BOARD DECISIONS ON INTERNATIONAL FINANCIAL REPORTING STANDARDS

IASB UPDATE

June 2007

IASB Update *is published as a convenience for the Board's constituents. All conclusions reported are tentative and may be changed or modified at future Board meetings.*

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 19 – 22 June, when it discussed:

- Business combinations
- Technical plan
- Leases
- Financial statement presentation
- Post-employment benefits
- Conceptual framework
- Annual improvements process
- Extractive activities
- Short-term convergence: joint ventures
- IFRS 1 amendments
- IFRIC – approval of interpretations
- Financial instruments puttable at fair value and obligations arising on liquidation
- Financial instruments

Business combinations

The Board discussed four issues that were identified in drafting the revised IFRS 3 *Business Combinations* and amendments to IAS 27 *Consolidated and Separate Financial Statements*.

Operating leases in which the acquiree is the lessor

In February 2007 the IASB and the FASB reached different conclusions on the accounting for off-market terms of an operating lease in which the acquiree is the lessor. To address this difference, the IASB tentatively decided at the joint meeting in April 2007 to change the tentative decision it made in February to converge with the FASB. The converged decision was to require the acquirer to measure and recognise an asset subject to an operating lease at its acquisition date fair value without considering the terms of the operating lease. If the terms of an operating lease were favourable (unfavourable) relative to market terms at the acquisition date, the acquirer would recognise an intangible asset (liability) separately from the asset subject to the operating lease.

However, the drafting of the revised IFRS 3 highlighted that the tentative decision in April 2007 made applying the fair value model to investment property under IAS 40 *Investment Property* more complex in periods after the business combination. IAS 40 requires the fair value of an investment property to reflect, among other things, rental income from current leases. After reconsideration the Board affirmed the tentative decision it had previously made in February 2007. As such, any favourable or unfavourable terms of an operating lease, relative to market terms at the acquisition date, would be recognised in the fair value of the asset subject to the operating lease.

The Board noted that when the asset subject to the operating lease is accounted for under the cost model and depreciated in periods after the business combination, the entity should depreciate the value attributable to the operating lease as a separate component of the asset. The Board directed the staff to include a consequential amendment to IAS 16 *Property, Plant and Equipment* to emphasise this point. The Board also noted that as a result, the difference between its decision and the FASB's was one of presentation only.

Transition provisions for amendments to IAS 27

In February 2007 the Board tentatively affirmed the proposal in the IAS 27 exposure draft that losses should continue to be allocated to the non-controlling interest in a subsidiary even if that would result in non-controlling interest being reported as a deficit. At this meeting the Board tentatively decided not to require retrospective application of the proposal.

Replacement share-based payment awards

The Board discussed the accounting for an acquirer's share-based payment awards that are exchanged for awards held by the acquiree's employees (replacement awards). The Board tentatively affirmed that all or a portion of the acquirer's replacement awards should be included in measuring the consideration transferred only if the acquirer is obliged to replace the acquiree awards.

Indemnification agreements

In April 2007 the boards tentatively decided that an acquirer should recognise an indemnification asset at the same amount and at the same time as the related liability.

The Board tentatively decided to clarify the following issues that were identified in drafting the revised IFRS 3:

- an indemnification asset should be recognised only to the extent that it is collectible.
- the subsequent accounting for indemnification assets should be the same as the acquisition date accounting, ie an indemnification asset should continue to be recognised and measured using assumptions that are consistent with those used to measure the related liability.

Technical plan

The Board made its quarterly review of its Technical Plan. The Plan sets out the expected timetable over the coming 18-24 months for projects on the IASB's active agenda. The Board publishes the revised timetable on its Website following each review. Updated project summaries are available on the IASB Website at:
http://www.iasb.org/Current+Projects

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Leases

At its meeting in March 2007 the Board tentatively concluded that in a simple lease, the lessee's contractual right to use the leased item meets the definition of an asset (right to use asset) and its contractual obligation to make payments to the lessor meets the definition of a liability. At this meeting, the Board discussed the measurement of these assets and liabilities both on initial recognition and subsequently.

The Board did not discuss the treatment of transaction costs on initial recognition. This will be discussed at a later meeting.

The Board considered two possible approaches to measuring the lessee's liability on initial recognition. The first approach was to measure the liability at fair value. The second approach was to measure it at an amount equal to the present value of the expected cash flows discounted using the interest rate implicit in the lease, if this is practicable to determine; if not the lessee's incremental borrowing rate would be used. This second approach is consistent with the current requirements of IAS 17 *Leases*.

The Board considered three approaches to subsequent measurement of the lessee's liability:

- fair value
- amortised cost using the effective interest method
- amortised cost using the effective interest method with an option to fair value the liability.

The Board tentatively concluded that the lessee's obligation to make payments to the lessor is a financial liability as defined by IAS 39 *Financial Instruments: Recognition and Measurement*. Consequently, the measurement of this liability both on initial recognition and subsequently should be consistent with the measurement of other financial liabilities. Therefore, the Board tentatively concluded that the liability should be measured initially at fair value. Subsequent measurement should be at amortised cost using the effective interest method with an option to fair value (subject to the restrictions in IAS 39).

The Board considered three possible approaches to measuring the lessee's right to use asset:

- Intangible asset approach—the lessee's right to use asset meets the definition of an intangible asset. Thus, the initial and subsequent measurement should be consistent with the Board's existing requirements on intangible assets (IAS 38 *Intangible Assets*).
- Nature of the leased item approach—the accounting for the lessee's right to use asset should be determined by the nature of the item the lessee obtains the use of via the lease contract. Thus, for example, the right to use asset arising in a lease of property, plant and equipment would be measured (both initially and subsequently) in the same way as property, plant and equipment under IAS 16 *Property, Plant and Equipment*.
- Separate accounting model approach—a separate accounting model should be developed for measurement of the lessee's right to use asset. That measurement approach might make more use of fair value.

The Board expressed a preference for the nature of the leased asset approach. The Board noted that under this approach it would still be possible to present leased assets separately from owned assets.

The Board also discussed the initial recognition of assets and liabilities in lease contracts. In particular, the Board discussed whether assets and liabilities arise when the contract is signed and whether those assets and liabilities should be recognised between the date of signing of the lease contract and the date of acceptance or delivery of the leased item.

The Board noted that in some leases there could be a significant delay between signing of the lease contract and delivery of the leased item. This delay could affect the measurement of any assets or liabilities recognised when the leased item is delivered. Hence, the Board instructed the staff to further analyse the rights and obligations arising in lease contracts between contract signing and acceptance or delivery of the leased item.

Financial statement presentation

The Board continued its discussions on how the financial statements could present information about what causes a change in reported amounts of assets and liabilities, including the basis for disaggregating amounts recognised as income or expense and alternative formats for presenting that disaggregated information.

The Board tentatively decided that the disaggregation of changes in assets and liabilities should not be based on an entity's view of whether the change has predictive value. Rather, the disaggregation should be based primarily on whether the change is a valuation adjustment (ie a change due to subsequent measurement of an asset or liability to a current value, which would include fair value). The Board noted that valuation adjustments give users of financial statements different information from that given by other items.

The Board also tentatively decided that the disaggregated information about changes in assets and liabilities should be presented in the notes in the format of a reconciliation of the statement of cash flows to the statement of comprehensive income. Thus, amounts would be disaggregated into at least three components: cash, valuation adjustments (including fair value changes), and all other changes.

The Board noted that for some businesses, valuation adjustments can behave more like other changes in assets and liabilities, and concluded that in preparing the reconciliation an entity should be allowed, as a matter of accounting policy, to classify those items in the same way as the other items. For example, management may consider it more useful to present inventory impairments in the same category as other costs of goods sold and not separately as a valuation adjustment.

The Board tentatively decided that the discussion paper should include all three formats it had discussed for disaggregating changes in assets and liabilities (ie a reconciliation of the statement of financial position, a statement of comprehensive income matrix, and a reconciliation of the statement of cash flows to the statement of comprehensive income) and indicate that the latter was its preferred format. The Board emphasised that this would be a note disclosure, not part of the other financial statements.

The Board discussed but did not reach any decisions on the classification of basket transactions (ie a single transaction that involves multiple assets or a combination of assets and liabilities that would be classified in more than one category under the proposed presentation format). The Board will discuss that issue again at a future meeting.

Post-employment benefits

The Board considered issues relating to defined return promises, and tentatively decided:

- not to revisit the principle in IAS 19 *Employee Benefits* that unvested benefits give rise to a liability. Thus, unvested benefits arising from defined return promises would give rise to a liability in phase 1 of the post-employment benefits project.
- an entity should allocate the contribution component of a defined return promise to periods of service in line with the benefit formula, even when the benefit formula specifies a materially higher level of contributions in later years.
- an entity should recognise benefits arising from the promised return component of a defined return promise in the period to which it allocates the related contribution.
- that for defined benefit promises it is outside the scope of phase 1 to address whether expected increases in salary are included in assessing whether a benefit formula allocates a materially higher level of benefit in later years. The Board noted that the IFRIC identified this issue for future consideration but was constrained by IAS 19's existing definition of defined benefit, which includes the cash balance plans that are the subject of the Board's project. The Board expressed reservations about whether it would be appropriate for the IFRIC to address this issue in the light of the Board's project.

Measurement of the liability for the contribution requirement in a defined return promise

The Board discussed the measurement of the liability for the contribution requirement in a defined return promise. At the previous meeting, the Board had tentatively decided that the liability for the contribution requirement in a defined return promise should be measured at the amount of any unpaid contributions.

However at this meeting, the Board noted that including the time value of money in the measurement of the unpaid contributions is necessary to avoid substantial overstatement of the liabilities in unfunded plans. The Board asked the staff to develop an example to illustrate how the time value of money could best be included.

For defined contribution promises, the Board reaffirmed its tentative decision that the liability for unpaid contributions would be measured at the sum of those unpaid contributions.

Classification of inflationary increases

The Board considered whether benefit promises with a promised return on contributions linked to wage inflation should be classified as defined benefit.

The Board noted that it would be difficult to derive a definition of a wage-inflation index that was consistently applicable across jurisdictions. Furthermore, there is no conceptual basis for treating some forms of inflationary increases (eg wage inflation) differently from others (eg consumer price inflation) and to do so could add unnecessary complexity.

Therefore, the Board tentatively concluded that all benefit promises with a promised return linked to an index should be classified as defined return.

Disaggregation and presentation of the cost of defined return promises

The Board tentatively decided that the change in the liability for a defined return promise should be disaggregated as follows:

- **service cost**, which is the initial recognition of the liability for the contributions payable for the year plus the initial fair value of the promised return on those contributions
- **fair value gain/loss**, which is the amount arising on the subsequent remeasurement of the liabilities.

The Board also tentatively decided that all the changes in the liabilities for a defined return promise and changes in the value of any assets available to fund those liabilities should be recognised in profit or loss.

Conceptual framework

The Board redeliberated issues related to the Discussion Paper (DP) *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*.

Regarding Chapter 1 of the DP, the Board tentatively decided the following:

- The objective established in Chapter 1 should pertain to financial reporting as a whole, not just to financial statements.
- The exposure draft should generally describe what is meant by financial reporting, but that specific decisions on the scope of financial reporting should be dealt with in Phase E of the Conceptual Framework project, *Presentation and Disclosure, Including Financial Reporting Boundaries*.
- By adopting the entity perspective in the DP, it intended to convey that an entity, not its owners and others having an interest in it, is the subject of general purpose external financial reporting. The Board noted that it did not intend to prejudge the potential applicability of the proprietary theory or the entity theory of the reporting entity. That issue will be decided in the reporting entity phase of the project.
- The primary user group consists of existing and potential investors and creditors.
- Government and regulatory bodies are potential users of financial reporting.

The FASB will discuss the issues at its meeting on 27 June. The IASB did not discuss respondents' comments on stewardship; the IASB and the FASB plan to address the topic at a future meeting.

Regarding an outstanding issue related to Chapter 2 of the DP, the Board tentatively decided that timeliness should be removed as a component of relevance and instead described as an enhancing qualitative characteristic along with comparability, understandability and verifiability. The FASB reached the same conclusion at its meeting on 2 May.

Annual improvements process

The Board considered 12 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 reconsidered its tentative decision at its meeting in May that IAS 38 *Intangible Assets* should be amended to clarify that the cost of goods and services used in advertising and promotional materials should be recognised as an expense by an entity when those goods or services are available to that entity.

One Board member disagreed with this proposal on the ground that the purpose of paragraphs 68-70 of IAS 38 was to consider the accounting for assets that arise as a result of advertising having taken place rather than items purchased in anticipation of undertaking advertising. Additionally, many items of advertising, for example mail order catalogues, were tangible rather than intangible assets.

The Board considered these views, but reconfirmed its view that IAS 38 should be amended as agreed in May.

Sale of assets held for rental

The Board had identified that, in some industries, entities are in the business of renting and selling the same asset. The Board noted that IAS 16 *Property, Plant and Equipment* prohibits recognition of the gain arising on derecognition of an item of property, plant and equipment as revenue. The Board also noted that:

- the Basis for Conclusions on IAS 16 (paragraph BC35) gives as the reason for this that 'users of financial statements would consider these gains and the proceeds from an entity's sale of goods in the course of its ordinary activities differently in their evaluation of an entity's past results and their projections of future cash flows.'
- the notion 'in the course of its ordinary activities' appears in IAS 18 *Revenue*, IAS 2 *Inventories* and the *Framework*.

In the Board's view, the recognition of gross selling revenue, rather than a net gain or loss on sale of these assets, would better reflect the ordinary activities of such entities. Therefore, the Board tentatively decided that if an entity, in the course of its ordinary activities, routinely sells property, plant and equipment that it has held for rental to others, it should transfer such assets to inventories at their carrying amount when they cease to be rented and held for sale. The proceeds from the sale of such assets should be recognised as revenue.

The Board asked the staff to prepare an amendment to IAS 16 to reflect this decision and to consider the need for additional disclosures. The Board also asked the staff to consider the effects on the cash flow statement to avoid initial expenditure on purchases of assets being classified as investing activities while inflows from sales are recorded within operating activities.

Current or non-current presentation of derivatives

Paragraph 62 of IAS 1 *Presentation of Financial Statements* includes an example of a current liability that could be read as implying that all financial liabilities that are classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are required to be classified as current. This particularly applies to derivatives that are not financial guarantee contracts or designated and effective hedging instruments. This reading of paragraph 62 would appear to be inconsistent with the requirement in paragraph 60 of IAS 1 to apply the criteria set out in paragraph 60 when determining the classification as current or non-current. The Board decided to amend the example in paragraph 62 of IAS 1 to remove this implication, and to make a similar amendment to paragraph 59 with respect to assets.

Impairment of investment in associate

The Board had previously decided at its meeting in May 2007 that an impairment of an investment in an associate, measured after equity accounting has been applied, is not allocated to any goodwill implicit in the investment balance. The Board had also decided that this impairment should be reversed if the recoverable amount of the investment subsequently increases.

In May the Board asked the staff to consider whether the impairment test applied to the investment in the associate should be the test included in IAS 36 *Impairment of Assets* or that included in IAS 39. However, after discussing the issue further the Board decided to retain the existing requirement in IAS 36.

Reclassification of derivatives into or out of the classification as at fair value through profit or loss

Paragraph 50 of IAS 39 prohibits the reclassification of financial instruments into or out of the 'fair value through profit or loss' (FVTPL) category after initial recognition. However, some financial instruments meet the criteria for classification as at FVTPL after initial recognition and vice versa. This specifically relates to derivatives that become or cease to be designated and effective hedging instruments. It also relates to financial instruments that are held within a portfolio for which evidence arises for the first time of a recent actual pattern of short-term profit-taking, or for which there is evidence of cessation of such activity.

The Board supported the view that meeting or ceasing to meet the criteria included in the definition of FVTPL as set out in paragraph 9 of IAS 39 is not a reclassification for the purposes of paragraph 50. The Board expressed concern that any amendment to the standard should not permit an entity to choose to move a financial instrument out of the category of FVTPL. It therefore asked the staff to prepare wording for an amendment to reflect this view.

Applicable effective interest rate on cessation of fair value hedge accounting

Paragraph 92 of IAS 39 requires that the fair value hedge adjustment made to a hedged item that is measured at amortised cost shall result in a recalculated effective interest rate. However, paragraph AG8 requires the recalculation of the carrying amount of a financial instrument to reflect revisions to the estimates of payments or receipts to be made using the original effective interest rate. Potential for conflict arises when both of these requirements are applicable. The Board decided that the paragraph 92 should be applied before paragraph AG8 and to amend paragraph AG8 to reflect this.

Treating prepayment penalties as closely related embedded derivatives

Some interest-bearing debt instruments permit the borrower to prepay the loan but charge the borrower a penalty if this option is exercised. A prepayment penalty that compensates the lender for loss of interest would appear to meet the example given in paragraph AG33(a) of IAS 39 of an embedded derivative that is closely related to the host contract. However, paragraph AG30(g) suggests that the prepayment option in a host debt contract would not be closely related unless the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument. This appears to conflict with the guidance in paragraph AG33(a) when the prepayment penalty compensates the lender for loss of interest.

The Board decided to amend paragraph AG30(g) to remove the conflict with paragraph AG33(a) described above.

Accounting for below-market rate loans from governments

Paragraph 37 of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* requires the benefit of a loan received from a government that has a below-market rate of interest not to be quantified by the imputation of interest. However, paragraph 43 of IAS 39 requires all financial liabilities to be measured at fair value when recognised initially; hence it requires the imputation of interest to loans with a below-market interest rate, including loans received from governments. The requirements of IAS 20 and IAS 39 therefore appear to be in conflict.

The Board decided to amend IAS 20 to require the imputation of interest to below-market rate loans received from governments and thus remove the apparent conflict with IAS 39.

Costs of originating a loan

Paragraphs 9 and 43 of IAS 39 require the measurement on recognition of a loan originated by an entity to include transaction costs that are incremental. However, paragraph A4(a)(i) of the appendix to IAS 18 *Revenue* specifies that the costs of generating a loan that should be deferred need not be incremental and need only be related direct costs. The guidance in IAS 18 and IAS 39 regarding the loan origination costs that should be deferred therefore appear to differ.

The Board decided to align the appendix to IAS 18 with the definition of transaction costs in IAS 39.

Discount rate for fair value calculations

Paragraph 20 of IAS 41 *Agriculture* requires a current market-determined pre-tax discount rate is used when an entity determines the fair value of a biological asset using the present value of expected net cash flows. The requirement to use a pre-tax discount rate unnecessarily constrains the methods that an entity can apply to determine the fair value of a biological asset. The Board therefore decided to delete the requirement that the market-determined discount rate should be a pre-tax rate.

Replanting obligations

Paragraph 22 of IAS 41 precludes an entity from including the costs of replanting a biological asset after harvest when using estimated future cash flows to determine the biological asset's fair value less costs to sell. Circumstances can arise in which an entity is legally obliged to replant a biological asset after harvest. The interaction of the fair value measurement basis of IAS 41, the prohibition on including the replanting costs in determining that fair value and the requirement to recognise a provision for replanting in accordance with IAS 37 when the biological asset is harvested, could lead to a net expense being recognised at the point of harvest. There is concern that this does not appropriately reflect the commercial reality.

The Board discussed a number of possible solutions to address this issue and asked the staff to develop a further analysis of these solutions for its next meeting.

Minor wording improvements to IAS 39 and IAS 41

The Board considered a proposal to improve the introduction to IAS 39 to clarify the reason why financial guarantee contracts held by an entity are outside the scope of IAS 39. The Board also considered a proposal to amend the examples of agricultural produce in IAS 41. The Board decided to amend those standards to address these issues.

Extractive activities

The Board held its fourth education session on the extractive activities research project.

In the first part of the session, John Etherington from the Society of Petroleum Engineers (SPE) Oil and Gas Reserves Committee gave an update on a joint project with the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) to compare and, where possible, bring into convergence the petroleum and minerals definitions and classification systems. Changes made have resulted in substantial consistency between the two systems. The next steps planned are to develop a 'mapping document' explaining the similarities between the systems and the terminologies used within each of the industries. The Board thanked the SPE/CRIRSCO convergence team for the excellent work they have done and was encouraged by the results so far.

In the second part of the session, the project team reported on the findings of a survey conducted to develop a better understanding of the information needs of users involved in analysing oil and gas and minerals companies. Four analysts took part in the discussion. The user survey was based on 34 interviews with buy-side and sell-side analysts, debt rating agencies, lenders and venture capitalists from Australia, Canada, South Africa, the United Kingdom and the United States who specialise in analysing these companies. The main findings were that:

- there is limited interest in placing a valuation of reserves and resources (at current value or fair value) on the balance sheet; and
- analysts generally would prefer disclosure of the main valuation inputs so that those inputs could be incorporated into their own valuation models.

It was agreed that the project team should, as part of the development of the discussion paper, continue research on:

- issues such as unit of account and asset recognition that might affect the measurement model;
- current value and disclosure-based models as proposed in the agenda papers for this meeting; and
- decision-useful financial statement disclosures to meet the needs of users of oil and gas and mineral reserve information.

The Board again thanked the users and other industry participants for their contribution to the project to date.

Short-term convergence: joint ventures

The Board discussed the disclosure requirements to be included in the exposure draft of proposed amendments to IAS 31 *Interests in Joint Ventures*. The main changes to the current disclosure requirements of IAS 31 that the Board tentatively decided to add for interests in joint ventures accounted for using the equity method are:

(a) the reporting date of the financial statements of a joint venture, when it is different from that of the venturer, and the reason for using a different date.

(b) the nature and extent of any significant restrictions on the ability of joint ventures to transfer funds to the venturer.

(c) the unrecognised share of losses of a joint venture, if the venturer has discontinued recognition of its share of losses of a joint venture in accordance with the equity method.

The Board also tentatively decided that a venturer should present separately its share of profit or loss, its share of other comprehensive income and its share of any discontinued operations of joint ventures.

As a consequence the Board tentatively decided to delete the disclosures required by IAS 28 *Investments in Associates* paragraph 37(h) and (i): those disclosures relate to associates that are not accounted for using the equity method.

The Board also tentatively decided that:

(a) an entity should apply the proposed amendments to IAS 31 retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and

(b) the consensus of SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* should be incorporated into IAS 31.

IFRS 1 amendments

The Board discussed the strategy for redeliberating the proposed amendment to IFRS 1.

The staff presented an initial assessment of the responses to the proposed amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards—*Cost of an Investment in a Subsidiary*. Board members gave their preliminary comments on the issues raised. The Board tentatively decided to consider the possibility of an amendment to IAS 27 *Consolidated and Separate Financial Statements* in tandem with a revised amendment to IFRS 1. The Board will discuss this alternative at its meeting in September.

IFRIC - approval of interpretations

The Board considered two IFRIC Interpretations. The first was IFRIC X *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The Board approved the Interpretation for issue. The second was IFRIC X *Customer Loyalty Programmes*. The Board approved the Interpretation for issue. However, it decided to postpone the effective date to allow more time for affected entities to undertake necessary systems changes. The Interpretation will be effective for annual periods beginning on or after 1 July 2008.

Financial instruments puttable at fair value and obligations arising on liquidation

The staff reported that they needed to consider further the criteria to be included in any amendment to ensure that an instrument within its scope participates in the performance of the entity. The Board will be asked to consider the issue at its next meeting. Agenda paper 14 was not discussed and no decisions were made.

Financial instruments

Hedge Accounting under IAS 39

At its meeting in December 2006 the Board tentatively decided to propose amendments to IAS 39 to clarify the exposures arising from a financial instrument that may be designated as a hedged item. The proposed amendments would specify:

(a) the risks that qualify for designation as hedged risks when an entity hedges its exposure to a financial instrument; and

(b) situations in which an entity may designate a portion of the cash flows of a financial instrument as a hedged item.

The purpose of the proposed amendments would be to clarify the Board's original intentions on what can be designated as a hedged item, rather than to change practice significantly. Therefore, the Board instructed the staff to research how the proposed amendments would affect existing practice.

At this meeting, the staff presented a summary of the results of that research. The Board directed the staff to prepare a ballot draft of the proposed amendments.

Interest Margin Hedging

At a public education session held in December 2006 representatives of the European Banking Federation (FBE) presented to the Board a summary of the FBE's proposal for an interest margin hedge accounting model. At that session the Board questioned whether a new hedge accounting model was necessary if some clarifications were made to the cash flow hedge accounting model in IAS 39 *Financial Instruments: Recognition and Measurement*. The representatives of the FBE agreed that clarifying IAS 39 would be more constructive and consistent with both parties' objectives. The representatives of the FBE identified some issues and agreed to prepare a list of specific paragraphs that, in their view, would require clarification.

In June 2007 some IASB members and staff and representatives of the FBE met and discussed the suggested clarifications.

In an update for the Board, it was noted that the possible clarifications to IAS 39 that had been raised at the December 2006 meeting were also discussed at the meeting in June. It was also noted that that some Board members and staff intend to hold discussions with some banks that currently use the cash flow hedge accounting model set out in IAS 39. The purpose of these discussions will be to understand the application issues faced by those banks and to help establish whether clarifications to IAS 39 are necessary.

The Board was also informed that one additional change suggested by the FBE at the June 2007 meeting was to eliminate paragraph AG99C of IAS 39. This paragraph contains important restrictions on what portions of the cash flows of a financial instrument are eligible to be designated as hedged items in a hedge accounting relationship. Elimination of paragraph AG99C would represent a fundamental relaxation in the restrictions surrounding hedge accounting.

Meeting dates: 2007

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

2007

16—20 July

17—21 September

15—19 October

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

12—16 November

10—14 December

2008

21—25 January

18—22 February

10—14 March

14—18 April

21—22 April (joint with FASB)

19—23 May

16—20 June

21—25 July

15—19 September

13—17 October

20—22 October (joint with FASB), Norwalk, Connecticut, USA

17—21 November

15—19 December

