

July 2001

Standards Advisory Council Meeting Highlights

The Standards Advisory Council met with the International Accounting Standards Board in London, UK, on 23-24 July 2001, where it:

- Discussed the role and operations of the Standards Advisory Council;
- Discussed proposals for revisions to the mandate and operating procedures of the IASB Standing Interpretations Committee;
- Discussed a draft of a revised Preface to the IASB standards;
- Discussed the topics and priorities suggested by the IASB for inclusion in its initial technical agenda.

Role and Operations

Members of the Standards Advisory Council outlined their views on the role of the IASB and its accounting standards. Several themes emerged, including the desirability of IASB to address the needs of unlisted entities, small and medium-sized entities and entities in emerging economies and the need for rapid progress on convergence of accounting standards. There was strong support for principle-based standards – consistent with the IASB Framework – but with a concern over the level of detail contained in those standards.

At the suggestion of Sir David Tweedie, who is *ex-officio* chair of the SAC, Peter Wilmot (South Africa) was appointed vice-chair. Mr. Wilmot's appointment is intended to facilitate the smooth operation of the SAC in future.

Standing Interpretations Committee

The SAC discussed with the Board the Board's proposals to amend the mandate and operating procedures of the IASB Standing Interpretations Committee.

The IASB proposes to rename the committee as the International Financial Reporting Interpretations Committee (IFRIC) and expand its mandate to enable the committee to address issues beyond interpretations of existing standards. IFRIC would be able to provide authoritative guidance on accounting issues that, in the absence of such guidance, would be developed by other parties and perhaps lead to divergent practices in different jurisdictions. While some members of SAC expressed concern over the status of IFRIC interpretations, it was acknowledged that the committee's proposed due process would provide a suitable degree of review and opportunities for input.

The membership of IFRIC would be twelve voting members with a non-voting chair. The chair would be an IASB member, a senior member of the IASB technical staff or an individual from outside the IASB.

The IFRIC operating procedures would be revised from those used currently to include the use of an agenda committee and provide for earlier IASB involvement in the process of issuing interpretations. IASB has proposed that the issuance of *draft* interpretations should be subject to a process of negative clearance by the IASB while preserving the approval of *final* interpretations by way of a positive vote of the IASB in public meeting.

The IASB will finalise its proposals for the role and mandate of IFRIC during August. It will present its proposals, together with the related changes necessary for the IASB Constitution, to the IASC Foundation Trustees in October 2001. The changes to the IASB Constitution will be exposed for public comment.

Preface to the Standards

The SAC received a presentation from the IASB of proposals to change the Preface to the IASB Standards. The discussion focussed on the entities to which IASB standards are intended to apply, the elimination of alternatives within existing international accounting standards, the statement that there is no distinction between 'black' and 'grey' lettered paragraphs and the IASB's due process.

The SAC made several suggestions to improve the clarity of the proposed document, but agreed broadly with the IASB proposals. While many SAC members expressed support for the 'black letter/grey letter' distinction, most did not object to the removal of the typographical distinction in the IASB standards.

The proposed changes to the Preface will be the subject of a formal exposure process (see page 3).

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Technical Agenda

The IASB reviewed its proposals for the IASB technical agenda with the SAC. The SAC members expressed support for all items on the proposed agenda, although they suggested that some matters might be given a different priority. (See below for more on the IASB Agenda)

Next Meeting

The Standards Advisory Council will next meet with the IASB **16-17 October 2001** in Washington, DC, USA. The details of the meeting, including venue, timing and agenda will be available in advance of the meeting on the IASB website, www.iasb.org.uk. The meeting will be open to the public.

Subsequent meetings of the SAC are scheduled for:

- 19-20 February 2002, London, UK
- 17-18 June 2002, Berlin, Germany
- 21-22 October 2002, London, UK

Board Meeting Highlights

The International Accounting Standards Board met in London, UK, on 25-27 July 2001, where it:

- Agreed its initial technical agenda and assigned priorities to the projects;
- Approved, subject to written ballot, an exposure draft of a proposed revision of the Preface to the IASB standards;
- Discussed certain aspects of the Board's projects on Business Combinations, First-time Application of IASB Standards, Improvements to Existing IASB Standards, and Share-based Payment; and
- Discussed certain conceptual measurement issues.

Technical Agenda

After consultation with the SAC, national accounting standard setters, regulators, and other interested parties, the International Accounting Standards Board (IASB) has determined an initial agenda of nine technical projects. Projects intended to provide leadership and promote convergence include:

- Accounting for Insurance Contracts
- Business Combinations
- Performance Reporting
- Accounting for Share-Based Payments

Projects intended to provide for easier application of International Financial Reporting Standards include:

- Guidance on First-Time Application of International Financial Reporting Standards
- Activities of Financial Institutions: Disclosure and Presentation

Projects intended to improve existing International Financial Reporting Standards include:

- Preface to International Financial Reporting Standards
- Improvements to Existing International Financial Reporting Standards
- Amendments to IAS 39, Financial Instruments: Recognition and Measurement

In addition to these, 16 other issues are being worked on by one or more of our national standard setting partners. The Board will be working with these partners, or at least monitoring these efforts, in order to ensure that any differences among national standard setters or with the IASB are identified and resolved as quickly as possible. These issues include:

- Accounting Measurement
- Accounting by Extractive Industries
- Accounting for Financial Instruments, Comprehensive Project
- Accounting for Leases
- Accounting by Small and Medium Entities and in Emerging Economies
- Accounting for Taxes on Income (Convergence Topics)
- Business Combinations, Phase Two
- Consolidation Policy
- Definitions of Elements of Financial Statements
- Derecognition Issues, Other Than Those Addressed in IAS 39
- Employee Benefits (Convergence Topics)
- Impairment of Assets
- Intangible Assets
- Liabilities and Revenue Recognition
- Management's Discussion and Analysis
- Revaluations of Certain Assets

Preface to the Standards

The Board approved, subject to written ballot, an exposure draft of a revised Preface to the IASB standards.

The Board confirmed its tentative conclusion that there should be no distinction between 'black' and 'grey' letter paragraphs in the IASB standards and that the distinction in IASB Standards is one of style as opposed to substance. The Board also confirmed its intention to reconsider those transactions and events for which IASB Standards permit a choice of accounting treatment.

The Board intends to publish the exposure draft for public comment in the third quarter 2001.

Business Combinations

The Board discussed the scope of its project on business combinations and reached a tentative conclusion that the following issues would be considered in this phase of the project:

- The definitions of a business combination, joint venture and transactions among entities under common control
- The methods of accounting for business combinations
- Acquired intangibles other than goodwill
- Goodwill
- Negative goodwill
- Acquisition provisions
- In-process research and development
- Other issues identified in the Improvements project
- Disclosures and transition

The Board discussed the definition of a business combination. It tentatively agreed to retain the present scope of IAS 22, Business Combinations. The standard deals with business combinations but does not deal with interests in joint ventures, the financial statements of joint ventures or transactions among entities under common control. The Board agreed to test a proposed definition of a business combination against specific examples, such as mutual entities, multiple roll-ups and transactions that might be unique to certain jurisdictions, to consider whether those transactions met the definition and whether they should be dealt with under IAS 22.

The Board tentatively agreed that the definition and explanation of joint control in IAS 31, Financial Reporting of Interests in Joint Ventures, should be amended so that joint control requires that the strategic operating, investing and financing decisions be unanimous among the joint venturers.

The Board had a preliminary discussion on the definition of transactions among entities under common control, and will continue this discussion at a later date.

The Board tentatively agreed that the scope of IAS 22 should include transactions or events that result in the entity acquiring some or more of the minority interest.

The Board discussed the following methods of accounting for business combinations: the pooling of interests method, the purchase method and the fresh-start method. It tentatively agreed that, at this time, it should not introduce a new accounting method and therefore should focus on the accounting methods already in IAS 22, being the purchase method and the pooling of interests method. The Board tentatively agreed that all transactions dealt with under IAS 22 should be accounted for using the purchase method.

The Board began its discussion of acquired intangible assets other than goodwill. It tentatively agreed that, subject to measurement considerations, an intangible asset that either exists as a result of contractual/legal rights or is separable from the business must be recognised as an intangible asset other than goodwill. The Board also tentatively agreed that IAS 22 should include an illustrative list of intangible assets that are expected to meet the recognition criteria. The Board tentatively agreed, subject to any conclusions reached in its subsequent discussions of negative goodwill, to remove from IAS 22 and IAS 38 the limitation on the recorded amount of intangible assets acquired in a business combination.

The Board tentatively agreed that it should consider the subsequent accounting treatment of intangible assets acquired in a business combination as part of the first phase of the project.

First-time Application of IASB Standards

The Board began its consideration of the key issues facing an entity when it applies IASB standards as its primary basis of financial reporting for the first time. The Board agreed that the issues raised are significant and need to be addressed urgently. The Board also noted that, while the topic of first-time application is of critical interest in Europe – where the European Commission is proposing adoption of IFRS for all publicly-listed entities by 2005 – the same issues will be faced by entities all around the world when they adopt IFRS for the first time. Therefore, there was a need for a solution that was suitable wherever the entity is domiciled.

Share-based Payment

The Board discussed the main issues relating to accounting for share-based payment, but as the discussions were preliminary, no tentative decisions on these issues were requested. The Board agreed that the product of this stage of the project should be the development of an Exposure Draft of an International Financial Reporting Standard.

Improvements to Existing IASB Standards

The Board received a report from its Improvements sub-committee. The sub-committee recommended that separate limited-scope improvement projects should be undertaken on IAS 39/IAS 32 (financial instruments) and transition/first-time application.

The Board agreed that the scope of certain components of the Improvements project should be addressed as follows:

- Issues identified for improvement in IAS 1, Presentation of Financial Statements, should be addressed in the Improvements project except for issues being addressed in a project on performance reporting.
- Issues identified related to fundamental errors and changes in accounting policy in IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, should be addressed in the Improvements project
- The issue of long operating leases should be dealt with in the Improvements project. However, all other issues raised on IAS 17, Leases, should be dealt with in a separate project on leases.

In addition, the Board agreed that the alternative accounting treatments in IAS 16, Property, Plant and Equipment, and IAS 38, Intangible Assets, (cost vs. revaluation) and IAS 40, Investment Property, (cost vs. fair value) should be retained pending the work on the project on Measurement.

The Board stated that it was premature to make a decision on the elimination of any specific accounting alternatives. IASB Staff will prepare a paper presenting supporting and opposing views for the various accounting alternatives being considered for the September meeting. However, the Board agreed that the choices facing the Board on the following topics should be discussed with national standard setters when the Board meets them in September, as they have the potential to affect the Board's convergence objective:

- Cost formulas (FIFO vs. LIFO) for inventories (IAS 2)
- Treatment of fundamental errors and changes in accounting policy (IAS 8)
- Treatment of initial direct costs by lessors (IAS 17)
- Translation of goodwill and fair value adjustments resulting from an acquisition of a foreign entity (IAS 21)
- Treatment of borrowing costs (IAS 23)
- Measurement of investments in subsidiaries and associates in the investor's separate financial statements (IAS 27 and IAS 28)
- Accounting for joint ventures (IAS 31)

Measurement

In addition to its regular discussion of topics on its technical agenda, the Board expects to discuss conceptual issues and other topics on a regular basis. The Board discussed the relationship between fair value and the three components of deprival value, namely replacement cost, value in use and net realisable value. No firm conclusions were reached and the Board will continue its discussions at a later date.

Meeting with National Chairs

The IASB will meet with the chairs of those national accounting standard setters having an IASB liaison member in residence on **10-11 September 2001** in London, UK. Agenda details and Observer registration information will be posted to the IASB Website, www.iasb.org.uk.

Next Meeting

The IASB will next meet **11-13 September 2001** in London, UK. The meeting will be held at the IASB, 30 Cannon Street London EC4M 6XH. Agenda details and Observer registration information will be posted to the IASB Website, www.iasb.org.uk.

Subsequent IASB meetings are expected to be as follows:

- 16-19 October 2001, Washington, DC, USA
- 27-29 November 2001, London, UK
- 18-20 December 2001, Paris, France