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*Decisions become final only after completion of a formal ballot to issue a Standard or Interpretation or to publish an Exposure Draft.*

The International Accounting Standards Board met in London on 15 – 18 May, when it discussed:

- Post-employment benefits
- Financial statement presentation
- Conceptual framework
- IAS 37 redeliberations
- Financial instruments puttable at fair value and obligations arising on liquidation
- Update on IFRIC activities
- Annual improvements process
- Leases
- IFRS 2 *Share-based Payment*

## Post-employment benefits

### **Curtailments and negative past service cost**

The Board tentatively decided to proceed with an amendment to IAS 19 through the annual improvements process. The amendment would clarify that when a plan amendment reduces benefits for future service the reduction relating to future service is a curtailment. Any reduction relating to past service is negative past service cost.

The Board also tentatively decided to delete the following sentence from paragraph 111 of IAS 19: 'An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements.'

### **Definition and measurement of benefit promises**

The Board continued its discussions of the accounting for cash balance and similar plans. The Board tentatively decided on the following definitions and

measurement approaches for three categories of benefit promises;

- A defined contribution promise obliges the employer to make specified contributions to a separate entity. Payment by the employer of those contributions extinguishes the obligation. These promises are accounted for in accordance with the requirements in IAS 19 for defined contribution plans.
- A defined return promise comprises a contribution requirement and a promised return on those contributions. The contribution requirement obliges the employer to make specified actual or notional contributions to an actual or notional fund. Payment by the employer of those specified contributions extinguishes the contribution component of the obligation. The promised return obliges the employer to provide a defined return on the contributions. That defined return is linked to the change in an asset or index.

The Board noted that if the contribution requirement in an unfunded defined return promise were measured at fair value, it would differ from the amount of the liability for unpaid contributions for defined contribution promises. The Board also noted that the accounting for defined contribution promises will not be changed in phase I. Therefore, the Board tentatively decided that the liability for unpaid contributions should be measured at the sum of the accumulated unpaid contributions, whether the plan is funded or unfunded.

The employer's liability for the promised return component is measured as the fair value of the promised return less any plan assets available to satisfy that liability.

- All other promises are defined benefit. Typically, defined benefit promises change with service or salary, or include demographic risks to the employer while the benefit is in payment.

The liability for these promises is measured in accordance with the requirements in IAS 19 for defined benefit plans.

Post-employment benefit plans are composed of defined benefit, defined contribution and defined return promises. Some plans may have more than one promise.

### **Promises with guaranteed returns and salary-related promises**

The Board tentatively decided the following classifications of promises:

- Promises with guaranteed fixed returns are defined return promises;
- Current salary and full career average promises are defined return promises, if the promises can be expressed wholly in current salary terms without an additional salary-related component;
- Other salary-related promises are defined benefit promises because the benefit earned in previous years is affected by future salary increases, ie promises that cannot be expressed wholly in current salary terms without an additional salary-related component are defined benefit promises.

The Board noted that some career average plans, which are at present treated as defined benefit under IAS 19, would be classified as defined return promises using the new classifications. The Board tentatively decided to ask respondents to the discussion paper what the practical difficulties might arise in implementing the proposals for career average plans.

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## Financial statement presentation

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The Board considered the following issues:

- the presentation of liquidity information
- classification issues related to diversified entities, including issues related to segment reporting.

The Board tentatively decided to revise the working principle related to presenting information about the liquidity of an entity's assets and liabilities to indicate that financial statements should present information in a manner that helps a user assess an entity's ability to meet its financial commitments as they come due and to invest in business opportunities. An entity's ability to meet its existing financial commitments includes, but is not limited to, its ability to use existing assets to generate cash inflows and to raise capital. An entity's financial commitments include those related to operations, financing, and equity holders.

In applying the working principle, the Board tentatively decided that, as in IAS 1, an entity should present short-term and long-term subcategories in a statement of financial position except when a presentation based on liquidity provides information that is reliable and is more relevant. If the statement of financial position is presented in order of liquidity, an entity also should present a detailed maturity schedule for short-term contractual assets and liabilities. An entity should use its judgment to determine the appropriate level of detail (such as: on demand; less than one month; more than one month and not more than three months; and more than three months and not more than one year). In addition, entities should present a maturity schedule for long-term contractual assets and liabilities.

The Board tentatively decided that, as is required by IAS 1, an entity should disclose the following capital management information:

- (a) qualitative information about an entity's objectives, policies, and processes for managing capital, including (but not limited to):
  - i. a description of what it manages as capital.
  - ii. when an entity is subject to externally imposed capital requirements, the nature of those requirements, and how those requirements are incorporated into the management of capital.
  - iii. how it is meeting its objectives for managing capital.
- (b) summary quantitative data about what an entity manages as capital.
- (c) any changes in the above qualitative and quantitative data from the previous period.
- (d) whether during the period an entity complied with any externally imposed capital requirements to which it is subject.
- (e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The Board tentatively decided that an entity with different businesses should apply the classification criteria to its assets and liabilities at the reportable segment level (as that term is defined in IFRS 8 *Operating Segments*). The Board expressed the preliminary view that an entity that classifies similar assets

and liabilities in different categories should disclose operating and financing category information by reportable segment for each primary financial statement (ie, the statements of financial position, comprehensive income, and cash flows). That information can be combined for reportable segments that classify similar assets and liabilities similarly. The Board will address at a future meeting possible similar changes to segment disclosures that would apply to all entities.

## Conceptual framework

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The Board discussed the outstanding issues related to the Reporting Entity Phase (Phase D).

Regarding the composition of the group entity, the staff outlined three models for consideration: common control, controlling entity and synergistically managed assets. The Board tentatively decided that control should be used to determine the composition of a group entity. The Board noted that the controlling entity model is the most consistent with the objective of general purpose external financial reporting. Therefore, typically a group would comprise a parent and the entities under its control. However, general purpose financial reports might be prepared for a group of entities under common control in some circumstances, such as combined financial statements for two or more entities under the control of a single investor or family. Therefore, the Board tentatively decided to adopt a broad control model at the concepts level. Standards-level projects would determine when this model should be applied. Although the Board tentatively decided not to pursue the synergistically managed assets model, it noted that some discussion of this notion in the Phase D discussion paper could be helpful in explaining circumstances when two or more commonly controlled entities may constitute a reporting entity—a circumscribed area of economic interest—for which the combined group financial statements would provide decision-useful information. The staff pointed out that the IASB and the FASB had reached similar conclusions on the composition of the group entity.

As to whether parent-only financial statements, consolidated financial statements, or both are necessary parts of general purpose external financial reports, the Board tentatively decided that consolidated financial statements are necessary. The Board acknowledged that parent-only financial statements may also provide decision-useful information, but did not reach a tentative decision as to whether such statements should be a required part of a general purpose financial report in all circumstances. The staff pointed out that the FASB had concluded that a parent entity may have only one set of general purpose financial statements, which are its consolidated financial statements. The FASB had acknowledged that there might be circumstances in which parent-only financial statements would add decision-useful information and could be provided as additional (supplementary) information in a general purpose financial report.

The Board directed the staff to draft a discussion paper on Phase D.

## IAS 37 redeliberations

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The Board continued redeliberating the exposure draft of proposed Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. At this meeting, the Board considered uncertainty about the existence of a present obligation (in conjunction with the Conceptual Framework project) and constructive obligations.

### Uncertainty about the existence of a present obligation

Previously, the Board had identified distinguishing uncertainty about the existence of a present obligation from a stand ready obligation as an important issue in its IAS 37 and Conceptual Framework projects. At this meeting the Board continued discussing this issue based on the following simple facts:

- an entity sells hamburgers in a jurisdiction where the law states that the vendor must pay compensation of £100,000 to each customer that purchases a contaminated hamburger;
- at the end of the reporting period, the entity has sold one hamburger; and
- past experience indicates that one in a million hamburgers sold by the entity is contaminated. No other information is available.

The Board tentatively decided that these facts illustrate uncertainty about the existence of a present obligation because paying compensation is the potential consequence of past transactions. This is not an example of a stand ready obligation because there is no conditional future event that may or may not occur. The Board then discussed two approaches to addressing uncertainty about the existence of a present obligation, but did not reach a consensus.

### Constructive obligations

The Board started redeliberating issues associated with the proposed amendments to constructive obligations. In the light of the comment letters received and recent discussions on distinguishing a liability from a business risk, the Board tentatively affirmed its previous observation that the main issue is determining what makes a constructive obligation an obligation – ie something an entity cannot avoid because an external party has a right to call upon the entity to act in a particular way.

The Board instructed the staff to explore three options for discussion at a future meeting:

- (1) limit the recognition of constructive obligations to those a court would enforce;
- (2) recognise constructive obligations that a court would enforce and constructive obligations that are enforceable ‘by equivalent means’ and explore the meaning of ‘by equivalent means’;
- (3) option 2, but using the explanatory text in paragraph 15 of the exposure draft as an explanation of ‘by equivalent means’.

## Financial instruments puttable at fair value and obligations arising on liquidation

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The Board published its exposure draft *Financial Instruments Puttable at Fair Value and Obligations arising on Liquidation* in June 2006. The comment period ended in October 2006. An analysis of the 87 comment letters was presented to the Board in January.

At this meeting, the Board started its redeliberations. The Board discussed the principles underlying the criteria in the exposure draft and instructed the staff to redraft the proposed amendment to highlight the following criteria:

- The instrument must be issued and puttable at the fair value of the instrument.
- The instrument must be in the most subordinated class, and,
- The instrument must participate fully in the performance of the entity over the life of the instrument.

The Board then discussed some issues raised by respondents, and reached the following conclusions:

In a limited partnership, the role of the general partner is to provide a general guarantee. That guarantee is considered separate from the partnership interest. Therefore, the guarantee does not affect subordination of partnership interests.

The Board tentatively decided to retain the existing requirements that all instruments in the most subordinated class are puttable.

Minority interests in subsidiary’s puttable instruments should be presented as liabilities in the consolidated financial statements. Liability classification is not affected by whether the proposed amendment allows those puttable instruments to be classified as equity in the financial statements of the issuing subsidiary. The Board asked the staff to clarify the rationale in the basis for conclusions.

The Board tentatively decided to provide transition guidance on the issue price of previously measured instruments and asked the staff to draft such guidance and bring it to a future meeting.

## Update of IFRIC activities

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The staff reported on the IFRIC’s meeting in May, details of which were published in *IFRIC Update*.

The IFRIC had reached consensus on the following documents:

- the Interpretations resulting from its consideration of comments received on D19 *IAS 19 The Asset Ceiling: Availability of Economic Benefits and Minimum Funding* and D20 *Customer Loyalty Programmes*;
- a draft Interpretation on IAS 18 *Revenue – Sales of Real Estate*; and
- a draft interpretation on IAS 21 *The Effects of Changes in Foreign Exchange Rates – Hedging of a Net Investment in a Foreign Operation*.

At its meeting in June, the Board will be asked to approve the Interpretations submitted to it by the IFRIC. The draft Interpretations will be presented to the Board for review in the next few weeks, and will be released for public comment unless four or more Board members object.

## Annual improvements process

The Board considered six issues for inclusion in the annual improvements process. This process is intended to eliminate inconsistencies between standards and to clarify wording. Proposed amendments to standards resulting from the process will be published in a single exposure draft each year. The first exposure draft will be published in October 2007.

### Advertising and promotional activities

The Board considered whether an entity should recognise an expense in respect of goods or services acquired for developing or communicating advertising or promotional materials when the entity receives those goods or services or when it delivers the related advertising or promotional material to its customers.

The Board tentatively decided that the cost of goods or services received for advertising and promotional materials should be recognised as an expense by an entity when the benefit of those goods or services is received by that entity. An entity may recognise as a prepayment only payments made in advance of the receipt of goods or services by that entity.

The Board asked the staff to prepare an amendment to IAS 38 *Intangible Assets* paragraphs 68–70 to reflect this decision.

### Minor wording improvements to IAS 29 *Financial Reporting in Hyperinflationary Economies* and to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

The Board tentatively decided to improve consistency in IFRSs by changing some of the terminology in IASs 20 and 29 to be consistent with that in other IFRSs. The Board asked the staff to make other terminology improvements to those IASs at the same time.

### Impairment of investment in associate

Paragraph 33 of IAS 28 *Investments in Associates* identifies that an investment in an associate includes goodwill. It also states that the goodwill included in the investment is not tested separately for impairment, but the entire carrying amount of the investment is tested for impairment. The standard is therefore unclear whether an impairment recognised against an investment in an associate should be allocated against the goodwill included in the investment, and thus whether the impairment can be reversed subsequently. The Board noted that applying the equity method includes reflecting the impact of acquisition date fair values on the investor's share of impairment losses recognised by the associate against assets such as goodwill or property, plant and equipment. The Board decided that any further impairment recorded by the investor, after applying the equity method, should not be allocated against any goodwill included in the investment balance. Such an impairment charge should therefore be reversed in a subsequent period to the extent that the recoverable amount of the associate increases. The Board asked the staff to prepare an amendment to reflect this decision.

### Disclosures required when investments in associates and jointly controlled entities are accounted for at fair value through profit or loss

Investments in associates and jointly controlled entities are excluded from the scope of IAS 28 and IAS 31 *Interests in Joint Ventures* when those investments are accounted for at fair value through profit or loss. IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures* require the investor to provide the disclosures required by IASs 28 and 31. The Board considered a proposal to delete this

requirement from IAS 32 and IFRS 7. The Board tentatively decided to delete the general disclosure requirement, but to require the disclosure in paragraph 37(f) of IAS 28 in respect of investments in associates and in paragraphs 55 and 56 of IAS 31 in respect of investments in jointly controlled entities. The Board asked the staff to prepare an amendment to reflect this decision.

### Measurement of subsidiary held for sale in separate financial statements

Paragraph 5 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires that financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* that are classified as held for sale should continue to be measured in accordance with IAS 39. In its separate financial statements a parent entity is permitted by paragraph 37 of IAS 27 *Consolidated and Separate Financial Statements* to account for its investments in subsidiaries in accordance with IAS 39, except when the subsidiary is classified as held for sale. There appears to be a potential conflict between the two standards. The Board tentatively decided that a parent entity should continue to account for its investment in a subsidiary in accordance with IAS 39 in its separate financial statements when the subsidiary is classified as held for sale in accordance with IFRS 5. The Board asked the staff to prepare an amendment to paragraph 37 of IAS 27 to reflect this decision.

## Leases

The Board discussed lease contracts that give the lessee an option to extend the lease for an additional period or an option to terminate the lease early.

The Board discussed some of the factors that affect whether a lessee will exercise an option to extend or terminate the lease, and considered whether it is possible to view a lease with an option to extend as equivalent to a longer-term lease with an option to terminate. The Board then analysed the rights and obligations that arise under a simple lease that includes an option to extend the lease term and discussed whether those rights and obligations meet the *Framework's* definitions of assets and liabilities.

The Board also discussed four possible approaches to accounting for leases that include a lessee option to extend or terminate:

- The lessee obtains the right to use until the option exercise date, and an option to extend the lease.
- The lessee obtains a right to use for the period of the lease including any possible extensions, and an option to terminate the lease.
- The lessee obtains a right to use either for the period of the lease or until the option exercise date. The assets and liabilities recognised are based on the most probable lease term. Options are not separately recognised.
- The lessee obtains a right of use whose measurement is based on the probability-weighted value of the payments under the two possible outcomes of the lease. Options are not separately recognised.

The discussion was for education purposes only. No decisions were made.

## IFRS 2 *Share-based payment*

### **Amendment - Vesting Conditions and Cancellations**

The Board continued its redeliberations of the proposed amendment to IFRS 2 Share-based Payment—*Vesting Conditions and Cancellations*.

#### **Treatment of non-vesting conditions**

Some constituents had asked whether the proposed amendment would create new divergences between SFAS 123 (revised 2004) and IFRS 2. The Board acknowledged that the clarification in the amendment highlights some of the existing divergences between IFRS 2 and SFAS 123(R), particularly with respect to the treatment of non-vesting conditions. However, the Board noted that these differences are not new and were not created by the amendment.

One constituent asked the Board to consider whether the treatment of non-compete provisions in IFRS 2 should be made consistent with the treatment required in SFAS 123(R). The Board noted that there was no clear rationale for treating non-compete provisions differently from other non-vesting conditions in IFRS 2.

#### **The grant date**

The staff suggested a change to the proposed Implementation Guidance to confirm that the specified requirements apply only after the grant date, ie a share-based payment cannot be cancelled before it is granted. The Board accepted the suggestion.

The definition of grant date was not addressed by the proposed amendment to IFRS 2. However, there is an important interaction between the determination of the grant date and the cancellation requirements. Cancellation cannot occur before the grant date. Because the grant dates in IFRS 2 and SFAS 123(R) could be different, the same event could be treated as a reversal of expense by one standard (because grant date has not yet occurred) and an acceleration of expense by the other standard (because grant date has occurred).

The Board acknowledged this difference but noted that there are more significant differences between IFRS 2 and SFAS 123(R). For example, SFAS 123(R) does not include within its scope share-based payment transactions with non-employees. The Board also noted that it had previously decided to consider a second phase of work on convergence of the two standards after the project on distinguishing between liabilities and equity is completed. The Board decided that any further work in respect of the determination of the grant date should be considered as part of that second phase.

Subject to some editorial changes, the Board directed the staff to prepare a ballot draft of the Amendment.

### **Meeting dates: 2007**

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

#### **2007**

18—22 June

16—20 July

17—21 September

15—19 October

22—24 October (joint with FASB), Norwalk, Connecticut, USA

12—16 November

10—14 December