



ACCOUNTING STANDARDS BOARD

**Minutes of a meeting of the Accounting Standards Board (2007:12)
held on 4 October 2007 at Aldwych House, 71-91 Aldwych, London WC2**

PRESENT

Ian Mackintosh	Chairman
David Loweth	Technical Director
Nick Anderson	
Edward Beale	
Marisa Cassoni (MC)	
Peter Elwin	
Robert Overend	
Andy Simmonds	
Helen Weir	
Geoffrey Whittington	

IN ATTENDANCE

Nigel Bankhead	Board for Actuarial Standards (items 6-8)
Guus van Eimeren	KPMG (item 7)
Andrew Lennard	Director of Research
Simon Peerless	Secretary
Evelyn Ryle	Minutes Secretary

Technical Staff: Michelle Crisp (MDC), Jennifer Guest, Seema Jamil-O'Neill and Hans Nailor.

APOLOGIES FOR ABSENCE were received from Mike Ashley.

1 MINUTES

The minutes of the meeting held on 13 September 2007 (2007:11) were agreed and approved for publication.

2 CHAIRMAN'S UPDATE AND REPORTS

2.1 The Board noted that the Securities and Exchange Commission (SEC) had so far received around 112 responses to its consultation on the proposal to permit financial statements from foreign private issuers to use International Financial Reporting Standards (IFRS) without reconciliation to US GAAP (Generally Accepted Accounting Principles). The response from the European Commission had asked that IFRS as adopted by the European Union (EU) should be accepted as equivalent to IFRS for that purpose. Some responses had asked that IFRS as adopted by the EU should be reconcilable to full IFRS rather than to US GAAP for the purpose.

2.2 The Board noted that the International Accounting Standards Board (IASB) was aiming to publish its revised IFRS 3, *Business Combinations*, by the end of October 2007. The IASB's December meeting would consider, *inter alia*, agenda proposals for projects on intangible assets, common control transactions, emission rights trading and government grants, and the management commentary.

2.3 The Board received an update on the IASB's annual meeting with World Standard Setters (WSS) and noted that a number of EU member states, and other states, expressed support for, and were planning to introduce, the proposed IFRS for Small and Medium-sized Entities (SMEs).

2.4 The Board received an update on a meeting of National Standard Setters (NSS) which had included a number of new members who had participated fully.

2.5 The Board noted that the report (prepared by the ICAEW) for the European Commission on the implementation of IFRS was to be launched in Brussels on 18 October 2007. The report was understood to be generally favourable.

2.6 The Status Report was approved for publication on the website.

3 IASB UPDATE

3.1 The Board noted the IASB Update, reporting on the IASB's meeting on 18-21 October, 2007. The IASB was proposing to add a reference to 'owners' to the definition of the objective of general purpose external financial reporting in its joint conceptual framework project with the US Financial Accounting Standards Board (FASB). The IASB was also proposing changes to International Accounting Standard (IAS) 19, *Employee Benefits*, under its annual improvements process. The Board was concerned that the proposed changes might fail to have the desired effect. Explanatory material on the proposed changes was awaited.

4 EFRAG DRAFT ENDORSEMENT ADVICE ON IAS 1 (REVISED)

4.1 The Board noted that EFRAG was proposing to recommend to the European Commission that the IASB's revised IAS 1, *Presentation of Financial Statements – A Revised Presentation* should be endorsed for use in the EU. The Board approved a response to EFRAG endorsing EFRAG's conclusions.

5 PROPOSED AMENDMENT TO FRS 26 (IAS 39) FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT: EXPOSURES QUALIFYING FOR HEDGE ACCOUNTING

5.1 The Board considered an ASB Exposure Draft (ED) to replicate the IASB's amendment to IAS 39 to clarify when an entity could hedge portions of a financial

instrument. The existing text had led to debate and differing interpretations of the reference to a 'portion'.

5.2 The Board agreed that there was some uncertainty over the completeness of the IASB's proposed clarifying list of exposures qualifying for hedge accounting. However, since the document was only an ED, respondents would be at liberty to demonstrate any flaws or omissions in the list. The Board therefore approved the issue of the ED, subject to minor amendment.

6 IASB DISCUSSION PAPER: PRELIMINARY VIEWS ON INSURANCE CONTRACTS

6.1 The Board considered a first draft of a response to the IASB's Discussion Paper (DP), *Preliminary Views on Insurance Contracts*. In July 2007, the Board had published its own briefing paper on the website setting out the wider implications of the IASB's insurance proposals, but without including any ASB views on those proposals.

6.2 The Board agreed that, while the IASB's DP was a useful step forward, there were many proposals in it that gave rise to concern. Points on which the Board expressed particular concern included:

- potential read-across to other areas of general financial reporting;
- the use of 'unbiased', apparently meaning 'non-entity-specific', in the measurement of insurance liabilities in cases where markets were purely hypothetical;
- the use of hypothetical markets to produce market assumptions for cash flows;
- the definition of 'service margin';
- the effect of calibration of margins on otherwise identical liabilities;
- potential implications for revenue recognition;
- potential implications for accounting for intangibles;
- the writing-off of acquisition costs;
- the unit of account.

6.3 The Board commissioned a further draft response to the IASB for its next meeting. The revised draft would be considered along with EFRAG's draft response to the IASB.

7 PENSIONS: DRAFT DISCUSSION PAPER

7.1 The Board considered and commented on a number of draft chapters for the proposed Pensions Discussion Paper (DP).

7.2 On draft chapter 1, *Introduction* to the DP, the Board noted various revisions which had been made to the text it had previously discussed. The first chapter would have to be revised further once the following chapters had been agreed.

7.3 On draft chapter 2, *Liabilities to pay benefits*, the Board noted the new material on the unit of account, setting out alternative views. The discussion of the appropriate unit of account was also relevant to the issue of whether future salary increases – where there were also alternative views – should be taken into account in determining the liability. New material had also been included on contingent benefits, and on guaranteed indexation benefits for leavers.

7.4 The Board had considered a draft of chapter 3, *Assets and liabilities – reporting entity considerations*, at a previous meeting and had been generally content with it. The draft set out various scenarios for funding or not funding liabilities, with tables setting out, for each scenario, assets and liabilities, and rights and obligations. The section on consolidated financial statements had been amended to consider indicators as to whether or not an entity controlled the pension fund. The IASB's most recent working definition of when a parent entity controlled another had given rise to concerns about indicators of control.

7.5 The Board considered draft chapter 10, *Multi-employer plans*, and noted that difficulties arose in relation to allocation and the allocation keys to be used. There was an argument for widening the scope of the chapter to include situations where there was a defined-benefit right but where the employer was not wholly responsible for it for all time. The impact on the profit and loss account needed to be considered.

7.6 Draft chapter 4, *Recognition of pension assets and liabilities*, had been prepared, at the Board's request, in order to separate the material on recognition from that on presentation. A new section had been introduced to address the recognition of past service costs.

7.7 The Board considered draft chapter 5, *Measurement of liabilities to pay benefits*, and noted the need to resolve potential confusion over the use of terms such as 'transfer' and 'settlement'. The Board took the view that credit risk should not be included in the present value measurement of liabilities.

7.8 The Board considered a revised draft of chapter 8, *Presentation in Financial Statements* and noted that the question of presentation was made more complex because of the IASB's ongoing project on the subject. The issue was whether separate presentation of the pension fund improved the information in the statement of comprehensive income. There were differing views on that issue and on how the movements in liabilities and in assets (expected versus actual return) should be shown.

7.9 The Board noted that discussion at the next meeting would focus on risk and discounting, and the Board would consider those chapters that had not been discussed at the current meeting. The aim remained to complete the discussion paper by the end of 2007.

8 NEXT MEETING

Thursday, 25 October 2007, at 9.00 a.m.