

In the January 2007 issue

- ASB publishes review of narrative reporting
- ASB statement on pensions disclosures
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Narrative Reporting: how are companies doing?

In January, the ASB published a report of its review of narrative reporting by UK listed companies in 2006. Project Director Simon Billingsley gives a summary of the report and the main conclusions.

The ASB carried out this review in order to keep the spotlight on the importance of encouraging continuing improvement in the area of narrative reporting.

The review had dual objectives of assessing:

- Best practice - the degree to which companies have adopted the recommendations in the ASB's Reporting Statement on the Operating and Financial Review (OFR); and
- Compliance - how UK companies are performing in the light of the legal requirement under the Companies Act 1985 for a Business Review.

In undertaking the review, we analysed the annual reports of 23 listed companies. We also drew on surveys by other organisations. Together these reviews of annual reports cover a significant number of the FTSE 350 leading quoted companies.

In terms of conclusions, whilst companies are in general complying with the legal requirements, when measured against best practice, we found the following:

Areas of good reporting

- Descriptions of business and markets, together with strategies and objectives.
- Descriptions of the current development and performance of the business.
- An increase in companies reporting environmental, employee and social issues, although there is scope for further improvement.

Areas for improvement

- The greatest area of difficulty is the disclosure of forward-looking information, although the 'safe harbour' provisions in the Companies Act 2006 may help in the future.

- Companies need to improve their descriptions of resources available to the entity, in particular intangible items such as brand strength and corporate reputation not reflected in the balance sheet.
- Companies need to describe more carefully their principal risks and uncertainties, and set out their approach to managing and mitigating those risks, rather than simply providing a list of all risks (33 in one case).
- Many companies are providing a good deal of information on measures and indicators, but improvements can be made in identifying their Key Performance Indicators, both financial and non-financial.

The report also sets out some suggestions of what companies might do to improve their reporting.

So where do we go from here?

One aspect of the review that has been pleasing to see is that many of

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Narrative Reporting: how are companies doing?

Continued

the companies surveyed are reporting beyond simple compliance with the law and moving towards best practice. As part of the ASB's role in promoting confidence in corporate reporting, we seek to support the trend towards more transparent and open communication between companies and their shareholders and we will continue to review progress in this area. We hope that this trend will continue as companies with December 2006 year-ends publish their annual reports and accounts over the coming months.

And there's more to come...the Companies Act 2006

The Companies Act 2006, which received Royal Assent last November, contains a number of further provisions in relation to the Business Review, which is to be given a statutory purpose: to inform the members of the company and help them assess how the directors have performed their duties to promote the success of the company.

For quoted companies, the Act will bring back some of the provisions contained in the former OFR legislation. To the extent necessary for an understanding of the company, the Business Review shall contain information about environmental matters, the company's employees, social and community issues, and persons with whom the company has contractual or other arrangements which are essential to the business. The Government's intention is to commence all parts of the Act by October 2008 and the provisions will clearly have an impact on reporting in the future by quoted companies.

The full report is available on the website at: <http://www.frc.org.uk/asb/press/pub1228.html>.

Heritage assets

Project Director Alan O'Connor gives an outline of the ASB's proposals on accounting for heritage assets.

In December, the ASB published an exposure draft 'Accounting for Heritage Assets'. The aim is to improve the quality of the financial reporting of heritage assets for entities such as museums holding collections of art, antiques and books and also for entities that own and manage landscape or buildings for their environmental or historical qualities.

The proposals in Financial Reporting Exposure Draft (FRED) 40 have been developed from a Discussion Paper 'Heritage Assets: Can Accounting Do Better?' which the ASB issued in January 2006.

The proposals apply only to entities that hold heritage assets that contribute to a principal objective of promoting knowledge and culture. These entities should report their heritage assets in accordance with new requirements, rather than the current requirements of FRS 15 'Tangible Fixed Assets'. Specifically, the proposals will require entities, wherever practicable, to report collections of heritage assets at valuation in their annual accounts. Where it is not practicable to obtain a valuation, the collection should not be reported in the balance sheet. This is a change from the Discussion Paper, which proposed that the accounting policy should be applied for an entity's total holdings of heritage assets. Enhanced disclosures are required regardless of whether or not collections are reported in the balance sheet.

Illustrative disclosures, including details of the nature and scale of heritage assets held and policies for their acquisition, preservation, management and disposal are included in the FRED.

The proposals are intended to address criticisms of the current financial reporting requirements that result in most entities only recognising recently acquired heritage assets in the balance sheet at cost: figures which may bear little or no resemblance to the value of the entities overall collection.

Comments on FRED 40 are requested by 20 April 2007. Copies of the document can be accessed on the website via the following link: <http://www.frc.org.uk/asb/technical/projects/project0066.html>.

Encouraging better pensions disclosures

Project Director Michelle Crisp outlines the highlights of the Board's latest publications on this important issue, which completes our review of pensions disclosures.

As reported in *Inside Track 49*, the ASB has been undertaking a project to see whether the disclosures for retirement benefit schemes could be improved. The ASB started its review in early 2006 in light of concerns expressed by commentators, including investors, that financial statements did not contain sufficient information to allow users to adequately assess the risks. The review is distinct from the wider pensions research project the ASB is undertaking on accounting for pensions (see page 8).

Amendment to FRS 17

In December, the ASB published an Amendment to Financial Reporting Standard (FRS) 17 '*Retirement Benefits*'. The Amendment aligns the disclosures in FRS 17 with those of the equivalent international standard, International Accounting Standard (IAS) 19. The ASB consulted on the Amendment in May 2006.

The Amendment is effective for financial statements covering periods beginning on or after 6 April 2007, although early adoption is encouraged. It was proposed in the Financial Reporting Exposure Draft (FRED) to have an effective date

for accounting periods ending on or after 31 December 2006. The ASB has decided to allow a longer implementation period in response to concerns from some commentators regarding the time required to prepare for the amended disclosure requirements.

The Amendment also amends to paragraph 16 of FRS 17, such that for quoted securities, the current bid price (rather than the mid-market value) is taken as fair value. This is a further alignment with IAS 19, on which the ASB consulted in July 2005.

Reporting Statement

In January, the ASB published its Reporting Statement entitled '*Retirement Benefits - Disclosures*', which is designed to promote greater transparency in financial reporting for defined benefit pension schemes.

As a best practice guide, the Reporting Statement is intended to have persuasive rather than mandatory force. Its recommendations aim to assist the users of financial statements in understanding the risks and rewards, and funding obligations arising from defined benefit (DB) schemes.

The Reporting Statement sets out six principles to be considered when providing disclosures for DB schemes in the financial statements:

- i the relationship between the entity and trustees (managers) of the defined benefit scheme;
- ii the principal assumptions used to measure scheme liabilities;

- iii the sensitivity of the principal assumptions used to measure the scheme liabilities;
- iv how the liabilities arising from defined benefit schemes are measured;
- v the future funding obligations in relation to defined benefit scheme; and
- vi the nature and extent of the risks arising from financial instruments held by the defined benefit scheme.

The disclosures recommended in the Reporting Statement complement those set out in FRS 17 '*Retirement Benefits*' (as amended December 2006) and IAS 19 '*Employee Benefits*'. The Reporting Statement may be applied by any entity (whether the entity applies UK or International Financial Reporting Standards) that operates a DB scheme.

Respondents to the draft Reporting Statement expressed some concerns about the proposed recommendations and the Board has taken their views into consideration in the final version. In particular the ASB has responded to comments regarding the recommendation to disclose the estimated buy-out cost of scheme liabilities. It is recommending disclosure of the buy-out amount where it is already made available to members and/or trustees of the scheme.

Copies of both documents can be accessed on the website via the following link: <http://www.frc.org.uk/asb/technical/projects/project0069.html>.

A New Year: a new FRSSE

Alan O'Connor reports on the latest version of standard for smaller entities.

In January, the ASB published updated version of the Financial Reporting Statement for Smaller Entities (FRSSE), the 'FRSSE (effective January 2007)'.

The main feature to note is that the latest version includes a major simplification in terms of FRS 20 'Share-based payment' where the ASB is requiring a disclosure only approach for equity-settled arrangements. This reflects the views of respondents to the Exposure Draft issued in April 2006, in which the Board had proposed that the FRSSE should require smaller entities to apply the key principles of FRS 20. Many respondents felt the requirements of FRS 20 were overly complex for smaller companies and that it would be costly for them to implement.

The Board discussed the issue at its meeting in December 2006 and concluded that the FRSSE should require a disclosure only approach as being more appropriate for smaller company financial reporting. The minutes of that meeting (available via the following link: <http://www.frc.org.uk/asb/about/agenda.html>) note that the arguments as to which approach should be adopted were finely balanced.

In updating the FRSSE, the ASB was advised by its Committee on Accounting for Smaller Entities. It also considered responses to the Exposure Draft. Other than including requirements for share-based payments, no other significant changes are being made. However to make the FRSSE a more manageable document, the derivation tables have been removed from the Appendices and are instead being made available on the ASB website (www.frc.org.uk/asb/technical/frsse).

The new FRSSE is effective for accounting periods commencing on or after 1 January 2007 and reflects the latest accounting standards and company law requirements. Early adoption is permitted although directors remain responsible for ensuring that accounts comply with legal requirements that may remain in force for earlier periods.

Conceptual

Project Director Seema Jamil-O'Neill reports progress on the debate that has been generated by the joint project by the IASB and US FASB to revisit their conceptual frameworks.

As reported previously in *Inside Track*, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) are developing a common conceptual framework that they can both use in preparing new and revised accounting standards.

ASB response to the first Discussion Paper

The first Discussion Paper (DP) was published on 6 July, setting out the preliminary views of the IASB and FASB on the objective of financial reporting and the qualitative characteristics of decision-useful financial reporting information. As reported in *Inside Track 49*, this has generated a good deal of debate. The ASB responded to the DP in November. A copy of the response is available on the website via the following link <http://www.frc.org.uk/asb/publications/other.cfm>

The response sets out the ASB's fundamental concerns with the proposals as follows:

Framework: the debate goes on

- The converged framework specifies resource allocation decision-usefulness as the only objective of general purpose external financial reporting. The ASB believes that stewardship should be given more prominence as an objective of financial reporting.
- The primary users of general purpose external financial reporting have been identified as “present and potential investors and creditors (and their advisers)”. The DP does not discuss the problems arising from choosing this set of primary users and the ASB considers that further research is necessary before any conclusions can be reached.
- The DP proposes replacing the qualitative characteristic of “reliability” in the current Framework with “faithful representation”. The ASB is concerned that faithful representation is a softer notion and could lead to a number of problems. It would prefer that the IASB and FASB clarify the definition of “reliability” rather than removing it altogether.
- The DP notes that the Framework being developed will apply to general purpose external financial reporting, which is broader than just financial statements. The ASB is not yet convinced that the Framework can be widened to cover all financial reporting and has recommended that financial reporting should be defined as soon as possible.

The ASB also suggested that:

- The implications for not-for-profit entities should be considered as the project progresses instead of the later stage suggested in the DP. We have been working on this issue with our fellow standard-setters from Australia, Canada and New Zealand and a paper on the implications of the views in the DP for such entities is attached to our response.
- The IASB and FASB should try to ensure that the final Framework is not so theoretical and long that it acts only as a reference manual for standard setters and alienates preparers and auditors.

The ASB response clearly states that given the fundamental concerns with the DP it does not consider the proposals in the DP fit to proceed to an exposure draft (ED), and that if they do the ASB could not support them. At the time of going to press, there were 179 responses to the DP on the IASB website, which show that the ASB is by no means alone in voicing the above concerns.

Europe gets engaged

One of the projects under the European PAAinE initiative (see page 10) concerns the conceptual framework. The French standard-setter, the CNC, is leading a working group on this issue, in which the ASB is participating. A PAAinE Discussion Paper ‘The Conceptual Framework: Starting from the Right Place?’ has been issued for comment.

While the paper is not a direct response to the first IASB DP, it covers some fundamental questions which the group believes the IASB and FASB need to consider, in particular: what is the purpose and status of the Framework?; which users should the Framework focus on?; which entities should come within the Framework?; and what should be the scope of financial reporting?

The paper is a useful contribution to the debate on the conceptual framework project and a copy can be accessed from the EFRAG website at: www.efrag.org. The comment period ends on 18 March 2007.

The project moves on

The IASB and FASB continue to discuss further phases of the project, in particular those concerned with the elements of financial reporting and the reporting entity. DPs on both phases are planned for the second quarter of this year.

The two Boards are also starting to consider the measurement phase of the project, and are holding public roundtable meetings on the issue, including in London on 29 January.

The ASB will continue to monitor the IASB and FASB’s progress on this project and provide further details in future editions of *Inside Track*.

UITF issues Abstract 44

In January, the ASB issued UITF Abstract 44 'FRS 20 (IFRS 2) – Group and Treasury Share Transactions'.

The Abstract addresses how to apply FRS 20 'Share-based Payment' to arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. The Abstract requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. The Abstract also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent should be accounted for as cash-settled or equity-settled in the entity's financial statements.

FRS 20 is a converged standard with IFRS 2 and so this Abstract is necessary to keep the accounting requirements of each standard the same. However, a number of UITF members have raised issues with the Abstract. These issues include the cash-settled treatment the Abstract requires for awards made by subsidiaries over the parent equity. This imposes a potential compliance burden on subsidiaries out of proportion to the benefit to the users of their accounts, thereby creating an entry which is simply reversed on consolidation. The ASB is minded to consider an amendment to FRS 20 to remove this burden and will invite UK constituents to comment on this matter.

The UITF is also concerned that further issues may need clarification. An example is the situation when a parent grants share options to the employees of its subsidiary and, on exercise of the option, the subsidiary is

Fair Value Measurements

The IASB is keeping measurement firmly at the top of the agenda with the issue of another Discussion Paper.

In December, the IASB published a DP 'Fair Value Measurements', as part of its programme of convergence with the US FASB.

The DP sets out the text of an American standard, SFAS 157, which was issued by the FASB in September 2006, and IASB's preliminary views on certain of the issues that arise. The DP is intended to form a foundation for the development of an exposure draft which will lead to a standard prescribing an approach which will be widely applied in International Financial Reporting Standards (IFRS) that require or permit the use of fair values.

No decisions have been taken by the IASB at this stage as to whether or how the provisions of SFAS 157 should be modified for the context of IFRS and whether any standards that currently require fair values to be used should be modified or exempted from the scope of the standard. Nor does the DP propose any extension in the use of fair value for financial reporting purposes: its purpose is to codify, clarify and simplify existing guidance in IFRS.

In an extensive Invitation to Comment, a number of issues are highlighted including:

- the proposal that fair value be defined in terms of an exit price objective (that is a selling price, rather than an entry (buying) price);
- that fair values should, where possible, be determined from the perspective of market participants, rather than that of the entity;
- whether a transaction price should be deemed to represent fair value on initial recognition and, if not, how apparent gains and losses that might arise on initial recognition ('day one' gains and losses) should be dealt with.

The ASB encourages UK and Irish constituents to comment directly to IASB. IASB has asked for comments on the Discussion Paper by 2 April 2007. The ASB intends to publish its comments in February. The ASB held a public meeting on measurement in April 2006 and details of that can be found on the ASB website at the following: www.frc.org.uk/asb/about/pub1097.html.

and IFRIC Update

contractually obliged to pay its parent the difference between the exercise price and the market price of the share issued. The UITF will consider whether it is necessary to develop additional guidance.

Waste Electrical and Electronic Equipment (WEEE)

IFRIC 6 '*Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*' was issued in September 2005, giving guidance on accounting for liabilities for waste management costs under the European Union's Directive on waste electrical and electronic equipment (the WEEE Directive). The WEEE Directive (published in 2003) requires producers to take responsibility for the environmental impact of their products when they become waste. It makes them responsible for funding the separate collection of WEEE, together with its subsequent treatment, reuse, recovery and environmentally sound disposal. In some cases producers' responsibility relates to their current market share.

Following an exposure draft (issued in November 2004), the UITF previously decided that it should issue an Abstract based on IFRIC 6, but not until the applicable legislation in the UK had been published. The UK Regulations implementing the WEEE Directive (S.I. 2006 No.3289 'The Waste Electrical and Electronic Equipment Regulations 2006') were laid before Parliament on 12 December 2006 and entered into force on 2 January 2007.

IFRIC 6 addresses a model of attributing waste management costs where an individual producer's obligation arises from its participation in the market during each measurement period, i.e. a pay-as-you-go arrangement. The consensus is that the obligating event giving rise to a liability for waste management costs is participation in the market during a

measurement period, i.e. a period in which market shares are determined for the purposes of allocating those costs. This model is applied in the UK Regulations in respect of waste from private households.

The ASB will consider the issue of an Abstract in February.

Costs on service contracts with contingent fees

The UITF has discussed a submission concerning the accounting treatment of costs incurred in the provision of a service where the fee is contingent and the contingent event takes place after the balance sheet date. The UITF was asked to consider whether an entity could recognise an asset of work-in-progress at the balance sheet date and whether the resolution of contingent event after the balance sheet date was an adjusting or non-adjusting event. The UITF is considering whether it is necessary to develop guidance.

Retirement benefit schemes with a promised return on contributions or notional contributions

A draft Abstract was published in July 2004, setting out the text of IFRIC D9 (a proposed interpretation of IAS 19), amended to reflect the requirements of FRS 17. The IFRIC decided at its meeting in November to remove this item from its agenda because the issues are expected to be addressed as part of the IASB's project on employee benefits. Accordingly, the UITF will not be issuing an Abstract on this topic.

IFRIC issues interpretation on service concessions

On 30 November, IFRIC issued Interpretation IFRIC 12 '*Service Concession Arrangements*'. IFRIC has been working on service concession arrangements for a number of years, and IFRIC 12 has been developed following the issue of three draft

Interpretations (D12-14) back in March 2005 (reported in Inside Track 43).

IFRIC 12 addresses the accounting by concession operators for public-to-private sector arrangements, in circumstances where the grantor (a public sector body) is deemed to have an asset of the infrastructure used in the concession, because:

- the grantor controls or regulates what service the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- the grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the concession period.

IFRIC 12 does not specify the accounting by grantors.

In the arrangements covered by IFRIC 12 the operator recognises either a financial asset or an intangible asset. The operator recognises a financial asset where it has an unconditional contractual right to receive cash or other financial assets from the grantor and the grantor has little, if any, discretion to avoid payment. An operator recognises an intangible asset to the extent that it receives a right (a licence) to charge users for the public service.

IFRIC 12 is effective for accounting periods beginning on or after 1 January 2008 and requires retrospective application.

In the UK, the accounting for such arrangements is covered by FRS 5 Application Note F '*Reporting the Substance of Transactions: The Private Finance Initiative and Similar Contracts*'. The Board responded to the consultation on the draft Interpretations D12-14 and has made clear that it does not propose to adopt the Interpretation in the UK when it is issued.

Update on Current

Pensions

As reported previously in *Inside Track*, the ASB is undertaking a major research project into accounting for pensions. The ASB is being assisted in this project by a Pensions Advisory Panel appointed by the Board and a pan-European Working Group selected by EFRAG under the PAAinE initiative. Meetings of the Panel have been held in November and December, and of the EFRAG Group in December.

The advisory groups are continuing to discuss measurement of assets and liabilities. They believe a future accounting standard needs a measurement objective, or premise of value. It would be preferable if the same measurement principles were used for all types of post-employment obligations. This would avoid the need to invent ad hoc solutions for each type of promise and would remove the emphasis on distinguishing plans as defined contribution or defined benefit. It would also be preferable if such principles were consistent with principles used in other accounting standards. A view that is often heard is that pensions do not deserve a unique accounting solution. Instead there should be read-across to accounting standards on other liabilities, because pension obligations are simply one form of long-term corporate debt and the accounting should be similar. The review is therefore considering the principles used elsewhere – these include current settlement value, fair value, present value – and how they should apply to pensions.

This approach should also help us to understand what we are trying to achieve by measuring a stream of future cash payments; present value is not a very useful measurement basis unless we know what the present value that results from the calculation is intended to represent.

A particularly complex and contentious issue concerns the credit risk of liabilities. There is a risk to the beneficiary that the promised pension will not be paid, in the event that the sponsor becomes insolvent. This is particularly so if the liability is unfunded. On the face of it, the higher is the risk of default the lower is the value of the pension promise to the beneficiary. In the context of a present value measurement of a liability, the effect of including credit risk would be to increase the discount rate. Accounting standard setters have taken the view in some recent pronouncements that credit risk should be reflected in the measurement of liabilities. But credit risk is not reflected in the requirements of IAS 19, IAS 37, FAS 87 or FAS 106. Various viewpoints are held on whether or not measurement of the liability should reflect credit risk, including the implications for the going concern concept.

The groups have discussed the reporting of changes in assets and liabilities. They believe that corridor and deferral mechanisms, as allowed by IAS 19, are inappropriate. They have also challenged both the special accounting treatment given to actuarial gains and losses and the concept of recognising only the 'expected' return on assets in the profit and loss account.

The ASB has agreed that its discussion paper should explore an approach in which all gains and losses relating to assets and liabilities, apart from service costs, are reported as a single line item in the profit and loss account. The results of the project will be published later this year as a full discussion paper. The IASB has now agreed to take a project on pensions accounting onto its agenda and the hope is that the ASB's work will contribute to the development of improved international accounting standards, which may provide a suitable basis to replace FRS 17.

Borrowing Costs

During late 2006 the IASB started considering the responses from constituents on its amendment to IAS 23 '*Borrowing Costs*', proposing removal of the option to expense all borrowing costs relating to the period of production of an asset. A large number of constituents opposed the amendment raising concerns with its trivial nature, extent and timing. At its December meeting the IASB decided that senior staff will conduct further consultations with the SEC on whether it would require reconciliation of amounts of interest capitalised under IFRS (at the moment, these amounts must be reconciled when material). Subject to this consultation the IASB tentatively decided to press ahead with issuing the amendment in IFRS form during the first quarter of 2007.

Projects

Amendment to FRS 20 'Share-based payment'

The ASB will consider making an amendment to FRS 20, based on the exposure draft issued in March 2006, relating to the treatment of cancellation of share options by the holder (such as the decision by a participant in a Save-As-You-Earn scheme to cease contributions) once the IASB has finalised the amendment to the corresponding international standard, IFRS 2.

Leasing

The membership of the working group for the joint IASB/FASB project on leasing has been announced. The working group will hold its first meeting in London on 15 February 2007. The ASB, jointly with the Finance Leasing Association (FLA) will be hosting a roundtable on 26 February. Details of the event and how to register to attend can be found on our website at the following link: <http://www.frc.org.uk/asb/about/pub1216.html>.

Financial Statement Presentation

The IASB is continuing to develop its thinking on the presentation of information in the performance statement, within the overall context of financial statement presentation. It has also commenced redeliberation of the proposals from the first stage of this project, as set out in the exposure draft issued in 2006.

Insurance

The IASB is expecting to issue its discussion paper on insurance contracts in the first quarter of 2007, although it is still deliberating some issues.

Earnings per share

The IASB is still considering issues relating to the modification of the treasury stock method of calculating diluted earnings per share, which are also being deliberated by the FASB. An exposure draft of a limited amendment to IAS 33 '*Earnings per Share*' is expected shortly.

Limited Amendment to FRS 3 'Reporting Financial Performance'

The ASB is to propose a limited scope amendment to FRS 3 in order to remove a potential conflict with FRS 26 '*Financial Instruments: Recognition and Measurement*', relating to the treatment of gains and losses on certain financial instruments, for entities within the scope of FRS 26. This follows a discussion by the UITF at its meeting in December 2006.

FRS 26 specifies the treatment of gains and losses on revaluation and derecognition of financial instruments. Paragraphs 13, 21, 26 and 31A of FRS 3 specify the treatment of such gains or losses for all assets and liabilities. It has been suggested that there is a conflict. For example, unrealised gains and losses on Available for Sale financial assets of insurance entities within the scope of

FRS 26 are required to be recognised in the statement of total recognised gains and losses and recycled through the profit and loss account on realisation. Paragraph 31A of FRS 3, on the other hand, requires that these be included as part of the investment return in the profit and loss account. More generally, FRS 3 does not permit recycling of gains and losses.

There is a related issue for entities complying with the requirements of FRS 23 '*The effects of changes in foreign exchange rates*'. The proposal will exempt entities from following certain provisions of FRS 3 where another accounting standard explicitly permits or requires an alternative treatment.

Half-Yearly Financial Reports

The Board is considering the issue of an Exposure Draft of a statement to update the existing statement '*Interim Reports*' to reflect the legal and regulatory changes that have taken place since 1997, in particular the issue of the EU Transparency Directive and its implementation into UK law through the Financial Services Authority's (FSA's) Disclosure and Transparency Rules.

EU Endorsement of IFRS

EFRAG has issued its latest report on the status of IASB documents and that endorsement for application in the EU. The status report is available on the EFRAG website at: www.efrag.org.

EFRAG has recently given the European Commission positive advice on the endorsement of:

- IFRS 8 '*Operating Segments*';
- IFRIC 10 '*Interim Financial Reporting and Impairment*'; and
- IFRIC 11 '*IFRS 2 Group and Treasury Share Transactions*'.

EFRAG is currently considering its position on the endorsement of IFRIC 12 '*Service Concession Arrangements*'.

European Developments

Commission roundtable on consistent application of IFRS

On 26 January, the European Commission hosted its third roundtable on the consistent application of IFRS. The event was attended by representatives of national standard-setters (including the ASB), regulators, preparers, the IASB and EFRAG. The roundtable is designed to be an informal and temporary mechanism to share and discuss potential issues that might give rise to problems of consistent application and which might be submitted to IFRIC. The roundtable acts as a filter.

Issues on the agenda included:

- the status of IFRIC rejections;
- the role of the Committee of European Securities Regulators (CESR) in ensuring proper implementation of IFRS as adopted in Europe; and
- a presentation by the accountancy profession on the approach taken by the US Securities and Exchange Commission (SEC) in reviewing IFRS financial statements by foreign issuers;

as well as discussion of a number of specific accounting issues.

Papers relating to the roundtable meetings and the issues discussed can be accessed on the Commission's website at: http://ec.europa.eu/internal_market/accounting/ias_en.htm

PAAinE Progress

The European Financial Reporting Advisory Group (EFRAG) and European national standard setters have agreed to work more closely together so as to enable Europe as a whole to participate more fully in the development of global standards. These co-ordinated proactive activities are referred to by the acronym 'PAAinE', which stands for 'Proactive Accounting Activities in Europe'.

A number of PAAinE Discussion Papers have been issued for comment. The first, on the conceptual framework, is highlighted on page 5. A second paper, on the performance reporting project, has been prepared by the Spanish standard-setter, the ICAC, together with EFRAG staff. Entitled '*The performance reporting debate: what (if anything) is wrong with the good old income statement?*', this paper sets out some initial issues for consideration in the debate on the format of the reporting statement. Copies are available at www.efrag.org and comments are requested by 31 March.

Work is continuing on a number of other PAAinE projects, including pensions (see page 8), revenue recognition, and liabilities and equity.

SORPs Update

Statements of Recommended Practice (SORPs) supplement accounting standards and other legal and regulatory requirements to reflect factors prevailing or transactions undertaken in a specialised industry or sector. SORPs are issued by the sectoral body recognised for the purpose by the ASB.

Insurance Business

The Association of British Insurers (ABI) has recently amended the requirements of its SORP relating to the measurement of liabilities for non-profit life assurance business to correspond to changes in the related FSA regulations.

Pension Scheme Accounts

In December, the Pensions Research Accounting Group (PRAG) issued an exposure draft of proposed revisions to the SORP on pension scheme accounts, updating the SORP for recent changes in pensions regulation and also incorporating some of the requirements of FRS 26 '*Financial Instruments: Recognition and Measurement*'. The exposure draft is open for comment until 21 March and the exposure draft is available from the PRAG website, www.prag.org.uk.

Local Authorities

An exposure draft for the 2007 Local Authority SORP was published on the CIPFA website in November with a three month comment period to 14 February 2007. The draft SORP includes proposals for applying the financial instruments standards (FRS 25, FRS 26 and FRS 29) to all local authorities. The draft SORP also puts forward proposals for accounting for soft loans, ie loans advanced at a below market rate of interest. In approving the exposure draft for publication, the ASB has made clear its view that soft loans should be written down to fair value on initial recognition.

Charities

With the next update of the Charities SORP expected for 2009, the new Charities SORP Committee is taking forward work that may result in an Information Sheet for SORP 2005 that will clarify interpretational issues such as accounting for grants, the allocation of bank interest and other finance costs; and the relevance of the business review. The Information Sheet is not intended to amend SORP 2005 and therefore does not require consultation or ASB endorsement.

Registered Social Landlords

Following consultation on an exposure draft for an update to the RSL SORP, the RSL SORP Working Party has decided to consider further the proposed accounting requirements for shared ownership sales. This is in response to concerns raised by providers of low cost home ownership schemes. The further work that is planned is expected to delay publication of the SORP update to autumn 2007.

Higher and Further Education

Following a review by the HEFE SORP Board, an exposure draft for an update to the HEFE SORP was published on Universities UK's website in January with a three month comment period to 13 April 2007. The exposure draft aims to provide enhanced guidance in key areas such as income recognition and retirement benefits. It also brings the SORP up to date in terms of considering accounting standards that have been issued since the current SORP was published in July 2003.

Appointments

Kathryn Cearns, Consultant Accountant with Herbert Smith, has been appointed as a member of the UITF.

David Loweth has been appointed as the Board's Technical Director, having been Acting Technical Director since February 2006.

Ian Mackintosh, ASB Chairman, has been appointed as the Chairman of the Board's Committee on Accounting for Smaller Entities (CASE), taking over from Isobel Sharp.

David Loweth replaces Ian as Chairman of the Board's Financial Industries and Other Special Industries Committee (FSOSIC).

Further Information

For further information on any of these topics please contact David Loweth at Aldwych House.

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The Board's Publications

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