INSIDE TRACK 44

ACCOUNTING STANDARDS BOARD

In the July 2005 issue

- ASB issues FREDs on Business Combinations
- ASB publishes report on Life Assurance
- ASB issues OFR Reporting Standard

ASB issues draft standards on Business Combinations

This month, the ASB has issued four Financial Reporting Exposure Drafts (FREDs) of UK accounting standards reflecting the outputs from Phase I and Phase II of the International Accounting Standards Board (IASB) project on business combinations.

The package of FREDs comprises:

- FRED 36 '*Business Combinations* (IFRS 3) and Amendments to FRS 2 *Accounting for Subsidiary Undertakings* (parts of IAS 27 *Consolidated and Separate Financial Statements)*'.
- FRED 37 '*Intangible Assets (IAS 38)*'.
- FRED 38 '*Impairment of Assets (IAS 36)*'.
- FRED 39 'Amendments to FRS 12 *Provisions, contingent liabilities and contingent assets* and Amendments to *FRS 17 Retirement benefits*'.

Comments on the proposals are sought by 28 October.

FRED 36

The IASB issued IFRS 3 in March 2004 following completion of the first phase of its Business Combinations project. FRED 36 is based on the Exposure Draft of Proposed Amendments to IFRS 3 issued by the IASB in June 2005 and the Exposure Draft of Proposed Amendments to IAS 27.

The main changes to existing accounting practices that would arise from adopting the proposals in FRED 36 are set out below. The ASB is concerned that certain aspects of the proposals may not improve the quality of information in financial statements.

Under current UK accounting practice the objective of acquisition accounting is to reflect the cost of the acquisition. To the extent to which it is not represented by identifiable assets and liabilities (measured at their fair value), goodwill arises and is reported in the financial statements. This exposure draft adopts a different perspective and requires the financial statements to reflect the fair value of the acquired business.

The proposals treat the group as a single economic entity ('entity concept') and any outside equity interest in a subsidiary is treated as part of the overall ownership interest in the group. As a consequence of this changes in a parent's ownership interest, that do not result in a change of control, are to be recognised as changes in equity. No gain or loss will be recognised in the profit and loss account. In the UK, to date, accounting has been based on the 'parent entity concept'. Under the parent entity concept the extent of non-controlling interests and transactions with non-controlling interests are separately identified in the primary financial statements.

It is proposed that goodwill is to be recognised in full; that is 100% of goodwill is recognised even if less than 100% is acquired. FRS 2 requires that goodwill arising on acquisition should only be recognised with respect to the part of the subsidiary undertaking that is attributable to the interest held by the parent entity.

Goodwill, after initial recognition, is to be measured at cost less impairment losses, and amortisation is not to be permitted. The IASB concluded that more useful information would be provided if goodwill was not amortised

Continued ...

Business Combinations

but subjected to a rigorous and operational impairment test. FRS 10 'Goodwill and Intangible Assets' seeks to charge goodwill to the profit and loss account only to the extent that the carrying value of goodwill is not supported by the current value of goodwill within the acquired business.

Subsequent measurement of goodwill is a complex issue; neither annual impairment nor amortisation is likely to result in a conclusive value for the carrying amount of goodwill. The ASB is seeking views on whether the UK IFRS-based standard should be amended and an option introduced allowing amortisation of goodwill.

Costs incurred in connection with an acquisition are not to be accounted for as part of the cost of the investment.

FRED 37 and FRED 38

As part of the first phase of the Business Combinations project the IASB amended both IAS 38 'Intangible Assets' and IAS 36 'Impairment of Assets'. FREDs 37 and 38 propose the adoption of UK standards based on the current text of these standards.

The main differences between the proposed standards and current accounting practice are:

FRED 37 - definition of an intangible asset

The IASB reconsidered the definition of an intangible asset and affirmed the view that *identifiability* is the characteristic that conceptually distinguishes other intangible assets from goodwill.

IAS 38 does not define 'identifiable' but states an intangible asset meets the identification criterion when it:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract asset or liability; or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity of from other rights and obligations.

This is in contrast to FRS 10 which defines identifiable assets as assets that are capable of being disposed of or discharged separately, without disposing of a business of the undertaking. The proposed Standard therefore extends the definition of an intangible asset to include those that are not separable.

FRED 38 - *impairment tests*

To justify the carrying of goodwill without systematic amortisation it is clear that a robust test for impairment is required. The impairment test must provide confidence in its ability to identify reductions in the carrying amount of acquired goodwill. There are two key differences between the impairment test set out in FRS 11 and that of IAS 36:

- the FRS 11 test attempts to distinguish between acquired and internally generated goodwill and to recognise only impairment of the acquired part. The proposed Standard does not include such a test;
- the FRS 11 impairment test includes a test to check the accuracy of impairment by comparing actual cash flows against those projected; IAS 36 does not contain a similar test.

FRED 39

It is proposed that FRS 12 is renamed 'Non-financial Liabilities'. A non-financial liability is defined as a liability other than a financial liability as defined in FRS 25 'Financial Instruments: Disclosure and Presentation'. The IASB states that this amendment is to clarify that IAS 37 (and thereby FRS 12) should be applied to all non-financial liabilities that are not within the scope of other Standards.

The Exposure Draft no longer applies the terms 'contingent liabilities' and 'contingent assets'. Contractual rights and obligations can be divided into two types: 'conditional' and 'unconditional'. An entity recognises a liability relating to the unconditional obligation; uncertainty about the future event is reflected in the measurement of the liability. The term 'contingency' is used to refer to uncertainty about the amount required to settle the liability, rather than uncertainty as to whether a liability exists.

Under FRS 12, a provision is only recognised if it is probable that an outflow of economic resources would be required to settle the provision. When applying the amended definitions all unconditional obligations that meet the definition of a liability are considered for recognition. The draft Standard omits the probability criterion from recognition and moves it to measurement.

The amendments made to the recognition criterion, particularly the removal of the probability criterion, will give rise to a greater number of liabilities meeting the recognition criteria. These amendments place greater emphasis on satisfying the definition of a liability. The Exposure Draft notes that an essential characteristic of a liability is that the entity has a present obligation arising from a past event. The removal of the probability criterion from recognition will require all present obligations that meet the definition of a liability to be recognised.

What will change? - a simplified example

A entity is being sued for damages of £10 million. Legal proceedings have started, but the entity disputes liability. The entity estimates that it has a 20 per cent chance of losing the case. Under FRS 12, the entity would disclose a contingent liability in the notes to the accounts. Under the proposals in FRED 39, the entity has an unconditional obligation to stand ready to pay the damages if awarded. In this case, it would recognise a non-financial liability of £2 million.

The IASB is also proposing to amend the requirements relating to restructurings. The revised Standard states that a decision to restructure, even if accompanied with an announcement by management is not the requisite past event for the recognition of a liability. It would appear that this amendment will result in many restructurings that were previously recognised as 'single sum amounts' being recognised as a number of individual amounts when each cost meets the definition of a liability.

UK accounting standards currently include no specific requirements for accounting for termination benefits other than the general principles of FRS 12. It is proposed to introduce that section of IAS 19 'Employee Benefits' that define and set out the accounting requirements for termination benefits into FRS 17 (FRS 17 will be renamed 'Retirement and Termination Benefits').

Termination benefits may be either 'involuntary' (provided as a result of an entity's decision to terminate an employee's employment) or 'voluntary' (offered for a short period of time in exchange for an employee's decision to accept voluntary termination).

A liability and expense for 'voluntary' termination benefits shall be recognised when the employee accepts the entity's offer to those termination benefits.

A liability and expense for 'involuntary' termination benefits, except where provided in exchange for the employees future services, shall be recognised when the entity has a plan of termination that it has communicated to the employees and the plan meets the criteria specified in the Standard. Involuntary termination benefits provided in exchange for the employees future services shall be recognised over the period of service.

ASB publishes Report on Life Assurance

In March 2004 the Financial Secretary to the Treasury asked the ASB to carry out an urgent study of with-profits life assurance accounting, following the issue of the Penrose report into Equitable Life. In December 2004 the ASB issued one part of its response to this request, FRS 27 'Life Assurance', and in June 2005 it completed its project by issuing a report to the Treasury on life assurance financial reporting.

The report notes that financial reporting for life assurance - and with-profits business in particular - is inherently difficult. The business is generally long-term, and market conditions may change significantly over the life of a policy; there is a wide variety of product types; and the business is subject to changing regulatory requirements. More fundamentally, though, many aspects of life assurance business, including the determination and allocation of profits, are at the discretion of the management of the company.

The report summarises the needs of the different users of the financial statements of life assurance entities, and the substantial improvements introduced in FRS 27 to meet those needs, particularly in relation to the measurement of liabilities and the introduction of disclosures relating to capital of life assurance business.

The ASB, in developing FRS 27, was constrained by the need to act in a timely manner. It adopted a pragmatic approach of adopting the regulatory 'realistic balance sheet' methodology for measurement of liabilities that was developed by the regulator, to avoid asking preparers to make further major changes in a short timescale. It also applied the key requirements of FRS 27 to larger with-profits life assurance entities only, and not to smaller entities that were not required to adopt the new regulatory approach.

The ASB would like to see FRS 27 applied in full by all UK life-assurance entities, but this would best be achieved when and if the regulator extends the realistic liabilities regime to these entities. However, if the regulator does not propose to do this, the ASB may consider consulting on extending the scope of FRS 27.

Although FRS 27 addressed important aspects of life assurance accounting, there remain more complex issues that the ASB was not able to address in the timescale. The report analyses four such issues:

- the principles of liability measurement, and consistency with those applying to liabilities generally (for example, FRS 12) - particular difficulties arise with the role of management discretion in determining bonus policy and thus the obligation to policyholders, and whether the obligation needs to be measured by projecting the outcome of the policy through its life, including the expected receipt of future premium;
- the best basis of profit recognition for these long-term contracts, and whether this should be based on measuring changes in assets and liabilities from one balance sheet date to the next;
- the nature of surpluses in life funds that have not yet been allocated to policyholders or shareholders, and whether these should be classified as liabilities or equity;
- the role of embedded value information in financial reports, and whether this should be incorporated into the financial statements or reported as supplementary information.

The ASB has concluded that these issues are best addressed in the context of the IASB's comprehensive project on insurance accounting, and does not intend to address them by developing FRS 27. Instead, it will continue to be involved in the development of the IASB project, and that the detailed analysis in the report will be a helpful contribution to that debate.

Copies of the report can be downloaded, free of charge, from the ASB's website.

ASB issues Reporting Standard on the OFR

On 10 May, the ASB issued Reporting Standard (RS) 1 'The Operating and Financial Review'. RS1 is the first Reporting Standard issued by the ASB under its new legal powers to make the standards for the mandatory OFR. The legal regulations require quoted companies in Great Britain to prepare an OFR for financial years beginning on or after 1 April 2005.

RS 1 builds on the requirements of the OFR Regulations and the ASB's 2003 statement of best practice on the OFR, which RS 1 now supersedes. It also reflects the responses received to Reporting Exposure Draft (RED) 1, which the ASB issued in November 2004. The main change from RED 1 has been to clarify that the OFR should be for "members" (shareholders), rather than investors more widely. This is both consistent with the legislation and addresses concerns expressed by respondents that a focus on investors would extend directors' liability.

RS 1 sets out:

a. the specification of a number of principles for directors to apply when preparing an OFR; and
b. the provision of key elements of a disclosure framework to apply in order to meet the requirements of the Regulations.

Principles

The principles in particular make clear that the OFR shall reflect the directors' view of the business. The objective is to assist members to assess the strategies adopted by the entity and the potential for those strategies to succeed. While the OFR shall focus on matters that are relevant to members, the information in the review will also be useful to other users.

Further principles require that the OFR shall:

- have a forward-looking orientation;
- complement as well as supplement the financial statements;
- be comprehensive and understandable;
- be balanced and neutral; and
- be comparable over time.

Disclosure framework

The key elements of the disclosure framework cover:

- the nature, objectives and strategies of the business;
- the development and performance of the business, both in the period under review and in the future;
- the resources, principal risks and uncertainties and relationships that may affect the entity's long-term value; and
- the position of the business including a description of the capital structure, treasury policies and objectives and liquidity of the entity, both in the period under review and the future.

It is for directors to consider how best to use this framework to structure the OFR, given the particular circumstances of the entity.

RS 1 also reflects the provisions in the Regulations that "to the extent necessary" to meet the requirements of the key elements set out above, the OFR shall include information about a range of matters, including employees, environmental matters, and social and community issues, with analysis using key performance indicators (KPIs). The ASB has not specified any mandatory disclosures in these areas, recognising that it has to be for directors to judge what is required for an understanding of their business. RS 1 sets out what disclosures should be made for each KPI included in the OFR, in order that members can understand and evaluate each one.

Although following a framework approach, the ASB is conscious that some guidance would be useful to directors and it has accordingly prepared some Implementation Guidance to accompany the Reporting Standard. The Guidance sets out some illustrations and suggestions of specific content and related KPIs that might be included in an OFR.

The ASB will keep RS 1 under review to reflect developments. For example, the ASB will continue to monitor the work of the Review of the Turnbull Guidance on Internal Control, in order to determine what should be the appropriate linkages between the OFR and the statement of internal control. The Board will examine the final output of the review to consider whether any amendment to the Reporting Standard might be necessary.

Copies of RS1 'The Operating and Financial Review' can be downloaded, free of charge, from the ASB's website.

Update on current projects

ASB's future role

As reported in the last edition of *Inside Track*, the ASB has published an Exposure Draft of its Policy Statement 'Accounting Standard-setting in a Changing Environment: The Role of the Accounting Standards Board'. Comments on the draft Policy Statement are requested by 15 September. Copies can be downloaded, free of charge, from the ASB's website.

The latest version of the ASB's Technical Plan is available from the ASB's website at www.frc.org.uk/asb/technical/techplan.cfm.

Financial Instruments

The IASB is issuing a new standard IFRS 7 'Financial Instruments: Disclosures', replacing the disclosure requirements of IAS 32 'Financial Instruments: Disclosure and Presentation' from 2007 (with earlier adoption permitted). It has also issued an amendment to IAS 39 'Financial Instruments: Recognition and Measurement' - The Fair Value Option, which introduces restrictions on the circumstances under which a financial asset or financial liability may be designated as at fair value through profit and loss.

The EU Accounting Regulatory Committee (ARC) has voted unanimously in favour of adoption in the EU of the Fair Value Option. A draft Regulation is currently with the European Parliament. The Commission intends to formally adopt the amended standard as soon as possible, provided the Parliament raises no objections. This will remove one of the 'carve-outs' in the EU-adopted version of IAS 39.

The ASB has issued a statement on its proposals for implementation in the UK of the standards on financial instruments. The ASB has been consulting on plans to issue a new UK standard implementing IFRS 7, and to make amendments to FRS 25 and FRS 26 to keep these in line with the IASB standards. A copy of the statement is available on the ASB website.

Public benefit entities—Further development of the interpretation of the principles for financial reporting

The ASB has been working on an Interpretation of the Statement of Principles (the Statement) to provide a coherent frame of reference to be used in the development of SORPs or other sector specific guidance for public benefit entitles and to assist preparers and auditors faced with new or emerging issues.

The 2003 Discussion Paper on the topic was generally well received. In particular, it is gratifying to note that the term 'public benefit entity' that it introduced has taken on some currency in financial reporting circles. However, unsurprisingly, a variety of views were received on some difficult issues, and we have been working hard to improve the proposals. The ASB has now approved the publication of an Exposure Draft, which will be published shortly.

The Exposure Draft will focus on a number of main issues, including:

Defining class of user
The Discussion Paper suggested that the defining class of user for the financial statements of a public benefit entity should be based on funders and financial supporters. The ASB proposes to retain this in the Exposure Draft, but with some additional explanation.

Liabilities
The interpretation of the definition of a liability for public benefit entities is widely acknowledged as a challenging area insofar as determining the point at which a commitment to provide public benefits gives rise to a liability.

In relation to such commitments the Exposure Draft, consistently with the Discussion Paper, is expected to identify different characteristics of commitments and what these mean for when a liability arises. However, the Exposure Draft will more clearly distinguish those types of commitments that have the substance of a contract for the performance of services and consider executory contracts further.

Other areas the Exposure Draft will cover include:

- Business combinations;
- Contributions that are additions to residual interest;
- Recognising capital grants as gains;
- Notional transactions; and
- Voluntary gifts of assets and services.

Public meeting of National Standard-Setters ('NSS')

The ASB is hosting a meeting of NSS in central London on Sunday 25 September. The meeting will be open to the public. For further details, and to apply to attend the meeting, please contact Erica Taylor at the ASB: e.taylor@frc-asb.org.uk. Places will be allocated on a first-come, first-served basis.

IASB Update

Conceptual framework

The IASB and the US Financial Accounting Standards Board (FASB) have begun a joint agenda project to revisit their conceptual frameworks for financial accounting and reporting. The goals of the project are to develop a common conceptual framework that both Boards can use in developing new and revised accounting standards.

A draft project plan considered by both Boards envisages that the converged framework will be completed by 2010, but that conclusions on a number of priority issues will need to be reached much sooner. The Boards' discussions to date have focused on the objectives and qualitative characteristics of financial reporting.

The IASB and FASB have recently prepared a joint article 'Revisiting the Concepts', which discusses the goals and plans for the project. A copy can be accessed on the IASB website at www.iasb.org/uploaded_files/documents/10_484_communications_paper.pdf.

This is an important project, which the ASB is monitoring closely. The IASB and FASB project is focusing on concepts applicable to private sector business entities. The ASB is working with a number of other national standard-setters to consider the implications of the emerging proposals for public sector entities.

Measurement

The IASB has agreed to publish a discussion paper 'Measurement Bases for Financial Accounting: Measurement on Initial Recognition', prepared by the staff of the Canadian Accounting Standards Board (AcSB). The paper will, however, make clear that the views expressed in it are those of the AcSB staff and not necessarily those of the IASB.

The paper is likely to conclude that the measurement basis to be used on initial recognition should be fair value. Fair value should be derived from market-based values. Where market evidence is unavailable or lacking, other measures may be used, but the objective of simulating what a market-based value would be, if one existed, remains.

The ASB will be examining the proposals in the discussion paper when it is published (likely to be in the next month or so, with a six-month comment period) and will be seeking to engage UK constituents in the debate.

Management Commentary

The IASB has discussed a draft of a preliminary views discussion paper on Management Commentary (the international term for the OFR) that has been prepared by a project team of staff from a number of national standard-setters, including the ASB. The IASB has agreed to publish the discussion paper, once the project team has revised the draft and the Board has reviewed the questions asked of commentators. It is expected that the discussion paper will be issued in the autumn, with a six-month comment period.

Revenue recognition

The IASB and FASB have confirmed that they will continue to work on a joint project on revenue recognition. The Boards have reaffirmed that the general standard should require revenue to be recognised on the basis of changes in assets and liabilities, without consideration of additional recognition criteria, such as earnings or realisation.

The Boards have decided to pursue the project on an approach that would measure performance obligations at the amount that a customer would pay the entity for them. This may be viewed as an 'entry' perspective and is much more akin to the approach of FRS 5 Application Note G than the exit value based 'legal lay-off' approach that the Boards were previously developing.

Convergence with US GAAP: income taxes

The IASB, as part of its short term convergence project with FASB, is planning to issue an Exposure Draft of a revised IAS 12 'Income Taxes' later this year. The scope of the IASB's project is to identify and eliminate any differences between IAS 12 and the equivalent FASB standard. It does not include a more fundamental review of the concepts underlying the standards. The ASB has signalled, in its Technical Plan, that its current intention is to issue a UK Exposure Draft at the same time as the IASB issues its proposals; the UK Exposure Draft would propose introducing a standard based on IAS 12 to replace FRS 16 'Current tax' and FRS 19 'Deferred tax'.

EFRAG Update

At a meeting in June of EFRAG's Technical Experts Group (TEG) and European National Standard-Setters (NSS), an understanding was reached that EFRAG and the NSS should work much more closely together to improve the input from Europe to the global standard-setting process. EFRAG's proposals for how such closer working might work are set out in a paper 'Proactive Accounting Activities in Europe', which can be accessed on the EFRAG website at www.efrag.org. The intention is to start this process immediately, and the Chairman of EFRAG TEG is arranging an initial meeting of a co-ordinating group, in which the ASB Chairman will participate.

EFRAG has also been considering whether to set up a European interpretations support mechanism to identify issues that have the potential to cause inconsistency within the EU and to act as a filter to IFRIC.

UITF and IFRIC Update

Share-based payments

Two draft Abstracts 'Scope of FRS 20 (IFRS 2)' (see Information Sheet 76) and 'FRS 20 (IFRS 2) - Group and Treasury Share Transactions' (see Information Sheet 77) were issued on 2 June for comment by 14 July. They set out respectively the texts of draft IFRIC Interpretations D16 and D17. Since FRS 20 is identical to IFRS 2, the UITF's current intention is to issue the final versions of the IFRIC Interpretations as UITF Abstracts.

FRS 20 (IFRS 2) 'Share-based Payment' requires transactions in which an entity receives goods or services as consideration for equity instruments of the entity (including shares or share options) to be recognised as expenses (or, if appropriate, assets) that should be measured at fair value.

The draft Abstract 'Scope of FRS 20 (IFRS 2)' addresses the situation when an entity issues equity instruments but cannot specifically identify goods or services received. If the identifiable consideration received appears to be less than the fair value of the equity instruments granted, this typically indicates that other consideration (ie goods or services) has been (or will be) received, in which case FRS 20 applies.

Under FRS 20 (IFRS 2), the accounting for a share-based payment transaction depends on whether it is treated as 'cash-settled' or 'equity-settled'. If the transaction is cash-settled, a liability is recognised by the entity receiving the goods or services (and the liability is remeasured to fair value at each reporting date until it is settled). If the transaction is equity-settled, the credit entry is within equity. The draft Abstract 'FRS 20 (IFRS 2) - Group and Treasury Share Transactions' addresses whether share-based payment transactions should be accounted for as cash-settled or equity-settled in the following situations:

(a) an entity either chooses or is required to buy equity instruments (eg treasury shares) to satisfy its obligations to its employees under a share-based payment arrangement;

(b) an entity's shareholder provides the equity instruments of the entity that are needed to settle the share-based payment arrangement;

(c) a subsidiary's employees are granted rights to equity instruments of the parent, where:

 (i) the *parent* entity grants those rights direct to the *subsidiary* entity's employees, or
 (ii) the *subsidiary* entity grants those rights to its employees.

Employee share purchase plans

In December 2004, the IFRIC issued a draft Interpretation D11 'Changes in Contributions to Employee Share Purchase Plans'. It proposed that an employee withdrawing from a SAYE plan should be accounted for as a cancellation. This would have the effect that the whole of the charge that would have been recognised over the vesting period had the employee remained in the plan would be recognised immediately in the profit and loss account. The UITF issued a draft Abstract based on D11 in February, but concluded that the proposed accounting was unsatisfactory.

The IFRIC was unable to reach a consensus and referred the matter to the IASB. The IASB decided in May that an amendment should be proposed to IFRS 2 that would require such events to be accounted for as cancellations. The amendment would therefore impose the accounting proposed in D11. An exposure draft of the proposed amendment is expected shortly.

Waste electrical and electronic equipment ('WEEE')

In November 2004, the UITF issued a draft Abstract 'Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment', setting out the text of IFRIC D10. A final IFRIC Interpretation is expected to be issued shortly, in which the conclusions will be essentially the same as in D10.

The Interpretation, which the UITF has supported, addresses questions about when a liability for decommissioning of WEEE should be recognised under the model specified in the EU's WEEE Directive for attributing costs of recycling historical household equipment to producers who are currently participating in the market. The UK Government announced in March that it plans to make Regulations to transpose the WEEE Directive into law in summer 2005, to be implemented in January 2006.

The UITF has decided to issue an Abstract based on the IFRIC Interpretation, but that the Abstract will not be finalised until the applicable UK legislation has been published.

Emission Rights

In June 2005, the IASB decided to withdraw IFRIC 3 'Emission Rights' with immediate effect (the UITF announced in December that it would not issue a UITF Abstract based on IFRIC 3). The IASB also decided to reconsider in a more comprehensive way the accounting for cap and trade emission rights schemes. This will have regard to its project to amend IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance', which is an important reference standard for accounting by participants in the EU Emissions Trading Scheme.

SORPs update

Statements of Recommended Accounting 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.

Several SORP-making bodies have issued exposure drafts of revisions to their SORPs, updating them to take account of recent developments including the new requirements of FRS 25 (IAS 32) 'Financial Instruments: Disclosure and Presentation' and, where applicable, FRS 26 (IAS 39) 'Financial Instruments: Measurement':

- The Association of British Insurers (ABI) SORP on Insurance Business (which also takes into account the issue of FRS 27 'Life Assurance')
- The Association of Investment Trust Companies (AITC) SORP on Financial Statements of Investment Trust Companies
- The Investment Management Association (IMA) SORP on Financial Statements of Authorised Funds.

The exposure drafts are open for comment for three months from publication, and copies are available from the SORP-setting body (not the ASB). Particulars of all SORP-making bodies can be found on the ASB website at www.frc.org.uk/asb/technical/sorps.cfm.

There are four SORPS currently used in the public benefit entity sector:

- The Charity Commission published the 2005 SORP for charities in March 2005. Revisions made include changes to the SOFA format and revised guidance on cost allocation and grant making.
- The National Housing Federation and the Welsh and Scottish Federations of Housing Associations recently updated the SORP used by the social housing sector. Following consultation, the main changes reflect new standards issued since FRS 19 and accounting guidance on revised contractual arrangements for providing housing support. The Board issued its statement on 12 May and the National Housing Federation published the 2005 SORP Update at the end of May.
- Following its recent consultation, the CIPFA/LASAAC Joint Committee has prepared the 2005 SORP for use by local authorities. As well as incorporating new standards, other amendments reflect changes arising from the pensions SORP and recent legislative changes. The 2005 SORP was published at the beginning of July.
- Universities UK is currently considering the extent of an update required to its SORP for the further and higher education sector.

From PSNC to CAPE

The Public Sector and Not-for-profit Committee (PSNC), which advises the Board on the development of SORPs in the public benefit sector, has been renamed the Committee on Accounting for Public-benefit Entities (CAPE). The ASB's view is that the new name better reflects the Committee's responsibilities.

Appointments

David Devlin has stepped down from the UITF. **John McDonnell**, a Partner with PwC in Dublin, has been appointed to the UITF to replace David.

Jennifer Guest has joined the staff of the ASB as a Project Director. Jennifer's background is in unit trust and pension fund management.

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

Email d.loweth@frc-asb.org.uk

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ASB Publications
145 London Road
Kingston upon Thames
KT2 6BR

Tel: +44(0) 20 8247 1264
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Website: www.asbpublications.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

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