

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 16 – 20 June, when it discussed:

- Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- Annual improvements
- Conceptual Framework – Elements: Definition of a liability
- Extractive activities research project
- Fair value measurement
- Financial statement presentation
- Hedge accounting: FASB exposure draft
- Hedge accounting: qualifying exposures
- IFRIC – Ratification of interpretations
- IFRS for private entities (small and medium-sized entities, or SMEs)
- Technical plan
- Valuing financial instruments that are no longer active

Amendments to IFRS 5

The Board discussed whether the definition of discontinued operations in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* should be revised to include subsidiaries that meet the criteria to be classified as held for sale on acquisition. An alternative approach had emerged in discussions at the FASB, and the Board asked the staff to present an analysis of that approach at a future meeting.

The Board decided:

- if exemptions were to be provided from the discontinued operations disclosures for subsidiaries that qualify as held for sale on acquisition, similar exemptions should also be provided from the

business combinations requirements

- to remain silent on whether the proposed disclosures could be aggregated for some components of an entity that either have been disposed of or are classified as held for sale.
- not to require disclosure of the use of proceeds for components of an entity that either have been disposed of or are classified as held for sale.

Annual improvements

IAS 7 *Statement of Cash Flows* – classification of expenditure on unrecognised assets

The IFRIC had recommended that the Board should amend IAS 7 to clarify whether expenditure that does not result in a recognised asset should be classified as a cash flow from investing activity or operating activity. The IFRIC recommended that IAS 7 should make explicit that expenditure is classified as an investing cash flow only if it results in a recognised asset.

The Board tentatively decided to amend IAS 7 as the IFRIC had recommended.

IAS 36 *Impairment of Assets* – unit of accounting for goodwill impairment.

When the Board issued IFRS 8 *Operating Segments*, it revised paragraph 80 of IAS 36. That paragraph requires goodwill arising from a business combination to be allocated to a cash-generating unit or group of cash-generating units that are expected to benefit from the synergies of the business combination. However, the group of cash-generating units cannot be 'larger than an operating segment determined in accordance with IFRS 8'. The Board was told that entities adopting IFRS 8 are reconsidering whether any goodwill needs to be allocated to different cash-generating units on the basis of the new segment definition introduced by IFRS 8.

The Board tentatively decided to amend paragraph 80(b) of IAS 36 to clarify that the largest unit permitted for the goodwill impairment test is the lowest level of operating segment as defined in

paragraph 5 of IFRS 8, before the aggregation permitted by paragraph 12 of IFRS 8.

Share-based Payment – scope of IFRS 2 and revised IFRS 3 *Business Combinations*

The Board received a request to clarify the scope of IFRS 2 with respect to the formation of a joint venture. The request arose because of the amended definition of a 'business combination' in IFRS 3 as revised in 2008. The Board also considered common control transactions that raise similar issues.

Both types of transactions were previously excluded from the scope of IFRS 3. At the request of the IFRIC Agenda Committee, the Board clarified in September 2004 that, because they met the definition of 'business combinations' in IFRS 3, those transactions were excluded from the scope of IFRS 2. Those transactions do not meet the revised definition of a business combination and are therefore not within the scope of IFRS 3 (revised 2008). Therefore, the rationale for the scope exemption from IFRS 2 no longer applies.

The Board agreed with the staff's conclusion that it did not intend to change the accounting for either type of transaction when it revised IFRS 3. It tentatively decided to amend IFRS 2 to clarify that the formation of a joint venture and common control transactions are excluded from the scope of IFRS 2.

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Conceptual framework – elements: definition of a liability

As part of its joint project with the FASB, the Board considered how to determine when statutes, laws and regulations give rise to a liability and how to deal with uncertainty when ascertaining the existence of a liability.

Statutes, laws and regulations

The Board noted that an entity may be subject to the requirements in statutes, laws and regulations, yet a government or other party cannot enforce those requirements until the entity violates the statute, law or regulation or an event occurs that triggers the requirements. The Board discussed three examples - an environmental obligation, a statutory warranty and a speeding ticket and tentatively decided that an entity:

- does not have a present unconditional obligation to comply with a statute that is not yet effective,
- does not have a present unconditional obligation for expected future actions or intentions,
- does not have a present unconditional obligation to transfer economic resources merely because it has to comply with the law. An obligating event must also have occurred,
- has a present unconditional obligation at the reporting date when an entity violates a requirement or another obligating event has occurred,
- has a present unconditional obligation that has an associated conditional obligation (a stand ready obligation) when a statute requires an entity to provide risk protection. That requirement results in an implicit contractual obligation between the two parties,
- has a present unconditional obligation that has an associated conditional obligation when an entity separately agrees to bear another's risk that arises from being subject to a statute.

Dealing with uncertainties

Uncertainties result from situations where evidence is lacking or facts are unclear. The Board considered whether to deal with uncertainties in the definition, in the guidance accompanying the definition or in the criteria for recognition. To apply the conceptual definition of a liability in a practical manner, the Board tentatively decided to deal with uncertainty in the accompanying guidance. As well, the Board discussed how to apply the definition. The Board tentatively decided that the definition should be applied by judging whether a liability exists on the basis of the facts and circumstances at the end of the reporting period. Once it is judged that a liability exists, uncertainty about the amount of the liability would be taken into account in measurement. The Board also tentatively decided that this judgemental approach can be applied neutrally when ascertaining the existence of any element of the financial reports when there are uncertainties and that additional guidance should be developed on how these judgements can be made in a comparable manner at a standards level.

The Board considered additional situations to evaluate the robustness of the working definition of a liability. With regard to the proposed working definition of a liability, the Board directed the staff to consider revising the definition:

- to include an additional reference that an economic obligation must be unconditional, and
- to replace the description that an economic obligation is something that is capable of resulting in 'cash outflows or reduced cash inflows, directly or indirectly, alone or together with other economic obligations' with 'provision of an economic resource'.

Also, the Board reviewed and agreed with the summary of tentative decisions made and its proposed working definition, including the suggested revisions above, as a basis for staff to begin drafting these aspects of the discussion paper on elements and recognition.

The FASB discussed these issues and proposals concerning the proposed working definition of a liability and reached similar conclusions at its meeting on 25 June 2008.

Extractive activities research project

At its sixth education session on the extractive activities research project, the Board considered the research presented by the project team on the initial recognition of minerals and oil & gas reserves and resources.

Basic approach

The research applied the Framework's asset definition and recognition criteria as well as the Board's current thinking in the conceptual framework project. At present, it is common for entities to capitalise costs or recognise them as expense according to the different phases of upstream extractive activities, such as exploration and evaluation, development and production.

Asset definition and recognition

The project team considered that the economic resource, which relates to minerals or oil & gas, could be identified as three types of assets:

- legal rights, such as exploration rights or mineral rights;
- information (or knowledge); and
- the minerals or oil & gas deposit.

It was noted that these assets can be viewed as forming a continuum representing the maturing of upstream extractive activities from early stage prospecting and exploration activities through to the extraction of minerals or oil & gas from the ground. Which asset or assets should be recognised would depend on where the extractive activities operation is along the continuum.

Board members agreed that a legal rights asset should be recognised when the rights are acquired. The information obtained from exploration and evaluation activities generates a better understanding of the economic resource that underlies the legal rights asset and is therefore an enhancement of that asset, rather than a separate asset. Board members suggested that the asset associated with a minerals or oil & gas deposit is the right to extract the minerals or oil & gas contained in the deposit.

Unit of account

Board members concurred with the project team's view on limiting the geographical size of the unit of account. For exploration activities, the unit of account would be defined according to the exploration rights held and, as more

exploration and evaluation takes place, the size of the unit of account would contract to cover only the specific area(s) where detailed exploration and evaluation is taking place. During the development and extraction phases the unit of account would be no greater than a contiguous area, or areas, for which the legal rights are held and which is managed separately and would generate largely independent cash flows.

Board members also discussed infrastructure and equipment assets associated with a developed property and noted that the components approach in IAS 16 may be useful in considering which assets should be recognised separately from the legal rights.

Next steps and discussion paper

The project team was asked to bring an analysis of disclosure issues, together with an outline of the proposed discussion paper, to a future meeting. The discussion paper is intended to be ready for publication by the end of 2008.

Fair value measurement

The Board clarified the scope of the fair value measurement project in the light of the discussions at the joint IASB-FASB meeting in April 2008. The Board reaffirmed its preliminary views for the following issues, as articulated in the *Fair Value Measurements* discussion paper:

- attributes (characteristics) specific to an asset or liability (Issue 5)
- whether transaction costs are separate from fair value (Issue 5)
- the fair value hierarchy (Issue 8)

Although the Board reaffirmed its preliminary views on these issues, the staff will consider, in the light of comments made by respondents to the discussion paper, whether the wording in the exposure draft might need to differ from that in FASB Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* and the IASB's discussion paper. The Board will discuss further the other topics in the discussion paper before publishing an exposure draft

Financial statement presentation

The Board confirmed the suggestion made at its joint meeting with the FASB in April 2008 that the financial statement presentation project should not seek to change existing standards relating to what items are recognised outside of profit or loss. This would result in the retention of existing requirements on the presentation of other comprehensive income (OCI) items in a statement of comprehensive income and on the recycling mechanism. Accordingly, the Board decided that the discussion paper would express its preliminary view that:

- an entity should present a single statement of comprehensive income with OCI items presented in a separate section (as described in paragraph 81 of IAS 1 *Presentation of Financial Statements*). An entity should indicate within that section (parenthetically or otherwise) the category (operating, investing or financing) to which each OCI item relates.
- income taxes would be allocated among continuing operations, discontinued operations, items of other

comprehensive income, and items charged or credited directly to equity. The forthcoming exposure draft on the revision of IAS 12 *Income Taxes* will include guidance on intraperiod tax allocation.

- an entity should present income tax assets, liabilities and cash flows in a separate section in the statements of financial position and cash flows. The exposure draft on IAS 12 should include the income tax disclosures the Board addressed in March 2008 (related to the reconciliation explaining the relationship between income tax expense and accounting profit).

The Board decided that the project should not:

- make any further changes to the statement of changes in equity
- address disclosures related to capital management and to measurement uncertainty
- address earnings per share (or any other per share measures), and thus will not amend IAS 33 *Earnings per Share*.

The Board also decided that the discussion paper should not:

- address offsetting or disclosures about the measurement bases of assets and liabilities. The exposure draft stage of the project will address those issues.
- address possible additional segment disclosures; however, the paper should seek views on whether the Board should address segment disclosures beyond consequential amendments.

The Board made the following decisions; the first three of those decisions modify its previously expressed views:

- The schedule reconciling the statement of cash flows to the statement of comprehensive income should not include equity transactions (therefore it would not include the equity section of the statement of cash flows); moreover, changes in assets and liabilities not attributable to remeasurements should be included in a single column and not further disaggregated.
- An entity should determine how much information is presented in the discontinued operations section by applying the disaggregation objective (ie information should be disaggregated if the additional information will be useful to users of financial statements when they assess future cash flows).
- The discussion paper should not express a preference for allocating the effects of basket transactions to categories; instead it should describe allocation and non-allocation alternatives and ask for respondents' views.
- An entity should display gains and losses on transactions in foreign currency, including the components of any net gain or loss on remeasuring the financial statements of an entity into its functional currency, in the same section and category as the assets or liabilities that gave rise to those gains or losses.

The Board also discussed issues raised in the drafting process and, among other things, clarified its views on the definition of the operating and investing categories and on the disaggregation of information by function and nature in the statement of comprehensive income.

The staff expect the discussion paper to be available on the IASB's Website in September 2008 for a six-month comment

period. During that time, various companies will field test the Board's preliminary views on financial statement presentation.

Hedge accounting: FASB exposure draft

The Board held an education session on the FASB's project on hedge accounting. The FASB published an exposure draft on Accounting for Hedging Activities on 6 June 2008. FASB staff presented the objectives of the project and the major changes proposed in the exposure draft. No decisions were made.

Hedge Accounting: qualifying exposures

The Board published the exposure draft *Exposures Qualifying for Hedge Accounting* in September 2007. The comment period ended in January 2008. In April 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.

At this meeting the Board confirmed its decision that the amendments should be applied retrospectively and tentatively decided that they should come into effect for annual periods beginning on or after 1 July 2009. The Board instructed the staff to prepare a ballot draft of the amendment

IFRIC – Ratification of interpretations

The Director of Implementation Activities presented two Interpretations for approval by the Board. As previously reported to the Board, the IFRIC completed its redeliberations of both D21 *Real Estate Sales* and D22 *Hedges of a Net Investment in a Foreign Operation* and approved the final Interpretations at its meeting in May. Subsequently, the Interpretations were circulated to the IFRIC for review of final editorial changes and near final versions had been posted on the IASB's Website.

As a result of the posting of the near final draft, the Board had received requests to require the IFRIC to re-expose D21 *Real Estate Sales* for public comment. The Board noted that in accordance with its due process, the IFRIC had already considered the possible need to re-expose the Interpretation and had concluded that re-exposure was not warranted. The Board agreed with the IFRIC's conclusion that the changes it had made to draft Interpretation D21 did not introduce a new model of revenue recognition but more clearly articulated the interaction of IAS 11 *Construction Contracts* and IAS 18 *Revenue*. In addition, the Board agreed with the IFRIC that application of D21 and the final Interpretation would produce essentially the same results. Consequently, the Board decided not to require re-exposure.

The Board noted that both Interpretations had required extensive redrafting to respond to constituents' comments. The Board commended the IFRIC's efforts in developing useful clarifications of the respective standards and approved both Interpretations for issue.

IFRS for private entities (formerly small and medium-sized entities, or SMEs)

The Board resumed its redeliberation of the proposals in the exposure draft (ED) of a proposed *IFRS for SMEs* (the IFRS will be titled *IFRS for Private Entities*). At this meeting the Board discussed issues relating to Sections 4-12 of the ED. The outcome of those discussions is summarised below.

Presentation of financial statements. At its meeting in May the Board decided that the *IFRS for Private Entities* should incorporate the requirements of IAS 1 *Presentation of Financial Statements* (as revised in 2007). At this meeting the Board made the following tentative decisions:

- Private entities should present their statement of financial position based on liquidity if this provides information that is reliable and more relevant than a current/non-current presentation. The criteria proposed in the ED for classifying assets and liabilities as current would be retained.
- The required analysis of expenses may be presented either by nature or function of expense. The additional disclosures proposed in paragraph 5.10 (when an entity chooses to classify expenses by function) are redundant and should be deleted.
- A private entity would be permitted to present a combined statement of comprehensive income and retained earnings in place of the statement of comprehensive income and the statement of changes in equity if the only changes to its equity during the period arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy. If an entity has other equity transactions with owners, a statement of changes in equity would be required.
- All private entities must present a statement of cash flows, and they could choose either the direct or indirect method for reporting operating cash flows.

Consolidated financial statements. These should be required for all private entities that are parent entities. For now, a temporary control exemption should not be added, but the Board may need to revisit this decision for consistency when it discusses discontinued operations.

Combined financial statements. The description of combined financial statements should be retained in the *IFRS for Private Entities*, with some additional guidance added.

Separate financial statements. Separate company financial statements should not be required. When an investor prepares separate statements, it should choose between cost or fair value through profit or loss for each different category of investment (eg different policies could be adopted for associates and for subsidiaries).

Accounting policy hierarchy. The accounting policy hierarchy in Section 10 is appropriate in principle. However, paragraph 10.4 should be modified to clarify that management may, but is not required to, consider the requirements and guidance in full IFRSs. The hierarchy should not include reference to recent pronouncements of other standard-setting bodies, other accounting literature or accepted industry practice.

Financial instruments. Regarding Section 11 *Financial Assets and Financial Liabilities*, the Board decided:

- to reorganise Section 11 to make it easier both to identify which instruments are within the scope and to apply the section if a private entity has only very simple financial instruments.
- to clarify by the use of examples that the cost model will be appropriate for the significant majority of financial instruments held by private entities. The examples should reflect the types of financial instruments that a private entity is likely to have, with clear guidance for the accounting required both at acquisition or when issued and subsequently. A private entity that has no other financial instruments would then not need to consider the remainder of Section 11 dealing with more complex financial instruments transactions.
- not to rewrite Section 11 so that cost or amortised cost is the default. Rewriting Section 11 in that way would have required the Board to include definitions and other explicit requirements for derivatives and embedded derivatives to ensure they are measured at their fair value. This would have added significant complexity.
- to combine the guidance on fair value proposed in Appendix B with the fair value measurement principles in paragraphs 11.14–11.16 and simplify it for a private entity context.
- not to add an ‘available for sale’ category for financial assets.
- not to allow straight-line amortisation of premiums and discounts as an elective accounting policy alternative to the effective interest rate (EIR) method. However, an example or examples illustrating EIR should be added as guidance.
- not to permit a ‘shortcut method’ for hedge accounting.
- to include guidance on measuring hedge effectiveness in the training materials being developed by the IASC Foundation education team.. The requirements in the IFRS should be kept short and general.
- to retain the requirements for hedging documentation proposed in the ED.
- not to allow debt instruments to be hedging instruments. The Board asked the staff to recommend at a future meeting whether to permit purchased options as hedging instruments. The recommendation should consider the extent of use of such instruments for hedging purposes by private entities and any desire to use hedge accounting for such instruments.
- to add guidance to clarify which types of risks are eligible for hedge accounting under Section 11.
- to add guidance on accounting for factoring transactions.
- to remove from Section 11 the option to follow IAS 32, IAS 39, and IFRS 7 in their entirety, in lieu of Section 11. However, the Board will revisit this tentative decision at a future meeting after Section 11 has been revised.
- to amend paragraph 11.22(b) to state that an impairment loss for an equity instrument carried at cost (because its fair value cannot be measured reliably) should be the difference between the asset’s carrying amount and the best estimate (which will necessarily be an

approximation) of the amount (which might be zero) that the entity would receive for the asset if it were to be sold.

- to rewrite paragraph 11.9(b) to clarify that interest rate swaps must be measured at fair value through profit or loss.

The Board asked the staff to present a rewritten draft of Section 11 for consideration at a future Board meeting.

Inventories. The Board did not support simplifying any of the principles proposed in the ED for accounting for inventories. The Board rejected LIFO as an inventory costing method.

Technical plan

The Board made its regular review of its Technical Plan. The Plan sets out the expected timetable over the next three years for projects on the IASB’s active agenda and research agenda. The revised timetable is available at: <http://www.iasb.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm>. Project summaries are available on the IASB Website at: <http://www.iasb.org/Current+Projects>.

Valuing financial instruments in markets that are no longer active

In May, the Board announced its plans for forming an expert advisory panel on valuing financial instruments in markets that are no longer active. At this meeting, the Board received a report on the first meeting of the panel, which was held on 13 June in London. The panel met to identify specific valuation and disclosure issues encountered in practice in the current market environment. The issues relating to measurement included:

- selection of a valuation technique
- calibration of valuation models
- use of third-party price quotes
- adjustments to valuation models
- meaning of ‘observable’ and ‘significant’ inputs
- distinguishing between active and inactive markets
- forced transactions and distressed sales
- measurement of changes in own credit risk

The issues relating to fair value disclosures included:

- disclosures using the fair value hierarchy
- disclosures of valuation techniques, inputs, sensitivities and ranges

In the next few weeks, a subset of panel members will discuss specific practice issues in detail and present their findings to all panel members. The focus will initially be on measurement issues; later discussions will address disclosures. A summary of the discussions will be presented to the IASB in a public meeting and will be published on the IASB Website at <http://www.iasb.org/Current+Projects/IASB+Projects/Fair+Value+Measurement/Expert+Advisory+Panel.htm>.

Future Board meetings

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

2008

21—25 July

15—19 September

13—17 October

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

17—21 November

15—19 December