BOARD DECISIONS ON INTERNATIONAL FINANCIAL REPORTING STANDARDS

IASB UPDATE

March 2005

The International Accounting Standards Board met in London on 15 and 17 March, when it discussed:

- Fair value option
- Financial instruments – convergence with US GAAP
- Financial instruments puttable at fair value
- ED 7 *Financial Instruments: Disclosures*
- Financial Guarantee Contracts and Credit Insurance
- Liabilities and Equity
- Standards for Non-publicly Accountable Entities (NPAEs)
- Short-term convergence: Segment Reporting
- Short-term convergence: Income taxes
- Short-term convergence: Accounting changes and error corrections
- Business Combinations
- IFRIC Matters

Fair value option

In April 2004, the Board published an exposure draft of proposed amendments to the fair value option in IAS 39 *Financial Instruments: Recognition and Measurement*. In September, it discussed the 116 comment letters received, when it noted that a large majority of respondents did not agree with the proposals in the exposure draft. It also noted that reverting to the unrestricted fair value option in IAS 39 (as revised in March 2004) would not address the concerns of regulators, which were the reasons for publishing the exposure draft. Therefore, the Board asked the staff to explore whether there was an alternative solution that could be acceptable to all parties – the Board, regulators and other constituents.

Since December, the Board has sought and discussed constituents' comments on a draft of a possible new approach.

As part of this process the Board held series of round-table meetings with invited constituents to discuss the approach. The Board would like to thank all those who participated in the round-table meetings or have otherwise commented on the draft of the possible new approach.

In summary, participants at the round-table meetings indicated their overall support for the possible new approach. Some asked for clarification on, or for the Board to reconsider, particular issues. These issues, which were discussed subsequently by the Board, were:

- *Clarification of the meaning of significant* in the context of a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch'). The Board decided to explain in the Basis for Conclusions that it is not seeking to impose a measure of effectiveness similar to that required for hedge accounting.
- *Requests to allow a 'reasonable delay'* in assembling a portfolio of financial assets and liabilities when an entity wishes to use the fair value option to eliminate or significantly reduce an accounting mismatch. The Board decided to allow a reasonable delay provided that each transaction is designated at fair value through profit or loss at its initial recognition and, at that time, any remaining transactions are expected to occur.
- *Requests to allow a component (such as one risk) or a proportion (ie percentage)* of a financial asset or financial liability to be designated as at fair value through profit or loss when an entity wishes to use the fair value option to eliminate or significantly reduce an accounting mismatch. The Board decided not to allow an entity to designate either components or proportions of a financial asset or a financial liability. The Board noted that it had addressed the issue of components in developing the improvements to IAS 39 (see paragraphs BC85 and BC86 of IAS 39) and no new arguments had been raised. Also, any change would probably require re-exposure. Lastly, the issue of measuring components of fair value will be considered in its wider context (including its effect on hedge accounting) by the Financial Instruments Working Group. On proportions, the Board noted that permitting a proportion would require prescriptive guidance on how to determine a proportion and could give rise to incentives for an entity to 'cherry pick' (ie to realise financial assets or financial liabilities selectively so as to achieve a desired accounting result) because of the remaining proportion that is not subject to the fair value option. However, it also noted that only part of a group of similar instruments such as 10 of 100 outstanding bonds could be designated.
- *Clarification of the level of documentation* required to demonstrate that an entity manages and evaluates financial assets or financial liabilities on a fair value basis. The Board decided to clarify that the documentation need not be as extensive as is required for hedge accounting. Also, documentation may be on a portfolio basis rather than item-by-item. The Board also decided to include an example of when no additional documentation would be required.
- *Clarification of the meaning of 'little or no analysis'* in the context of assessing whether separation of an embedded derivative in a particular type of hybrid instrument is required or prohibited by IAS 39, and hence whether the fair value option is available because it reduces complexity for an entity. The Board decided to clarify that 'little or no analysis' refers to the analysis when a hybrid instrument is first considered.

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Fair value option *(...continued)*

- *To reconsider the current restriction that financial assets and financial liabilities may be designated only on initial recognition.* The Board decided not to reconsider this issue because doing so would remove an important discipline on the use of the fair value option and any change would probably require re-exposure.
- *To reconsider whether an entity should be able or required to exclude its own credit risk when using the fair value option.* The Board noted that it had addressed this issue in developing the improvements to IAS 39 (see paragraphs BC87-BC92 of IAS 39) and no new arguments had been raised. Accordingly, it decided not to reconsider the issue now, but noted that it will be considered in the context of the work of the Financial Instruments Working Group.
- *Including further examples with the application guidance.* The Board, at the urging of many of the round-table participants, decided that including more examples is not consistent with a principles-based approach.
- *Clarification regarding transition provisions.* The Board discussed transition requirements for the possible new approach and is continuing to develop the transition provisions. The Board decided that:
  - (a) the amended fair value option resulting from the possible new approach would have an effective date of annual periods beginning on or after 1 January 2006, with earlier application encouraged.
  - (b) an entity that adopts the amended fair value option at the same time as it adopts IFRSs for the first time (with the result that it has not previously adopted a different version of the fair value option) would be permitted to designate, when the amended fair value option is first applied, any financial asset and/or financial liability that qualifies under the amended fair value option. The Board noted that this would be the case for a company that first adopts both IFRSs and the amended fair value option for the annual period beginning on or after 1 January 2005. The Board also noted that this approach could be extended to an existing user of IFRSs that adopts the amended fair value option at the same time as it adopts IAS 39 (as revised in March 2004). Such an entity also would not previously have adopted a different version of the fair value option.
  - (c) an entity that has adopted the unrestricted fair value option presently contained in IAS 39 (as revised in March 2004) shall de-designate any financial asset and/or financial liability that does not qualify for the fair value option under the amended fair value option at the date of its application, but shall not otherwise change the designation of the financial assets and/or financial liabilities to which the fair value option is applied.
  - (d) In all cases, comparative financial statements shall not be restated.

  The Board expects to continue its discussion of transition provisions at its meeting in April. Further proposals will be available within the Project section of the IASB Website in due course.

The Board expects to discuss the revised draft of the possible approach at its meeting in April. If the Board approves the draft, it is expected that the Amendment would be issued in June or July.

Financial instruments – convergence with US GAAP

At this meeting, the Board held an education session on a draft project plan proposed for converging some of the requirements of IAS 39 with corresponding US accounting requirements for financial instruments. The Board did not make any technical decisions.

The staff invited suggestions on the approach to the project. Several Board members suggested that the Board should consider the long-term objective for improving financial instruments accounting is before proceeding to specific convergence issues.

Board members also suggested the following:

- Simplification of accounting standards on financial instruments should be an important criterion for determining whether a topic is included in the convergence project.
- The staff should identify financial instruments topics that are regarded as especially troublesome when reconciling IFRS financial statements with US GAAP.
- Elimination of reconciling items should not be the only criterion for including items in the short- or medium-term convergence project.
- The staff should analyse the following topics for inclusion in the medium-term convergence project:
  - (a) impairment of financial instruments other than loans;
  - (b) extending to US GAAP the portfolio-based cash flow hedge accounting model in IFRSs.

Financial instruments puttable at fair value

In July 2004 the Board decided to give further consideration to accounting for financial instruments puttable at a pro rata share of the fair value of the residual interest in the issuer ('financial instruments puttable at fair value'). The Board had considered papers outlining possible amendments to IAS 32 *Financial Instruments: Disclosure and Presentation* to provide for financial instruments puttable at fair value to be classified as equity in limited circumstances. At present, those instruments are classified as financial liabilities.

Staff of the Financial Reporting Standards Board of New Zealand proposed an amendment to IAS 32 that would classify as equity financial instruments puttable at fair value that have the characteristics of residual equity instruments. The proposal included seven criteria designed to reduce the risk that puttable financial instruments that have the economic characteristics of a liability might meet the accounting proposed definition of equity. The Board's discussed the balance between the adequacy of the proposal in addressing cases in which financial instruments puttable at fair value are more appropriately classified as equity and the risks of financial engineering.

The Board acknowledged a need to address this matter. However, the Board decided to consider whether a more generalisable solution could be found that could be helpful to its debt-equity project.

The New Zealand representatives agreed to review the scope of the project, with a view to developing a solution that addresses minority interest puttable at fair value, limited life entities and partnerships with instruments puttable at fair value.

ED 7 *Financial Instruments: Disclosures*

Sensitivity analysis of market risk

The Board decided:

- to confirm the approach in ED 7 of not providing detailed information about what is 'a reasonably possible change' in risk variables, subject to clarification that:
  - (a) disclosure is required of the affect on profit or loss and equity if a reasonably possible change in the relevant risk variable had been applied to the risk exposures in existence at the balance sheet date.
  - (b) a reasonably possible change is judged relative to the economic environment in which the entity operates. It does not include remote or 'worst case' scenarios or 'stress tests'.
  - (c) the entity should consider what changes are reasonably possible over the next reporting period.
  - (d) the entity need not reassess what is a reasonably possible change in risk variables if the rate of change of the underlying risk variable is stable.
- to require disclosure of the reasons for changes from the previous period in the assumptions and methods used in performing the sensitivity analysis.
- to provide additional guidance on the level of aggregation in the disclosures.
- not to provide additional guidance on the methodology to be used in preparing the sensitivity analysis, but to provide additional discussion of its reasons in the Basis for Conclusions.
- not to provide additional guidance for preparers who do not monitor risk or present detailed risk information to management or the board of directors
- to provide in non-mandatory implementation guidance a simple example of what a sensitivity analysis might look like.

Implementation guidance

The Board decided:

- to make mandatory those paragraphs in Implementation Guidance that are necessary for entities to understand how to apply the IFRS.
- to confirm the non-mandatory status of the remaining Implementation Guidance paragraphs.
- to confirm that the illustrative example in paragraph IE2 about an entity that has not complied with externally imposed capital requirements will be included in IAS 1 *Presentation of Financial Statements*.
- to issue the mandatory and non-mandatory guidance at the same time the new IFRS.
- not to add any substantial further implementation guidance.

The Board also adopted the staff recommendations on a number of smaller issues that were not debated.

Fair value option disclosures

The Board decided that:

- the IFRS arising from ED 7 will be issued with only those disclosures related to the fair value option previously proposed in ED 7, amended for the decisions made at the February Board meeting.
- the fair value option amendments (if any) will make consequential amendments to the new IFRS to add the incremental fair value option disclosures proposed in the fair value option project.
- the fair value option amendments (if any) will also make consequential amendments to IAS 32 to add any fair value option disclosures not currently included in IAS 32 so that all these disclosures apply to entities that choose to apply any fair value option amendments before they apply the new IFRS.

Insurance issues

The Board decided:

- to confirm its decision at the February meeting to permit a choice of either quantitative or qualitative sensitivity analysis disclosures for insurance risk only, but not to provide an exception for those contracts that combine insurance and market risk.
- to amend IFRS 4 *Insurance Contracts* to move the guidance on maturity analysis from the Implementation Guidance to the Standard.
- to add clarification that if changes in market variables would not affect profit or loss or equity that fact should be stated.

Transition issues

The Board decided:

- to issue the capital disclosures requirements proposed in paragraphs 46-48 of ED 7 as a stand-alone amendment to IAS 1, effective for annual periods beginning on or after 1 January 2007.
- not to require entities to present disclosures from their previous, non-IFRS compliant financial statements in place of comparative information.
- to encourage early application of the new IFRS.
- to provide a summary of the effect of the exemption from presenting comparatives on the accounting and risk disclosures for accounting periods beginning before 1 January 2006, before 1 January 2007 and after 1 January 2007.

Minimum disclosures and materiality

The Board decided:

- to confirm its decision to clarify that the minimum disclosures about risk proposed in ED 7 are subject to the materiality requirements in IAS 1
- to clarify that the disclosures about the significance of financial instruments for financial position and performance in paragraphs 10-31 of ED 7 are required to meet the principle stated in paragraph 9 of ED 7.

General

The Board noted that any differential treatment for non-publicly accountable entities (NPAEs) would be considered in the NPAE project.

The Board confirmed its decision to issue a new IFRS and an amendment to IAS 1 based on the proposals in ED 7 and directed the staff to prepare a ballot draft. Final publication is expected in June.

Financial Guarantee Contracts and Credit Insurance

In January, the Board concluded that it would permit two approaches for contracts within the scope of this project:

(a) the approach proposed in the Exposure Draft, or

(b) applying IFRS 4, but with a more rigorous liability adequacy test for these contracts only.

At this meeting, the Board decided not to pursue that conclusion. Instead, the Board discussed a proposal that would require the issuer of a contract within the scope of the Exposure Draft to apply the approach proposed in the Exposure Draft, unless the contract contains specified features that are commonly found in credit insurance contracts and pose accounting problems that cannot be resolved in the short term. If such features are present, the issuer could elect to apply IFRS 4, instead of the proposals in the Exposure Draft. The Board also rejected this proposal.

The Board discussed a second proposal. If the issuer of a contract within the scope of the Exposure Draft had previously asserted that such contracts were insurance contracts and had used accounting applicable to insurance contracts, the issuer could apply either the approach proposed in the Exposure Draft or IFRS 4. In all other cases, the issuer would apply the approach proposed in the Exposure Draft. The Board will discuss this proposal further in April and will decide then whether it should adopt this proposal, or abandon this project.

The Board decided that the following would apply if it adopts this proposal:

- There would be no exemption for intra-group financial guarantee contracts.
- Although the Exposure Draft on financial guarantee contracts had appeared to exclude financial guarantee contracts from the fair value option in IAS 39, this had not been the Board's intention. Thus, the fair value option would be available for these contracts.
- Issuers of such contracts would apply the disclosure requirements in IAS 32 if they applied the recognition and measurement approach proposed in the Exposure Draft. However, they would apply the disclosure requirements in IFRS 4 if they applied the recognition and measurement requirements in that Standard.

Liabilities and Equity

The Board held an educational session in which FASB staff presented the status of the FASB's liabilities and equity project, including the current decisions reached as described in the milestone draft, *Proposed Classification of Financial Instruments with Characteristics of Equity*. The draft will be posted to the FASB's Website once various revisions are complete, most likely sometime in May. The Board will continue to monitor the FASB's progress on this project as it develops an overall approach for the classification of instruments as either debt or equity.

Standards for Non-publicly Accountable Entities (NPAEs)

The Board intends to hold round-table meetings with preparers and users of NPAE financial statements and others to discuss possible recognition and measurement modifications of IFRSs in standards for NPAEs. Those round-table meetings are tentatively planned for September 2005.

To identify the issues for discussion at the round-table, the project plan includes sending a questionnaire to those who responded to the Discussion Paper, and to members of the Standards Advisory Council and the Board's NPAE working group. Responses from the public will also be invited. Participants in the round-table discussions will be selected from those responding to the questionnaire.

The Board reviewed a draft of the questionnaire. The staff proposed that the questionnaire will include two questions, the first of which is aimed at identifying specific NPAE recognition and measurement issues for discussion at the round-tables:

(1) What are the areas for possible simplification of recognition and measurement principles for NPAEs? In responding, please indicate what is the specific problem is for an NPAE, why it is a problem, and how that problem might be solved.

The second question seeks to identify areas that might be omitted from standards for NPAEs:

(2) From your experience, please indicate which topics addressed in IFRSs might be omitted from NPAE standards because they are unlikely to occur in an NPAE context. If they occur, the standards would require the NPAE to determine its appropriate accounting policy by looking to the applicable IFRSs.

The Board approved the revised questionnaire subject to editorial review by the Board's NPAE subcommittee.

The staff plan to publish the questionnaire by 31 March 2005, with responses due by 31 May 2005.

Short-term convergence: Segment Reporting

In January, the Board discussed the approaches of IAS 14 *Segment Reporting* and SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* and decided to converge with SFAS 131. The Board asked the staff to consider the subsequent work of the Canadian Accounting Standards Board (AcSB) and the FASB on their respective standards on segment reporting, and the possibility of extending the scope of the proposed new IFRS for segment reporting.

At this meeting, the Board considered the following:

- the subsequent work of the AcSB and the FASB
- the scope of the proposed segment reporting standard
- the wording of the capital expenditure disclosure
- the location of the requirements for interim period segment information

Regarding the subsequent work of the AcSB and the FASB, the staff noted that a draft FASB staff position on the application of the criteria for aggregating segments had recently been posted to the FASB Website. The staff will prepare for a later meeting a summary of differences between the Canadian and US guidance.

The Board decided:

- to retain the scope exclusions for segment reporting currently in IAS 14, but to note that it will revisit the issue when the proposals in the project on Non-publicly Accountable Entities (NPAEs) are finalised.
- to follow the approach of SFAS 131 for the wording of the capital expenditure disclosure requirements in the proposed IFRS, ie to require disclosure of expenditure on all non-current assets with specified exceptions.
- to add requirements for interim period segment information in IAS 34 *Interim Financial Reporting*, rather than in the proposed IFRS on segment reporting.

Short-term convergence: Income taxes[1]

At the January Board meeting, the Board decided to consider whether to include guidance on the areas listed below that is included in SFAS 109 *Accounting for Income Taxes* in IAS 12 *Income Taxes*. At this meeting, the Board discussed each area and made the following decisions:

Income Statement recognition requirements following a business combination

SFAS 109 paragraph 16 states 'For deferred tax liabilities and assets acquired in a purchase business combination during the year, it [the deferred tax expense or benefit] is the change [in the enterprise's deferred tax liabilities or assets] since the combination date.' IAS 12 does not include any such guidance, but the accounting would be the same as that stated in SFAS 109. The Board decided that similar guidance was unnecessary in IAS 12.

Computation process for determining deferred taxes

SFAS 109 paragraph 17 includes a list of procedures for determining deferred taxes. The procedures include:

(a) identifying the types and amounts of existing temporary differences, and the nature and amount of operating loss and tax credit carryforwards and the remaining length of the carryforward period

(b) measuring (i) the total deferred tax liability for taxable temporary differences and (ii) the total deferred tax asset for deductible temporary differences and operating loss carryforwards using the applicable tax rate

(c) measuring deferred tax assets for each type of tax credit carryforward

(d) reducing deferred tax assets by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realised.

IAS 12 does not include such guidance. The Board decided to include similar guidance in the Application Guidance on IAS 12. The difference between SFAS 109 and IAS 12 in relation to the valuation allowance was not addressed at this time. It will be considered at a later meeting as part of discussions on uncertain tax positions.

[1] The following text of the IASB *Update* from February 2005 regarding the point of substantive enactment in France is amended as follows: 'Substantive enactment occurs upon the signature by the ~~executive~~ President'.

Special deductions

SFAS 109 paragraphs 231 and 232 include guidance on the recognition of tax benefits from special deductions. The paragraphs require that 'the tax benefit of special deductions ordinarily is recognized no earlier than the year in which those special deductions are deductible on the tax return'. SFAS 109 does not define a special deduction, but gives examples of special deductions available in the United States.

The Board concluded that IAS 12 could not converge with the wording in SFAS 109 because it would be inappropriate for IAS 12 to include a list of jurisdiction-specific special deductions. Rather, the Board decided that the guidance on special deductions needed to be in the form of a general principle that is consistent with how special deductions are treated in SFAS 109.

The Board decided that a general principle for special deductions should be developed. It was noted that a key feature of a special deduction as referred to in SFAS 109 is that the deduction had some type of future performance obligation or other criteria attached. However, the principle should be agreed with the FASB staff to ensure convergence with SFAS 109, with the intention that the principle would be incorporated in both Standards.

Alternative minimum taxation requirements

SFAS 109 paragraph 19 includes guidance on the tax rate to be used when alternative tax systems exist. SFAS 109 states that 'if alternative tax systems exist in jurisdictions other than the US federal jurisdictions, the applicable tax rate is determined in a manner consistent with the tax law after giving consideration to any interaction (that is, a mechanism similar to the US alternative minimum tax credit) between the two systems'. The Board decided to include similar wording in IAS 12.

Effect of a change in an entity's tax status on current and deferred taxes

SFAS 109 paragraph 28 includes guidance on how to treat the deferred tax effects of a change in an entity's tax status from taxable to non-taxable and vice versa. The guidance requires that 'the effect of recognizing or eliminating the deferred tax liability or asset shall be included in income from continuing operations.' SIC-25 *Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders* interprets IAS 12 in addressing a change in the tax status of an entity or its shareholders. SIC-25 covers any change in tax status of an entity or its shareholders that may have consequences for an entity by increasing or decreasing its tax liabilities or assets. SIC-25 requires current and deferred tax consequences of a change in tax status to be included in profit or loss for the period, unless those consequences relate to transactions and events that result in a direct credit or charge to the recognised amount of equity.

The Board decided the following with respect to the effect of a change in an entity's tax status on current and deferred taxes:

- The scope of the guidance in SIC-25 would not be narrowed to address only a change in an entity's tax status from taxable to non-taxable and vice versa.
- The tax consequences addressed by SIC-25 would not be narrowed to address only deferred tax consequences, but would continue to cover both current and deferred tax consequences.
- The staff would ask the FASB to consider extending the scope of SFAS 109 to address both current and deferred tax

consequences of any change in tax status of an entity or its shareholders that affects the tax assets and liabilities of an entity, and thus converge with SIC-25 in that respect.

- The following guidance, included in SFAS 109, would be added to SIC-25: The effect of (a) an election for a voluntary change in tax status is recognised on the approval date or on the filing date if approval is not necessary and (b) a change in tax status that results from a change in tax law is recognised on the date that the tax law is exacted or substantively enacted.

The Board decided to incorporate the guidance in SIC-25 in IAS 12.

The Board did not discuss the difference in recognition of tax consequences that relate to changes in the recognised amount of equity because it is linked to the wider convergence issue of intraperiod allocation, which will be discussed at a later meeting.

Regulated entities

SFAS 109 paragraph 29 provides guidance for regulated entities as defined in SFAS 71 *Accounting for the Effects of Certain Types of Regulation*. SFAS 71 applies to most public utilities and some other companies with regulated operations.

The Board decided not to include in IAS 12 any guidance specifically for regulated entities. It recognised that accounting by regulated entities is an area of convergence that might need to be investigated; however, the Board decided that this should not be part of the convergence project on income taxes.

Prorating the valuation allowance between current and non-current deferred tax assets

The Board decided not to address the area at this time because it will be considered with the valuation allowance approach.

Measuring the realisability of deferred tax assets

SFAS 109 and IAS 12 both give guidance on measuring the realisability of deferred tax assets. The guidance in the two Standards is consistent.

The Board decided to integrate the guidance into a section titled 'Measuring the realisability of deferred tax assets'. The Board proposed including this new section in both SFAS 109 and IAS 12. The proposed wording of the section can be found in the Observer Notes to Agenda Paper 6A.

The Board decided that the new section would include the guidance in SFAS 109 on accounting for significant expenses to implement a tax planning strategy. IAS 12 is silent on this matter. The Board decided that when an entity considers tax planning strategies in determining the amount of deferred tax assets to be recognised, significant expenses to implement the tax planning strategy or any significant losses that would be recognised if that strategy were implemented (net of any recognisable tax benefits associated with those expenses or losses) should be included in the measurement of deferred tax assets.

Allocation of current and deferred taxes to entities within a consolidated tax group

SFAS 109 paragraph 40 includes guidance on allocating taxes to entities within a consolidated tax group, stating that '[t]he consolidated amount of current and deferred tax expense for a group that files a consolidated tax return shall be allocated among the members of the group when those members issue separate financial statements.' SFAS 109 does not require a single allocation method, but requires that the allocation method be systematic, rational, and consistent with the broad principles established by the Standard. The guidance also lists the following allocation methods that would be inconsistent with the principles in the Standard:

- A method that allocates only current taxes payable to a member of the group that has taxable temporary differences.
- A method that allocates deferred taxes to a member of the group using a method fundamentally different from the asset and liability method described in SFAS 109.
- A method that allocates no current or deferred tax expense to a member of the group that has taxable income because the consolidated group has no current or deferred tax expense.

The Board decided to include similar guidance in IAS 12.

Tax Rates for deferred tax items

The Board also considered a summary of its decisions and the decisions made by the FASB on the use of the undistributed rate or distributed rate to measure deferred tax assets and liabilities. The Board decided that the issue should be brought to the joint meeting April for further discussion.

Short-term convergence: Accounting changes and error corrections

The Board received an oral report from FASB staff on the extent to which the draft FASB Statement *Accounting Changes and Error Corrections* would converge with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Board noted the FASB's decision to:

> 'Require that retrospective application consider the direct effects of a change in accounting principle and the related income tax effects of the change. Indirect effects on items based on income before taxes or net income, such as profit-sharing expense and certain royalties, that would have been recognized if the newly adopted accounting principle had been followed in prior periods should not be included in the retrospective application. Adjustments relating to indirect effects should be reported in the period in which the adjustment is actually recorded and disclosed in accordance with the disclosure requirements of the final Statement.'

The Board noted that IAS 8 is silent on the matter of direct and indirect effects. Given this, the Board concluded that the FASB decision was not inconsistent with IAS 8. The Board will consider a draft of the FASB Statement to confirm whether this view is correct. The Board also noted that, should diversity in practice develop under IAS 8, the IFRIC could consider whether the requirements of IAS 8 should be clarified.

The Board also noted that the FASB has decided to retain in US GAAP the absence of an impracticability exception from retrospective restatement to correct an error. IAS 8 provides an impracticability exception.

Business Combinations

The Board discussed the length of the comment period on the forthcoming exposure drafts on business combinations and non-controlling interests. It also considered whether the comment period should start when the Board's texts are available for posting to the IASB Website. The Board decided, subject to discussion with national standard-setters, to allow a 120-day comment period beginning when the Board's texts are final. The Board believes that this extended period will be sufficient for national standard setters to add any jurisdiction-specific questions to the Invitation to Comment, and will facilitate co-ordination with the FASB's expected release dates for its exposure drafts. (The FASB will discuss the comment periods and effective dates at its meeting on 30 March.)

The Board also discussed the effective dates for the proposed standards and decided to target an effective date of fiscal years beginning on or after 1 January 2007. The exposure drafts will indicate that the proposed effective date is expected to be about three to six months after the standards are issued.

IFRIC Matters

The IFRIC had not met since the last Board meeting, but will meet at the end of March. The Director of Technical Activities reported that Mr Allan Cook has been appointed as IFRIC coordinator, and that a number of other recent staff appointees has worked on items for the forthcoming meeting.

The Board discussed the pre-ballot comments on a proposed final interpretation, IFRIC 6 'Applying the Restatement Approach in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies*'. No substantive changes were made. Subject to editorial changes, the Board approved IFRIC 6 for issue. The Interpretation is effective for periods beginning on or after three months after it is finalised.

Meeting dates: 2005

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

18—22 April (joint with FASB)ǂ

16—20 May

20—24; 27 and 28† June

18—22 July

19—23 September

17—21 October (joint with FASB), Norwalk, Connecticut, USA

10 and 11†; 14—18 November

12—16 December

† Includes a meeting with the Standards Advisory Council

ǂ Includes meetings with partner standard-setters

