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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 10 – 14 March, when it discussed:

- Annual improvements
- Financial statement presentation
- Fair value measurement
- IFRS for small and medium-sized entities
- IAS 19 *Employee Benefits*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- Update on IFRIC activities
- First-time adoption of IFRSs
- Extractive activities research project

## Annual improvements

The Board redeliberated ten of the proposals in the exposure draft published in October 2007. The Board reaffirmed four of the proposed amendments with only minor or no changes from the proposals in the exposure draft without discussion. These proposed amendments were:

- Presentation of finance costs (IFRS 7 *Financial Instruments: Disclosure*)
- Components of borrowing costs (IAS 23 *Borrowing Costs*)
- Measurement of subsidiary held for sale in separate financial statements (IAS 27 *Consolidated and Separate Financial Statements*)
- Disclosure of estimates used to determine recoverable amount (IAS 36 *Impairment of Assets*)

The Board discussed six other proposals and tentatively decided to issue final amendments, subject to additional drafting changes, as summarised here.

The Board will discuss any sweep issues that arise from the drafting process in the April meeting before finalising these amendments for issue. The Board aims to publish the final amendments in May.

### IAS 1 *Presentation of Financial Statements - Current/non-current classification of derivatives*

The Board tentatively decided to amend the proposals in the exposure draft to show more clearly how the similar terms used in IAS 1 and IAS 39 relate to each other. The Board also tentatively decided to explain in the basis for conclusions the difference between 'held primarily for the purpose of trading' under IAS 1 and 'held for trading' under IAS 39.

### IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors - Status of implementation guidance*

The Board tentatively decided to modify its proposed amendment to paragraph 9 to take into consideration the varying authority of the different types of guidance in standards. The Board reaffirmed its proposed amendments to paragraphs 7 and 11, which clarify that entities are not required to consider guidance that is not part of IFRSs.

### IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance - Government loans with a below-market rate of interest*

The Board reaffirmed its proposed amendment, which requires government loans to be recognised and measured in accordance with IAS 39 reflecting a market interest rate. The Board tentatively decided to modify its proposal to clarify that a government grant would be recognised as equal to the difference between the cash received and the recognised amount of the loan. It would be accounted for using IAS 20. The Board also tentatively decided that the amendment should be applied prospectively to loans received after the effective date of the amendment.

### IAS 38 *Intangible Assets - Unit of production method of amortisation*

The Board reaffirmed its proposal to remove the last sentence of paragraph 98 of IAS 38. The Board concluded that the principle in paragraph 97 of IAS 38 that 'the amortisation method shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity' is sufficiently clear. The Board also decided to add an explanation that the amendment applies to all intangible assets and is not limited to those arising in service concessions.

### IAS 41 *Agriculture - Point-of-sale costs*

The Board reaffirmed its proposal to replace the term 'point-of-sale costs' with the term 'costs to sell' in IAS 41.

### IAS 41 *Agriculture - Additional biological transformation*

The Board had proposed to remove the prohibition on taking 'additional biological transformation' into consideration when calculating the fair value of biological assets using discounted cash flows. The Board reaffirmed this proposal and also tentatively decided to remove 'harvest' from the definition of 'biological transformation'. The Board tentatively decided that the proposed amendment should be applied prospectively.

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## Financial statement presentation

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The Board discussed its tentative view expressed in September 2006 that income taxes should be presented as a separate section in each of the financial statements rather than allocated as required by IAS 12 *Income Taxes*. The Board tentatively decided that the initial discussion document should not include a preliminary view on the presentation of income taxes. Instead, the document should explore and illustrate both views (separate income tax section and income tax allocation) in order to solicit comments on the issue.

The Board tentatively decided that, in addressing the allocation view, the document should discuss whether an entity should allocate income taxes to all or some of the components of comprehensive income. For example, income taxes could be allocated to:

- (a) all of the categories and sections in the working format
- (b) continuing operations, discontinued operations and items of other comprehensive income, or
- (c) only items of other comprehensive income. In addition, the document should discuss whether income taxes on transactions with owners should continue to be charged or credited directly to equity.

The Board decided that, in addressing the non-allocation view, the document should discuss whether that view should extend to income taxes on transactions with owners that are currently charged or credited directly to equity. In other words, whether an entity would recognise those tax amounts in comprehensive income and present them in the separate income tax section. In addition, the document should include the following information that an entity would disclose in the notes if intraperiod tax allocation were to be eliminated:

- (a) A numerical reconciliation of the effective income tax rate (income tax expense divided by pre-tax comprehensive income) and the statutory (applicable) rate, and of the effective income tax rate and the 'current' effective tax rate (the current portion of income tax expense divided by pre-tax comprehensive income). Alternatively, the reconciliation could be of the corresponding tax amounts rather than the tax rates.
- (b) A discussion about each significant reconciling item in (a) above, focusing on the effect of tax rates in different jurisdictions, and on the transactions or events that influenced effective tax rates and how those factors may affect effective rates in the future.
- (c) A discussion about the impact of income taxes on the operating, investing, financing, discontinued operations, and other comprehensive income categories/sections in the statement of comprehensive income, to the extent not covered in (b). The focus of the disclosure should be on whether income taxes in each category differ from what a user would expect on the basis of the entity's statutory tax rate. If major differences exist, the disclosure should provide information that allows a user to gauge whether each difference is likely to be maintained or reversed in future periods.

## Fair value measurement

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The Board discussed whether to establish a working group for the fair value measurement project. A working group for a major project typically addresses conceptual issues fundamental to developing the principles for the project. However, the fair value measurement project seeks mainly to compile existing literature into a single source of measurement guidance.

As a result, the project team needs input on practical application issues about fair value measurement and valuation generally. For these reasons, the Board decided not to establish a working group. Instead, the staff will form an informal technical advisory group that will provide practical input on valuation issues. This input will inform the staff as it develops an IFRS for fair value measurement guidance.

### IFRS for small and medium-sized entities

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The discussion of the SME project was educational, and no decisions were made. At the meeting the staff:

- summarised the project activities since the exposure draft was published in February 2007
- identified the main issues raised in the letters of comment on the exposure draft
- presented a proposed work plan for completion of an IFRS for SMEs.

#### Issues raised in the letters of comment

The Board reviewed some of the main issues in the comment letters. General issues not related to specific sections in the exposure draft included the following:

**Stand-alone document** Many respondents would eliminate all cross-references to full IFRSs, thereby making the IFRS for SMEs fully stand-alone. Others either:

- (a) would keep the number of cross references to an absolute minimum or
- (b) were indifferent between having minimal cross-references and removing all of them.

Only two comment letters did not agree that the IFRS for SMEs should be a stand-alone document. The agenda paper included a complete list of cross-references to full IFRSs.

**Accounting policy options** Many respondents recommended that all or most options in full IFRSs should be available to SMEs. The Board noted that making the IFRS for SMEs stand-alone while also including all options was likely to enlarge the document substantially.

**Anticipating changes to full IFRSs** Many respondents were of the view that the IFRS for SMEs should be based on existing IFRSs and should not anticipate changes to IFRSs that the Board is considering in others projects.

**Disclosure** Although many respondents encouraged the Board to make further simplifications to disclosure requirements, many did not identify specific disclosures to be eliminated or why. The Board encouraged the staff to seek the views of users regarding disclosure and other possible changes to the exposure draft.

The Board would appreciate views not only on disclosure simplifications but also on what additional disclosures might be needed, including, for example, disclosures about significant

customers and other economic dependencies. The Board also asked the staff to obtain users' views on the recognition and measurement simplifications in the exposure draft.

**Name for SMEs** Many respondents agreed with the Board's description of entities that should be allowed to use the IFRS for SMEs - namely entities that do not have public accountability. However, many also suggested that the Board should find a better term than 'SMEs' to describe those entities. The staff will bring recommendations to the Board at a future meeting.

**Scope** Many respondents discussed the suitability of the proposals for micro-sized entities (ie those with under 10 or so employees), small listed entities, and entities that act in a fiduciary capacity. The staff pointed out that the IFRS for SMEs is intended to be suitable for any entity that

- (a) does not have public accountability and
- (b) prepares general purpose financial statements (GPFSS).

The exposure draft identified two types of entity that have public accountability. For all other entities, it would be up to individual jurisdictions—not the IASB—to decide which entities should prepare GPFSSs and whether those entities should follow IFRSs, the IFRS for SMEs or some other framework.

**Fair value – general** Many comment letters proposed that fair value measurements in the IFRS for SMEs should be restricted to

- (a) circumstances in which a market price is quoted or readily determinable without undue cost or effort and
- (b) all derivatives.

Some respondents also thought it was necessary that the measured item should be readily realisable and/or there is an intention to dispose of or transfer the item.

**Implementation guidance for the IFRS for SMEs** Many respondents cited the need for implementation guidance and encouraged the Board to consider how such guidance could be provided. The Board generally acknowledged the need but disagreed with those who favour a programme for developing formal 'interpretations' of the IFRS for SMEs. The IASC Foundation education team is developing training materials on the IFRS for SMEs that could meet this need.

In addition to general issues, most respondents raised issues related to specific sections in the exposure draft. Although respondents offered suggestions for each of the 38 sections, the topics that received the most comments (generally in favour of further simplifications) included consolidation, amortisation of goodwill and other indefinite life intangibles, financial instruments, requirements for statements of cash flows and changes in equity, measurements for impairments and finance leases, share based payment, employee benefits, and income taxes.

### Work plan

The Board will consider at its meeting in May a complete list of issues to be redeliberated, with a view to completing decisions on those issues by July. The Board will begin a review of a revised draft standard in September or October.

## IAS 19 Employee Benefits

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The Board discussed a sweep issue on the definition of contribution-based promises arising from the review of the ballot draft of the discussion paper on Amendments to IAS 19. The Board decided to revise the definition of contribution-based promises to clarify that vesting and demographic risks do not preclude a benefit promise from being contribution-based.

## IAS 39 Financial Instruments: Recognition and Measurement

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The Board published the exposure draft *Exposures Qualifying for Hedge Accounting* in September 2007. The comment period ended in January 2008. At this meeting the Board considered an analysis of the 74 comment letters received. No decisions were made.

## Update on IFRIC activities

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The IFRIC Co-ordinator reported on the IFRIC's meeting of 6 March. Details of the meeting have been published in *IFRIC Update*.

The IFRIC had continued its redeliberations of draft Interpretations D21 *Real Estate Sales* and D22 *Hedges of a Net Investment in a Foreign Operation*. On D21, the staff had developed a flowchart to illustrate how to determine whether a real estate sale agreement was within the scope of IAS 18 or IAS 11 and two approaches to finalising the interpretation.

The IFRIC asked the staff to make some modifications to the flowchart and directed the staff to draft a final interpretation reflecting the approach recommended by the staff. The staff expected that the IFRIC would approve the final interpretation at its meeting in May and the Board would be asked in June to approve it for issue. The IFRIC Co-ordinator asked the Board to consider the approach adopted by the IFRIC and to communicate any concerns in advance of the IFRIC's meeting in May.

On D22, the IFRIC had asked the staff to develop examples to illustrate the application of the conclusions in the draft Interpretation. These examples were considered and the IFRIC reaffirmed its previous conclusions. However, the analysis of the examples highlighted some issues that should be dealt with in the interpretation. The IFRIC directed the staff to draft the final interpretation for consideration at its meeting in May. Once again, the staff expected the final interpretation to be presented to the Board in June for approval.

The IFRIC confirmed one tentative agenda decision which was being published as final and reached two tentative agenda decisions that were being published for comment. A request for an interpretation had recently been received and was being analysed by the financial instruments team.

## First-time adoption of IFRSs

Staff of the Canadian Accounting Standards Board (AcSB) presented several proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* to address challenges that jurisdictions and entities are likely to face in adopting IFRSs in the next few years.

The Board decided to add a project to its agenda to address these matters and tentatively decided to consider amendments to IFRS 1 as follows:

- To introduce a principle prohibiting retrospective estimates that could be affected by hindsight.
- To introduce a principle that an entity need not reassess the accounting for a transaction at the date of transition to IFRSs on the basis of facts and circumstances at that date if the entity's previous GAAP had introduced the same accounting as IFRSs based on an assessment of facts and circumstances at an earlier date. For example, suppose that an entity's previous GAAP had from periods beginning on 1 January 2007 incorporated the same requirements as IFRIC 4 *Determining whether an Arrangement contains a Lease*, with a transitional requirement to assess contracts existing at that date. If the entity's date of transition to IFRSs is 1 January 2010, the entity would not need to reassess at 1 January 2010 those leases that it had already assessed under its previous GAAP.
- To permit an entity using full cost accounting for oil and gas to measure exploration, evaluation, development and production assets on transition to IFRSs on the basis of an allocation of the amount recognised under the entity's previous GAAP. The Board acknowledged that either retrospective restatement of oil and gas assets or their measurement at fair value at the transition date, as currently permitted by IFRS 1, might not be cost beneficial.

In addition, the Board asked the staff to consider whether it would be impossible to apply the derecognition requirements of IAS 39 retrospectively in cases other than those set out in the first bullet above. However, no first time adopter would be required to apply those derecognition requirements to transactions that happened before January 2004, the date currently specified in IFRS 1.

The Board asked the staff to develop wording for all of the proposed amendments. In addition, AcSB staff expects to bring an additional proposed amendment to the Board in May 2008, following which the Board expects to publish an exposure draft of proposed amendments to IFRS 1.

## Extractive activities research project

The Board held two education sessions on the extractive activities research project. In the first session, staff from the US Securities and Exchange Commission (SEC) provided an overview of the SEC Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves, which closed for comment in February 2008. No decisions were made.

In the second session, representatives of the Society of Petroleum Engineers (SPE) Oil and Gas Reserves Committee and the Committee for Mineral Reserves International Reporting Standards (CRIRSCO) presented the findings of a

review, which was undertaken at the request of the Board, to compare their respective oil & gas and minerals reserve and resource definitions and classification systems. The review concluded that there is a high degree of compatibility in the classification logic that petroleum and minerals evaluators apply in determining quantities of their respective minerals that reside in a field or a deposit and can be extracted and marketed. The review findings are presented in a report prepared by SPE and CRIRSCO that 'maps' the oil & gas and minerals reserve and resource definitions to illustrate the extent of comparability between the respective definitions.

The Board expressed the view that this mapping report would be useful for developing accounting and disclosure models for reserves and resources that are comparable across minerals and oil & gas. The Board expressed its appreciation for the time and effort that members of the SPE and CRIRSCO had devoted to completing this comprehensive comparison of their respective definitions and for preparing the mapping report.

In addition, the Board expressed the view that the research project's discussion paper should identify the SPE and CRIRSCO definition and classification systems as representing the preferred sets of definitions for use in supporting accounting and disclosure requirements for minerals and oil & gas reserves and resources. The Board asked the project team to continue to monitor the SEC's decisions in relation to its Concept Release.

The Board discussed the extractive activities project team's analysis regarding when an entity would be considered to control a reserve or resource for the purposes of recognising it as an asset. The team noted that a number of approvals from governments or other authorities might be required at different stages during the development of a resource property and that the lack of some of those approvals could affect whether control exists. No conclusions were reached.

### Future Board meetings

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

#### 2008

- 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