

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 14 – 18 April, when it discussed:

- Annual improvements
- IFRS for small and medium-sized entities
- IAS 39 *Financial Instruments: Recognition and Measurement*
- Revenue recognition
- Liabilities – amendments to IAS 37
- Cost of an investment in a subsidiary, jointly controlled entity or associate
- IFRS 5 amendments
- Consolidation
- Fair value measurement
- Joint ventures

The IASB also met with the Financial Accounting Standards Board in a joint meeting on 21 and 22 April, where they discussed:

- Update on the status of the Memorandum of Understanding
- Revenue recognition
- Conceptual framework
- Standard-setters responses to the credit crisis – IASB and FASB
- Presentation by CRUF

Annual improvements

The Board discussed one issue that had been referred to it by the IFRIC for inclusion in the 2008 annual improvements.

Paragraph 2(g) of IAS 39 *Financial Instruments: Recognition and Measurement* excludes from its scope 'contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date.' The IFRIC asked the Board to clarify the

wording of this paragraph because of uncertainty as to how to apply it, and to eliminate diversity in practice.

The Board tentatively decided to amend paragraph 2(g) to clarify that the scope exception applies only to forward contracts entered into before the acquisition date (i.e. before the date the acquirer obtains control of the acquiree) by an acquirer and a vendor in a business combination, to buy or sell an acquiree at a future date. The Board also tentatively decided that the exception in paragraph 2(g) should not be applied by analogy to investments in associates and other similar transactions.

IFRS for small and medium-sized entities

The discussion of the SME project was educational, and no decisions were made. The objective was to present the findings of the field testing carried out on the exposure draft (ED) of a proposed IFRS for SMEs. At the meeting the staff gave an overview of the demographics of the field testing sample and some of the main problems encountered by the field testers. At a future meeting, staff will make recommendations to the Board for changes based on comments received on the ED and field test results.

Background to field testing

Field test entities were asked:

- to provide background information about their business and reporting requirements;
- to submit their most recent annual financial statements under their existing accounting framework;
- to restate those financial statements in accordance with the ED (without prior year information); and
- to respond to questions designed to identify specific problems encountered in applying the ED.

Demographics of field testing sample

In total, 116 entities from 20 countries participated. The sample contained a large number of very small entities:

- About 35 per cent had 10 or fewer full time employees.
- A further 35 per cent had between 11

and 50 full-time employees.

Over half of the entities had bank loans or significant overdrafts. A third had foreign operations.

The staff noted that in general there was not a strong link between the type of problems an entity encountered and its size or industry. The main factor influencing the problems identified by field testers was the nature and extent of differences between the proposed IFRS for SMEs and an entity's existing accounting framework.

Overall impression

About half of the field test entities identified no, or only one or two, issues or problems. The staff noted that some entities did not comply with all the requirements of the ED in restating their financial statements, for example the requirement to present a statement of changes in equity or to prepare consolidated financial statements.

The staff did not believe that this invalidated those responses because useful information about problems in applying the ED was received nevertheless.

Some issues discussed

The Board reviewed some of the main issues identified by field testers including the following:

Annual remeasurements. Many field testers highlighted as problematic the need to perform annual remeasurements of fair values for financial assets and liabilities and residual values for

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 Tel: +44 (0)20 7332 2730
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 Website: www.iasb.org
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 ISSN 1474-2675

property, plant and equipment because market prices or active markets often were not available.

The Board noted that fair value measurement is generally required only for the more complex financial instruments and, therefore, many field test entities would not need to apply such measurements. The staff pointed out that the problems with fair value seemed to stem from a misunderstanding by entities of the approach in Section 11 of the ED, which classifies financial instruments according to their cash flow characteristics rather than into the four categories in IAS 39.

Entities appeared to believe that more instruments needed to be measured at fair value than was intended by the ED.

Disclosures. Some field test entities noted problems attributable to the nature, volume and complexity of disclosures. They felt that some of the disclosures required them to provide sensitive information, for example key management personnel remuneration when there were only one or two key management personnel.

Reference to full IFRSs. Around 20 per cent of the field testers chose to refer back to full IFRSs to apply an option available by cross-reference. Most of those entities already follow full IFRSs or a national GAAP similar to full IFRSs. A few field testers said that they would have wanted to use one of the options but did not do so because of the need to refer back to full IFRSs. Only a few entities noted that they needed to refer back to full IFRSs to understand or clarify requirements in the ED.

IAS 39 Financial Instruments: Recognition and Measurement

The Board published the exposure draft *Exposures Qualifying for Hedge Accounting* in September 2007. The comment period ended in January 2008. At its meeting in March the Board considered an analysis of the 74 comment letters received.

At this meeting the Board tentatively decided that any amendments to IAS 39 should address only two situations:

- the designation of a purchased option in its entirety as a hedging instrument of an item that contains no optionality, in such a way that no ineffectiveness results
- the hedging of inflation risk in particular situations.

The comment letters received in response to the exposure draft confirmed that diversity in practice exists in both situations. The Board will discuss possible amendments at a future meeting.

Revenue recognition

The Board discussed three draft chapters of its forthcoming discussion paper on revenue recognition. These chapters discuss the core recognition issues relating to the proposed contract-based revenue recognition model, including:

- why the Board and the FASB propose basing their revenue recognition model on the asset or liability arising from the rights and obligations in the contract with a customer (i.e. the contract asset or contract liability);
- the recognition of the contract asset or liability;

- the identification of the performance obligations that are included in that contract asset or liability;
- determining when those performance obligations are satisfied.

The draft chapters were included in the observer notes for the meeting, available on the Website.

The Board was not asked to make any decisions but it highlighted issues in the draft chapters that require further discussion or clarification.

Liabilities – amendments to IAS 37

The Board considered draft text relating to the measurement of liabilities. It was tentatively decided that the measurement requirements should be included in the body of the standard, with application guidance being in an appendix. The Board did not reach any other decisions on measurement, but raised a number of issues for further consideration by the staff.

The Board also considered comments received on the exposure draft's proposals for restructuring costs and onerous contracts.

Restructuring costs

The Board noted that most respondents supported the amendments proposed for restructuring costs. It considered arguments from some that a public announcement of a decision to restructure a business creates a constructive obligation because, from a commercial viewpoint, management has little if any discretion to reverse the decision. However, the Board reaffirmed its previous conclusion that such commercial pressures do not amount to obligations to the parties affected by the restructuring, and tentatively decided not to change the exposure draft proposals.

In response to requests from respondents, the Board tentatively decided to add a requirement for entities to disclose details of restructuring activities. It tentatively decided that the disclosures should include a description of the restructuring, the segment affected, any impairment charges recognised, the total costs associated with the restructuring and the nature and timing of those costs. It directed the staff to draft proposed requirements.

Onerous contracts

The Board noted that most respondents supported the amendments proposed for onerous contracts. It considered arguments from some that for an onerous operating lease, the liability should be measured net of sublease rentals only if the entity intended to sublet the property. The Board reaffirmed its previous conclusion that the liability should be measured net of sublease rentals that could reasonably be obtained, irrespective of the entity's intentions, and hence tentatively decided not to change the exposure draft's proposal.

The Board tentatively decided to make minor drafting changes to the proposed requirements:

- to avoid any inference that a decline in the market price of products or services necessarily makes a contract for their purchase onerous;
- to clarify within the standard what is meant by 'actions' in the requirements for contracts that become onerous because of the entity's own actions.

Cost of an investment in a subsidiary, jointly controlled entity or associate

The Board published the exposure draft *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements*) in December 2007. The comment period ended in February 2008. At this meeting the staff presented an analysis of the 64 comment letters received and the Board deliberated issues raised by respondents.

The Board affirmed the following proposals:

- an entity, at its date of transition to IFRSs in its separate financial statements, may use a deemed cost to account for investments in subsidiaries, jointly controlled entities, or associates;
- the deletion of the definition of the ‘cost method’ from IAS 27;
- an entity is required to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in its separate financial statements; and
- in a reorganisation in which equity instruments are issued by a new parent in exchange for equity instruments of the previous parent, the new parent should measure the cost of its investment in the previous parent at the carrying amount of the equity instruments of the previous parent in the separate financial statements of the previous parent at the date of the reorganisation.

The exposure draft proposed that an investor receiving a dividend from its subsidiary, jointly controlled entity or associate would be required to test its related investment for impairment. In the light of the comments received, the Board revised its proposal so that the receipt of a dividend may be an indicator of impairment.

The Board decided that entities should apply the amendments prospectively, with the exception that entities would be permitted to apply retrospectively the requirements related to the formation of a new parent. The effective date for the amendments will be 1 January 2009. Earlier application will be permitted.

IFRS 5 amendments

In their joint project on business combinations, the Board and the FASB decided that non-current assets held for sale should be measured at *fair value*, rather than at *fair value less costs to sell*. However, the IASB noted that it should provide an opportunity for constituents to comment on this decision and in IFRS 3 *Business Combinations* (as revised in 2008) the Board allowed a temporary exception to the measurement principle of fair value for non-current assets held for sale until IFRS 5 was amended.

At this meeting, the Board decided not to amend IFRS 5 on this point. Accordingly, the exception to the measurement principle of fair value related to non-current assets held for sale in IFRS 3 (revised 2008) will remain in force.

Discontinued operations

In their joint project on financial statement presentation, the boards decided to develop a common definition of *discontinued operations* based on operating segments as defined in their

standards on segment reporting and to require common disclosures related to components of an entity that have been disposed of.

At this meeting, the Board tentatively decided:

- to define *discontinued operations* as ‘a component of an entity that has been (or will be) disposed of and meets the definition of an operating segment under IFRS 8 *Operating Segments*’. The amounts presented in the statement of comprehensive income and related note disclosures should be based on applicable IFRSs rather than the amounts provided to the chief operating decision maker.
- to require disclosure of the following items for all components of an entity that have been (or will be) disposed of, except for subsidiaries acquired and held exclusively with a view to resale:
 - (a) the major classes of revenues and expenses, including impairments, interest, depreciation and amortisation;
 - (b) the major classes of cash flows (operating, investing and financing);
 - (c) the major classes of assets and liabilities; and
 - (d) the nature of the activities disposed of and the use of the proceeds from those activities.
- that the amounts disclosed should be based on applicable IFRSs.
- to allow early application of the proposed amendments. The proposed amendments to IFRS 5 will be applied prospectively from a date to be determined when the amendments are finalised, with one exception: the amounts in the statement of comprehensive income should be restated on the basis of the revised definition of discontinued operations for all periods presented. If an entity reclassifies its amounts presented in prior periods, it should disclose that fact and the amounts reclassified.

The Board instructed the staff to prepare, on the basis of these decisions, a pre-ballot draft of an exposure draft to amend IFRS 5. The comment period will be 120 days.

Consolidation

The staff updated the Board on progress with the consolidation project, including the new working definition of control and the disclosure framework being considered.

Because the project is focusing on improving the current requirements, rather than a fundamental rethink, the Board decided that the next due process document should be an exposure draft. The Board accepted the staff recommendation that it will be more efficient and effective to bring the model as a complete package to the Board, rather than to discuss individual topics in isolation. The staff expect that to happen in the third quarter of this year.

Fair value measurement

Representatives from the International Valuation Standards Committee met the Board to discuss valuation issues related to fair value measurement. Topics included differentiating between ‘prices’ and ‘values’; potential differences between entry prices and exit prices; the ‘highest and best use’ concept; and the characteristics of a market. No decisions were made.

Joint ventures

The staff presented a summary of the comment letters received on ED 9 *Joint Arrangements*. The Board discussed the main issues raised and reaffirmed the principles in the exposure draft. The Board recognised that many respondents had a different interpretation and assessment of the implications of the model proposed from those of the Board. The proposed IFRS will need to be improved to address this gap.

The Board asked the staff to seek the views of additional users and to contact some of the respondents in order to gain a better understanding of their concerns. The staff will bring the results of those enquiries to the Board at a future meeting.

Joint Meeting – IASB and FASB

The IASB met with the Financial Accounting Standards Board in a joint meeting on 21 and 22 April.

Update on the status of the Memorandum of Understanding

In February 2006 the IASB and the FASB issued a Memorandum of Understanding (MoU) that described a joint work plan to expedite global convergence in accounting standards and established a series of milestones to be reached by 2008.

Most of those milestones have now been reached, or are due to be reached during 2008. As a result, there is little remaining guidance on the prioritisation of projects on the FASB and IASB's active agenda in the medium to long term.

A number of jurisdictions have announced their intention to adopt or converge with IFRSs in the next five years. The chairmen of the IASB and the FASB agreed that the timeline contained within the existing MoU should be updated. Doing so will help to direct the work plan of the two boards through to at least 2011. The two chairmen asked a small team made up of representatives from the IASB and the FASB to produce a paper on the subject for discussion at the joint board meeting.

The two boards discussed that paper at their joint meeting and accepted the broad principles recommended in it. The boards directed the staff to develop details for consideration in the Technical Plan update session at the Board's meeting in June. It is the intention that an updated Work Plan will be published after that meeting.

Revenue recognition

In July 2007, as part of the 'Proactive Accounting Activities in Europe' initiative, the European Financial Reporting Advisory Group (EFRAG), the Deutsche Rechnungslegungs Standards Committee (DRSC) and the Conseil National de la Comptabilité published a discussion paper *Revenue Recognition—A European Contribution*.*

The paper's objective was to stimulate debate on revenue recognition in Europe and to develop European views to be considered by the IASB and FASB in their joint project on revenue recognition. Representatives of the EFRAG and

DRSC presented an overview of the discussion paper to the joint board meeting.

No decisions were made. The overview can be found in the observer notes for the session.

*The paper is available at <http://www.efrag.org/projects/detail.asp?id=55>

Conceptual framework

The boards continued to discuss the implications of adopting the entity perspective. This issue arose from the phases of the framework project on the objective of financial reporting (phase A) and the reporting entity (phase D). The boards confirmed that the entity perspective means that the entity itself is the subject matter of financial reporting. This is in contrast to the proprietary perspective where the proprietor is the subject matter of financial reporting and the reporting entity does not have substance of its own separately from its proprietors or owners.

The boards noted that they had not completed their initial deliberations in other phases of the framework project, such as determining the elements of financial statements (to be considered in phase B). Therefore, fuller implications of this decision for future phases will be analysed in other phases, in due course, and communicated to constituents at that time. The boards believe that these implications do not need to be addressed before finalising and publishing the exposure draft for phase A for public comment. An explanation on the decisions reached and implications not yet deliberated would be contained in the bases for conclusions in both the exposure draft for phase A and the discussion paper for phase D.

In addition, the boards discussed a sweep issue arising from comments on a draft discussion paper on the reporting entity (phase D) relating to parent-only financial statements. The boards tentatively agreed that in concept:

- (a) a parent entity should always present consolidated financial statements.
- (b) the presentation of parent-only financial statements should not be precluded at the conceptual level, provided they are included in the same financial report as the consolidated financial statements.

The boards also noted that some presentation issues, e.g. how to present information about particular subsidiaries, such as discontinued operations, will be dealt with at the standards level.

Standard-setters responses to the credit crisis – IASB and FASB

The boards discussed the steps they were taking in response to the credit crisis. When there are significant business failures, or a loss of confidence in markets, it is appropriate to examine whether improvements can be made to the system in which those businesses operate. Just as securities regulators, banking supervisors and others have been assessing their roles in the crisis, it is appropriate that the boards review the requirements of IFRS and US GAAP.

The FASB is moving to eliminate the concept of a qualifying special purpose entity and amend FIN 46R to place more emphasis on qualitative, and therefore less reliance on quantitative, factors in assessing control. Part of that project,

which the FASB expects to complete before the end of this year, is a review of disclosure requirements related to securitisations and off-balance sheet activities.

The IASB is giving urgency to several areas where it thinks IFRS financial reporting could be improved - fair value measurement; financial instruments; consolidation and derecognition; disclosures about off-balance sheet items; and disclosures about fair value measurements. The IASB had already undertaken a significant amount of work on the fair value measurement, consolidations and derecognition projects prior to the advent of the current crisis. The exposure draft being developed by the consolidations project staff will include any enhancements to IFRS 7, in relation to the disclosure of information about off-balance sheet risks and fair value measurement, that the IASB thinks would be helpful.

The boards agreed that they should work together to align their disclosure requirements. The boards also agreed to assess whether the IASB's consolidations project could become a joint project.

Presentation by CRUF

The Corporate Reporting Users' Forum (CRUF) made a presentation to the joint board meeting. Observations were made on the boards' joint agenda, with suggestions for priorities and topics that the boards should address.

No decisions were made.

Future Board meetings

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

2008

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