

In the July 2010 issue

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The Future of Financial Reporting in the UK

There is a flurry of activity at the ASB as the project to develop a new accounting framework for UK entities gains momentum. Project Director Michelle Sansom explains.

The ASB's proposals in a nutshell

The ASB has been carefully considering the responses to its consultation document 'Policy Proposal: the Future of UK GAAP'. The following is an update on the ASB's tentative decisions to date.

The ASB's proposals are intended to apply to all entities, other than those in the public sector, required to prepare financial statements that give a 'true and fair' view. This includes companies and other corporate structures in both the profit and public benefit (also known as not-for-profit) sectors.

A differential financial reporting regime

The ASB has tentatively decided to propose a differential financial reporting framework that is based on **public accountability**, consistent with its policy proposal. Entities will be required to prepare financial statements in one of the following three tiers (or may elect to adopt a higher tier):

	Nature of Entity	Accounting Regime
Tier 1	Entities that have public accountability	EU-adopted IFRS
Tier 2	Entities that do not have public accountability	IFRS for SMEs
Tier 3	Small entities	FRSSE

Under the ASB's tentative proposals, an entity which has public accountability is required to prepare its financial statements in accordance with EU-adopted IFRS.

Entities that do not have public accountability will apply the IFRS for SMEs, adopted for use in the UK.

An entity that qualifies as a small entity in accordance with the Act may continue to apply the FRSSE.

The ASB has tentatively decided to propose a reduced disclosure framework for subsidiary undertakings. The reduced disclosure framework is available to any subsidiary undertaking that does not have public accountability; and whose parent undertaking prepares consolidated financial statements in which that subsidiary undertaking is

included and those financial statements are publicly available.

Role of the IFRS for SMEs

The ASB has tentatively decided to replace existing FRS and UITF Abstracts with the IFRS for SMEs; making only the following amendments to the IFRS for SMEs:

- areas of incompatibility of the IFRS for SMEs with the Accounting Directives.
- areas where the IFRS for SMEs permitted options that were not compatible with the Directives.
- replacing chapter 29 of the IFRS for SMEs with IAS 12 'Income Taxes'.

Changes since the policy proposal

The major differences from the policy proposal and the Board's now tentative proposals include:

- introducing the reduced disclosure framework for subsidiary undertakings which gives relief for subsidiaries of both tier 1 and tier 2 entities;
- permitting small publicly accountable entities that meet all three of the qualifying conditions of the small companies' regime but are excluded from the regime to apply the IFRS for SMEs;

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- (c) amending IFRS for SMEs which includes replacing section 29 of the IFRS for SMEs with IAS 12 'Income Taxes';
- (d) providing application guidance on the definition of entities which have public accountability; and
- (e) providing transitional relief for dormant companies.

ASB Roundtable

On 20 July 2010, the ICAEW hosted a public meeting on the Future of UK GAAP. Ian Mackintosh, Chairman of the ASB, outlined the ASB's tentative decisions on its redeliberations of the Policy Proposal: The Future of UK GAAP issued in August 2009. Responses to the presentation were received from Robert Humphreys, Finance & IS Director at Oxfam, Danielle Stewart, Partner at Baker Tilly and Mark Smith, Director of External Reporting at Tomkins plc.

Following the presentations there was a lively debate on the key issues and a variety of views were expressed.

It was outlined at the meeting that the ASB's next steps include developing and drafting a FRED for consultation. The FRED will include an impact assessment. The ASB is issuing a request for responses to aid the development of the impact assessment. Responses can be emailed to asbcommentletters@frc-asb.org.uk. The deadline for responses is 20 August 2010.

The presentation and request for responses are available to download at: <http://www.frc.org.uk/asb/technical/projects/project0072.html>.

Financial Instruments D

Deepa Raval outlines the ASB response to the proposals for financial instruments.

ASB activities

Over the last quarter, the ASB has been considering the various documents published by the International Accounting Standards Board (IASB) on their financial instruments project. An overview of the ASB responses is provided below. The detailed responses can be accessed on the ASB website at <http://www.frc.org.uk/asb/publications/other.cfm?cat=73>.

The ASB is currently considering its response to the Financial Accounting Standards Board (FASB) Exposure Draft (ED) which contains comprehensive proposals for financial instruments, covering classification and measurement, impairment and hedge accounting. The FASB proposals are based on a full fair value (with certain exceptions) approach for recognition and measurement of financial instruments.

Financial liabilities

In its discussions on financial liabilities, the IASB has tentatively decided to substantially carry forward to IFRS 9 *Financial Instruments* the existing IAS 39 *Financial Instruments: Recognition and Measurement* requirements for financial liabilities. There is a view that the current IAS 39 requirements for financial liabilities are working well in practice except for the 'own credit' issue. There is a widely held view that recognising the effects of changes in 'own credit' in the profit and loss account does not provide meaningful information.

To address the 'own credit' issue, in May, the IASB published an ED 'Fair Value Option for Financial Liabilities'. The ED proposes that the fair value change of a financial liability relating to changes in an entity's own credit should be excluded from the profit and loss account. The key points made in the ASB response to that ED are available at: <http://www.frc.org.uk/asb/publications/other.cfm?cat=73>.

- The ASB supports recognition of the effects of changes in 'own credit' in Other Comprehensive Income (OCI) instead of the profit and loss account.
- A preference for the one-step approach whereby changes in fair value relating to own credit are presented directly in OCI.
- Request for the IASB to reconsider permitting reclassification of financial liabilities where there is a change in business model so this is consistent with the accounting for financial assets under IFRS 9.
- Recommendation that the IASB publishes a comprehensive ED containing all phases of IFRS 9 so that constituents have an opportunity to consider the new requirements for financial instruments as a whole.

Impairment

The IASB's proposal for an expected loss model for impairment has stimulated much debate over recent months. In May, the ASB held a constituent meeting to discuss the IASB's ED 'Financial Instruments: Amortised Cost and Impairment'. A note of that meeting is available on the ASB's website at: http://www.frc.org.uk/documents/pagemanager/asb/Financial_Instruments/Note%20of%20ASB%20Roundtable_Amortised%20cost%20and%20Impairment.pdf.

The ASB has submitted a response to the IASB on the impairment ED available at <http://www.frc.org.uk/asb/publications/other.cfm?cat=73>. The ASB supports an expected loss model at a conceptual level but like many others has concerns about the operational aspects of the IASB's proposals. Specific areas of concern are:

- complexity inherent in the IASB's proposed model;
- level of judgement required;
- difficulties in calculating an Effective Interest Rate (EIR) that takes account of expected credit losses; and
- application of the proposals to open portfolios, short term receivables and smaller entities.

Derecognition

The ASB wrote to the IASB in April to highlight significant concerns with the

evelopments

IASB's proposals for derecognition in light of the recent issues on accounting for Repo 105 by Lehman Brothers. The letter noted that the control based model proposed by the IASB in their April 2009 ED on derecognition is likely to lead to more off balance sheet items that the current risks and rewards based approach; the proposed approach focuses on legal form rather than the economic substance of transactions; and that a derecognition model which treats repos as an exception may be an indication that the model itself contains flaws. The letter can be accessed on the ASB website at <http://www.frc.org.uk/asb/publications/other.cfm?cat=73>.

Future developments

As a result of the IASB and FASB's modified strategy on their work programme (see page 5), the IASB has updated its work plan. The key dates relating to financial instruments are as follows:

Q3 2010 – ED on Hedge Accounting
Q3 2010 – IFRS Derecognition - disclosures
Q4 2010 – ED on Asset and Liability offsetting.

June 2011 - complete standard on financial instruments.

Financial Statement Presentation

Project Director Jenny Carter provides an overview of the IASB's proposals for financial statement presentation.

The IASB project on financial statement presentation has three areas:

- Presentation of other comprehensive income;
- Main project; and
- Discontinued operations.

Presentation of other comprehensive income

The Exposure Draft (ED/2010/05) was issued at the end of May 2010 (comments due by 30 September 2010). The most significant proposal is the removal of the option to present financial performance in two statements; instead all reporting entities must present one statement of performance – the 'statement of profit or loss and other comprehensive income' – although this title is not mandatory.

The IASB has confirmed its support for the use of 'profit or loss' as a measure of performance, in addition to total comprehensive income, and the IASB's examples of the single statement clearly show profit or loss, and other comprehensive income as separate components of performance.

The ASB has responded to the IASB, (accessible at: <http://www.frc.org.uk/asb/publications/other.cfm?cat=73>), supporting a single performance statement, in principle. However, the ASB is not convinced that the marginal improvement to reporting from this amendment justified it being brought forward ahead of the more fundamental aspects of the financial statement presentation project and consideration of the principles for identifying OCI items.

Main project

This project is expected to result in the replacement of IAS 1 *Presentation of Financial Statements* and IAS 7 *Statement of cash flows* and aims to improve how information is organised and presented in financial statements.

An IASB staff draft of the ED is available to facilitate outreach activities – to better understand the benefits and costs of the proposals, and also the likely impact on financial institutions are now being undertaken before the expected publication of the Exposure Draft at the beginning of 2011.

At present the IASB has tentatively decided to retain the objectives of cohesiveness and disaggregation which would be likely to result in much more information on the face of the performance statement in particular. Elements of performance will be shown separately for operating and investing activities (together business activities) and financing activities – disaggregating dissimilar activities. The separation of the categories would also flow through the balance sheet (statement of financial position) and the cash flow statement. Further disaggregation of items of income and expenditure would be given in the notes.

Discontinued operations

Initially this part of the project was going to be completed early, with IASB and FASB agreeing on converged requirements by March 2010. However, this will now follow the same timetable as the main project.

Discontinued operations continue to be based on IFRS 5 definition.

The tentative decisions to date include:

- The definition of a discontinued operation to be based on the existing IFRS 5 definition, including the reference to a major line of business, or major geographical area.
- Disclosure should be provided relating to the disposal of components not meeting the definition of discontinued operations.
- Disclosure should be provided where the entity has a continuing involvement in the discontinued operation.

European Developments

European Commission

As reported in previous editions of Inside Track, the European Commission is currently reviewing the 4th and 7th Company Law Directives (usually referred to as the Accounting Directives), which includes assessing the potential for the use of the IFRS for SMEs within the European accounting framework. As part of this assessment, the European Financial Reporting Advisory Group (EFRAG) has undertaken an analysis of the IFRS for SMEs' compatibility with the Accounting Directives. EFRAG's advice is available at: <http://www.efrag.org/news/detail.asp?id=548>.

It consists of:

- A letter to the Commission specifying the requirements of the IFRS for SMEs that has been assessed to be incompatible with the Accounting Directives. This letter also includes a description of the scope and limitations of the assessment.
- A feedback statement explaining EFRAG's reasons for not considering requirements identified by EFRAG's constituents to be incompatible with the EU Accounting Directives.
- A working paper including EFRAG's assessment of all the requirements of the IFRS for SMEs.

The Commission hosted a stakeholder meeting in Brussels on 25 May on its review of the Directives and the IFRS for SMEs. The Commission's minutes of the meeting can be accessed at: http://ec.europa.eu/internal_market/accounting/sme_accounting/review_directives_en.htm. They highlight the divergent views that exist on both the review of the legislation and the use in Europe of the IFRS for SMEs. Clearly, there is some way to go on both.

Other EFRAG issues

On 3 June, EFRAG issued its 2009 'Annual Review', available at: <http://www.efrag.org/news/detail.asp?id=547>.

The review details the organisation's activities during the year, including the election of a new Supervisory Board (SB) under the Chairmanship of Pedro Solbes, former Commissioner and Minister of Finance in Spain, and the creation of the Planning and Resource Committee (PRC) in which EFRAG and the main National Standard Setters decide on the agenda for the proactive work in Europe and the allocation of resources.

The ASB continues to work with EFRAG and other major European standard-setters on proactive issues which fall within the remit of the PRC. The PRC held its latest meeting on 1 June, a report of which is available at: <http://www.efrag.org/news/detail.asp?id=555>.

Following that meeting, EFRAG has published two documents on its proactive work. The first, issued on 10 June, is a Proactive Strategy document 'Focus on Improvement'. The Strategy document outlines the strategic aims of EFRAG's proactive work and the process by which it undertakes these activities. EFRAG's proactive work is aimed at: providing thought leadership in financial reporting in Europe and beyond; influencing the IASB at an early stage; and ensuring that financial reporting in Europe continues to improve and respond to the needs of those who use the financial statements. It can be downloaded from EFRAG's website at: <http://www.efrag.org/news/detail.asp?id=550>.

The second, published on 28 June, is a public consultation on the proactive work. The document outlines the existing programme of proactive work, in which 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. It also seeks the views of constituents in helping to (a) identify further areas where they think EFRAG should undertake proactive work and (b) prioritise those areas. The consultation document, which has a comment deadline of 30 September, can be accessed at: <http://www.efrag.org/news/detail.asp?id=563>.

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 July, 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=565>. There are currently 3 IASB pronouncements awaiting European Commission endorsement for use in Europe:

Standards

- IFRS 9 'Financial Instruments'
- IFRS 'Improvements to IFRSs'

Interpretations

- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'

International Issues

International Accounting Standards Board (IASB)

The IASB continues to address issues relating to both the financial crisis and its Memorandum of Understanding (MoU) with the US Financial Accounting Standards Board (FASB). During June, the two Boards announced a modified strategy for completing their convergence work plan, which retains the target completion date of June 2011 for those projects deemed to be most urgent, but admits that some projects will not be finished until the end of 2011. This realignment of the timetable was acknowledged by the G20 leaders in their Declaration following the Economic Summit held in Toronto on 26-27 June.

The IASB has posted on its website a revised Work Plan (accessible at: <http://www.iasb.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm>) reflecting the modified strategy. The main modifications include:

- Derecognition – a decision to restrict the scope of the project to improving and converging disclosure requirements;
- Financial instruments – a proposed new Exposure Draft (ED) on balance sheet netting of derivative contracts and other financial instruments in the 4th quarter of 2010, and a slippage to the 2nd quarter of 2011 for completing the full replacement for IAS 39;
- Financial statement presentation and financial instruments with characteristics of equity – both these projects have been put on a longer timescale, with EDs on both now anticipated in the 1st quarter of 2011 (rather than the 2nd quarter of 2010) and final standards not expected until the second half of 2011 at the earliest.

The Work Plan still shows that, by the end of 2010, the IASB is scheduled to issue a further 7 EDs, so constituents will continue to face a heavy burden in analysing and responding to the documents.

International Public Sector Accounting Standards Board (IPSASB) issues

The Board's Committee on Accounting for Public-benefit Entities (CAPE) continues to consider IPSASB proposals and in May submitted a response to IPSASB's ED 43 'Service Concession Arrangements: Grantor' expressing support for the proposal that the requirements for recognition in accounting by the grantor should mirror those in IFRIC 12 'Service Concession Arrangements', but raising a number of detailed concerns. The CAPE response can be accessed at: <http://www.frc.org.uk/asb/publications/other.cfm?cat=75>.

As reported previously in Inside Track, 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.

Pensions Accounting

The IASB's proposals for defined benefit plans are thought provoking. Project Director Jennifer Guest outlines the ASB's views on the future direction of pensions accounting.

In July the ASB responded to the IASB ED 'Defined Benefit Plans: Proposed amendments to IAS 19' available at <http://www.frc.org.uk/asb/publications/other.cfm?cat=73>. The response welcomes the ED and considers that the proposals are an improvement on the current version of IAS 19. Whilst the ASB response agrees with the proposals in the ED, it has put forward a proposed amendment to the disclosures suggested by the IASB, recommending that there should be a disclosure which links the reporting entity's funding arrangements with the liability of the pension scheme, so that the user understands how the pension liability is planned to be settled through employer contributions and investment returns.

The ASB continues to believe that there still is a need for a comprehensive review of pension accounting. The response reminds the IASB that, the ASB, in conjunction with EFRAG and a number of other European standard setters, invested considerable resources in developing the January 2008 Pro-active Accounting Activities in Europe (PAAinE) Discussion Paper, 'The Financial Reporting of Pensions' and the November 2009 follow-up report 'The Financial Reporting of Pensions: Feedback and Redeliberations'. The response welcomes the fact that some of the recommendations in those reports have been reflected in the proposals in the current IASB ED and believes that the work carried out can also provide the IASB with valuable material for consideration in the comprehensive review of pension accounting.

Update on Current

Conceptual Framework

The IASB published an ED on the reporting entity concept during March 2010 with a comment deadline of 16 July 2010. The ASB responded to the IASB in June. In its response available at <http://www.frc.org.uk/asb/publications/other.cfm?cat=73>, the ASB supported the proposal in the IASB ED that the conceptual framework should contain a broad description of a reporting entity. It did, however, note the following concerns with the proposals:

- The description of a reporting entity in the ED is different to that included in the DP. The ASB noted its concern that replacing the term “other capital providers” in the DP definition with “other creditors” in the ED definition will cause problems for mutual and not-for-profit entities, as the definition of a reporting entity will not be transferrable to a not-for-profit environment. The reference to capital providers had been imported from the Objective chapter to ensure that the objective of financial reporting applied equally to not-for-profit entities, which do not have investors as their primary users.
- The ASB believes that the perspective from which financial statements are presented should be discussed in the Conceptual Framework and that the consideration of the “perspective” is important in the consistent application of the objective of financial reporting. The ASB noted that unlike the DP the ED on reporting entity does not appear to adopt a perspective. It recommended that the IASB conduct analysis of the potential benefits and shortcomings of adopting different perspectives before deciding on the most appropriate perspective to be adopted.

Disclosure Framework

The ASB is working with EFRAG and the French ANC on a proactive project on the disclosure framework. One of the objectives of the project is to develop a set of principles for more relevant and useful disclosures in the financial statements. A discussion paper is expected to be published in 2011.

Consolidation

As previously reported in *Inside Track*, the IASB continues to review the comments received on its ED on consolidation.

The IASB has tentatively decided that there should be an exception to consolidation, whereby an investment company must measure investments in entities that it controls at fair value. The guidance currently in US GAAP Codification (Topic 946) should be used as the basis for developing the attributes of an investment company.

In addition, an investment company should be required to provide additional disclosures about entities that it controls when it measures investments in those entities at fair value. The disclosures will be developed as part of the new disclosure requirements for involvement with consolidated entities.

The IASB has also tentatively decided that a reporting entity should disclose information that helps users of financial statements to understand:

- a. the significant judgements and assumptions (and changes to those judgements and assumptions) made by the reporting entity in determining whether it controls (or does not control) another entity, and/or in determining the reporting entity’s involvement with structured entities;
- b. the interest that the non-controlling interests have in the group’s activities;
- c. the effect of restrictions on the reporting entity’s ability to access and use assets, or to settle liabilities of consolidated entities, when these restrictions are as a result of where the assets or liabilities are held in the group;
- d. the nature of, and changes in, the risks associated with the reporting entity’s control of consolidated structured entities or from its involvement with unconsolidated structured entities.

Joint Ventures

The IASB intends to replace IAS 31 *Interests in Joint Ventures* with a standard on joint arrangements. ED 9 Joint Arrangements was issued

in September 2007. The IASB project aims to improve the accounting treatment and disclosures for joint arrangements which would cover joint operations and joint ventures.

In May 2009, having received all comment letters on ED 9, the IASB commenced its redeliberations. The IASB intends to issue the final standard in Q3 2010.

Recent issues discussed by the IASB as part of the joint arrangements project include:

- The interaction between ED 9 and IFRS 5 Non-current Assets Held for Sale, particularly with regard to situations of loss of joint control.
- Disclosures - in particular, the level of aggregation for the disclosure of joint ventures and associates, the disclosure of commitments and contingent liabilities arising from joint arrangements, and disclosures for a venture capital organisation, mutual fund, unit trust or similar entity which holds an interest in a joint venture or an investment in an associate.
- The measurement exception at group level for investments in an associate held at fair value through profit or loss by a venture capital organisation, mutual fund, unit trust or similar entity.

Fair Value Measurement

The IASB ED ‘Measurement Uncertainty Analysis Disclosure for Fair Value Measurements’ was issued on 29 June 2010. The deadline for responses is 7 September 2010.

The IASB’s May 2009 ED ‘Fair Value Measurement’ proposed a fair value hierarchy for the categorisation of fair value measurements of assets, liabilities and an entity’s own equity instruments. The IASB and FASB have tentatively decided to require entities to disclose a measurement uncertainty analysis for fair value measurements categorised in level 3 of the fair value hierarchy unless another IFRS specifies that such a disclosure is not required for a particular asset or liability. The purpose of this disclosure is to enable users to understand the effect of unobservable inputs on fair value measurement.

Projects

The ASB will develop a response to the ED over the summer.

Leases

The IASB has a project underway to replace IAS 17 Leases. An IASB Discussion paper (DP) Leases: Preliminary Views, was issued in March 2009. The leases project aims to develop a single approach to lease accounting that would ensure that all assets and liabilities arising under lease contracts are recognised on the balance sheet.

In autumn 2009, having received all comment letters on the DP, the IASB commenced its redeliberations. An ED is expected during Q3 2010.

Liabilities

In January 2010, the IASB issued an ED outlining its proposals for the measurement of liabilities within the scope of IAS 37.

The comment period for the January 2010 ED ended in May 2010 and at its meeting in June 2010 the IASB received a verbal update on the responses received to the ED.

It was reported to the IASB that:

- its proposals for the measurement of liabilities that will be settled by performing a service were not supported by respondents to the ED.
- respondents are also concerned about how to include risk in the measurement of such liabilities, considering the calculation to be subjective.
- concern was expressed again regarding the proposal in the July 2005 exposure draft to remove the probability requirement from the recognition criteria.
- respondents also commented again that they did not like the mandating of expected value.

The IASB will receive a detailed written analysis of the responses at its September meeting.

Revenue Recognition

The IASB's Exposure Draft (ED) 'Revenue from contracts with customers' was issued on 24 June 2010 and is open for comment until 22 October

2010. This standard is being jointly developed with the FASB. The ASB will develop a response to the ED over the course of the summer.

In summary, the core principle of the ED requires an entity to recognise revenue on transfer of goods or services to customers. The amount recognised should reflect the consideration an entity receives, or expects to receive, in exchange for those goods and services.

A good or service is transferred when the customer obtains control of that good or service.

To apply the principle the entity would:

- identify the contract(s) with a customer;
- identify the separate performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the separate performance obligations; and
- recognise revenue when the entity satisfies each performance obligation.

Extractive Activities

The IASB DP 'Extractive Activities' was issued on 6 April 2010 and has a deadline for responses of 30 July 2010. In summary, the DP addresses the following four questions:

- How to estimate and classify the quantities of minerals or oil and gas discovered;
- How to account for minerals or oil and gas properties;
- How minerals or oil and gas properties should be measured; and
- What information about extractive activities should be disclosed?

The ASB has responded to the DP, making clear that while the DP has initiated some useful discussion on extractive activities, it has not addressed some of the key accounting issues facing companies in the oil and gas and minerals industries.

Improvements to FRS

The ASB published a Financial Reporting Exposure Draft (FRED) 'Improvements to Financial Reporting Standards 2010' in June 2010, which included the following amendments to Financial Reporting Standards for the

UK and Republic of Ireland (FRS):

FRS	Subject of amendment
SSAP 25 Segmental Reporting	Extension of exemption from making segmental disclosures
FRS 8 Related Party Disclosures	Definition of a related party Clarification of exemption from making related party disclosures
FRS 29 Financial Instruments: Disclosures	Clarification of disclosures

The amendments were the result of the ASB's annual review of FRS. The annual review is driven principally from the amendments made by the IASB in its 'Improvements to IFRSs' issued in May 2010. In addition, consideration is given by the ASB to other changes made by the IASB to IFRSs and to other financial reporting matters raised by constituents. The ASB has sought to make minimal amendments to FRS, given its current proposals on the Future of UK GAAP.

The comment period for the FRED closes on 30 August 2010.

Improvements to IFRS

The International Accounting Standards Board (IASB) published its 'Improvements to IFRSs' in May 2010, which included amendments to International Financial Reporting Standards (IFRS): IFRS 1 *First-time Adoption of International Financial Reporting Standards*; IFRS 3 *Business Combinations*; IFRS 7 *Financial Instruments: Disclosures*; IAS 1 *Presentation of Financial Statements*; IAS 27 *Consolidated and Separate Financial Statements*; IAS 34 *Interim Financial Reporting*; and IFRIC 13 *Customer Loyalty Programmes*.

In order to ensure that UK IFRS-based standards remain converged, the FRED which the ASB issued in June 2010 included a proposed amendment to FRS 29 (IFRS 7) Financial Instruments: Disclosures.

UITF and IFRIC Update

The UITF met on 26 May 2010 and considered the following matters:

Approval of UITF Abstract 47 (IFRIC 19) 'Extinguishing Financial Liabilities with Equity Instruments'

The UITF approved the publication of UITF Abstract 47 'Extinguishing Financial Liabilities with Equity Instruments', bringing the requirements of IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' into UK GAAP for entities applying FRS 26 'Financial Instruments: Recognition and Measurement'. The Abstract was published on 9 July 2010.

Foreword to UITF Abstracts

The UITF considered a draft update of the Foreword to UITF Abstracts that would:

- enable UITF members to vote by electronic mail,
- amend the requirements as to how issues may be introduced onto the UITF agenda, and
- update the description of the UITF's role to reflect its relationship with IFRIC.

The ASB approved the draft Foreword at its meeting on 17 June 2010 and it was published on the ASB website on 24 June 2010.

Pensions Funding Partnership Arrangements

The UITF considered a request for views on Pensions Funding Partnership Arrangements. The UITF concluded that Pensions Funding Partnership Arrangements appeared to have a commercial basis and were not just accounting constructs. The UITF agreed there were no grounds for it to take action, other than to emphasise the importance of appropriate disclosure.

IFRS Interpretations Committee

The IFRS Interpretations Committee met on 8th and 9th July 2010.

Accounting for stripping costs in the production phase

The Committee discussed the final draft of the proposed Interpretation on accounting for stripping costs in the production phase.

The draft Interpretation will be exposed for a period of 90 days once clearance has been obtained at the July IASB meeting.

It is anticipated the draft Interpretation will address waste removal costs that are incurred in surface mining activity during the production phase of the mine. The draft Interpretation will address the following questions:

1. Is the definition of an asset met?
2. When shall the asset be initially recognised?
3. How shall the asset be measured initially?
4. How shall the asset be subsequently measured?

IFRS 2 Share-based Payment – Vesting Conditions

The Committee continued its deliberations on the distinction between vesting and non-vesting conditions.

Put Options over Non-controlling Interests

The Committee is considering the accounting for put options over non-controlling interests. The Committee will continue its discussions at its September meeting.

SORPs Update

Investment Management Association (IMA)

At its July meeting, the ASB approved the publication of an Exposure Draft (ED) of a revision to the IMA SORP for Authorised Funds Accounting. The revision incorporates guidance on the treatment of puttable instruments, following an August 2008 amendment to FRS 25 (IAS 32) 'Financial Instruments: Presentation'. The ED is open for comment until [XX] September 2010. Copies of the ED are available from the IMA website at www.investmentuk.org.

People

Jenny Carter has rejoined the ASB staff as a Project Director after a spell at the BBC.

Further Information

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

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

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FRC Publications

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Kingston upon Thames
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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



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Comments due by 30 August 2010

July 2010 - UITF Abstract 47 'Extinguishing Financial Liabilities with Equity Instruments'

Effective for accounting periods beginning on or after 1 July 2010

Upcoming FRED: the Future of UK GAAP

A Financial Reporting Exposure Draft (FRED) containing the ASB's proposals for the future of UK GAAP is expected to be published in the Autumn.