



ACCOUNTING STANDARDS BOARD

**Minutes of a meeting of the Accounting Standards Board (2006:08)
held on 13 July 2006 at Aldwych House, 71-91 Aldwych, London WC2**

PRESENT

Ian Mackintosh	Chairman
David Loweth	Secretary and Acting Technical Director
Mike Ashley	
Marisa Cassoni (MC)	
Robert Overend	
Helen Weir	
Peter Westlake	

IN ATTENDANCE

Sir David Tweedie	Chairman, IASB (item 10 only)
Andrew Lennard	Director of Research
Ian Drennan	IAASA Observer
Ben Higgin	DTI
David Watkins	HM Treasury
Evelyn Ryle	Minutes Secretary

Technical Staff: Michelle Crisp (MDC), Jennifer Guest, Alan O'Connor and Simon Peerless.

APOLOGIES FOR ABSENCE were received from Roger Marshall and Jonathan Symonds.

1 MINUTES

The minutes of the meeting held on 29 June 2006 (2006:07) were agreed and approved for publication.

2 CHAIRMAN'S UPDATE AND REPORTS

The Chairman reported that he had presented the ASB's annual business and performance review to the Financial Reporting Council (FRC) Board of Directors on 11 July 2006. He had laid particular emphasis on the ASB's influencing role which involved research, two-way communication with the UK constituency, working with Europe, national and international standard-setters, and with the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB).

The Chairman reported on the meeting between the International Public Sector Accounting Standards Board (IPSASB) and National Standard-Setters (NSS) which took place on 5 July 2006. Two collaborative projects had been agreed: (a) to develop a public sector conceptual framework; and (b) to develop authoritative guidance to entities that were party to service concession arrangements. This would cover both the grantors (which were usually public sector entities) and the operators. The ASB was collaborating on both.

The Board noted that concerns were being expressed in Europe about the first phase of the IASB-FASB Conceptual Framework project, particularly in relation to stewardship. Board members made a number of suggestions in relation to engaging the constituency in the issues raised by the project.

The Board noted that Jonathan Symonds was not seeking re-appointment to the ASB after the end of his current term in August 2006. A replacement was being sought.

The Board noted the status report and the activity report.

3 PROPOSED IASB EXPOSURE DRAFT ON EARNINGS PER SHARE CONSEQUENTIAL AMENDMENT TO FRS 22

The Board noted that the IASB was proposing to issue an exposure draft (ED) to amend IAS 33 to maintain convergence with FASB Statement 128, Earnings per Share (EPS). The proposal would amend the application of the treasury stock method of calculating diluted EPS in relation to options, warrants and similar instruments, changing the definition of assumed proceeds to include the carrying amount of the option or warrant where this was classified within liabilities. Further, the IASB was proposing to extend the use of the treasury stock method to calculating the dilutive effect of convertible instruments.

The Board expressed some concerns about the impact of the proposed changes which would lead to inconsistency and increased complexity in the calculation of EPS. The logic behind the proposed extension to convertibles was also questioned.

That said, the Board agreed that a draft UK ED, to maintain convergence between IAS 33 and FRS 22, should be considered at its September meeting. However, if the IASB's ED was issued during August, a draft UK ED could be circulated to the Board for urgent approval by correspondence.

4 DRAFT DUE PROCESS HANDBOOK FOR THE INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC)

The Board considered the draft Due Process Handbook for IFRIC issued for comment by the International Accounting Standards Committee Foundation (IASCF). In relation to the IFRIC Agenda Committee, the Board noted that the Committee was small and had no decision-making powers. The Board therefore did

not support the suggestions in the draft European Financial Reporting Advisory Group (EFRAG) comment letter that the Agenda Committee should be geographically representative and that it should meet in public.

The Board noted that concerns had been expressed about the progress of items through the Agenda Committee and agreed that the best approach would be to require the publication of lists of items referred to IFRIC, items still under consideration, and items on which a recommendation had been made to IFRIC by the Agenda Committee. With that exception, the Board was content with the proposed due process for the Agenda Committee.

The Board agreed that the criteria against which IFRIC assessed proposed agenda items were appropriate. The Board further agreed that a 30-day consultation period was sufficient for issues not added to the IFRIC agenda. The Board also supported the proposal that IFRIC should not give assurances on whether local interpretations were or were not consistent with IFRS.

Letters to EFRAG and to the IASCF, making clear the Board's views, would be circulated for approval outside the meeting.

5 HERITAGE ASSETS

The Board noted the favourable response to the Discussion Paper on accounting for heritage assets and the general agreement that the existing accounting procedures were unsatisfactory. The Board agreed that an accelerated approach should be adopted towards taking forward the proposals from the Discussion Paper, provided that the three key principles from the Discussion Paper were adhered to and that the Charity Commission, the Office of the Scottish Charities Regulator, and H M Treasury were closely involved. Certain issues relating to scope and definition would need to be resolved.

The Board agreed that it should make public its decision to adopt an accelerated approach, in order to put the sector on notice that such an approach was being adopted.

6 STATEMENT OF PRINCIPLES FOR FINANCIAL REPORTING; PROPOSED INTERPRETATION FOR PUBLIC BENEFIT ENTITIES

The Board received an update on the proposed Interpretation for Public Benefit Entities (PBEs) of the Statement of Principles for Financial Reporting (SoP). The Board noted that the Committee on Public-Benefit Entities (CAPE) had established a sub-group to work on some of the issues that had arisen in the response to the Exposure Draft.

The Board noted parallel international work including the joint IASB/FASB conceptual framework project and the project that IPSASB had recently agreed.

On the issue of liabilities, the Board looked forward to further details of what was proposed and asked that these should contain concrete examples to illustrate the difficulties that were concerning respondents.

7 IFRIC SERVICE CONCESSION ARRANGEMENTS

The Board received an update on the progress of IFRIC's draft interpretations on service concessions, D 12, D 13 and D 14. Although there had been considerable criticism of the IFRIC drafts, IFRIC was proposing only minor amendments and clarifications; the scope would remain narrow.

The Board noted that a number of issues remained to be resolved, including the treatment of operations and maintenance obligations. IFRIC was planning to combine the three draft interpretations into a single interpretation, to be issued in the last quarter of 2006.

8 URGENT ISSUES TASK FORCE (UITF) APPOINTMENTS

The Board agreed the reappointments to the UITF of Andrew Vials and Geoffrey Mitchell.

It was agreed that the UITF would be the subject of discussion at a future Board meeting.

9 IASB UPDATE

The Board noted the 'Update' report of the IASB's June meeting.

10 DISCUSSION WITH IASB CHAIRMAN

The Chairman welcomed Sir David Tweedie, Chairman of the IASB, to the meeting and stressed how much the ASB valued the co-operation with the IASB, at board and at staff level.

In discussion, Sir David and the Board covered:

- (a) short-term convergence between International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Practice (GAAP), including the background to the Memorandum of Understanding (MoU) between the IASB and FASB and the rationale for the convergence project. The aim was to complete the work by late 2007 or early 2008, after which it would be possible to have deemed equivalence between international standards and US accounting standards. That would encourage increasing numbers of countries to adopt international standards.

- (b) the IASB and 'Europe', including the introduction of twice yearly meetings as part of the arrangements to enhance links. It was useful for the IASB to have the European input on issues.

It was noted that there was increasing pressure to remove the EU carve-out and, more widely, to move to audit report wording that referred to compliance with IFRS rather than compliance with IFRS as approved by particular countries. In order to take account of practical and translation problems, the IASB was moving towards a standard 12-month implementation period. It was hoped that 2009 would be a big-bang date for all countries and that prolonged convergence programmes could thereby be avoided.

- (c) making effective use of National Standard-Setters (NSS) other than the FASB – it was noted that the ASB's work on pensions and on leasing was extremely helpful to the IASB since both were priorities. Round tables were particularly useful, and it was hoped it would be possible to use them more in an advisory capacity before IFRSs were finalised.
- (d) concerns about the increasing complexity of standards and a growing tendency to replace familiar terms with much less familiar terms.
- (e) 'hot topics', including fair value measurement and the IASB's project on Small and Medium-Sized Entities (SMEs).

11 NEXT MEETING

Thursday, 14 September 2006, at 9.00 am.