

In the April 2010 issue

- UK GAAP: The Next Stage
- The Measurement of Liabilities
- Financial Instruments Update

The Future of UK GAAP: moving to the next stage

Project Director Michelle Sansom provides an overview of the responses to the ASB's 'Policy Proposal: The Future of UK GAAP' and outlines the way forward.

Last year the ASB issued a consultation paper 'Policy Proposal: The future of UK GAAP', which set out the Board's proposals for the future reporting requirements for UK and Irish entities.

The policy proposals envisage a differential reporting regime based on public accountability, broadly in line with the definition applied by the International Accounting Standards Board (IASB) in its International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). This definition states that entities have public accountability if they (a) trade their debt or equity instruments in a public market or (b) are a deposit taking entity and/or hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses.

The ASB is proposing a three-tier approach to UK GAAP:

- Tier 1 – publicly accountable entities would apply IFRS as adopted by the EU ('EU-adopted' IFRS).
- Tier 2 – all other UK entities other than those who can apply the Financial Reporting Standard for Smaller Entities (FRSSE) could apply the IFRS for SMEs.
- Tier 3 – small entities could choose to continue to apply the FRSSE.

Entities within Tier 2 and Tier 3 would have the option of using EU-adopted IFRS if they wished, and those in Tier 3 would have the option of using the IFRS for SMEs.

Consultation feedback

The consultation period ended on 1 February 2010 and in response to its proposals, the ASB has received 155 comments. The responses have been posted on the ASB website and can be accessed at: http://www.frc.org.uk/asb/technical/projects/responses_policy.cfm

In welcoming the responses, the ASB Chairman Ian Mackintosh has noted that: "The responses are thoughtful and expound different points of view on major topics. This will be an excellent basis for redeliberating the original proposal. The ASB will now be busy carefully considering all the points of view and coming up with the best way forward for UK GAAP."

So what are the main messages that have come through from the responses? Some of the highlights include:

- The policy proposals have been well received – there seems general agreement that existing UK GAAP has run its course and that the IFRS for SMEs sets the foundations for a suitable replacement. However;
- The responses also demonstrate a divergence of views on many

important issues and the ASB will have a challenging task in analysing them and in coming to firm conclusions;

- Whilst respondents support the use of the IFRS for SMEs, a majority considered some amendment would be required rather than adopting the requirements of the IFRS for SMEs wholesale. The ASB will be reviewing the proposals for amendment that have been suggested; and
- There is general support that Tier 1 and 2 entities should be differentiated by means of public accountability. A minority of respondents felt a size criteria should be included. There are also specific types of entities that will need to be addressed, for example credit unions.

In terms of responses relating to particular categories of entities and sectors:

- There is considerable concern that the proposal offers little benefit for the financial reports of subsidiary entities. A move to full IFRS increases disclosure; a move to the IFRS for SME's causes recognition and measurement differences at group level. The ASB has considered this matter and tentatively agreed to research the possibility of subsidiary entities applying full IFRS for recognition and measurement, but with reduced disclosures;

Continued ...

The Future of UK GAAP: moving to the next stage

...Continued

- In relation to small entities there is general agreement that the FRSSSE based on UK GAAP has a finite life. The ASB has considered how long the FRSSSE should remain applicable for following the UK transition to an IFRS Framework. It has also been considering whether to update the FRSSSE based on IFRS or require tier 3 entities to apply the IFRS for SMEs;
- Public-benefit entities (PBEs) support the proposal to develop a PBE standard;
- There is considerable support for the retention of Statements of Recommended Practice (SORPs) and the accompanying ASB statement;
- There is limited feedback on the cost and benefits of the proposals. Some comments were made that there would be benefits from entities being on one GAAP, although it was noted there were costs associated for UK subsidiaries to prepare full IFRS financial statements; and
- There was little support for the proposed application date of 1 January 2012, with most entities wanting a deferral. The ASB has tentatively agreed to a one year deferral for transition.

What's next?

Over the coming months, the ASB will be considering carefully all the issues raised by the responses as it develops an exposure draft outlining its recommendations for what the future framework for UK GAAP will look like. As part of its considerations, the ASB plans, later in the year, to host an event or events to share with UK and Irish constituents its initial analysis of the responses and how the process might be taken forward. More discussion and comment will be encouraged at that stage.

In developing the exposure draft, the Board will work closely with the UK Department for Business, Innovation and Skills (BIS) to explore the most appropriate mechanism to implement the new framework for UK GAAP.

ASB response to proposed amendments to IAS 37 Liabilities

The IASB's proposed amendments to the measurement criteria for liabilities have been controversial. Michelle Sansom explains the ASB position.

The IASB issued an exposure draft (ED) in January 2010 which re-exposed proposals for the measurement of liabilities that were originally issued for consultation in July 2005. The IASB originally asked for comments by 12 April 2010, but has extended the comment period to 19 May.

In the ED, the IASB proposes that liabilities should be measured at an amount that the reporting entity would rationally pay at the reporting date to be relieved of the obligation. Normally, this amount would be an estimate of the present value of the resources required to fulfil the liability. The estimate would take into account the expected outflows of resources, the time value of money and the risk that the actual outflows might ultimately differ from the expected outflows.

If the liability is to pay cash to a counterparty (for example to settle a legal dispute), the outflows would be the expected cash payments plus any associated costs, such as legal fees. If the liability is to undertake a service—for example to decommission plant—at a future date, the outflows would be the amounts that the entity estimates it would pay a contractor at the future date to undertake the service on its behalf.

The ASB has already responded to the IASB noting that it does not agree with the proposals in the ED. A copy of the response is available on the website at: <http://www.frc.org.uk/asb/publications/other.cfm?cat=73>.

In the ASB's view, the proposals will not lead to the production of decision useful

information and consequently do not represent an improvement in financial reporting.

The ASB has formed this view based on the following:

- (i) its previously stated views regarding the removal of the probability of outflows from the recognition criteria. The ASB is of the view that the removal of the probable outflow criteria will make the standard more difficult to apply in practice;
- (ii) the relevant outflows to be used to estimate a liability, where the liability will be fulfilled by undertaking a service, should not include a profit margin .
- (iii) the ASB agrees with the alternative view expressed by a number of IASB members regarding the risk adjustment. The ASB considers that the ED lacks guidance on what the risk margin is and how it should be calculated.

The ASB is of the opinion that the IASB should defer the project until post 2011 when it should have more time available to undertake a fundamental rethink of its proposals.

Finally, the ASB notes that the IASB decided not to re-expose the recognition proposals as part of the ED. Whilst it appreciates that the IASB has previously issued individual parts of a future IFRS for re-exposure, it does not consider such an approach was appropriate in this instance for the following reasons:

- (i) significant time has elapsed since the June 2005 ED was published and as a consequence the original proposals are no longer familiar to constituents;
- (ii) the lack of familiarity inhibits the evaluation of the proposals for the measurement of liabilities without the revised guidance on recognition; and
- (iii) the proposals will affect all entities. This is not a topic that is limited to a few specialised sectors. It is therefore important that constituents are able to make a full evaluation of the proposals and are not hindered by a lack of information.

Update on Financial Instruments

Project Director Deepa Raval provides a summary of recent activity on financial instruments.

IFRS 9

In November 2009, the IASB published IFRS 9 *'Financial Instruments'*. IFRS 9 will eventually replace IAS 39. At the moment, the standard only includes the requirements for classification and measurement of financial assets.

Financial Liabilities

The next instalment of IFRS 9 will be an ED on the classification and measurement of financial liabilities. From the discussions to date and the tentative decisions made, the IASB is likely to essentially maintain the status quo in IAS 39 *'Financial Instruments: Recognition and Measurement'* as far as financial liabilities are concerned.

Endorsement status

IFRS 9 has not yet been endorsed for use in the EU. The European Commission held four Technical Assessment Meetings in April on the classification and measurement of financial instruments. The following stakeholder groups attended a meeting: the banking sector; the insurance sector; auditors and public authorities; and investors and other stakeholders. The European Commission is consulting widely on IFRS 9 prior to reaching any decisions on endorsement.

Impairment

The IASB issued an ED *'Financial Instruments: Amortised Cost and Impairment'* in November 2009, with comments due by 30 June. The ED proposes an expected loss model to replace the current incurred loss approach for impairment. Over the last few months, the IASB's Expert Advisory Panel (EAP) has been meeting on a monthly basis to discuss the operational challenges of the proposals which are likely to be significant.

The ASB will be responding to the ED within the deadline, and the staff have been working with a number of UK constituents to share views on the proposals in the ED and the application issues they present.

Hedge Accounting

The objective of this phase of the IASB's project on financial instruments is to improve the decision-usefulness of financial statements for users by fundamentally reconsidering the current hedge accounting requirements. The IASB is currently engaged in outreach activities with its constituents on this project. An ED is expected in the second or third quarter of 2010.

Derecognition

The IASB is proposing a fundamental change to the derecognition requirements in IAS 39. Following feedback received on the IASB's March 2009 ED *'Derecognition'*, the IASB decided to pursue the alternative approach described in that ED. The proposed model shifts the emphasis from a risk and rewards analysis to one based on control. The proposed approach closely follows the legal form of a transaction rather than its economic substance. The IASB has tentatively decided to make an exception for sale and repurchase (repo) transactions in order for repos to be accounted for as financing transactions.

The IASB is likely to re-expose its proposals on derecognition in the second or third quarters of 2010. The ASB will consider the proposals when they are issued for public comment, but is concerned that these would increase the scope for financial engineering. The ASB made clear in its response on the proposals in the IASB's March 2009 derecognition ED, that in the short term, the IASB should focus on addressing weaknesses in the disclosure requirements for financial instruments to ensure investors are made fully aware of the risks taken by the entity, both

on and off-balance sheet. If the IASB still wants further improvements to the derecognition requirements, it should undertake a longer term project.

Convergence

Many of the IASB meetings on financial instruments have been held jointly with the FASB. As the different phases of the IAS 39 replacement project progress, it is becoming apparent that each board has different issues to bring to the table. Some of these may be difficult to reconcile. One of the problems arising is that the IASB and FASB have different models on classification and measurement. The IASB is using a mixed measurement model whereas the FASB is following a full fair value route. The FASB is planning to issue a comprehensive ED on financial instruments dealing with classification, impairment and hedge accounting in the second quarter of 2010, which the ASB will study with interest.

European Developments

European Commission

As reported in *Inside Track 62*, the European Commission is currently reviewing the 4th and 7th Company Law Directives (usually referred to as the Accounting Directives). During the period, and as part of this review, the ASB has responded to the Commission's November 2009 public consultation seeking views on the IFRS for SMEs. The ASB's response can be accessed at: <http://www.frc.org.uk/asb/publications/other.cfm?cat=76>. In its response, the ASB has made clear its view that the EU accounting legal framework should not present an obstacle to the use by Member States of the IFRS for SMEs as the basis for their national requirements.

The Commission's consultation period closed on 12 May. As a follow-up, the Commission is hosting a stakeholder meeting on 25 May to discuss the responses and the way forward.

The Commission has also recently consulted on a staff working document on *Possible Further Changes to the Capital Requirements Directive*. While the document is concerned mostly with regulatory issues, it does contain some suggestions in relation to countercyclical measures, in particular the adoption of through-the-cycle approaches to expected loss provisioning. The ASB has responded to the Commission on this aspect (the response can be accessed at the address above) to make clear its view that prudential regulators should be using prudential filter to address procyclicality, rather than seeking to impose financial reporting requirements.

European Financial Reporting Advisory Group (EFRAG) issues

A report of the meeting of EFRAG's Supervisory Board (SB) held in March 2010 is available on the EFRAG website at: <http://www.efrag.org/news/detail.asp?id=526>. Following that meeting, the appointments have been announced of the new Chair and members of EFRAG's Technical Experts Group (TEG). Francoise Flores has assumed the role of Chair, taking over from Stig Enevoldsen, with former ASB member Mike Ashley becoming the Vice-Chairman. Current

ASB member Andy Simmonds has also joined TEG. The first meeting of the revamped TEG will meet in Brussels on 5-7 May.

The ASB continues to work with EFRAG and other major European standard-setters on proactive issues which fall within the remit of the Planning and Resources Committee (PRC) of EFRAG. The ASB is playing an active role in this work, leading projects on (a) accounting for corporate income tax (jointly with the German Accounting Standards Board), (b) assessing the effects of accounting standards (jointly with EFRAG), and (c) a potential project on the role of business models in financial reporting.

A number of PRC papers have been issued in the last couple of months:

- in February, EFRAG and the French standard-setter, the *Autorité des Normes Comptables (ANC)*, issued a staff a Research Paper on the proposed new Definition of an Asset tentatively adopted by the IASB and FASB. It is hoped that the paper will serve as an useful input to the IASB in its deliberation on Phase B (elements) of its conceptual framework project. The paper can be accessed at: <http://www.efrag.org/news/detail.asp?id=499>; and
- in April, EFRAG and a number of European NSS, including the ASB, issued a feedback paper summarising the comments received in response to the March 2009 research paper *Performance Reporting: A European Discussion Paper* (see *Inside Track 59* for further details). This latest paper *Performance Reporting – summary of comments in response to the European Discussion Paper* can be accessed at: <http://www.efrag.org/news/detail.asp?id=527>.

EU Endorsement of IFRS

Any new or revised IFRS or IFRIC Interpretation has first to be endorsed for use in the EU before it can be applied by EU-listed companies in their consolidated financial statements under a process first set out in Regulation

1606/2002, and as amended in Regulation 297/2008.

During March, EFRAG issued its latest report showing the status of endorsement for application in the EU of each IFRS and IFRIC Interpretation. The report can be downloaded from the EFRAG website at: <http://www.efrag.org/news/detail.asp?id=523>. There are currently 6 IASB pronouncements awaiting European Commission endorsement for use in Europe:

Standards

- IFRS 9 Financial Instruments

Interpretations

- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Amendments

- Amendments to IFRS 1 Additional Exemptions for First-time Adopters
- IAS 24 Related Party Disclosures
- Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters

International Issues

The continuing political pressure on the IASB to respond to the crisis, together with the IASB's wider agenda to finalise by 2011 a number of major projects under its Memorandum of Understanding (MoU) with the US Financial Accounting Standards Board (FASB), continues to impose a heavy workload on standard-setters, regulators and other market participants. During April, the IASB and FASB issued a quarterly report setting out the progress on their joint work to improve and achieve convergence of IFRS and US GAAP. The report is available on the IASB's website at: <http://www.iasb.org/News/Press+Releases/IASB+FASB+quarterly+report.htm>.

The report shows that, by the end of June, the IASB is scheduled to issue 11 EDs, many of which are outlined elsewhere in this edition of Inside Track. Summer will be busy!

IPSASB issues

The International Public Sector Accounting Standards Board (IPSASB) issued, in November 2009, a consultation paper *Reporting on the Long-Term Sustainability of Public Finances*. The Board's Committee on Accounting for Public-benefit Entities (CAPE) has considered the proposals and submitted a response expressing support for the project and encouraging IPSASB to avoid any unnecessary delay in progressing its work on long-term fiscal sustainability. The CAPE response can be accessed at: <http://www.frc.org.uk/asb/publications/other.cfm?cat=75>.

In common with the IASB (see page 6), IPSASB has a project to develop a Conceptual Framework which is applicable to the preparation and presentation of general purpose financial reports of public sector entities. The ASB is assisting IPSASB in this project and ASB Director of Research Andrew Lennard is leading the work on the measurement phase.

National Standard-Setters (NSS) April meeting

ASB Chairman Ian Mackintosh chairs a group of national accounting standard-setters from around the world, plus other organisations that have a close involvement in financial reporting issues. The latest meeting of the group, held in Seoul on 14-15 April, was attended by 21 NSS, plus representatives of the IASB, including Chairman Sir David Tweedie, EFRAG, the Chairman of the International Public Sector Accounting Standards Board (IPSASB), and the IFRS Advisory Council.

In his address to the meeting, David Tweedie highlighted the importance of NSS in helping the IASB in an important period over the next year or two, in particular given:

- a further wave of countries moving to IFRS, including Korea, Canada and Brazil, to join the 117 countries that have already adopted them;
- the continuing importance of seeking to achieve convergence, in line with the G20 recommendations, and MoU with the FASB; and
- the challenge of achieving the June 2011 target for completing the joint programme under the MoU, particularly in those areas where IASB and FASB continued to hold different views.

Among other things, the NSS group considered items on the global financial crisis, the IASB's work plan, the corporate reporting framework, a framework for disclosures, share-based payments, intangible assets, and assessing the effects of accounting standards. A full report of the meeting will be available shortly on the NSS page of the FRC website at: <http://www.frc.org.uk/asb/about/nss.cfm>.

The meeting was very successful and the hospitality and arrangements provided by the Korean Accounting Standards Board (KASB) first class. The major challenge faced by the European-based participants at the meeting was getting home again after the meeting, given the closure of much of the airspace over Europe as a result of the volcanic ash cloud.

UITF and IFRIC update

The Urgent Issues Task Force (UITF) met on 24 March 2010 for its 100th meeting and considered the following matters:

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'
The UITF considered whether to adopt IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'. The UITF decided to issue a UITF Abstract applicable only to entities applying FRS 26. The draft Abstract was published for comment in April 2010.

IFRIC 17 'Distribution of Non-Cash Assets' and IFRIC 19 'Transfers of Assets from Customers'

The UITF considered whether to adopt IFRIC 17 'Distribution of Non-Cash Assets' and IFRIC 18 'Transfers of Assets from Customers'. The UITF agreed:

- a. not to adopt IFRIC 17 or IFRIC 18; and
- b. that an Information Sheet should be developed conveying the decision and updating the list of IFRIC Interpretations adopted in the UK .

In line with changes agreed as part of the latest review of the Constitution of the International Accounting Standards Committee Foundation (IASCF), the IFRIC has now formally been renamed the IFRS Interpretations Committee. ASB staff continue to monitor the agenda.

Update on Current

Conceptual Framework

On 11 March 2010, the IASB published an ED on the reporting entity concept for public comment. The proposals are part of a joint IASB and FASB project to develop a common and improved conceptual framework that provides the basis for developing future accounting standards. The comment deadline on the ED is 16 July 2010.

The key proposals in the ED can be summarised as follows:

- A reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided.
- An entity controls another entity when it has the power to direct the activities of that other entity to generate benefits for (or limit losses to) itself. If an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements.
- A portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished objectively from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity.

The ASB will consider its response to these proposals in due course.

Financial Statement Presentation

Over the next few months three EDs relating to aspects of the IASB Financial Statement Presentation project will be open for comment.

Discontinued Operations

IFRS 5 does not use the same definition of a 'discontinued operation' as US GAAP. Whilst the US GAAP definition is based on components

(ie operations and cash flows that can be clearly distinguished from the rest of the entity), the IFRS 5 definition is based on the notion of a separate major line of business or geographical area of operations. As a result, US GAAP results in more discontinued operations being presented separately than IFRS.

The IASB is proposing a converged definition which is a slightly amended version of the existing IFRS 5 definition. They will also propose that the separate presentation of discontinued operations should be supplemented by disclosures about any discontinuance of significant components of the entity.

Presentation of Items in Other Comprehensive Income

Under existing IAS 1, entities have a choice between presenting net income items and items of other comprehensive income (OCI) in a single, continuous statement of comprehensive income or in two statements (the profit and loss account and the statement of other comprehensive income).

The IASB proposed, in its Financial Statement Presentation Discussion Paper (DP) (issued October 2008), that the option to present two statements should be withdrawn, and it will now issue that proposal in the form of an ED.

The ED will not propose any changes to the existing net income/OCI distinction, nor does it propose any changes to the existing requirements on recycling. It does however propose that those OCI items that in due course will be recycled to profit and loss should be presented separately from those OCI items that will not be recycled.

Replacement of IAS 1 and IAS 7

The IASB and FASB have for some time also been carrying out a more comprehensive project on financial statement presentation. Their initial thinking on the subject was set out in the October 2008 discussion paper mentioned earlier. Since last summer the Boards have been re-deliberating the proposals in the paper in light of the comments received and taking tentative decisions on what the forthcoming exposure draft should propose.

The ASB is currently developing its responses to the Discontinued Operations and Presentation of Items in Other Comprehensive Income EDs, and it continues to monitor the Replacement of IAS 1 and IFRS 7 project closely.

Post Employment Benefits

The IASB is due to publish an ED '*Amendments to IAS 19 Employee Benefits – Defined benefit plans*'. The ED will propose a short-term, targeted improvement to IAS 19 in the following areas:

- recognition of changes in defined benefit obligations and in plan assets in the period in which they occur. This proposal would bring IAS 19 into line with FRS 17. In addition, entities should recognise an unvested past service cost in the period of a plan amendment;
- disaggregation and presentation of changes in defined benefit obligations and in plan assets by service cost, finance cost and remeasurements;
- disclosures about defined benefit plans updated to reflect current developments in other IFRSs, chiefly IFRS 7 *Financial Instrument: Disclosures*. The IASB staff considered both the ASB Reporting '*Statement Retirement Benefits - Disclosure*' and the ASB's Pro-active Accounting Activities in Europe (PAAinE) DP *The financial reporting of pensions* before making its proposals. The IASB proposes to articulate objectives for disclosures about defined benefit plans; and
- miscellaneous issues for a defined benefit obligation, including:
 - (i) the classification of employee benefits as long- or short-term;
 - (ii) when tax and administration costs are included in the measurement of defined benefit obligations;
 - (iii) the effect of expected future salary increases on the attribution of benefits; and
 - (iv) how risk sharing and conditional indexation features affect the measurement of defined benefit obligations.

Projects

In the longer-term, after the IASB has finalised its proposals, the ASB will need to consider the potential implications for FRS 17, not least given the fact that the disclosure requirements are at present converged with IAS 19, and the fact that the disclosure proposals being made by the IASB will bring in many of recommendations included in the ASB's Reporting Statement.

Consolidation

As reported previously in *Inside Track*, the IASB is continuing to develop a standard to replace IAS 27 'Consolidated and Separate Financial Statements' and SIC 12 'Special Purpose Entities'. At its meeting in February 2010 the IASB and the FASB discussed how an investment company should account for investments in entities that it controls. The IASB continued these discussions in March and April together with a review of the disclosure requirements proposed in their December 2008 ED.

Leases

In March 2009, the IASB and FASB issued a DP *Leases: Preliminary Views*. Since the autumn they have been re-deliberating the proposals in the paper in light of the comments received and taking tentative decisions on the proposals to be included in the forthcoming exposure draft.

It seems likely that the new standard will apply to lessors and lessees and all types of leases will be within its scope other than:

- leases of intangible assets, biological assets and for exploration of natural resources such as oil and gas, and
- the accounting by a lessor of the investment property it leases to others if that lessor applies the fair value model in measuring its investment properties.

As such, the proposal is that the new standard would apply both to leases of non-core assets and to short-term leases, although the ED will contain proposals on a simplified form of lease accounting that can be used for short-term leases.

The right-of-use model described in the DP is expected to be retained, so the ED will propose that a lessee should recognise as an asset its right to use the leased asset for the whole of the lease term and should recognise a liability for its obligation to pay lease premiums for that period. However, the ED is also likely to propose that lessors should not derecognise any part of an asset they lease. Rather, at the inception of the lease they should recognise a right to receive lease premiums for the lease term (measured in accordance with IFRS 9, which means initially at the present value of the lease premiums to be received over the lease term) and an obligation to deliver the right to use the leased asset for that period (measured initially at the transaction price, and subsequently at an amount based on the transaction price that takes into account the performance obligations fulfilled). The lessor would recognise revenue as that performance obligation is satisfied over the lease term, and should simply depreciate the leased asset over its useful service life.

The proposals in the discussion paper on how to deal with uncertainty about the lease term, contingent rentals and residual value guarantees seem likely to be carried forward into the ED largely unamended. So, for example, the ED will propose that:

- if, because of cancellation rights, renewal options or other reasons, there is uncertainty about the lease term, the entity should assess the likelihood of each of the possible lease terms occurring and the lease term used for accounting purposes shall be the longest possible lease term that is more likely than not to occur. The lease term should be reassessed at each reporting date;
- the obligation to pay rentals recognised by the lessee, and the receivable recognised by the lessor, should be measured using an expected outcome technique that includes amounts payable under contingent rental arrangements. Residual value guarantees should be treated in the same way as for contingent rental arrangements.

It is expected that an ED will be issued in the next few months. In the meantime, the ASB will continue to monitor the project closely.

Improvements to IFRS

It is anticipated that the IASB will issue its annual improvements to IFRS standard in the next quarter. The following amendments to IFRS are expected:

IFRS	Subject of amendment
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	Accounting policy changes in the year of adoption Revaluation basis as deemed cost Use of deemed cost for operations subject to rate regulation
IFRS 3 <i>Business Combinations</i>	ED published 5 November 2009 Comments due by 30 June 2010
IFRS 7 <i>Financial Instruments: Disclosures</i>	Clarifications of disclosures
IAS 1 <i>Presentation of Financial Statements</i>	Clarification of statement of changes in equity
IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Change in terminology to the qualitative characteristics
IAS 27 <i>Consolidated and Separate Financial Statements</i>	Transition requirements for amendments made as a result of IAS 27 (as amended in 2008) to IAS 21, IAS 28 and IAS 31
IAS 34 <i>Interim Financial Reporting</i>	Significant events and transactions
IFRIC 13 <i>Customer Loyalty Programmes</i>	Fair value of award credit

The ASB has in the past issued a FRED following the IASB issuing its standard with the aim of maintaining convergence for its UK IFRS-based standards. Should the ASB retain this policy then it will issue a FRED proposing to amend FRS 29 (IFRS 7) *Financial Instruments: Disclosures*.

SORPs Update People

Limited Liability Partnerships (LLPs)

At its April meeting, the ASB approved its Statement of Assurance for the 2009 revision to the Consultative Committee of Accounting Bodies (CCAB) SORP for Limited Liability Partnership Accounting. The revision incorporates guidance on the treatment of puttable instruments, following an August 2008 amendment to FRS 25 (IAS 32) 'Financial Instruments: Presentation'. Copies of the revised SORP are available on the CCAB website at www.ccab.org.

Registered Social Landlords

The National Housing Federation, Community Housing Cymru and the Scottish Federation of Housing Associations (collectively the SORP making body) has published an Invitation to Comment and Exposure Draft for a proposed update to the 2008 RSL SORP. The consultation documents have been developed by the RSL SORP Working Party.

There are two categories of issues being considered:

- Changes to the text of the SORP, particularly with regard to accounting for acquisitions where there is no purchase consideration; and
- Draft Technical Notes on component accounting, impairment and business combinations. These are to be included as Appendices to the SORP and will provide supplementary guidance that is designed to assist preparers of accounts apply the principles of the SORP.

The consultation documents can be downloaded from the National Housing Federation website at <http://www.housing.org.uk> and the closing date for comments is Friday 4 June 2010.

On the ASB Board, Chairman **Ian Mackintosh** has had his term extended to the end of January 2012 and **Edward Beale** has been re-appointed for a second term.

Matthew Curtis has been reappointed to the UITF

On the staff side, Project Director **Peter Godsall** has retired and fellow Project Director **Paul Ebling** has left to take up an appointment with the Financial Services Authority (FSA).

Grant Chatterton has joined the staff as a Project Director from British Telecom. **Katherine Martin** and **Helen Poole** have also joined as Project Directors, on secondment from Grant Thornton and BDO respectively. Katherine and Helen will be working on the future of UK GAAP project.

Further Information

For further information on any of these topics please contact Deepa Raval at Aldwych House.

Email: d.raval@frc-asb.org.uk

The Board's Publications

Copies of the Board's publications may, except where otherwise stated, be obtained from:

FRC Publications

145 London Road
Kingston upon Thames
KT2 6BR

Tel: +44(0) 20 8247 1264

Fax: +44(0) 20 8247 1124

Email: customer.services@cch.co.uk

Website: www.frcpublications.com

Accounting Standards Board

5th Floor
Aldwych House
71-91 Aldwych
London WC2B 4HN

Tel: +44(0) 20 7492 2300

Fax: +44(0) 20 7492 2301

Website: www.frc.org.uk/asb



**ACCOUNTING
STANDARDS
BOARD**

a part of the 

ISSN 1360-1342

Financial Reporting Council

The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered Office: 5th Floor, Aldwych House, 71-91 Aldwych, London WC2B 4HN.