards removing the EU carve-out on IAS 39 was held at the IASB offices on 16 January 2008. Participants included three IASB Board members, IASB staff, representatives from the European Banking Federation (EBF), EFRAG, the Basel Committee and representatives from two international banks that successfully apply the hedge accounting requirements of IAS 39.

The IASB Work Plan – new agenda items

8. The current IASB Work Plan (reviewed at the December 2007 IASB meeting) is attached as Appendix A. The Work Plan reflects the objectives of the current MoU with the FASB which sets out a roadmap for convergence between IFRSs and US GAAP.

9. Each year the IASB considers potential items for addition to its agenda. Generally we do this at the July meeting, but because of the pressure of work towards meeting the objectives of the MoU we delayed the agenda decisions for 2007 to the December meeting. At its December 2007 meeting, the IASB added new projects to its agenda in response to requests from external parties. These projects will be progressed as staff resources and available board time allow, without detracting from the convergence work in terms of the MoU.

10. The new projects are:

    - The reactivation of work on Emissions Trading, which had been deferred;
    - Common control transactions; and
    - Management commentary.

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

11. 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. We held a preliminary discussion with the SAC in June 2007, and presented draft agenda proposals to the SAC in November 2007 on:

    - Intangible assets
    - Management commentary
    - Common control transactions
    - The reactivation of a project on emission trading rights.

12. 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.

13. 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.

   Further details can be found in the IASB Due Process Handbook paragraphs 19 to 26, and 52 to 61. The Due Process Handbook is available on the IASB website at http://www.iasb.org/Current+Projects/IASB+Due+Process.htm.

Intangible assets

14. The Board decided not to add a project on intangible assets to its active agenda. The Board acknowledged the importance of addressing the accounting issues relating to intangible assets, noting concerns with current requirements that lead to inconsistent treatments for different types of intangible assets depending on how they arise. However, the Board noted that properly addressing the accounting for intangible assets would impose a large demand on the Board's limited resources. Instead, the Board expressed a desire that the research work begun as part of the development of the agenda proposal should continue until the Board could consider it again for addition to the active agenda. We suggested to the Australian Accounting Standards Board that their work should be continued under the aegis of the meetings of the national standard setters which is attended by an IASB Board member and the director of technical activities. The intention would be to assess whether a discussion paper could be produced acceptable to both the national standard setters and the IASB thereby increasing the likelihood that any resulting standard would be broadly welcomed.

Emission trading schemes

15. The Board decided to activate work on its Emissions Trading Schemes project. There has been a void in authoritative guidance in this area since the withdrawal of IFRIC 3 *Emission Rights* and it appears that considerable diversity in practice has arisen. The Board observed that the topic is of international relevance, with many jurisdictions implementing or discussing emissions trading schemes. The Board has received requests from several national standard-setters to address the topic. In addition, the FASB has added an Emissions Allowances project to its agenda, providing the boards with an opportunity to co-ordinate their efforts in this area. The Board decided to limit the scope of the project to the issues that arise in accounting for emissions trading schemes, rather than addressing broadly the accounting for all government grants (which would have involved activating the project to amend IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*).

Common control transactions

16. The Board decided to add to its active agenda a project on common control transactions. Business combinations involving entities or businesses under common control are excluded from the scope of IFRS 3 *Business Combinations*. As a consequence, practice diverges on the accounting for those transactions in the acquirer's consolidated and separate financial statements. The project on common control transactions will examine the definition of a business combination involving entities or businesses under common control and the methods of accounting for those transactions in the acquirer's consolidated and separate financial statements. The Board observed that similar issues arise with respect to the accounting for demergers, such as the spin-off of a subsidiary or business. The Board therefore decided to include demergers in the scope of the project.

Management commentary

17. The Board voted to move the management commentary project from its research agenda to its active agenda. The need for a narrative report, accompanying the financial statements, stems from the increased complexity of both the global business environment and the transactions that underpin the financial statements.

18. The Board decided that work on the project should result in the production of a guidance document based on the *Management Commentary* discussion paper issued in October 2005. The document would describe useful approaches to management commentary but would not be part of the suite of mandatory provisions of IFRS. Deliberations will include consideration of respondents' comments on the discussion paper, the interaction of management commentary with the Conceptual Framework project and how the IASB's due process applies to the production of a guidance document. Making the output a guidance document should allow the Board an opportunity to publish management commentary guidance in the near term.

Other recent developments

Business combinations

19. The Board has published the revised IFRS 3 *Business Combinations* and amendments to IAS 27 *Consolidated and Separate Financial Statements*. A copy of the Project Summary and Feedback Statement is attached as Appendix B.

Exposure drafts published

20. Two EDs were published in December 2007.

- proposed amendments to IFRS 2 *Share-based Payment* and IFRIC 11 IFRS 2— *Group and Treasury Share Transactions*.

  The proposals respond to requests for guidance on how a group entity that receives goods or services from its suppliers (including employees) should account for the following arrangements:

  Arrangement 1—the entity's suppliers will receive cash payments that are linked to the price of the equity instruments of the entity

  Arrangement 2—the entity's suppliers will receive cash payments that are linked to the price of the equity instruments of the entity's parent.

  Under either arrangement, the entity's parent has an obligation to make the required cash payments to the entity's suppliers. The entity itself does not have any obligation to make such payments.

The proposed amendment to IFRS 2 clarifies that IFRS 2 applies to arrangements such as those described above even if the entity that receives goods or services from its suppliers has no obligation to make the required share-based cash payments. The proposed amendment to IFRIC 11 specifies that the entity should measure the goods or services in accordance with the requirements for cash-settled share-based payment transactions.

- proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements*.

  The proposals address concern that retrospectively determining cost in accordance with IAS 27 on first-time adoption of International Financial Reporting Standards (IFRSs) cannot, in some circumstances, be achieved without undue cost or effort. Consequently, this might create a barrier to entities' adoption of IFRSs in separate financial statements. Additionally, the proposals respond to enquiries received about the measurement of cost in the separate financial statements of a new parent entity.

  The exposure draft—*Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*—was developed in response to comments received on a related exposure draft published in January 2007. In the light of those comments and further consultation with interested parties, the IASB reconsidered its proposals and, in accordance with its due process, now invites comment on the revised proposals.

IASB identified as 'high performer' for transparency

21. The One World Trust published its 2007 Global Accountability Report on 1 December 2007. According to the report, the IASB has the best developed external stakeholder engagement capabilities amongst 30 of the world's most powerful global organizations and is a high performer in both transparency and evaluation. Transparency and accountability have been cornerstones of the standard-setting process since we started in 2001 and recent enhancements to our due process have further strengthened this commitment. We welcome this independent assessment of our progress to date.

22. The 2007 Global Accountability Report is an annual assessment of the capability of 30 of the world's most powerful global organizations from the intergovernmental, non-governmental and corporate sectors to be accountable to civil society, affected communities, and the wider public. The IASB topped global rankings across all assessed organizations for stakeholder participation. Amongst international non-governmental organizations (INGOs) the IASB was ranked first for evaluation and second for transparency, sharing the 'high performer' assessment with Christian Aid. 'High performers' are identified as those organizations scoring at least 50 per cent in three out of four dimensions used as the basis for assessment: transparency, participation, evaluation, and complaints and response.
23. Rob Lloyd, lead author of the 2007 Global Accountability Report, commented: 'Accountability makes powerful organizations more effective and legitimate. Without it, solutions to global challenges will fail. The IASB has developed procedures that bring transparency, predictability and consistency to the way its key constituencies are involved in its activities and should be congratulated on its achievements. We would like to see more global organizations doing the same.'
24. A copy of the One World Trust 2007 Global Accountability Report can be downloaded from www.oneworldtrust.org