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*Decisions become final only after completion of a formal ballot to issue a Statement, Interpretation, or Exposure Draft.*

The International Accounting Standards Board met in London on 28 – 31 March, when it discussed:

- Financial statement presentation
- Financial instruments puttable at fair value
- Joint ventures
- Short-term convergence: borrowing costs
- Business Combinations II
- Insurance
- Accounting standards for small and medium-sized entities
- Revenue recognition
- Conceptual Framework
- Amendments to IAS 37
- Consolidations (including special purpose entities)
- Agenda proposal: Amendments to IFRS 1
- Leases
- Update on IFRIC activities
- Technical plan

## Financial statement presentation

The Board discussed the scope and objective of the project. The Board affirmed the following points related to the scope of the project:

- The project will primarily address the organisation and presentation of financial information on the face of the financial statements; it will not address recognition or measurement guidance provided in other Standards for individual assets, liabilities or transactions.
- The project will address all the financial statements that constitute a complete set of financial statements. The project will address annual financial statements (and may

address condensed financial statements in a later phase).

- The project will address the need for totals and subtotals within the financial statements including the profit or loss subtotal. It will assess whether to change the mechanism of recycling as used today.
- The project will not include a comprehensive review of the notes to the financial statements. However, it may result in amendments to existing disclosure requirements as a consequence of changes made to the face of the financial statements. In addition, the project may result in new disclosure requirements when the project objective cannot be achieved on the face of the financial statements.
- The resulting standard will apply to all business entities. However, the Board will consider whether there should be different presentation provisions for financial institutions.
- The project will not address:
  - (a) management discussion and analysis or management commentary
  - (b) pro forma measures
  - (c) a comprehensive review of segment reporting requirements. However, the project may result in amendments to IAS 14 *Segment Reporting* as a consequence of changes made to the financial statements. (Note: the IASB is addressing IAS 14 in a separate short-term convergence project.)
  - (d) financial ratios (except EPS and other per share amounts)
  - (e) forecasts of information
  - (f) non-financial ratios or other non-financial information
  - (g) financial statements for specific industries (except for how the decisions in this project may affect the financial statements of financial institutions).

The Board decided to change the project's title to 'Financial Statement Presentation' to reflect that it

encompasses all of the financial statements, not just the statement of recognised income and expense.

The Board discussed the following proposed project objective:

- To improve how information is presented in the individual financial statements (and in the financial statements as a whole) to help investors, creditors and others fully understand an entity's financial position and changes in that position and use that information to assess the amounts, timing, and uncertainty of an entity's future cash flows.
- To meet that objective, the Board will address the classification and display of line items in the financial statements, including their aggregation into subtotals and totals. In addition, the Board will address how best to present information in the financial statements so that those statements are complementary.

The Board also discussed proposed working principles it would use to develop the standards for presentation and display in the financial statements:

- Financial statements should present information in a manner that portrays a cohesive financial picture of an entity that is comparative and consistent from one period to another.
- Financial statements should present information in a manner that helps a user assess the liquidity of an entity's assets and liabilities (nearness to cash or time to maturity).
- Financial statements should present information in a manner that separates an entity's value-creating activities from its capital activities.

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- Financial statements should present information in a manner that helps a user understand:
  - (a) the different methods used to measure assets and liabilities
  - (b) the relative precision of those measurements
  - (c) what caused a change in reported amounts of individual assets or liabilities (such as a transaction or a change in value or measurement method).

- Information in the financial statements should be disaggregated and categorised into groups that respond similarly to changes in the same economic condition.

The Board generally agreed with the substance of the project objective and the five working principles and provided the staff with suggested wording clarifications.

The Board discussed the staff's plans for making progress towards publishing a Discussion Paper in the first quarter of 2007. The Board made the following decisions related to the scope of that work:

- The required financial statements (as decided in phase A of the project) should be the starting point for the resolution of issues in phase B. However, if it becomes apparent that the project objective cannot be achieved within the confines of those financial statements, development of a new financial statement or elimination of an existing financial statement is appropriate.
- The staff should not spend time defining the purpose of the individual financial statements unless the existing accounting literature on that topic is not sufficient for resolving the financial statement presentation issues within the project's scope.
- The Discussion Paper should not address whether EPS or other per share amounts should be presented in the financial statements or the notes to those financial statements. That issue will be considered by the Board after it has the benefit of views from constituents on the principles and application guidance for financial statement presentation in the Discussion Paper.
- The staff work and Board decisions on phase B issues should be sensitive to the progress on phase A issues, but should not be constrained by the proposals in the phase A Exposure Draft amending IAS 1.
- Input from the Joint International Group will be sought informally on a regular basis as the staff and Board apply the working principles in developing the Board's preliminary views on the various financial statement presentation issues. A formal public meeting with the JIG will be held after the Board has had a chance to discuss application of the working principles.

## Financial instruments puttable at fair value

At its meeting in December 2005, the Board decided to amend IAS 32 *Financial Instruments: Presentation* to require equity classification of financial instruments puttable at the fair value of a pro rata share of the net assets of the entity ('financial instruments puttable at fair value') and financial instruments that entitle the holder to a pro rata share of the entity's net assets on liquidation, provided that specified criteria are met.

At this meeting, the Board considered issues arising from comments of Board members and others on a draft Exposure Draft of the proposed amendments. The Board also considered transitional arrangements and the effective date of the proposed amendments.

### Formula to determine the fair value of financial instruments puttable at fair value

The Board had previously decided that, for entities whose equity instruments are not publicly traded, it is acceptable for a formula to be used to determine the amount at which the instruments are issued, repurchased or redeemed, provided that the formula is intended to approximate fair value.

The Board decided that the application guidance should explain that the instrument's pro rata share of the book value of the net assets of the entity would approximate the fair value of the instrument only when there is no material difference between the book value and the fair value of the net assets of the entity.

### Convertible bonds

The Board decided that the proposed amendments should include application guidance relating to convertible bonds, whereby the instrument holder has the option to convert the bond into financial instruments puttable at fair value. (Further details are provided in the Observer Notes.)

### Options over shares in a limited life entity

The Board reconsidered an issue discussed at its meeting in December, relating to the classification of options (and other derivatives) over shares in a limited life entity (see IASB *Update* December 2005). The Board decided that all derivatives over financial instruments puttable at fair value and warrants over shares in a limited life entity that are currently classified as financial liabilities under IAS 32 should continue to be so classified.

### Effective date

The Board decided that the Exposure Draft should not propose an effective date for the proposed amendments; the effective date will be decided after the comments received on the Exposure Draft have been considered. However, the Exposure Draft should propose that early adoption be permitted.

### Transitional arrangements

The Board decided to propose that the amendments be applied retrospectively (with the exception noted below), for both first-time adopters and entities currently applying IFRSs, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The Board also decided that the exemption in IFRS 1 *First-time Adoption of International Financial Reporting Standards* relating to compound financial instruments should also apply to entities currently applying IFRSs when the proposed amendments become effective. This means that entities would not be required to split a compound financial instrument at inception into separate liability and equity components when the liability component is no longer outstanding at the date of application of the proposed amendments.

### Benefits and costs of the proposed amendments

The Board considered a staff draft of a discussion of the benefits and costs of the proposed amendments, to be included in the Basis for Conclusions accompanying the Exposure Draft. The Board requested that the discussion be expanded to more completely describe the rationale for its conclusions.

## Joint ventures

In December 2005 the Board decided that, within its short-term convergence project, it should remove the option in IAS 31 *Interests in Joint Ventures* of proportionate consolidation for jointly controlled entities. Making that change to IAS 31 would require venturers to recognise their interests in jointly controlled entities using the equity method. The Board also decided that the definition of a joint venture in IAS 31 does not adequately address the distinction between a jointly controlled entity and an undivided interest in the assets of a joint arrangement. At this meeting, the Board discussed papers on the definition of a joint venture prepared by staff of the Australian Accounting Standards Board, who are leading the IASB's long-term research project on joint ventures.

The research team proposed defining a joint venture as a jointly controlled 'integrated resource arrangement'. The Board decided not to adopt this definition.

The Board decided that the driver for accounting by participants in joint arrangements should be their contractual rights and obligations that are created by the joint arrangement agreement, rather than whether the arrangement is of a particular type or form. Accordingly, participants should account separately for contractual rights to share the net results of the arrangement's operations and any contractual rights they control unilaterally (such as rights of use). Participants in a jointly controlled business (as defined in the Exposure Draft of Amendments to IFRS 3 *Business Combinations*) would have contractual rights to share the net results of the arrangement's operations, but might also have contractual rights that they control unilaterally.

The Board thanked the research team for its work. The Board decided that, in view of the potential effects of developments in current Board projects (such as the consolidations and conceptual framework projects and, in particular, the short-term convergence project) on accounting for joint ventures, work on the long-term research project should be suspended, pending the outcome of those developments.

## Short-term convergence: borrowing costs

Biological assets are measured on, and after, initial recognition at fair value less estimated point-of-sale costs. IAS 41 *Agriculture* does not address the treatment of expenditure after initial recognition of a biological asset, because it was considered unnecessary under a fair value approach. However, the proposed amendment to IAS 23 *Borrowing Costs* to require capitalisation would force entities to change their systems to capitalise the interest costs, only then to write them off when remeasuring the assets to fair value.

At its meeting in March 2006, the Board decided to exclude from the scope of IAS 23 qualifying assets measured on initial recognition at fair value, such as biological assets.

The Board decided that black letter paragraphs should be changed editorially to improve their style.

## Business Combinations II

### Business combination principles

The staff set out the foundations on which the proposed revised IFRS 3 *Business Combinations* and the proposed replacement

of US FASB Statement No. 141, *Business Combinations* (the ED) were developed:

### Basic assertions and definitions

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses.

An acquirer can be identified in every business combination.

The business combination acquisition date is the date the acquirer obtains control of the acquiree.

A business combination is accounted for by applying the acquisition method.

By obtaining control of an acquiree, an acquirer becomes responsible and accountable for all of the acquiree's assets, liabilities and activities, regardless of the percentage of its ownership in the acquiree.

### Principles and presumptions for applying the acquisition method

#### Recognition

In a business combination, the acquirer recognises all of the assets acquired and all of the liabilities assumed.

#### Measurement

In a business combination, the acquirer measures each recognised asset acquired and each liability assumed at its acquisition-date fair value.

The acquisition-date fair value of the consideration transferred by the acquirer is presumed to be the best evidence of the fair value of the interest acquired.

#### Disclosure

Users of the acquirer's financial statements should be able to evaluate the nature and financial effect of business combinations recognised by the acquirer.

The Board decided that these statements provide an appropriate basis for the final business combinations standard.

### Application of the principles

The staff then asked the Board to begin considering the implications of applying the principles. The Board will redeliberate the implications of all the principles in detail over the coming months. The staff indicated that for various reasons they may recommend making exceptions to some of the principles. The Board decided that any exceptions to the principles must be clearly identified as exceptions and the reasons for allowing an exception must be explained.

### Measurement of the acquiree's identifiable net assets

The Board affirmed that the acquirer should measure each of the acquiree's *identifiable* assets and liabilities at its fair value on the acquisition date, which is the date the acquirer achieves control of the acquiree. This is the accounting currently required by IFRS 3 and proposed in the ED.

The staff will ask the Board at a future meeting to consider allowing some exceptions to this principle, which were proposed in the ED.

### Goodwill

The ED proposed that an acquirer should recognise on the acquisition date all of the goodwill and not just the acquirer's share of it, which is a change from IFRS 3. A consequence is that, in a partial or step acquisition, goodwill is measured as the excess of the fair value of the acquiree, as a whole, over the fair value of the acquiree's identifiable assets and liabilities. This change was not widely supported by respondents to the ED.

After an extensive debate the Board affirmed the proposed accounting.

### **Remeasurement on achieving or losing control**

The Board affirmed the proposal in the ED that achieving or losing control of an acquiree is a remeasurement event. The acquirer remeasures any non-controlling equity investment in the acquiree it held or retains to its fair value at the date control is achieved or lost.

The ED proposed that the acquirer should recognise in profit or loss any gain or loss on such remeasurement. Several Board members saw merit in the suggestion by many respondents that the remeasurement should be recognised in other comprehensive income. On balance, however, the Board affirmed the ED proposal.

### **Bargain purchases and overpayments**

The staff outlined the reasons why an acquirer might report a bargain purchase, which include the consequences of measuring individual assets and liabilities at other than fair value. The Board asked the staff to add to those reasons the costs associated with rectifying poorly performing assets that are not reflected in the fair values of those assets. The Board affirmed the proposal in the ED that if the fair value of the acquirer's interest in the acquiree exceeds the fair value of the consideration transferred for that interest, the acquirer accounts for that excess by reducing the amount of goodwill that would otherwise be recognised. If the goodwill related to that business combination is reduced to zero, any remaining excess is recognised as a gain attributable to the acquirer.

The Board also affirmed that, although overpayments could occur, the acquirer could not reliably measure the amount of the overpayment at the acquisition date. Thus, such overpayment would therefore be included in goodwill.

### **Non-controlling interests**

The Board affirmed the proposal that changes in the parent's ownership interest in a subsidiary after control is obtained that do not result in a loss of control should be accounted for as transactions between equity holders in their capacity as equity holders. Accordingly, no gain or loss should be recognised in profit or loss on such changes.

The Board considered alternative presentation and disclosure formats for displaying the effects of transactions with the non-controlling interest on the controlling interest's equity. The staff intends to prepare a presentation and disclosure package related to non-controlling interests for the April joint meeting with the FASB.

## **Insurance**

The Board discussed:

- policyholder participation rights
- estimating future cash flows
- risk margins
- embedded derivatives
- discount rates
- recognition and derecognition

The Board noted that some of the materials discussed, particularly those on estimating future cash flows and on risk margins, might be relevant for other projects.

### **Policyholder participation rights**

The Board decided that:

- Policyholder participation rights do not create a liability until the insurer has an unconditional obligation that compels the insurer to transfer economic benefits to policyholders, current or future. The economic benefits transferred may take several forms, including cash and additional insurance cover.
- If participating policyholders have a prior claim on distributions of economic benefits generated by a pool of contracts and related assets, that fact does not, by itself, oblige the insurer to transfer those benefits to policyholders. Therefore, an insurer should not recognise that prior claim as a liability, unless some other factor creates an obligation.
- A dividend scale approved by the regulator creates an obligation. The staff will investigate whether the insurer should measure that obligation using the dividend scale currently in force, or develop estimates of the dividend scale that would apply in each cash flow scenario.
- To the extent that no unconditional obligation exists, an insurer should not recognise a liability in respect of expected transfers of economic benefits to policyholders. If an unconditional obligation comes into existence subsequently, the insurer should recognise the resulting liability and an expense at that time.
- In assessing whether an insurer has a constructive obligation to pay dividends to participating policyholders, the Board will rely on the definitions being developed in its conceptual framework and IAS 37 projects. The Board decided in February 2006 that an equitable or constructive obligation can be a liability only if it legally or equivalently compels potential outflows of cash or other economic resources.
- Policyholder participation rights should not be regarded as the equity component of a hybrid contract (similar to convertible debt). Accordingly,
  - no part of the premium should be regarded as proceeds received for issuing an equity instrument. (The Board has not yet discussed when, if ever, premiums should be recognised as revenue and when, if ever, they should be recognised as deposits received.)
  - dividends to participating policyholders are an expense, not a distribution of profit.
  - the face of the income statement need not distinguish profit or loss attributable to equity holders of the insurer and profit or loss subject to prior claims of policyholders. However, the insurer should disclose the fact that part of its equity is subject to those prior claims.
- Identical requirements should apply to shareholder-owned insurers and mutuals.
- Participation rights in investment contracts should be treated in the same way as participation rights in insurance contracts.

### **Estimating future cash flows**

The Board discussed an early version of material that could be included in the Discussion Paper that the Board is developing. The material is in the observer notes for this meeting at <http://www.iasb.org/meetings/march2006.asp> The Board instructed the staff to make the following changes for the next version:

- An insurer should consider the possibility of surprises in determining the risk margin, rather than by creating additional cash flow scenarios.
- Although the balance sheet includes liabilities under existing contracts only, that does not imply that estimates of cash flows should be made on a run-off basis. The staff will seek more information about how cash flows might change when a book of insurance contracts goes into run-off.
- The draft material on the insurer's competitive situation and the state of the insurance price cycle should be deleted. The staff will consider whether it should be included in a discussion of an overall review of the reasonableness of initial measurements.
- The draft material states that the estimated cash flows would not reflect an intention to settle insurance liabilities differently from the way other market participants could settle them. The staff will review this, placing emphasis on the need to measure the insurer's actual contractual liability, rather than a hypothetical liability with different characteristics.

### **Risk margins**

The Board decided that the objective of a risk margin is not to provide a shock absorber for the unexpected, nor is it to enhance the insurer's solvency. Instead, the objective is to convey decision-useful information to users about the uncertainty associated with future cash flows. A risk margin will satisfy that objective best if it is consistent with an unbiased estimate of the compensation that market participants would demand for bearing the risk in question.

The Board does not intend to prescribe specific techniques for developing risk margins. Instead, the Board will explain in the Discussion Paper (and ultimately in an IFRS) the characteristics of techniques that will enable risk margins to meet the objective. The Board did not object to the staff's recommendations on those characteristics (see observer notes).

### **Embedded derivatives**

The Board noted that there would be no need to account for embedded derivatives separately at fair value if the insurance contract is measured at current exit value. If the Board selects current entry value as the measurement attribute for insurance contracts, the Board will need to consider how to deal with embedded derivatives.

### **Discount rates**

The Board decided that the objective of discount rates is to adjust estimated future cash flows for the time value of money. (Risk margins are discussed separately above, and the Board will discuss the credit characteristics of the liability in April). The discount rate should be consistent with observable market prices for cash flows whose characteristics match those of the insurance liability in terms of timing, currency and liquidity. The observed discount rate should be adjusted to exclude any factors that influence the observed rate but are not relevant to the liability (for example, risks that are not present in the liability but are present in the instrument used as a benchmark).

### **Recognition and derecognition**

IAS 39 requires an entity to recognise a financial asset or a financial liability when the entity becomes a party to the contractual provisions of the instrument. The Board decided that a similar requirement is appropriate for rights and obligations arising under an insurance contract.

IFRS 4 *Insurance Contracts* states: [an insurer] 'shall remove an insurance liability (or a part of an insurance liability) from its balance sheet when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires'. The Board decided that this requirement is still appropriate.

### **Next steps**

The Board expects to continue its discussion of the main components of accounting models for insurance contracts in April, and to choose at that meeting between the two models currently under consideration.

## **Accounting standards for small and medium-sized entities (SMEs)**

The Board continued the review it began in January of a preliminary draft of an Exposure Draft (ED) of an IFRS for Small and Medium-sized Entities (SMEs). In reviewing the draft ED, the Board considered the recommendations made by its SME Working Group, which reviewed the draft at its meeting on 30 and 31 January 2006.

The Board made the following tentative decisions:

**Accounting policy options for SMEs** The Board reaffirmed its previous decision that all accounting policy options included in IFRSs should be available to SMEs in the IFRS for SMEs.

**Construction contracts** Use the percentage of completion method, provided that the stage of completion, future costs, and collectibility can be estimated reliably. Include the standards on construction contracts in the section on revenue.

**Government grants** An SME would use the principle for recognising grants in IAS 41 *Agriculture* as the basic principle for recognising all grants. However, an SME wishing to use one of the alternatives in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* would be permitted to do so by cross-reference to IAS 20. Under the IAS 41 approach:

- an unconditional grant would be recognised in income when the grant is receivable;
- a conditional grant would be recognised in income when the conditions are met;
- grants would be measured at the fair value of the asset received; and
- grants received before the income recognition criteria are satisfied would be recognised as deferred income (a liability).

**Borrowing costs** Only the expense model will be included in the IFRS for SMEs. However, an SME could choose to use the capitalisation model by applying IAS 23 *Borrowing Costs*. The ED will note that the IASB has decided to publish an Exposure Draft proposing to prohibit the expense model and invite comments on whether that is appropriate for SMEs as well.

**Share-based payment** The IFRS for SMEs will address cash-settled share-based payment and will refer back to IFRS 2 *Share-based Payment* with respect to equity-settled share-based payments. The IFRS for SMEs will note that IFRS 2 permits the use of the intrinsic value method if fair value cannot be reliably measured.

**Impairment of non-financial assets** This section will include requirements for impairment of all non-financial assets. The principle would be that non-financial assets other than

inventories should not be measured at more than fair value less cost to sell. Inventory should not be measured at more than net realisable value.

**Employee benefits** This section will include standards for:

- short term benefits;
- the following types of retirement plans: multi-employer plans, state plans, insured plans, and defined contribution plans. Defined benefit retirement plans will be addressed by cross-reference to IAS 19;
- other long term benefits (including deferred compensation and long-service payments) and termination benefits (measure at discounted present value, actuarial valuation not required, need not use the projected unit credit method).

**Income taxes** Deferred tax assets and liabilities will be recognised for all taxable temporary differences between the carrying amounts and the tax bases of assets and liabilities (the various exceptions and special rules in IAS 12 *Income Taxes* would be eliminated). Staff will consider whether to make a special recommendation to the Board regarding deferred tax assets arising from operating loss carry forwards.

**Interim financial reporting** Instead of having a separate section on interim reporting, the IFRS for SMEs will cross-refer to IAS 34 *Interim Financial Reporting* for guidance. However, the IFRS for SMEs will expressly permit an entity that is not subject to a periodic interim reporting requirement to present, as comparative information, a statement of income and retained earnings (or separate income and changes in equity statements) and a cash flow statement of the immediately preceding full year when the year-to-date comparative statements otherwise required by IAS 34 have not been prepared previously.

**Classification of instruments as debt or equity** The exposure draft will acknowledge that the IASB is working on amendments to IAS 32 on the classification of puttable shares and similar instruments as debt or equity and will indicate that the IFRS for SMEs would reflect the decision(s) in that project.

## Revenue recognition

### Revenue recognition methods

The Board continued its discussion from the February meeting about two revenue recognition methods.

Under the first method, revenue is recognised when the obligation to provide goods, services or other rights is extinguished. This is deemed to be when the customer obtains the right to use or benefit from the goods, services or other rights.

Under the second method, revenue is recognised as the entity's production process creates or enhances assets for customers, which is when the entity carries out acts to fulfil its contractual obligations to provide goods, services or other rights to the customer.

The Board discussed whether under the first method an obligation could be partially extinguished and, hence, revenue recognised before (say) delivery of a good constructed under a long-term contract. For example, the Board considered whether acceptance by a customer at various predetermined intermediate completion points should result in recognition of revenue.

The Board reached no conclusions. It directed the staff to explore further whether the two recognition methods could be

bridged and will discuss the issue again at its joint meeting with the FASB in April.

## Conceptual Framework

The Board continued its discussions of the reporting entity phase (phase D) of the conceptual framework project. The issues discussed and decisions reached are set out below.

### The meaning of 'entity'

At its meeting in December 2005, the Board decided that the reporting entity should be a broad concept that encompasses all types of entities. Hence, a reporting entity includes anything that is an entity. At this meeting, the Board discussed what constitutes an entity. The Board decided that an entity for financial reporting purposes should not be limited to legal entities, such as companies, trusts and partnerships. Rather, an entity should be defined more broadly to include other types of organisational structures. This would include a natural person, a sole proprietorship and, in some circumstances, a branch or segment of a legal entity. However, something that is merely a collection of assets and liabilities, without a management or administrative function to manage that collection, is not an entity.

### Parent-only entity

The Board discussed whether a parent-only entity (ie a parent as a stand-alone entity, excluding its subsidiaries) could be a reporting entity. This issue was raised at an earlier Board meeting because, in some jurisdictions, it is common for a parent entity to prepare separate financial statements, either instead of, or in addition to, consolidated financial statements.

The Board discussion revealed a variety of views. One is that the parent entity and the group entity are the same entity. In this view, the parent-only (separate) financial statements and the consolidated financial statements present two different perspectives of the same entity. Another view is that the parent entity and the group entity are two different entities. The separate financial statements of the parent relate to the parent-only entity, whereas the consolidated financial statements relate to a group entity that combines two or more entities, as if they were a single entity.

The Board will continue its discussion of this issue at a future meeting.

## Amendments to IAS 37

### Scope of IAS 37

The Board affirmed the proposal in the IAS 37 Exposure Draft that an entity should apply IAS 37 to all liabilities not within the scope of other Standards. In response to commentators' concerns about the relationship between IAS 18 *Revenue* and IAS 37, the Board decided to modify the proposed scope requirements in the ED to clarify that performance obligations measured in accordance with IAS 18 on the basis of the consideration received (ie deferred revenue) would not be within the scope of the Standard.

### Withdrawing the term 'provision' and using the term 'non-financial liability'

The Board affirmed its decision not to use 'provision' as a defined term in IAS 37. However, rather than using the term 'non-financial liability' instead of provision, as proposed in the ED, the Board decided to use the term 'liability'.

## Including additional issues in the project

In the light of suggestions by commentators, the Board considered whether the following additional issues should be included in the project:

- recognition and measurement requirements in IAS 38 *Intangible Assets* (in particular for assets currently described as contingent assets in IAS 37)
- measurement of reimbursement rights
- onerous contracts (except for contracts that become onerous as a result of an entity's own actions)
- application of the IAS 19 post-employment benefit model to early retirement arrangements (such as the German *Altersteilzeit* and similar arrangements).

The Board decided measurement of reimbursement rights should be added to the project scope but concluded that addressing the other issues was not necessary in order to meet the project objective.

The Board noted that some commentators had requested further guidance on applying the measurement requirements proposed in the ED. The Board will consider whether to provide additional measurement guidance when it redeliberates the measurement proposals (currently scheduled for September and October 2006).

## Consolidations (including special purpose entities)

The staff outlined the relationship of this project with the conceptual framework project. The Board confirmed that the projects should continue to be developed together, with the staffs working together on common elements.

The staff outlined the advantages of aligning the application date of the proposed replacement of IFRS 3 with the proposed replacement of IAS 27, noting that 1 January 2009 is likely to be the earliest achievable common application date. The Board decided that the staff should aim for a common application date as long as it does not delay the Business Combinations II project.

The staff updated the Board on the direction the consolidations project is taking, including plans for a Board education session in April on the US FIN46R which addresses variable interest entities. The Board agreed with the general approach the staff is taking in developing a control model that encompasses special purpose entities.

## Agenda proposal: Amendments to IFRS 1

The staff outlined difficulties that had been identified in some jurisdictions in determining the cost of a subsidiary on first time adoption of IFRSs in the separate financial statements of a parent entity. The Board decided to add a short-term project to its technical agenda to amend IFRS 1 to address these difficulties.

## Leases

Preliminary to consideration by the SAC, the Board discussed a draft proposal to add a leasing project to its agenda. The project would build on the work carried out in the joint research

project with the UK ASB, and would initially result in a discussion paper.

The Board was not asked to make a decision at this stage, but gave initial comments on whether the project would meet the Board's agenda criteria. In addition, the draft project plan was discussed, and the Board expressed the view that a joint project with the FASB would be preferable. The need for consultation with users and others at an early stage in the project, possibly through an advisory group or focus groups, was emphasised.

## Update on IFRIC activities

The staff reported on the IFRIC meeting earlier in the month (see IFRIC Update March 2006). The Board noted that both revenue recognition and the meaning of 'portions' of financial instruments were providing a persistent source of issues raised with the IFRIC.

Commenting on the minimum funding requirement project, the Board suggested that the scope should not be confined to funding requirements resulting from statute but should also consider those arising from contracts.

The Board also noted the IFRIC's discussion on the classification of a financial instrument under IAS 32. In the example given of an irredeemable, callable financial instrument with dividends that must be paid if interest was paid on another 'linked' instrument, only the present value of the expected dividend stream would be classified as a liability. This would not necessarily amount to the whole principal of the financial instrument.

## Technical plan

The Board made its quarterly review of its Technical Plan. The Technical Plan sets out the expected timetable over the coming 18-24 months for projects on the IASB's active agenda.

The Board expects to publish the timetable on its Website following each quarterly review of the Technical Plan.

Updated project summaries are available on the IASB Website at [www.iasb.org/current/iasb.asp](http://www.iasb.org/current/iasb.asp).

### Meeting dates: 2006

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

24—28 April (joint with FASB)

22—26 May

19—23 June

17—21 July

18—22 September

16—24 October (joint with FASB), Norwalk, Connecticut, USA

13—17 November

11—15 December



# Coming soon...

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