

In the April 2009 issue

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Response to the Financial Crisis continues

The high level of activity in response to the credit crisis continued during the last quarter. A number of global events also took place during that time and the decisions taken at these are likely to have a direct impact on international standard setting in accounting over the coming months. Project Director Seema Jamil-O'Neill explains.

G20 London Summit

The G20 London Summit was held on 2 April 2009. The Leaders' Communiqué issued subsequent to the summit sets out an agreed action plan. The full communiqué (and other documents) can be accessed from the G20 website at <http://www.g20.org/>. A number of actions have implications for accounting, including:

- establishment of a new Financial Stability Board (FSB) with a strengthened mandate, as a successor to the Financial Stability Forum (FSF), including all G20 countries, FSF members, Spain, and the European Commission;
- reshaping regulatory systems so that authorities in the above jurisdictions are able to identify and take account of macro-prudential risks; and
- a call on the accounting standard setters to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of high-quality global accounting standards.

An Annex to the Communiqué, entitled 'Declaration of Strengthening the Financial System' provides more detail on the above agreed action plan. The accounting-related agreed action plan includes the items referred to below.

Enhanced FSF

The Declaration states that the FSF will be expanded and given a broadened mandate to promote financial stability. It will be renamed the Financial Stability Board (FSB). As part of its duties, the FSB will undertake joint strategic reviews of the policy development work of the international Standard Setting Bodies to ensure their work is timely, coordinated, focused on priorities, and addressing gaps.

Authorities Able to Take Account of Macro-Prudential Risks

The Declaration also sets out that the FSB, the Basel Committee of Banking Supervisors (BCBS) and the Committee on the Global Financial System (CGFS), working with the accounting standard setters, should take forward, with a deadline of end 2009, implementation of the recommendations to mitigate procyclicality, including a requirement for banks to build buffers of

resources in good times that they can draw down when conditions deteriorate.

High Quality Global Accounting Standards

On improvement of accounting standards, the G20 leaders called on the accounting standard setters to improve standards for the valuation of financial instruments "based on their liquidity and investors' holding horizons, while reaffirming the framework of fair value accounting". The Declaration goes on to state that accounting standard setters should take action by the end of 2009 to:

- reduce the complexity of accounting standards for financial instruments;
- strengthen accounting recognition of loan-loss provisions by incorporating a broader range of credit information;
- improve accounting standards for provisioning, off-balance sheet exposures and valuation uncertainty;
- achieve clarity and consistency in the application of valuation standards internationally, working with supervisors;

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Response to the Financial Cr

- make significant progress towards a single set of high quality global accounting standards; and,
- within the framework of the independent accounting standard setting process, improve involvement of stakeholders, including prudential regulators and emerging markets, through the International Accounting Standards Board's (IASB's) (sic) constitutional review.

The G20 has also issued reports from four working groups which it had established after its Summit meeting in November 2008, to address issues in the action plan agreed at that meeting. Reports from these working groups were published as part of the G20 London Summit package. Two of these working group (WG) reports contain recommendations that have an impact on accounting standards and the standard-setting process in general, namely:

- WG1: Enhancing Sound Regulation and Strengthening Transparency; and
- WG2: Reinforcing International Cooperation and Promoting Integrity in Financial Markets.

The recommendations related to accounting from the WG1 and WG2 reports set out in more detail the action points referred to above.

FSF Press Release and accompanying reports

Also on 2 April, the FSF announced the issue of a number of reports (available at <http://www.fsforum.org/>).

The report containing the most relevant recommendations is that entitled 'Recommendations for Addressing Procyclicality in the Financial System'. This report includes recommendations on

capital, provisioning, and on valuation and leverage. The most relevant recommendations for the IASB and US Financial Accounting Standards Board (FASB) are included under the 'provisioning' and 'valuation and leverage' heading as follows:

- The FASB and IASB should issue a statement that reiterates for relevant regulators, financial institutions and their auditors that existing standards require the use of judgement to determine an incurred loss for provisioning of loan losses.
- The FASB and IASB should reconsider the incurred loss model by analysing alternative approaches for recognising and measuring loan losses that incorporate a broader range of available credit information. The FSF recommends that the FASB and IASB establish a resource group to provide input on technical issues and complete this project on an expedited basis.
- Accounting standard setters and prudential supervisors should examine the use of valuation reserves or adjustments for fair valued financial instruments when data or modelling needed to support their valuation is weak.
- Accounting standard setters and prudential supervisors should examine possible changes to relevant standards to dampen adverse dynamics potentially associated with fair value accounting. Possible ways to reduce this potential impact include the following:
 - (i) Enhancing the accounting model so that the use of fair value accounting is carefully examined for financial instruments of credit intermediaries.

- (ii) Transfers between financial asset categories.
- (iii) Simplifying hedge accounting requirements.

A number of these recommendations are already being dealt with as part of the IASB's active projects, notably on developing a replacement for IAS 39, including considering alternatives for loan loss provisioning, as well as the amendments made already to IAS 39 and IFRS 7.

IASB actions

On 7 April, the IASB issued a press release setting out its response to the G20 recommendations. The full press release is available from the IASB's website. In it the IASB notes that it is committed to taking action on each of the items recommended by the G20 by the end of 2009.

In recent months, the IASB has:

- a. issued amendments to International Financial Reporting Standard (IFRS) 7 'Financial Instruments: Disclosures' that improve the disclosure requirements about fair value measurements and reinforce existing principles for disclosures about the liquidity risk associated with financial instruments. The ASB is planning to issue parallel amendments to the equivalent UK standard (FRS 29);
- b. issued an Exposure Draft (ED) proposing improvements to the derecognition requirements for financial instruments, as part of its review of off-balance sheet risk. The ASB will be considering the proposals and responding within the comment deadline of 31 July;

crisis continues

- c. at its joint meeting in March with the FASB, discussed possible alternative models for loan-loss provisioning, including so-called 'dynamic provisioning', which has attracted a good deal of attention in recent months, including in the Turner Review of a regulatory review to the global banking crisis and accompanying Financial Services Authority (FSA) Discussion Paper (DP) issued on 18 March. In the light of this attention, the ASB hosted a meeting of UK constituents on 13 March to discuss counter-cyclical measures (notably dynamic provisioning and the proposal for an Economic Cycle Reserve, ECR). Following the issue of the Turner Review, the Board issued a Press Notice on 19 March setting out the consensus view of the meeting, which favoured the idea of an ECR; and
- d. also at their joint meeting, as well as agreeing to work together on loan-loss accounting, the IASB and FASB agreed to work "jointly and expeditiously" towards common standards that deal with off-balance sheet activity and the accounting of financial instruments (the objective on the latter being to issue a new common standard "within a matter of months, not years").

IASB-FASB Financial Crisis Advisory Group

As noted in *Inside Track* 58 the IASB and FASB have set up a joint Financial Crisis Advisory Group (FCAG) to consider financial reporting issues from the crisis. FCAG published a set of seven questions on 9 March 2009 and asked constituents to provide written input to assist it in considering financial reporting issues arising from the crisis. At the time of going to print it has received 54 responses. The ASB's

response to the FCAG request was submitted on 2 April 2009 and can be accessed at:

<http://www.frc.org.uk/images/uploaded/documents/ASB%20Response%20to%20FCAG.pdf>

IASB Request for Input on FASB proposed Staff Positions (FSPs)

On 18 March, FASB issued of two proposed FSPs: one proposing additional guidance on determining whether a market for a financial asset was not active and a transaction was not distressed for fair value measurements; and the second proposed amendments to the impairment approach for financial assets in the form of securities. The proposals had been issued with a 15-day comment period and final versions were approved by the FASB on 2 April the day after the comment period closed) The IASB issued a request for views on the FASB proposals. The ASB's response was submitted on 16 April supporting the IASB's intention not to make piecemeal changes but instead to prioritise the comprehensive project to replace IAS 39

The implications for financial reporting of the financial crisis and the commitments made at the G20 will mean a heavy continuing workload for standard-setters, regulators and other market participants. The ASB and colleagues in the FRC Executive will continue to work with UK constituents, the UK Government, EU partners and the global group of National Standard Setters (NSS) on further proposals as they emerge and in particular to support the objective of having a globally accepted set of high-quality accounting standards.

UITF and IFRIC Update

The UITF held a meeting on the 18 March 2009. The main items discussed were:

IFRIC 17 'Distributions of non-cash assets to owners'

The UITF considered whether to adopt International Financial Reporting Interpretations Committee (IFRIC) Interpretation 17 (IFRIC 17) 'Distributions of Non-Cash Assets to Owners' into UK GAAP. The UITF agreed to defer consideration of adoption of IFRIC 17 into UK GAAP until it was adopted in the EU and to recommend to the ASB that it should defer its consideration of amendment to FRS 21 'Events After the Balance Sheet Date' (to preserve consistency with IAS 10 'Events After the Balance Sheet Date') until IFRIC 17 was adopted in the EU.

Status of adoption of IFRIC interpretations

The UITF reviewed UK adoption of IFRIC Interpretations and considered recommendations on IFRIC Interpretations not already adopted on the basis of whether they related to a UK IFRS-based standard, were otherwise "required" in the UK and their relationship to UK GAAP.

The UITF will issue an Information Sheet summarising the status of adoption of IFRIC Interpretations.

UITF 43 'The interpretation of equivalence for the purposes of Section 228A of the Companies Act 1985'

The UITF considered whether it should review UITF 43 in the light of the European Commission decision on equivalence with IFRS for the purposes of the Transparency and Prospectus Directive and decided that it should not review UITF 43 without first taking advice from the Department for Business, Enterprise and Regulatory Reform on whether UITF 43 was giving rise to any problems.

European developments

European Commission

In February 2009, the European Commission issued a consultation paper on a review of the 4th and 7th Company Law Directives (usually referred to as the Accounting Directives). The current consultation addresses issues relating to reduce the burden of accounting requirements for Small and Medium-sized Entities (SMEs) and other companies in the scope of the Directives. By the Commission's own admission, the review is limited in scope.

The paper is available at:

http://ec.europa.eu/internal_market/consultations/2009/company_law_dir_en.htm

The ASB has responded to the consultation. In its response, the ASB has commented that there is a need for a more comprehensive modernisation of the Directives, which should be assessed as part of a wider review of the legislation, rather than continuing with the piecemeal proposals for change that have been put forward in recent years. The ASB believes that the long-term role of any EU accounting legislation should be to provide the high-level legal framework and principles within which Member States can determine their own accounting requirements. The response is available at: <http://www.frc.org.uk/asb/publications/>.

The Commission has also put forward a proposal to give Member States the option to exempt so-called 'micro-entities' from the provisions of the Accounting Directives. Micro entities would be defined as those companies that on their balance sheet dates do not exceed the limits of two of the three following criteria: balance sheet total of EUR 500,000, net turnover of EUR 1,000,000 and an average number of employees during the financial year of 10. The proposal is currently being considered by the European Parliament and the Council of Ministers.

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 April, the European Financial Reporting Advisory Group (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=350>

Following the recent endorsement of IFRIC 12 'Service Concession Arrangements', there are currently 11 IASB pronouncements yet to be endorsed for use in Europe:

Standards

- **IFRS 1** First-time Adoption of IFRS – Restructured standard (2008)
- **IFRS 3** Business Combinations (2008)

Interpretations

- **IFRIC 15** Agreements for the Construction of Real Estate
- **IFRIC 16** Hedges of a Net Investment in a Foreign Operation
- **IFRIC 17** Distributions of Non-cash Assets to Owners
- **IFRIC 18** Transfers of Assets from Customers

Amendments

- **IAS 27** Consolidated and Separate Financial Statements (2008)
- **IAS 39** Amendments for Eligible Hedged Items
- **IAS 39** Amendments for Reclassification of Financial Assets
- **IFRS 7** Amendment – Improving Disclosures About Financial Instruments
- **IFRIC 9** and **IAS 39** Amendment – Embedded Derivatives

EFRAG issues

Following the implementation of the European Financial Reporting Advisory Group (EFRAG) enhancement proposals (reported in *Inside Tracks 57 and 58*), the EFRAG Supervisory Board (SB) on 8 April announced the appointment of an interim Planning and Resources Committee (PRC). It is termed 'interim' as a call for nominations for a number of 'public' members to serve on the PRC has still to be issued. The role of the PRC will be to set the agenda for proactive work (undertaken currently under the Pro-active Accounting Activities in Europe, PAAinE, initiative). ASB Chairman Ian Mackintosh is a member of the interim PRC.

PAAinE DP on reporting performance

The above DP was published on 25 March. The DP seeks to address a number of fundamental issues about the presentation of financial performance information that the IASB-FASB DP 'Financial Statement Presentation' (see page 6) does not address. Those issues include:

- What is 'performance' and does net income capture it?
- Should the net income line be retained?
- (If it should be retained), what should the basis be for determining whether something is within net income or outside net income?
- What role should recycling have in performance reporting?

The ASB and a number of other European standard-setters have welcomed the PAAinE DP as a contribution to the debate, although we do not necessarily sign up to the views expressed in it. The DP is out for comment until 30 September and can be accessed at :

<http://www.frc.org.uk/asb/technical/projects/project0023.html>.

National Standard-Setters (NSS) April meeting

As part of the ASB's influencing role, 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 on 8-9 April, was attended by 16 NSS, plus representatives of the International Accounting Standards Board (IASB), EFRAG and a number of other organisations. The meeting attracted a great deal of interest from representatives of organisations in the region, with 16 registered observers from the Eastern, Central and Southern African Federation of Accountants (ECSAFA) and 43 registered observers from South African bodies. Among other things, the group considered items on the global financial crisis, a project on accounting for tax (being led jointly by the ASB and the German Accounting Standards Board, see this page), a proposal from the French standard-setter to review IFRS 2 'Share-based payment', reporting financial performance, and assessing the effects of accounting standards.

International Accounting Standards Committee Foundation (IASCF) Review of the Constitution

The IASCF Constitution commits the Trustees to undertake a five-yearly review of the organisation's constitutional arrangements. The second such review is now underway. Two decisions have already been made by the Trustees as part of the review:

1. the Trustees have established a formal link to public institutions with the setting up of a 'Monitoring Board' (MB). The MB consists of representatives of public authorities that have generally overseen accounting standard-setters: the European Commission (EC); the Chairs of the Emerging Markets Committee and the Technical Committee of the International Organisation of Securities Commissions (IOSCO); the Financial Services Agency of Japan (FSAJ); and the US Securities and Exchange Commission (SEC). The MB held its first meeting in London on 1 April; and

2. the size of the IASB is to be increased from 14 to 16 members by 1 July 2012, with the introduction of a 'normal' geographical spread in the IASB membership, on a best endeavours basis by the Trustees, with four members from each of North America, Europe, Asia/Oceania, one member from each of Africa and South America, and two from any area (the last subject to maintaining geographical balance).

The Trustees' consultation on other aspects of the review closed on 31 March. The Financial Reporting Council (FRC) responded to the consultation and a copy of the response is available at:

<http://www.frc.org.uk/publications/pub1897.html>. The response highlights the need to use the review to strengthen and provide greater focus to improving the quality of financial reporting through a globally accepted set of accounting standards.

Tax Research Project

Project Director Mario Abela outlines the ASB's progress on the Board's tax project

Work continues on the Board's tax project which it is undertaking jointly with the German Accounting Standards Board. The aim of the project is to consider tax accounting from first principles and develop an approach that addresses the information needs of users, particularly investors and creditors. The project is responding to the criticisms that the liability approach in IAS 12 "Income Taxes" fails to provide users with useful information about the effect of taxes on an entity's financial performance and balance sheet.

The project is supported by a panel of tax and financial reporting experts from Germany and the UK. The Panel met twice in March and considered a range of issues including: which taxes should be considered within the scope of the project, the information needs of users of the financial statements; and whether deferred taxes qualified as a liability (or asset) under the IASB's conceptual framework. The next Panel meeting will be in June where the principal focus will be on how to measure tax effects in the financial statements.

The IASB issued its Exposure Draft on ED 2009/02 "Income Taxes" on 31 March and the comment period closes on 31 July 2009. The Board will review the ED at a forthcoming meeting.

Leases

In March 2009 the IASB and FASB published their discussion paper (DP) 'Leases: Preliminary Views'. ASB Project Director Melanie Kerr summarises the proposals in the discussion paper.

The DP proposes a new model for lease accounting based on the recognition principle that for all leases, the lessee will recognise the right to use the leased item as an asset and the obligation to pay rentals as a liability. Application of this principle will eliminate the existing differences in accounting for 'operating' and 'finance' leases.

Measuring the right-of-use asset

The DP proposes to measure the right-of-use asset as follows:

- single asset as opposed to separate measurement of the various components (renewal and purchase options, contingent rentals, etc);
- initial measurement at cost, which equals the present value of the lease payments discounted at the lessee's incremental borrowing rate;
- leases with term options to use most likely lease term; and
- subsequent measurement at amortised cost.

Measuring the liability

The DP proposes to measure the obligation to pay rentals as follows:

- single obligation that includes components such as residual value guarantees and contingent rental obligations;
- initial measurement at present value of the lease payments, discounted at the lessee's incremental borrowing rate; and
- subsequent measurement at amortised cost.

Contingent rentals

The IASB's preliminary view is that the obligation to pay contingent rentals should be measured based on a probability weighted estimate. The FASB took the view that measurement should be based on the most likely rental payments – which would not necessarily equal the probability-weighted estimate.

Scope of the paper

The DP focuses on lessee accounting, with detailed consideration of lessor accounting issues being deferred to a future project. The paper highlights the issue of a new standard for lessees before a new standard for lessors will result in application of different accounting models in the interim.

Comments on the DP are requested by 17 July 2009.

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Heritage Assets

ASB Project Director Alan O'Connor explains the ASB's conclusions on accounting for heritage assets

The Board has now completed its work on heritage assets and expects to publish a new Financial Reporting Standard around the end of May 2009. The new standard will be applicable for accounting periods beginning on or after 1 April 2010 and will apply to heritage assets that are held and maintained by an entity principally for their contribution to knowledge and culture.

Any debate on accounting for heritage assets will inevitably generate a wide range of views. The Board has listened carefully to these views over the course of its project and acknowledges that the financial reporting of heritage assets presents some very difficult and challenging issues.

Throughout the project, the Board has retained the view that, conceptually, heritage assets are assets and that the best financial reporting is achieved when heritage assets are reported as tangible fixed assets in the balance sheet. The Board also considers that a current valuation will provide more useful and relevant information than historical cost, although it is acknowledged there can be difficulties in obtaining current valuations for heritage assets.

The main features of the new FRS are:

- The accounting in respect of the recognition and measurement of heritage assets follow the requirements of FRS 15. This will result in the continued reporting of at least some of an entity's heritage assets in the balance sheet. In the Board's view, this is preferable to not reporting any assets in the balance sheet, even where, as under the current approach, it results in the reporting of recently acquired assets at cost.
- new disclosure requirements for the reporting of heritage assets, which apply whether or not they are reported in the balance sheet. These disclosures will provide information about the nature and scale of heritage assets held by the entity as well as information on the entity's stewardship of these assets, including policies for the acquisition, preservation, management and disposal of heritage assets.

- The disclosures will also make clear the extent to which heritage assets are reported in the balance sheet and mitigate the disadvantages of an entity reporting only part of their total holding of heritage assets in the balance sheet. Illustrative examples of disclosures are provided in an Appendix to the FRS.

- To encourage a valuation approach, the FRS will allow entities to use internal valuations without the need for a full valuation every five years.

The new standard includes an Appendix 'The Development of the FRS' which sets out the alternative approaches considered by the Board for the reporting of heritage assets, including those exposed for comment in its Discussion Paper and two Exposure Drafts. The Appendix also explains the Board's conclusions on specific issues such as the scope of the FRS, the need for impairment reviews and the reporting of donations.

Revenue Recognition Update

On 19 December 2008 the IASB published a Discussion Paper (DP) – Preliminary Views on Revenue Recognition in Contracts with Customers. The DP has been prepared as part of a joint project by the IASB and the FASB and it sets out the boards' preliminary views. Those views may be modified in the light of comments received before being published as an exposure draft of a proposed standard.

The discussion paper proposes a single revenue recognition model to be applied to all contracts under which revenue is earned, based on allocating revenue to the different performance obligations in the contract, as well as a single revenue recognition model based on changes in the contract asset or liability with the customer. The rights under a contract would be recognised as revenue as the entity satisfies performance obligations in the contract. Under the proposed model the contract with a customer would be broken down into separate performance obligations on the basis of their relative selling prices, observed or estimated, on a stand-alone basis. The contract price would be recognised as revenue as each performance obligation is satisfied. A performance obligation would be remeasured only if deemed onerous.

The ASB will be responding to the DP within the comment period which expires

on 19 June 2009. The IASB project team are beginning to develop a draft of the ED and continuing to cover issues on revenue recognition which were not included in the DP. June 2011 is now the planned date for the IASB to issue the general revenue recognition standard.

ASB responds to IASB on Financial Statement Presentation

As noted in *Inside Track 58* in October 2008 the IASB published a discussion paper (DP) *Preliminary Views on Financial Statement Presentation*.

The ASB responded to the DP in March 2009. The response welcomed the retention of net income as a line item and outlined a number of concerns with the proposals – the key concerns are:

- The DP did not address its original objective of considering principles to underpin the calculation of net income.
- Application of the cohesiveness principle in the way proposed by the discussion paper will not make the financial statements more decision useful. For example, the DP proposes that the defined benefit pension net obligation/asset be classified as operating, and that in light of this classification, the current service cost, expected return on plan assets and interest cost be classified as operating also.
- The DP proposes to require preparation of the cash flow statement using the direct method. We are concerned that, given many users have stated their preference for an indirect method cash flow statement, that the costs of this proposal will exceed the benefit.
- The proposed reconciliation schedule is a lengthy and cumbersome disclosure and in our view many of the numbers in the reconciliation are of little information value.
- The management approach to categorising assets and liabilities has the potential to greatly reduce the ability to compare financial statements between entities. As such, there may be need for some practical classification guidelines.

nt projects

In our view, it is possible to make fewer, less radical changes than those proposed in the DP while still supplying the majority of the useful information. For example, by addressing user's requests for:

- a net debt reconciliation
- an operating earnings before remeasurements sub-total
- isolation of one-off gains and losses
- a more detailed segmental reporting note

Annual improvements

The Board is currently assessing the issues that need to be addressed as part of its annual improvement programme for UK GAAP. The principal driver for any changes to UK GAAP will be amendments made by the IASB to IFRS as part of its annual improvements. The IASB has recently issued revisions to its standards. The Board will review those amendments and relevant issues raised in the UK to finalise its annual improvements with a view to issuing a FRED in the second quarter of 2009.

IFRS for NPAEs and the future of UK GAAP

At its meeting in March 2009 the IASB decided unanimously that re-exposure was not required. Staff are now in the process of finalising a pre-ballot draft and plan to publish the standard by the end of June 2009. The Board discussed the unfavourable reaction to its tentative decision in January 2009 that the name of the final standard should be IFRS for NPAEs. The Board discussed alternative names and expressed a preference to revert to IFRS for Private Entities, with simplified IFRS as a second preference. Board members discussed the name with representatives of the NSS at their meeting in April 2009, where the most votes were cast to revert the title to the IFRS for Small and Medium-sized Entities (SMEs) (at the time of writing the name of the final standard is still subject to change). Now that the IASB appears likely to publish the IFRS for NPAEs the ASB is in a position to move to finalise its consultation paper on the future of UK GAAP. The intention is that this consultation paper will be published by the end of July 2009.

Complexity project discussion paper: coming soon

As noted in *Inside Track* 58, the Financial Reporting Council (FRC) has been researching ways to decrease the complexity and improve the relevance of corporate reporting.

The project team plans to publish a discussion paper with some recommendations for reducing complexity in late April or early May 2009.

Redeliberations on the Pro-Active Accounting in Europe (PAAinE) Discussion Paper 'The Financial Reporting of Pensions'

On 31 January 2008, the ASB published a discussion paper (DP) that takes a fresh look at – and is designed to stimulate discussion on – the principles that might be reflected in a future accounting standard on pensions. The ASB is currently deliberating responses to the DP. The following tentative decisions have been reached by the ASB in its redeliberations of the DP:

- the pension liability should not include estimates of future salary increases;
- the unit of account should be based on the liability due to the individual employee;
- pension assets and liabilities should be recognised immediately;
- to consider the views of some respondents regarding its view in the DP that the actual return in the value of assets held to fund pensions should be presented as part of finance income. The ASB will consider alternative presentation options; and
- that the cash flows to be used in measurement of the pension liability should be explicit; based on observable market prices adjusted for entity specific circumstances; unbiased whilst incorporating all available information on present earned benefits; and correspond to conditions at the end of the reporting period. The ASB noted that in some circumstances this would change cash flows currently used by actuaries to measure pension liabilities, as currently some allowance is made for risk.

The ASB aims to produce a final document this summer.

Consolidations

The closing date for responses to the IASB's ED 10 'Consolidated Financial Statements' was 20 March 2009. ED10 proposes the application of a control model in a single IFRS to replace IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation-Special Purpose Entities'. The main objective of the consolidation project is to improve the definition of control so that it can be applied to all entities. The ASB has submitted a response to the DP that can be found on its website.

In deliberating the IASB's proposals the ASB held roundtable discussions for UK and Republic of Ireland constituents. The roundtable discussions were very helpful in assisting the ASB to develop its response to the ED.

In its response to the ED the ASB supports the aims outlined in ED 10 to improve the definition of control and ASB agrees with the IASB that a single principle of control that can be applied to all entities would be a conceptual improvement on the guidance provided by IAS 27 and SIC-12. The ASB considers that to achieve this conceptual improvement clearly defining control and providing clear guidance on the application of the definition is a fundamental requirement. The ASB is of the view that ED 10 does not yet meet this fundamental requirement.

FRS 8 and SMEs

The Board has received an enquiry as to whether the amendment to FRS 8 issued in December 2008 exempts medium-sized companies from its requirements. The short answer is no. The Board's intention in issuing the amendment was to maintain the status quo for medium-sized companies, such that they continue to provide disclosures on related parties.

Small companies applying the Financial Reporting Standard for Smaller Entities (FRSSE) remain exempt from FRS 8, but are still required to apply the related party provisions set out in Section 15 of the FRSSE. Given that the FRSSE already contains a simplified definition of 'related parties', the Board has no immediate plans to amend that definition in the light of the amendment to FRS 8.

SORPs Update

Local Authorities

The ASB will consider a final draft of the 2009 Code of Practice for Local Authority Accounting in May. This is the last SORP that will be prepared under the ASB's SORP regime and it will apply for local authorities' 2009-10 accounts. The main developments are in respect of accounting for PFI schemes and similar arrangements and accounting for property taxes.

CIPFA/LASAAC is also taking forward work on developing an IFRS based Code of Practice. This will apply from 2010-11 and is being prepared under revised governance arrangements involving oversight by the Financial Reporting Advisory Board (FRAB).

The CIPFA website shows the proposed structure of the IFRS-based Code and includes draft chapters, as approved by CIPFA/LASAAC. The website notes these drafts may change as the development of the Code progresses or following review by the FRAB. It also explains that CIPFA/LASAAC will formally consult on the IFRS based Code during the summer of 2009.

Charities

The Charity Commission and the Office of the Scottish Charity Regulator, as the joint SORP making body for the charity sector, are taking forward a research programme to learn from stakeholders how the next Charities SORP could better reflect their needs in reporting and accounting. Further information on the research programme is available on the Charity Commission website.

Registered Social Landlords

The RSL SORP Working Party is consulting on a number of issues as part of its work to oversee the development on the next SORP, which is likely to be published in 2010. Following a consultation on Component Accounting, there are currently three consultation papers out for comment. These are on impairment; business combinations (mergers and acquisition accounting); and the treatment of goodwill and intangibles on acquisition (negative goodwill). Comments are invited as soon as possible but no later than Wednesday 6 May.

Further information, including copies of the consultation papers, is available on the National Housing Federation website.

People

Peter Chidgey and **Peter Holgate** were reappointed to the Urgent Issues Task Force (UITF) for a further term, and **Andrew Baigent** and **Professor Richard Laughlin** were reappointed to the Committee on Accounting for Public-benefit Entities (CAPE) for a further term.

On the staff side, Board Secretary and Project Director **Simon Peerless** has retired, with fellow Project Director **Peter Godsall** taking over the reins on the Secretary's duties.

Further Information

For further information on any of these topics please contact **Peter Godsall** at Aldwych House.

Email: p.godsall@frc-asb.org.uk

The Board's Publications

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

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