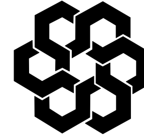

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International Accounting Standards Board

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.
These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: **March 2009, London**

Project: **International Financial Reporting Standard for Non-publicly Accountable Entities (NPAEs) (formerly Private Entities, formerly SMEs)**

Subject: **Re-exposure: Attachment 1: Summary of Board Redeliberations of the Recognition, Measurement, and Presentation Principles Proposed in the ED (Attachment 1 to Agenda paper 4)**

This attachment sets out the substantive (non-editorial) decisions made by the Board regarding whether to modify the recognition, measurement, and presentation principles proposed in the exposure draft (ED) of an *International Financial Reporting Standard for Small and Medium-sized Entities*. Those are the decisions that bear on the need to re-expose the ED. The Board's decisions are included in grey boxes

Where the title of an issue does not, by itself, clearly describe the matter deliberated by the Board, the specific question that was asked to the Board has been added after the title.

Summary of Board Decisions

General Issues

1. **Issue G1: Stand-alone *IFRS for NPAEs***

May 2008: 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.

2. **Issue G2: Accounting policy options**

January 2009: The Board made the following tentative decisions:

- *Investment property.* Measurement should be circumstance-driven rather than allowing NPAEs an accounting policy choice between the cost and fair value models. If an NPAE can the measure fair value of an item of investment property reliably without undue cost or effort, it must use the fair value model. Otherwise, it must use the cost model.

- *Property, plant and equipment.* The revaluation model should not be an option.

- *Intangible assets.* The revaluation model should not be an option.

- *Borrowing costs.* All borrowing costs should be recognised as an expense. The capitalisation model should not be an option.

- *Presenting operating cash flows.* NPAEs could use either the indirect method or the direct method to present operating cash flows in the cash flow statement.

- *Development costs.* All research and development costs should be recognised as an expense. Capitalisation of development costs should not be an option.

- *Financial instruments.* An NPAE could apply either Section 11 of the IFRS for NPAEs or all related requirements of full IFRSs – ie the three financial instrument standards (IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*), and related interpretations. The option to use full IFRSs will be available by cross-reference. This will be the only cross-reference to full IFRSs.

- *Associates.* The options proposed in the ED (cost method, equity method, and fair value through profit or loss) should all be allowed.

- *Jointly controlled entities*. The options in the ED should all be allowed with the exception of proportionate consolidation. Therefore NPAEs could choose the cost method, equity method, or fair value through profit or loss.

3. **Issue G3: Omitted topics**

May 2008: The standard should address directly the following topics, which the ED 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.

The paragraph relating to insurance would be removed.

4. **Issue G4: Anticipating changes to full IFRSs**. Does the Board agree with the staff recommendation that the *IFRS for NPAEs* should not try to anticipate evolving changes to full IFRSs, as these should be dealt with in full IFRSs first, but if a genuine simplification of full IFRSs that is appropriate for NPAEs happens to coincide with the direction that the IASB appears to be following in one of its projects, this should not prevent inclusion of this simplification in the *IFRS for NPAEs*?

May 2008: The Board decided that any proposed changes that appear to anticipate future changes to full IFRSs should be addressed as they arise on an issue by issue basis and there should not be a general policy on how to deal with them.

5. **Issue G5: Title of the Standard and which entities should be eligible**

January 2009: The name of the final standard should be International Financial Reporting Standard for Non-publicly Accountable Entities, or IFRS for NPAEs

6. **Issue G6: Suitability of the *IFRS for NPAEs* for micro entities.** Does the Board agree with the staff recommendation that the *IFRS for NPAEs* should not explicitly exclude micro entities (such as fewer than 10 employees) from the intended scope?

May 2008: The Board agreed with the staff recommendation.

7. **Issue G7: Three-tier approach.** Does the Board agree with the staff recommendation that the IASB should <u>not</u> consider developing a very simple set of standards (a third tier) for micros?

May 2008: The Board agreed with the staff recommendation.

8. **Issue G8: Special exemptions within the *IFRS for NPAEs*.** Does the Board agree with the staff recommendation that the IASB should <u>not</u> include special exemptions from some requirements for entities at the small end of the NPAE spectrum?

May 2008: The Board agreed with the staff recommendation.

9. **Issue G9: Small listed entities**

May 2008: Small listed entities should not be included in the intended scope of the *IFRS for NPAEs*.

The Board agreed with the staff recommendation that ED paragraph 1.3 should be retained.

10. **Issue G10: Entities that receive funds in a fiduciary capacity.**

May 2008: An entity whose primary business is holding funds in a fiduciary capacity for a broad group of outsiders 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.

A clear explanation of 'fiduciary capacity' should be provided to ensure this term is applied correctly.

11. **Issue G11: Restatements**

May 2008: An 'undue cost or effort' principle should not be added wherever the standard requires restatement. The exemption for 'impracticability' is sufficient.

12. **Issue G12: Clarify the circumstances in which fair value measurements are appropriate.** Does the Board agree with the staff recommendation that

a. an overall 'undue cost or effort' principle should not be added for fair value measurement?

b. the condition 'intent to dispose' should not be added whenever a fair value measurement is required?

c. a condition such as 'is readily realisable' or 'has an observable market price' should not be added whenever a fair value measurement is required?

May 2008: The Board agreed with the staff recommendation.

13. **Issue G13: Replace the term fair value.**

December 2008: Staff decided to drop this issue because it is a drafting issue.

14. **Issue G14: Structure of the standard.**

May 2008: The standard does not need an overall restructuring

15. **Issue G15: Post-issuance assessment and ongoing review of the *IFRS for NPAEs*.**

May 2008: 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.

This first update would consider any appropriate updates to the standard as well as implementation problems.

The Board agreed to state an intention (but not a commitment) that after the post-issuance assessment, ongoing updates would be made on a three year cycle.

16. Does the Board also agree with the staff recommendation that there should be a stated policy of at least a one year period between the issue date and the effective date of any proposed amendments from the periodic review of the *IFRS for NPAEs*?

May 2008: The Board agreed with the staff recommendation.

17. **Issue G16: Interpretations of the *IFRS for NPAEs*.** Does the Board agree with the staff recommendation that the Board should not establish a process for developing official interpretations of the *IFRS for NPAEs*?

May 2008: The Board agreed with the staff recommendation

18. **Issue G17: Additional guidance.** No further recommendation made here. Issues relating to additional guidance will be addressed during drafting and also within the training materials being developed by the IASC Foundation (IASCF) education team.

Section 1 Scope

19. **Issue 1.1: Use by a subsidiary of a full IFRS company.**

> May 2008: 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 NPAEs*.

Section 2 Concepts and Pervasive Principles

20. **Issue 2.1: Rewrite concepts and pervasive principles as clear guidance.** Staff presented a proposal with the intention of providing clearer guidance in 2.40 – 2.44.

> May 2008: 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 the IASB Framework 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. This will be dealt with during drafting.

21. **Issue 2.2: Concepts and pervasive principles – financial instruments measurement.** Using fair value as the default in ED paragraph 2.41, as well as in Section 11 *Financial Assets and Financial Liabilities*, suggests that the *IFRS for* NPAEs requires more fair value measurement of financial instruments than does IAS 39. At a minimum, staff recommend that instead of saying "an entity generally measures financial assets and financial liabilities at fair value", 2.41 should include a general principle on when fair value is appropriate (such as when it is reliably measurable) and a general principle on when cost or amortised cost is appropriate. Does the Board with the staff recommendation that that paragraphs 2.41 should be modified taking these issues into account?

December 2008: Staff dropped this issue because it is a drafting issue that was addressed in the redraft of Section 11.

22. **Issue 2.3: Clarify the pervasive principles for fair value (FV) measurement.** No further recommendation made here.

23. **Issue 2.4: Objective – Stewardship**. Does the Board agree with the staff recommendation that reporting on management's stewardship of the resources entrusted to it should be presented as a separate part of the objective of NPAE financial statements by incorporating paragraph 14 from the existing IASB Framework into the objective?

December 2008: The final standard will incorporate paragraph 14 of the existing IASB Framework.

24. **Issue 2.5: Qualitative characteristics – should they be organised in a hierarchy.** Does the Board agree with the staff recommendation that the qualitative characteristics of NPAE financial statements should not be organised in a hierarchy like the one used in the full IFRS Framework (that is, materiality as a sub-characteristic of relevance and substance over form, prudence, and completeness as sub-characteristics of reliability)?

May 2008: The Board agreed with the staff recommendation.

25. **Issue 2.6: Qualitative characteristics – neutrality.** Does the Board agree with the staff recommendation that neutrality should not be added as a separate qualitative characteristic of NPAE financial statements?

May 2008: The Board agreed with the staff recommendation.

26. **Issue 2.7: Qualitative characteristics – full disclosure.** Does the Board agree with the staff recommendation not to add 'full disclosure' as a separate qualitative characteristic of NPAE financial statements?

May 2008: The Board agreed with the staff recommendation.

27. **Issue 2.8: Qualitative characteristics – faithful representation.** Does the Board agree with the staff recommendation that faithful representation should not be added as a separate qualitative characteristic of NPAE financial statements?

May 2008: The final standard should be based on the IASB Framework existing at issuance so that faithful representation is dealt with in the same way as under full IFRSs.

28. **Issue 2.9: Qualitative characteristics – freedom from bias.** Does the Board agree with the staff recommendation that prudence should be a separate qualitative characteristic and should not be replaced with freedom from bias?

May 2008: The final standard should be based on the IASB Framework existing at issuance so that prudence is dealt with in the same way as under full IFRSs.

29. **Issue 2.10: Pervasive principles –subsequent measurement principle.** Does the Board agree with the staff recommendation that pervasive subsequent measurement principles along the lines of those in 2.41 to 2.44 are useful and should not be deleted?

May 2008: The Board agreed with the staff recommendation.

30. **Issue 2.11: Pervasive principles – subsequent measurement: cash flow forecasts.** Does the Board agree with the staff recommendation to add, as a pervasive principle for subsequent measurement, that an entity should choose a measure that helps the financial statement user forecast future cash flows because users of NPAE financial statements are particularly interested in information about short-term cash flows, liquidity and solvency as set out in the basis for conclusions?

May 2008: The final standard should be based on the IASB Framework existing at issuance.

31. **Issue 2.12: Pervasive principles – measurement.** Does the Board agree with the staff recommendation to expand 2.31 to describe any other measurement bases required in the *IFRS for NPAEs*?

May 2008: The final standard should be based on the IASB Framework existing at issuance.

32. **Issue 2.13: Pervasive principles – fair presentation.** Does the Board agree with the staff recommendation that there is no need to describe 'fair presentation' in Section 2? Does the Board agree with the staff recommendation that 'present fairly' should be added to the objective of financial statements of an NPAE ("…present fairly information about the financial position, performance and cash flows…") and also defined in the glossary?

December 2008: The Board agreed with the staff recommendation

33. **Issue 2.14: Objective – tax and distributable income.** Does the Board agree with the staff recommendation that determination of taxable income and distributable income should not be added as objectives of the financial statements of an NPAE?

May 2008: The Board agreed with the staff recommendation.

34. **Issue 2.15: User needs.** Does the Board agree with the staff recommendation that (a) the pervasive principles for subsequent measurement should be linked to user needs (see Issue 2.11) and (b) the discussion on user needs in BC23 to BC26 should not be moved into Section 2?

May 2008: The Board agreed with the staff recommendation in part (b) that the discussion in BC23 to BC26 should not be moved into Section 2.

December 2008: The final standard should be based on the IASB Framework existing at issuance. Part (a) will be dealt with during drafting.

Section 3 Financial Statement Presentation

35. **Issue 3.1: More standardisation of financial statement formats (also affects Sections 4-8).**

May 2008: The standard should not prescribe financial statement formats, titles, subtotals, minimum line items, sequencing, and note disclosures with more specificity than in the ED.

36. **Issue 3.2: Financial statement presentation – conform to IAS 1 (revised 2007) (also affects Sections 4-8)**

May 2008: The Board decided the final standard should incorporate the requirements of IAS 1 *Presentation of Financial Statements* (as revised in 2007). This would mean, among other things, that NPAEs would present a statement of comprehensive income. Also, the final *IFRS for NPAEs* 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 NPAEs' financial statements.

37. **Issue 3.3: Require standardised titles for the financial statements (also affects Sections 4-8).** Does the Board agree with the staff recommendation that the *IFRS for NPAEs* should not require standardised titles for financial statements?

> May 2008: The Board agreed with the staff recommendation.
>
> The final *IFRS for NPAEs* 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 NPAEs' financial statements

38. **Issue 3.4: Require two years of comparative prior period data (also affects Sections 4-8).** Does the Board agree with the staff recommendation that the *IFRS for NPAEs* should not require two prior years of comparative data?

> May 2008: The Board agreed with the staff recommendation.

39. **Issue 3.5: Require that all items of income and expense be presented in a single statement of comprehensive income.**

> December 2008: The Board tentatively decided that entities should have the option to present either a single statement of comprehensive income or two separate statements—an income statement displaying components of profit or loss and a statement of comprehensive income beginning with profit or loss and displaying components of other comprehensive income (OCI).

40. **Issue 3.6: Format of statement of comprehensive income for NPAEs.**

> December 2008: If an entity has no items of OCI, the statement of comprehensive income need not have a subtotal for 'profit for the period'. Instead, the bottom line could be labeled 'profit and comprehensive income for the period'. Furthermore, because an entity may use titles for financial statements other than those in the IFRS, if an entity has no items of OCI, the title of the statement could be, for example, 'statement of profit or loss' or 'statement of income'.

41. **Issue 3.7: Do not require a statement of financial position at beginning of earliest comparative period.**

December 2008: An entity should not be required to present a statement of financial position as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. IAS 1 (revised 2007) would require such a presentation.

Section 4 Statement of Financial Position

42. **Issue 4.1: Liquidity presentation for the statement of financial position.**

June 2008: NPAEs should present their statement of financial position based on liquidity if this provides information that is reliable and more relevant than a current/non-current presentation.

43. **Issue 4.2: Current/non-current distinction always 12 months**

June 2008: The criteria proposed in the ED for classifying assets and liabilities as current would be retained.

Section 5 Statement of Comprehensive Income

44. **Issue 5.1: Require analysis of expenses by nature**

June 2008: The required analysis of expenses may be presented either by nature or function of expense.

45. **Issue 5.2: Require separate line item for changes in fair values.** Does the Board agree with the staff recommendation to add 'changes in fair values of assets or liabilities that are recognised in profit or loss' to the list of components of income and expense to be disclosed under ED paragraph 5.7, but not to add 'changes in fair values

of assets or liabilities that are recognised in profit or loss' to the list in ED paragraph 5.3 as a required line item on the face of the income statement?

December 2008: Staff have decided to drop this issue as not addressed directly by IASB project on Financial Statement Presentation.

Section 6 Statement of Changes in Equity and Statement of Comprehensive Income and Retained Earnings

46. **Issue 6.1: Do not allow a combined statement of comprehensive income and retained earnings**

June 2008: An NPAE would be permitted to present a combined statement of comprehensive income and retained earnings in place of the statement of comprehensive income and the statement of changes in equity if the only changes to its equity during the period arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy. If an entity has other equity transactions with owners, a statement of changes in equity would be required.

47. **Issue 6.2: Do not require a statement of changes in equity if the information is presented in the notes.** Does the Board agree with the staff recommendation to retain the requirement proposed in the ED to present a statement of changes in equity (or a combined statement of income and retained earnings instead, if applicable), rather than providing such information in a note?

June 2008: The Board agreed with the staff recommendation.

Section 7 Cash Flow Statement

48. **Issue 7.1: Statement of cash flows – do not allow direct method**

June 2008: NPAEs can choose either the direct or indirect method for reporting operating cash flows.

January 2009: Decision reconfirmed

49. **Issue 7.2: Statement of cash flows – exempt some or all NPAEs**

June 2008: All NPAEs must present a statement of cash flows.

50. **Issue 7.3: Cash flow statement – income taxes always operating.** Does the Board agree with the staff recommendation that the requirements in ED paragraph 7.17 should be retained, namely that cash flows from income taxes should be classified as operating unless they can be specifically identified with investing or financing activity?

June 2008: The Board agreed with the staff recommendation.

Section 9 Consolidated and Separate Financial Statements

51. **Issue 9.1: Consolidation – reduce the requirements for all or some NPAEs**

June 2008: The requirements should be retained as proposed in the ED. Therefore unless the conditions in ED paragraph 9.2 are met, consolidated financial statements should be required for all NPAEs that are parent entities.

January 2009: The Board reconfirmed its decision that consolidated financial statements should be required for all NPAE groups, with limited exceptions, as proposed in the ED.

52. **Issue 9.2: Consolidation – temporary control exemption**

October 2008: In the light of the Board's decision at its meeting in September 2008 to eliminate the 'held for sale' classification, the Board considered whether there should be an exemption from consolidation for a subsidiary that was acquired with an intention to dispose of it in the near future. In effect, such an exemption exists under full IFRSs. The Board decided that a similar exemption from consolidation should be added for subsidiaries where on acquisition there is evidence that control is intended to be temporary (ie there is an intention to dispose of the subsidiary within twelve months and management is actively seeking a buyer). If the condition for exemption is met, the investor would need to provide specified disclosure.

53. **Issue 9.3: Consolidation – only allow exemption if minority does not object**

June 2008: This is a non-issue due to the decision for Issue 9.1 that consolidated financial statements should be required for all NPAEs that are parent entities.

54. **Issue 9.4: Combined financial statements**

June 2008: The description of combined financial statements should be retained in the *IFRS for NPAEs,* with some additional guidance added.

55. **Issue 9.5: Separate financial statements – accounting policies.** Does the Board agree with the staff recommendation to amend the ED so that different accounting policies are allowed in accounting for different types of investments in separate financial statements?

June 2008: When an investor prepares separate statements, it should choose between cost or fair value through profit or loss for each different category of investment (eg different policies could be adopted for associates and for subsidiaries).

56. **Issue 9.6: Separate financial statements – equity and proportionate consolidation.** Does the Board agree with the staff recommendation that the equity method and proportionate consolidation should <u>not</u> be added to Section 9 as allowed

alternatives in separate financial statements to the extent allowed in consolidated financial statements?

June 2008: The Board agreed with the staff recommendation.

57. **Issue 9.7: Separate financial statements – require fair value through profit and loss if there is an active market.** Does the Board agree with the staff recommendation that the ED should not be amended to require that fair value through profit or loss should be used for investments in subsidiaries in separate financial statements if an active market exists for the subsidiary's shares?

June 2008: The Board agreed with the staff recommendation.

58. **Issue 9.8: Require separate financial statements**

June 2008: Separate company financial statements should not be required.

59. **Issue 9.9: Special Purpose Entities (SIC 12)**

January 2009: The Board decided the principles in SIC-12 *Consolidation – Special Purpose Entities* should be incorporated into Section 9 *Consolidated and Separate Financial Statements*.

The staff suggested including the following three paragraphs which the Board agreed with:

9.X1 An entity may be created to accomplish a narrow objective (e.g., to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity (SPE) may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict requirements over the operations of the SPE. In most cases, the creator or sponsor retains a significant beneficial interest in the SPE's activities, even though it may own none of the SPE's equity. A beneficial interest in an SPE may take the form of an equity instrument, a debt instrument, a participation right, a residual interest or a lease.

9.X2 An entity shall prepare consolidated financial statements that include the entity and any SPEs that are controlled by that entity. In addition to the circumstances described in paragraph 9.4, the following circumstances may indicate that an entity controls an SPE (this is not an exhaustive list)

(a) the activities of the SPE are being conducted on behalf of the entity according to its specific business needs;

(b) the entity has the ultimate decision-making powers over the activities of the SPE even if the day to day decisions have been delegated;

(c) the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or

(d) the entity retains the majority of the residual or ownership risks related to the SPE or its assets.

9.X3 Paragraphs 9.X1 and 9.X2 do not apply to post-employment benefit plans or other long-term employee benefit plans to which Section 27 *Employee Benefits* applies.

60. **Issue 9.10: Remove distinction between distributions from pre-acquisition and post-acquisition profits under the cost method in Sections 9, 13 & 14.** Does the Board agree with the staff recommendation to remove, from Sections 9, 13, and 14, the requirement under the cost method for the investor to separate pre- and post-acquisition retained earnings of the investee and, instead, to recognise all dividends received in profit or loss?

> January 2009: The Board agreed with the staff recommendation.
>
> (Note, in full IFRSs the amendments to IFRS 1 *First-time Adoption of International Financial Reporting* and IAS 27 *Consolidated and Separate Financial Statements* re the cost of an investment in a subsidiary, jointly controlled entity or subsidiary will delete the definition of the cost method in IAS 27 resulting in the same outcome).

Section 10 Accounting Policies, Estimates and Errors

61. **Issue 10.1: Accounting policies hierarchy**

> June 2008: The accounting policy hierarchy in Section 10 is appropriate in principle. However, paragraph 10.4 should be modified to clarify that management may, but is not required to, consider the requirements and guidance in full IFRSs. The hierarchy should not include reference to recent pronouncements of other standard-setting bodies, other accounting literature or accepted industry practice.

62. **Issue 10.2: Retrospective restatement only for fundamental errors.** Does the Board agree with the staff recommendation to add the word 'material' to ED paragraph 10.20 so that retrospective restatement (correction) is required only for 'material' errors (as in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*), but not to reduce the requirement to fundamental errors?

June 2008: The Board agreed with the staff recommendation. Even though the term 'material' is inherent in the requirement to apply the restatement, it is added here to ensure that the IFRS for NPAEs is not perceived as being more onerous than IAS 8.

63. **Issue 10.3: No retrospective restatement for accounting changes or error corrections.** Does the Board agree with the staff recommendation that retrospective restatement should be required for mandated and voluntary changes in accounting policy and for corrections of errors (to the extent practicable plus disclosure of any impracticability,) as proposed in the ED (i.e. an 'undue cost or effort' principle should not be added)?

June 2008: The Board agreed with the staff recommendation.

Section 11 Financial Assets and Financial Liabilities

64. **Issue 11.1: Restructure Section 11 to make it easier to understand and easier to identify to what instruments it applies.** Does the Board agree with the staff recommendation for how to amend Section 11 as set out in (a) to (f) directly below:

    a. Clarify by use of examples that the cost model will be appropriate for the significant majority of financial instruments held by NPAEs. This could be accomplished by expanding and elaborating on the examples that are already cited in ED paragraph 11.10.

    b. Reorganise Section 11 to make it easier both to identify which instruments are within the scope and to apply by an NPAE that only has very simple financial instruments:

        i. Restructure Section 11 to distinguish between simple (and common) financial instruments and all others.

        ii. Add, up front, examples of the typical kinds of financial instruments that an NPAE is likely to have, with clear guidance for the accounting required both at acquisition/issuance and subsequently. An NPAE that has no other financial instruments

would then not need to even consider the criteria in ED paragraph 11.7.

c. Rewrite Section 11 so that a cost model (cost or amortised cost) is the default – that is, 'cost or amortised cost shall be used for all financial instruments except'.

d. Link the examples of instruments that would be accounted for at cost or amortised cost as listed in ED paragraph 11.10 to the criteria in ED paragraph 11.7, and accounting for them should be described in greater detail.

e. Include a clear description of the cost and amortised cost models.

f. The guidance on fair value in Appendix B to Section 11 should be combined with the fair value measurement principles set out in ED paragraphs 11.14 to 11.16 and simplified in an NPAE context. Appendix B could then be deleted.

June 2008: The Board decided:

- to reorganise Section 11 to make it easier both to identify which instruments are within the scope and to apply the section if an NPAE has only very simple financial instruments.

- clarify by the use of examples that the cost model will be appropriate for the significant majority of financial instruments held by NPAEs. The examples should reflect the types of financial instruments that an NPAE is likely to have, with clear guidance for the accounting required both at acquisition or when issued and subsequently. An NPAE that has no other financial instruments would then not need to consider the remainder of Section 11 dealing with more complex financial instruments transactions.

- not to rewrite Section 11 so that cost or amortised cost is the default. Rewriting Section 11 in that way would have required the Board to include definitions and other explicit requirements for derivatives and embedded derivatives to ensure they are measured at their fair value. This would have added significant complexity.

- to combine the guidance on fair value proposed in Appendix B with the fair value measurement principles in paragraphs 11.14─11.16 and simplify it for an NPAE context.

The Board asked the staff to present a rewritten draft of Section 11 for consideration at a future Board meeting

(Basically the Board agreed with (a), (b), (d), (e) and (f) above but not (c). It should be clear most instruments will be at cost. Everything not defined as being at cost would be at fair value)

December 2008: The Board considered the first draft of Section 11A (the rewrite of the first part of Section 11) at this meeting and decided that changes or clarification is needed in a number of areas including:

- the initial measurement of a financial instrument: the fair value of whatever is receivable (for an asset) or payable (for a liability);

- the need to identify clearly which basic financial instruments cannot be carried at amortised cost; and

- derecognition, including factoring.

- 11(b) needs to be clear that it’s only if there is evidence to suggest the transaction didn’t take place at fair value – don’t need to justify every transaction.

The staff will present an updated version of Section 11A at the meeting in January, along with a draft of Section 11B

January 2009: See notes on the full rewrite of Section 11 (both 11A and 11B) at the end of the Section 11 issues below. The rewrite takes into account all of the decisions made on Section 11.

65. **Issue 11.2: Split Section 11 into two sections.** Does the Board agree with the staff recommendation that if Section 11 is reorganised as recommended under Issue 11.1, it is not necessary to split Section 11 into two sections?

June 2008: Restructure as two sections. The basic structure would be one section with the simple payables and receivables and a second section with the more complex instruments.

December 2008: See Issue 11.1.

January 2009: See notes on the full rewrite of Section 11 at the end of the Section 11 issues below.

66. **Issue 11.3: Default measurement basis for financial instruments.**

June 2008: Section 11 should not be rewritten so that a cost model (cost or amortised cost) is the default. Instead, it should be clear most instruments will be at cost. Everything not defined as being at cost would be at fair value.

67. **Issue 11.4: Bring back the available-for-sale (AFS) category**

June 2008: The Board decided not to add an 'available for sale' category for financial assets.

68. **Issue 11.5: Straight-line amortisation of discounts/premiums, not the effective interest method**

June 2008: The Board decided not to allow straight-line amortisation of premiums and discounts as an elective accounting policy alternative to the effective interest rate (EIR) method. However, an example or examples illustrating EIR should be added as guidance either in the standard or in the training material being developed by the IASCF education team.

69. **Issue 11.6: Hedge accounting – shortcut method**

June 2008: The Board decided not to permit a 'shortcut method' for hedge accounting.

70. **Issue 11.7: Clarify hedge accounting requirements, in particular regarding measurement of hedge effectiveness**

June 2008: The Board felt that examples on measuring hedge effectiveness might be included in the training materials being developed by the IASCF education team. The requirements in the IFRS for NPAEs should be kept short and general.

71. **Issue 11.8: Simplify hedging documentation**

June 2008: The Board decided to retain the requirements for hedging documentation proposed in the ED.

72. **Issue 11.9: Allow purchased options and debt instruments as hedging instruments**

October 2008: Purchased options should not be permitted as hedging instruments under the hedge accounting provisions of Section 11. This decision would not prevent NPAEs from using purchased options to hedge risks or from disclosing the effect of doing so; it would only prohibit hedge accounting for those transactions.

73. **Issue 11.10: Allow hedge accounting for additional risks**

June 2008: The Board decided not to expand the list of hedgeable risks proposed in paragraph 11.31 of the ED. However, the Board asked the staff to add guidance to clarify which types of risks are eligible for hedge accounting under Section 11.

74. **Issue 11.11: Clarify what is required for derivatives and embedded derivatives**

June 2008: Leave the default at fair value for financial instruments and add examples of plain vanilla instruments.

75. **Issue 11.12: Add specific requirements for factoring and similar transactions**

January 2009: The Board decided the proposed guidance on factoring of receivables should be replaced by examples of applying the general derecognition principles to factoring transactions.

76. **Issue 11.13: Option to use IAS 39/IFRS 7 instead of Section 11**

January 2009: The Board decided an NPAE could apply either Section 11 of the IFRS for NPAEs or all requirements of full IFRSs – the three financial instrument standards (IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*), and related interpretations. The option to use full IFRSs will be available by cross-reference. This will be the only cross-reference to full IFRSs in the IFRS for NPAEs.

77. **Issue 11.14: Impairment of an instrument carried at amortised cost**. Does the Board agree with the staff recommendation that the requirement in ED paragraph 11.22(a) should be amended so that the impairment loss for a financial asset carried at amortised cost is the difference between the asset's carrying amount and the present value of the current estimate of the amounts and timing of cash flows that the entity expects to receive from the asset (both principal and interest), discounted at the current market rate of interest for a loan of similar risk and terms?

June 2008: The Board disagreed with the staff recommendation.

78. Does the Board agree with the staff recommendation that the requirement in ED paragraph 11.22(b) be amended to state that an impairment loss for an equity instrument carried at cost because it is not publicly traded and its fair value cannot otherwise be measured reliably should be the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation of below-normal reliability) of the amount (which might be zero) that the entity would receive for the asset if it were to be sold?

June 2008: The Board decided to amend paragraph 11.22(b) to state that an impairment loss for an equity instrument carried at cost (because its fair value cannot be measured reliably) should be the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the entity would receive for the asset if it were to be sold.

79. **Issue 11.15: Clarify accounting for interest rate swaps.**

June 2008: The Board decided to rewrite paragraph 11.9(c) to clarify that interest rate swaps must be measured at fair value through profit or loss.

80. **Full Section 11 rewrite.** In January 2008, the staff presented a full redraft of Section 11 reflecting tentative decisions made by the Board in June 2008 and December 2008. In June 2008 the Board decided to restructure Section 11 into two parts. Section 11A deals with simple payables and receivables and other basic financial instruments. Section 11B deals with more complex instruments and transactions. In December, the

Board considered the first draft of Section 11A. At the January meeting the staff presented an updated version of Section 11A along with a first draft of Section 11B.

January 2009: The Board was supportive of the rewrite of Section 11A. However, the Board made a few amendments, including:

- A commitment to make a loan should be addressed in Section 11B, not 11A.

- Some of the draft criteria in paragraph 11A.7 to establish whether a debt instrument is in Section 11A need to be clarified.

- Regarding initial measurement, Section 11A would require that if payment is deferred the instrument must be measured at the present value of payments discounted at a market rate of interest. The standard should be clear that the market rate of interest is a rate applicable to the risks and terms of the instrument in question.

- If short-term financial instruments have no stated interest rate, their initial measurement should be consistent with the requirements in full IFRSs.

- The effective interest method should use the weighted average amount of the receivable or payable outstanding during the period, not the carrying amount at the beginning of the period.

- The proposed guidance on factoring of receivables should be replaced by examples of applying the general derecognition principles to factoring transactions.

The Board was supportive of the rewrite of Section 11B. A few minor drafting issues were highlighted.

Section 12 Inventories

81. **Issue 12.1: Inventories – use most recent purchase prices.** Does the Board agree with the staff recommendation that the technique of measuring inventory at the most recent prices if the results approximate cost should be added to the other two methods of approximation already identified in ED paragraph 12.15?

June 2008: The Board agreed with the staff recommendation.

82. **Issue 12.2: Inventories – allow last in first out (LIFO).**

June 2008: The Board rejected LIFO as an inventory costing method.

83. **Issue 12.3: Simplify allocation of fixed and variable production overheads to inventories.** Does the Board agree with the staff recommendation that fixed and variable production overhead should be included in the cost of inventory and, therefore, that ED paragraphs 12.4, 12.7, and 12.8 should not be changed?

June 2008: The Board agreed with the staff recommendation.

The Board did not support simplifying any of the principles proposed in the ED for accounting for inventories.

84. **Issue 12.4: Do not include non-production overheads in inventories.** Does the Board agree with the staff recommendation to delete the second sentence of ED paragraph 12.10("For example, it may be appropriate to include, in the cost of inventories, non-production overheads or the costs of designing products for specific customers"), but leave the first sentence plus the final sentence on borrowing costs?

June 2008: The Board agreed with the staff recommendation.

The Board did not support simplifying any of the principles proposed in the ED for accounting for inventories.

85. **Issue 12.5: Replace Section 12 with IAS 2 in full.** Does the Board agree with the staff recommendation that IAS 2 *Inventories* should not be used in place of Section 12?

June 2008: The Board agreed with the staff recommendation.

Sections 13 and 14 Investments in Associates and Joint Ventures

86. **Issue 13.1: Associates and jointly controlled entities – too many options**

July 2008: The cost model would not be permitted for an investment in an associate or jointly controlled entity that has a published price quotation, for example if it is a listed entity. The investor may still apply the cost model to its other investments in associates or jointly controlled entities.

January 2009: The Board made the following tentative decisions:

- *Associates.* The options proposed in the ED (cost method, equity method, and fair value through profit or loss) should all be allowed.

- *Jointly controlled entities***.** The options in the ED should all be allowed with the exception of proportionate consolidation. Therefore NPAEs could choose the cost method, equity method, or fair value through profit or loss.

87. **Issue 13.2: Associates and jointly controlled entities – allow greater time lag between year ends**

July 2008: The Board tentatively decided to replace the requirement that the difference between the reporting date of the financial statements of the associate/jointly controlled entity and those of the investor must not be greater than three months. Instead, there would be a general statement that the most current information should be used.

In other words when incorporating the requirements in IAS 28.24 and 25 into the final *IFRS for NPAEs* the following sentence would be excluded "In any case, the difference between the reporting date of the associate and that of the investor shall be no more than three months".

Section 15 Investment Property

88. **Issue 15.1: Investment property – fair value changes 'through equity'.** Do Board members agree with the staff recommendation that NPAEs should not have the option to recognise changes in fair value of investment property in other comprehensive income outside of profit or loss?

July 2008: The Board agreed with the staff recommendation.

89. **Issue 15.2: Investment property – do not allow fair value model**

January 2009: Measurement should be circumstance-driven rather than allowing NPAEs an accounting policy choice between the cost and fair value models. If an NPAE can measure the fair value of an item of investment property reliably without undue cost or effort, it must use the fair value model. Otherwise, it must use the cost model.

90. **Issue 15.3: Investment property – property held under an operating lease**

July 2008: The option to classify property held under an operating lease as investment property if specified criteria are met should be retained.

91. **Issue 15.4: Separating mixed-use property**

July 2008: Mixed use property should be separated between investment property and property, plant and equipment (PPE) unless the fair value of that investment property is not reliably measurable and is accounted for at cost (as are all items of PPE).

Section 16 Property, Plant and Equipment

92. **Issue 16.1: Property, plant and equipment – do not require component depreciation.** Staff recommend retaining the principle in ED paragraph 16.14 but rewriting 16.14 to make application easier for an NPAE by addressing the normal case first (as set out in the rewrite of 16.14 below). Does the Board agree with the rewrite?

16.14 The entity shall assess whether all of the significant parts of an item of property, plant and equipment have the same useful life and rate of depreciation. If that assessment shows that they all have the same useful life and rate of depreciation, the entity shall recognise and measure the depreciation charge for the asset as a whole. If, however, significant parts of the asset have significantly different useful lives or rates of depreciation and the entity intends to replace the shorter-lived part(s) while continuing

to use the remainder of the asset, the entity shall allocate the initial cost of an item of property, plant and equipment to its significant parts and depreciate each part separately. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated.

July 2008: The cost of an item of PPE should be allocated to its significant parts, with each part depreciated separately (component depreciation) only when the parts have significantly different patterns of benefit consumption.

The Board were generally in agreement with the idea behind the rewrite of paragraph 16.14. "Rate(s) of depreciation" in 16.14 should be changed to "rate(s) of consumption of economic benefits" since it won't be known if assets have different rates of depreciation before determining what their depreciation rates are.

93. **Issue 16.2: Property, plant and equipment – do not require annual review of residual value, useful life, and depreciation method**

July 2008: The *IFRS for NPAEs* should clarify that an NPAE should reassess residual value, useful life and depreciation method for an asset only if there is an indication of change since the last reporting date. Section 16 should provide examples of indicators that could trigger such a reassessment.

94. **Issue 16.3: Revaluation of property, plant and equipment**

January 2009: The revaluation model should not be an option.

95. **Issue 16.4: Separation of land and buildings.** Does the Board agree with the staff recommendation not to amend the ED by adding an 'undue cost or effort' exemption to Sections 15, 16, and 19 of the ED for the requirement to separate the land and building components when land and building are acquired in a single purchase transaction?

July 2008: The Board agreed with the staff recommendation.

96. **Issue 16.5: Capitalisation of maintenance costs.** A few field test entities disagreed that costs associated with a maintenance visit should be capitalised, as they did not think incremental benefits are generated. Does the Board agree with the staff recommendation that the principle in ED paragraph 16.3 (capitalise maintenance cost when there is incremental future benefit) should be retained, but additional guidance should be provided?

July 2008: The Board agreed with the staff recommendation.

Section 17 Intangible Assets other than Goodwill

97. **Issue 17.1: Intangible assets other than goodwill – no 'indefinite life' and, hence, amortise all intangibles**

January 2009: For cost-benefit reasons, rather than conceptual reasons, indefinite-life intangible assets should be considered to have finite lives. Therefore, such assets should be amortised over their estimated useful lives, with a maximum amortisation period of 10 years. The assets must also be assessed for impairment using the 'indicator approach' proposed in the ED.

98. **Issue 17.2: Capitalisation of development costs**

January 2009: All research and development costs should be recognised as an expense. Capitalisation of development costs should not be an option.

99. **Issue 17.3: Intangible assets – annual review of amortisation period and method**

July 2008: Many of the Board's tentative decisions for PPE also apply to intangible assets (excluding goodwill), for example reassessing the amortisation period, method and residual value only when there is an indication of change since the last reporting date. Section 17 should provide examples of indicators that could trigger such a reassessment.

100. **Issue 17.4: Prohibit revaluation of all intangibles**

January 2009: The revaluation model should not be an option

Section 18 Business Combinations and Goodwill

101. **Issue 18.1: Amortisation of goodwill**

January 2009: For cost-benefit reasons, rather than conceptual reasons, goodwill should be considered to have a finite life and amortised over this life (maximum 10 years). Goodwill must also be assessed for impairment using the 'indicator approach' proposed in the ED.

102. **Issue 18.2: Business combinations – separation of intangibles and allocation of cost**

July 2008: Intangible assets acquired in a business combination should be separately recognised if their fair value can be measured reliably as proposed in the ED (an 'undue cost or effort' exemption should not be added).

103. **Issue 18.3: Business combinations – recognition of contingent liabilities**

July 2008: Contingent liabilities acquired in a business combination should be separately recognised if their fair value can be measured reliably as proposed in the ED (an 'undue cost or effort' exemption should not be added).

104. **Issue 18.4: Business combinations – adjustments of fair value after acquisition**

July 2008: Specific requirements should be added on how to account for a business combination in which the initial accounting can be determined only provisionally due to uncertainties about the cost of the combination or the fair values of some acquired assets or liabilities.

105. **Issue 18.5: Consider pooling of interests method**

July 2008: Pooling of interests accounting should not be permitted for business combinations (*IFRS for NPAEs* does not address combinations of entities under common control).

Section 19 Leases

106. **Issue 19.1: Leases – operating, straight-line method.** Does the Board agree with the staff recommendation to revise ED paragraph 19.13 as set out below to include the case where minimum lease payments are structured to compensate the lessor for expected inflation?

19.13 A lessee shall recognise lease payments under operating leases (excluding costs for services such as insurance and maintenance) as an expense on a straight-line basis unless either

(a) another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis; or

(b) the payments to the lessor are structured to increase in line with expected inflation to compensate for the lessor's expected cost increases. If payments to the lessor vary due to factors other than inflation, then condition (b) is not met.

October 2008: The Board supported the staff proposal but felt it should be clarified that 'expected inflation' means changes in general purchasing power based on published statistics, rather than a general estimate of the lessor's future cost increases.

107. **Issue 19.2: Leases – finance, measurement.**

July 2009: The Board decided that the IAS 17 *Leases* measurement principles should be used for lessee measurement of finance leases (ie measure at fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease).

108. **Issue 19.3: Criteria for finance lease, including all leases as operating**

July 2008: The ED's criteria (similar to the criteria in IAS 17*)* for classifying leases as either operating or financing according to their substance should be retained. The Board did not support accounting for all leases as operating leases.

The Board did not support the staff proposal to change ED paragraph 19.4(c) to 'substantially all of the economic life of the asset'. Instead, additional guidance should be added to assist entities in applying the criterion 'major part of the economic life of the asset' in 19.4(c).

109. **Issue 19.4: Leases – Leasehold land.** The issue dealt with in Issue 15.3 is a special case consistent with full IFRSs. Does the Board agree with the staff recommendation not to change the ED to allow leasehold land to be capitalised without regard to whether the leasehold land otherwise meets the criteria to be accounted for as investment property?

July 2008: The Board agreed with the staff recommendation. However, one Board member noted that a related issue may be addressed as part of the Annual Improvements project.

December 2008: The issue addressed in the Annual Improvements project was considered not directly relevant to this issue, so the initial staff recommendation presented in July 2008 will be followed.

110. **Issue 19.5: Leases –agreements that contain a lease (IFRIC 4).**

November 2008: The Board decided tentatively to include in the IFRS for NPAEs the following relating to IFRIC 4 *Determining whether an Arrangement contains a Lease*.

19.X1 Some arrangements, such as outsourcing arrangements, telecommunication contracts that provide rights to capacity, and take-or-pay contracts, do not take the legal form of a lease but they convey rights to use assets in return for payments. Such arrangements are in substance leases of assets, and they should be accounted for under this section.

Section 20 Provisions and Contingencies

111. **Issue 20.1: Measurement requirements for provisions**

July 2008: The requirements proposed in the ED for accounting for provisions do not need to be simplified. However, more examples should be provided as implementation guidance for provisions commonly encountered by NPAEs or in the training material being developed by the IASCF education team.

Section 21 Equity

112. **Issue 21.1: Classification of equity/liability – different legal forms of entity.**
Staff will present its recommendation on the distinction between equity and liability to the Board at a future Board meeting.

October 2008: The Board decided to incorporate into the IFRS for NPAEs the amendment to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Financial Statement Presentation* issued in February 2008 on puttable instruments and obligations arising on liquidation.

113. **Issue 21.2: Classification of equity/liability– compound instruments should be classified as either equity or liability**

July 2008: An entity that issues a compound financial instrument should classify its components separately as financial liabilities, financial assets or equity instruments (sometimes known as split accounting). Examples should be added as implementation guidance to assist entities in accounting for compound instruments or in the training material being developed by the IASCF education team.

Section 22 Revenue

114. **Issue 22.1: Revenue – percentage of completion**

July 2008: The percentage of completion method should be applied when recognising revenue from services and construction contracts, as proposed in the ED. Further examples will be added as implementation guidance or in the training material being developed by the IASCF education team.

115. **Issue 22.2: Revenue – agreements for the construction of real estate (IFRIC 15)**

November 2008: The Board decided tentatively to include in the IFRS for NPAEs IFRIC 15 *Agreements for the Construction of Real Estate* suitably adapted.

To do this the following new example 12 should replace the existing example 12 in the ED.

Example 12 Agreements for the Construction of Real Estate

22.14A An entity that undertakes the construction of real estate, directly or through subcontractors, and that enters into an agreement with one or more buyers before construction is complete, shall account for the agreement as a sale of services, using the percentage of completion method, only if:

(a) the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (whether it exercises that ability or not); or

(b) the buyer acquires and supplies construction materials and the entity provides only construction services.

22.15A If the entity is required to provide services together with construction materials in order to perform its contractual obligation to deliver real estate to the buyer, the agreement shall be accounted for as the sale of goods. In this case, the agreement does not transfer to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses. Rather, the transfer occurs only on delivery of the real estate to the buyer.

Section 23 Government Grants

116. **Issue 23.1: Government grants measurement and allocation**

July 2008: The 'IFRS for SMEs' model (as described in paragraphs 23.4 and 23.5 of the ED) will be required for all government grants. The option in the ED to apply IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* for those government grants not related to assets measured at fair value through profit or loss (paragraph 23.3(b) of the ED) will be removed.

117. **Issue 23.2: Revise definition of government grants**

October 2008: The staff withdrew a recommendation that would have removed from the definition of a government grant the phrase 'in return for past or future compliance with certain conditions relating to the operating activities of the entity'.

Section 24 Borrowing Costs

118. **Issue 24.1: Borrowing costs – should both methods be retained**

January 2009: All borrowing costs should be recognised as an expense. The capitalisation model should not be an option.

119. **Issue 24.2: Borrowing costs – simplification of capitalisation model.** Does the Board agree with the staff recommendation that the capitalisation model in the ED does not need to be simplified, for example by allowing the average borrowing rate to be used?

January 2009: The capitalisation model should not be an option.

Section 25 Share-based Payment

120. **Issue 25.1: Equity-settled SBP – more simplification than just intrinsic value (including possibly disclosure only).**

<u>25.1B – Overall measurement of equity-settled SBPs</u>

November 2008: The Board decided tentatively that NPAEs should recognise an expense for equity-settled SBPs and that the expense should be measured on the basis of observable market prices, if available, or, if not, using the directors' best estimate of the fair value of the equity-settled SBPs. Disclosure alone, without expense recognition, would not be permitted.

The Board proposed modifying the staff proposal. The staff's approach after those modifications is as follows:

Equity settled share based payments

25.X1 For equity-settled SBP transactions, the entity shall measure the goods or services received, and the corresponding increase in equity at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity by reference to the fair value of the equity instruments granted. To apply this requirement to transactions with employees and others providing similar services, the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received. The fair value of those equity instruments shall be measured at grant date.

Entity measures equity-settled SBP transactions by reference to the fair value of the equity instruments granted

<u>Entity issues shares or share appreciation rights</u>

25.X2 An entity shall measure shares or share appreciation rights using the following three-tier measurement hierarchy:

1. Directly measure the equity instruments granted using observable market prices (note that, in most cases, such prices will not be available for NPAEs).

2. Directly measure the equity instruments granted using entity specific observable market data such as (a) a recent transaction in the entity's shares or (b) a recent independent fair valuation of the entity or its principal assets.

3. Indirectly measure the share price using a valuation technique that uses market data to the greatest extent practicable to estimate what the price of those equity instruments would be on the grant date in an arm's length transaction between knowledgeable, willing parties. Directors should use their judgement to apply the most appropriate valuation method to determine the fair value of the entity's shares. Any valuation technique used should be consistent with generally accepted valuation methodologies for valuing equity instruments, and the entity should be required to disclose the reason for choosing the valuation methodology.

<u>Share options</u>

25.X3 An entity shall measure share options using the following three-tier measurement hierarchy:

1. Directly measure the share options granted using observable market prices (note such prices will very rarely be available).

2. Directly measure the share options granted using entity specific observable market data such as a recent transaction in the entity's share options.

3. Indirectly measure the share option using an option pricing model. The inputs for the model should use market data to the greatest extent possible. Paragraph 25.X2 gives guidance on determining the share price. The entity should derive an estimate of expected volatility consistent with the valuation methodology used to determine the share price.

121. **Issue 25.2: SBP transactions with cash alternatives**

November 2008: For SBP transactions that give either the entity or the counterparty a choice of settlement in cash or equity instruments, the Board decided that the entity should account for the transaction as a cash-settled SBP transaction unless either

- the entity has a past practice of issuing equity instruments, or
- the option to settle in cash has no commercial substance

In the latter two circumstances, the transaction should be treated as equity-settled.

The following wording was proposed by the staff and will replace ED paragraph 25.7:

25.7 Some share-based payment transactions give either the entity or the counterparty a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments. In such a case, the entity shall account for the transaction as a cash-settled share-based payment transaction unless either (a) the entity has a past practice of settling by issuing equity instruments or (b) the option has no commercial substance because the cash settlement amount bears no relationship to, and is likely to be lower in value than, the fair value of the equity instrument. In circumstances (a) and (b), the transaction shall be accounted for as an equity-settled share-based payment transaction in accordance with paragraphs 25.X – 25.Y.

122. **Issue 25.3: SBPs where goods or services cannot be specifically identified (IFRIC 8)**

November 2008: The Board decided tentatively to include the following in the IFRS for NPAEs to incorporate IFRIC 8 *Scope of IFRS 2*:

25.X Some jurisdictions have programmes established under law by which equity investors (such as employees) are able to acquire equity for apparently nil or inadequate consideration. This indicates that other consideration has been or will be received (such as past or future employee services). These are equity-settled share-based payment transactions within the scope of this Section. Therefore, they must be measured at the fair value of the equity instruments granted unless it is impracticable to do so. The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received) measured at the grant date.

The Board asked staff to ensure the wording above is consistent with IFRIC's revised wording in IFRIC 8.

123. **Issue 25.4: Disclosure issues**

November 2008: The Board decided tentatively to simplify the disclosure requirements for SBPs after discussion of Issues 25.1-25.3.

(Note, the specifics are addressed in Attachment 2 to Agenda Paper 4)

Section 26 Impairment of Non-financial Assets

124. **Issue 26.1: Impairment – value in use measurement**

July 2008: An entity should perform an impairment test only if there is an indication that an asset may be impaired, as proposed in the ED. However, the approach for determining the impairment loss once an impairment is indicated should be revised to be similar to IAS 36 *Impairment of Assets* and Section 26 should include the concepts of 'recoverable amount', 'value in use' and 'cash-generating units' like IAS 36. It should be clarified, in a way similar to IAS 36.20, that if it is not possible to determine fair value less costs to sell for an asset because there is no basis for making a reliable estimate of that amount, then the entity may use the asset's value in use as its recoverable amount.

The concept in IAS 36.19 should also be added, ie that it is not always necessary to determine both fair value less costs to sell and value in use since if either exceeds carrying amount, it is not necessary to estimate the other amount.

125. **Issue 26.2: Simplify requirements for assessing impairment of goodwill.** Does the Board agree with the staff recommendation that ED paragraph 26.22 Step 1(a) should be amended to include a presumption that if the acquired business has not been restructured or dissolved into the parent or other subsidiaries, the only component of the group that benefits from the goodwill is the acquired business? Does the Board also agree with the staff recommendation that the ED should be amended to specify that if the recoverable amount of a component cannot be measured reliably without undue cost or effort, then the entity should write off the total goodwill allocated to that component in full as an expense in measuring profit or loss? (Note, there was another question (26.2B) but it is obsolete due to the Board decision on Issue 26.1).

July 2008: The Board discussed the requirements for allocating goodwill to components of the entity, with a view to providing relief for entities that do not manage their business on the basis of cash-generating units. The Board asked the staff to rewrite paragraph 26.22 of the ED on the basis of the discussion (but tighten up the wording) and present a recommendation at a future Board meeting.

Main points of the discussion:

- If the reporting entity has the systems to make the allocation of goodwill to cash-generating units (CGUs) and manages its business on the basis of CGUs, then it should allocate goodwill to those CGUs (or groups of CGUs) that are expected to benefit from the synergies of the combination.
- Otherwise:

➢ If the reporting entity has not integrated the acquired business, the acquired business should be measured as a whole when testing impairment of goodwill. (ie determine recoverable amount of the acquired business including goodwill).

➢ If the reporting entity has integrated the acquired business, then the group should be measured as a whole when testing impairment of goodwill.

December 2008: See Board decisions on full rewrite at the end of the Section 26 issues.

126. **Issue 26.3: Impairment – assessment by cash generating unit or component of an entity.** Does the Board agree with the staff recommendation that the ED already covers the concept of 'cash generating unit' and no change, other than to clarify the new terms used, is needed?

July 2008: The standard should include the concepts of 'recoverable amount', 'value in use' and 'cash-generating units' as a consequence of using the IAS 36 approach.

127. **Issue 26.1-3: Section 26 issues (rewrite).** The staff presented a revised Section 26 reflecting tentative decisions made by the Board in July 2008. The revision:

- modifies the general approach for the impairment of non-financial assets to include the 'recoverable amount' and 'value in use' concepts;
- simplifies the requirements for assessing goodwill impairment; and
- introduces the concept of a cash-generating unit.

December 2008: In general, the Board was supportive of the rewrite. However, a few inconsistencies were highlighted, for example, regarding determining fair value in a forced sale (paragraph 26.14 of the rewrite). The Board also suggested modifications, such as deleting the 'market capitalisation' impairment indicator in 26.9(d), deleting paragraph 23.13 (on allowing value in use to be used as recoverable amount in some circumstances) and shortening the section (for instance, some of the guidance for value in use could instead be covered by the training materials being developed by the IASCF education team) to make it more manageable for NPAEs.

Section 27 Employee Benefits

128. **Issue 27.1: Pensions – options for recognising actuarial gains and losses**

November 2008: The Board decided to allow two methods for recognising actuarial gains and losses - immediate recognition in profit or loss (as proposed in the ED) and immediate recognition in other comprehensive income without recycling.

129. **Issue 27.2: Pensions – past service cost**

July 2008: All past service cost should be recognised immediately in profit or loss as proposed in the ED.

130. **Issue 27.3: Pensions – Measurement at current liquidation amount.** Does the Board agree with the staff recommendation that if sufficient information is not available without undue cost or effort to determine the present value of the defined benefit obligation and related current service cost under a defined benefit plan using the projected unit credit method, an entity should measure the defined benefit obligation of that plan at the current liquidation amount using current salary information and give supplementary disclosures?

February 2009: The Board made the following tentative decisions:

If information based on IAS 19 *Employee Benefits* (projected unit credit, etc.) is already available or can be obtained without undue cost or effort, an NPAE should use that method.

If information based on IAS 19 is not available and cannot be obtained without undue cost or effort, an NPAE would apply an approach based on IAS 19 but that does not consider future salary progression, future service, or possible mortality during an employee's period of service. This approach would still take into account life expectancy of employees after retirement age. The resulting defined benefit pension obligation would reflect both vested and unvested benefits.

Clarify that comprehensive valuations would not normally be necessary more than once every three years. In the interim periods, the valuations would be rolled forward for aggregate adjustments for employee composition and salaries, but without changing the turnover or mortality assumptions.

Further guidance would be added on insured benefits.

131. **Issue 27.4: Pensions – allow choice of actuarial method.** If the Board agrees with the staff recommendation in Issue 27.3 above, does the Board also agree with the staff recommendation that there is no need to provide further simplification by allowing actuarial methods other than the projected unit method to be used for defined benefit accounting? Does the Board agree with the staff recommendation that additional clarification should be added to the ED to state that under defined benefit accounting, an actuarial valuation performed by an outside actuary is not required to be done

every year and that guidance should be added on when a roll forward is appropriate and how it should be performed?

February 2009: The Board tentatively decided on a simplified approach if information based on IAS 19 (projected unit credit, etc.) is not available without undue cost or effort, (see Issue 27.3 above)

132. **Issue 27.5: Pensions – treat all multi-employer as defined contribution**

November 2008: The Board decided to retain the requirements for multi-employer plans as proposed in the ED (and contained in IAS 19), ie when sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity should treat the plan as a defined contribution plan with appropriate disclosure.

133. **Issue 27.6: Expected rate of return on assets**

November 2008: The Board decided not to require entities to divide the return on assets into an expected return and an actuarial gain or loss.

Section 28 Income Tax

134. **Issue 28.1: Income Taxes – which method?**

November 2008: The Board decided tentatively

- To pursue an approach that starts from the temporary difference approach as set out in the latest version of a forthcoming exposure draft of revisions to IAS 12 *Income Taxes*, but make simplifications.
- To retain the requirements proposed in the exposure draft of an IFRS for SMEs (ED) and contained in IAS 12 regarding the measurement of deferred tax when a jurisdiction imposes different tax rates on distributed and undistributed income, rather than follow the forthcoming exposure draft of revisions to IAS 12.
- To require all deferred tax assets and liabilities to be classified as non-current.
- To prohibit discounting of current and deferred tax assets and liabilities.
- Not to require NPAEs to disaggregate the initial measurement of assets and liabilities that have a tax basis different from their initial carrying amount into (i) an asset or liability excluding entity-specific tax effects and (ii) any entity-specific tax advantage or disadvantage.
- That deferred tax assets should be recognised for unused tax loss and tax credit carry forwards, subject to the same criteria as in IAS 12.

Section 29 Financial Reporting in Hyperinflationary Economies

135. **Issue 29.1: Existence of hyperinflation**

September 2008: All characteristics that indicate hyperinflation as listed in paragraph 3 of IAS 29 *Financial Reporting in Hyperinflationary Economies* should be added to the final IFRS for NPAEs.

Section 30 Foreign Currency Translation

136. **Issue 30.1: Foreign currency translation – if financial statements must be presented in the national currency can that be the functional currency**

September 2008: NPAEs should not be allowed simply to elect to deem their local currency as their functional currency even if the law requires financial statements to be presented in the local currency.

137. **Issue 30.2: Translation – recycling of cumulative exchange difference in equity**

September 2008: NPAEs should be prohibited from recycling through profit or loss any cumulative exchange differences that were previously recognised in equity on disposal of a foreign operation.

Section 33 Related Party Disclosures

138. **Issue 33.1: Related parties – amendments to IAS 24**

September 2008: The final standard should reflect the final amendments to IAS 24 *Related Party Disclosures*, currently in exposure draft phase. (Note, this is true whether the final amendments are issued before the IFRS for NPAEs or not)

Section 35 Specialised Industries

139. **Issue 35.1: Agriculture – allow cost model as an option**

September 2008: The cost model should not be added as an accounting policy choice for NPAEs since the addition of an 'undue cost or effort' exception to the requirement to apply fair value measurement, as proposed in the ED, is considered a sufficient simplification.

140. **Issue 35.1: Service concession arrangements (IFRIC 12)**

November 2008: The Board tentatively approved the staff proposal for including in the IFRS for NPAEs IFRIC 12 *Service Concession Arrangements* suitably adapted.

The following was the staff proposal:

35.4 A service concession arrangement is an arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals. In these arrangements, the grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.

35.5. There are two principal categories of service concession arrangements:

(a) In one, the operator receives a **financial asset -** an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset from the government in return for constructing or upgrading a public sector asset, and then operating and maintaining the asset for a specified period of time. This category includes guarantees by the government to pay for any shortfall between amounts received from users of the public service and specified or determinable amounts.

(b) In the other, the operator receives an **intangible asset** – a right to charge for use of a public sector asset that it constructs or upgrades and then operates and maintains for a specified period of time. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.

Sometimes, a single contract may contain both types: to the extent that the government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset.

Accounting – financial asset model

35.6 The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The operator shall measure the financial asset at fair value. Thereafter, it shall follow Section 11 *Financial Assets and Financial Liabilities* in accounting for the financial asset.

Accounting – intangible asset model

35.7 The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The operator shall initially measure the intangible asset at fair value. Thereafter, it shall follow Section 17 *Intangible Assets other than Goodwill* in accounting for the intangible asset.

Operating revenue

35.8 The operator of a service concession arrangement shall recognise and measure revenue in accordance with Section 22 Revenue for the services it performs.

Section 36 Discontinued Operations and Assets Held for Sale

141. **Issue 36.1: Eliminate held for sale classification**

September 2008: There should be no 'held for sale' classification for non-financial assets, or groups of assets and liabilities, as is required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, and the proposed requirements for assets held for sale in Section 36 should be dropped from the final standard. Instead, the decision to sell an asset should be added as an impairment indicator.

142. **Issue 36.1: Discontinued operations – simplify or eliminate this disclosure**

September 2008: NPAEs should be required to identify and segregate amounts for discontinued operations in the statement of comprehensive income for the current period and all prior periods presented in the financial statements, unless impracticable. To reflect the Board's decision directly above, the definition of a discontinued operation will no longer refer to components of an entity that are classified as held for sale.

Section 38 Transition to the *IFRS for NPAEs*

143. **Issue 38.1: First-time adoption of the IFRS for NPAEs – include all IFRS 1 exemptions**

September 2008: All of the optional exemptions for first time adopters in IFRS 1 *First-time Adoption of International Financial Reporting Standards* (eg, parent and subsidiary adopt at different times, and deemed cost for investment property and intangible assets) should be added to Section 38, to the extent they are relevant to the IFRS for NPAEs, so they are available to NPAEs adopting the IFRS for NPAEs for the first time.

144. **Issue 38.2: First-time adoption – relax use of 'impracticable'.** Does the Board agree with the staff recommendation that an 'undue cost or effort' principle should not be added to the impracticability exemption for the requirement to restate prior periods on first-time adoption of the IFRS for NPAEs (in 38.9)?

September 2008: The Board agreed with the staff recommendation.

145. **Issue 38.3: Make it easier to move to/from the IFRS for NPAEs**

September 2008: An entity should not be allowed to benefit more than once from the special measurement and restatement exemptions available under Section 38, for example if the entity stops using the IFRS for NPAEs for a period of time and then is required, or chooses, to adopt it again later.