ACCOUNTING STANDARDS BOARD MARCH 2004 DISCUSSION PAPER

DISCUSSION PAPER

UK ACCOUNTING STANDARDS: A STRATEGY FOR CONVERGENCE WITH IFRS

ACCOUNTING STANDARDS BOARD

For the convenience of respondents, the text of the 'Invitation to comment' section of this Discussion Paper can be downloaded (in Word format) from the ASB website (www.frc.org.uk/asb).

For ease of handling, we prefer comments to be sent by e-mail (in Word format), to:

convergedp@asb.org.uk

Comments may also be sent in hard copy to:

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The Board approved the issue of this Discussion Paper on 18 March 2004.

Comments should reach us by 30 June 2004. All comments will be treated as on the public record unless the writer seeks confidentiality. If you are sending a confidential response by e-mail, please include the word 'confidential' in the subject line of your e-mail.

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PREFACE

1 The EU Regulation that requires the consolidated accounts of listed companies to comply with EU adopted international standards, and the Government's proposals for its implementation in the UK, have very significant consequences for the Accounting Standards Board ('ASB') and for the future of UK accounting standards.

2 As is more fully explained in the body of this paper, the ASB believes that, in the environment resulting from these initiatives:

- there can be no case for the use in the UK of two sets of wholly different accounting standards in the medium term; and
- it should not seek to issue new standards that are more demanding or restrictive than International Financial Reporting Standards ('IFRS').

These propositions require a concerted effort from the ASB to bring UK accounting standards into line with IFRS. The Board intends to achieve this as quickly as possible whilst avoiding the burden of excessive changes in any one year and, in particular, minimising the cases in which an entity using UK standards may be required to make successive changes of accounting policy in respect of the same matter.

3 The objective of this paper is to set out the ASB's views on the possible development of UK accounting standards and to consult on its plans.

4 The ASB believes that its constituents wish UK views to be significantly represented in the development of IFRS. It plans to continue to devote significant resources to working with, and influencing the work

of, the International Accounting Standards Board ('IASB'), the International Financial Reporting Interpretations Committee ('IFRIC') and other international bodies, including the European Financial Reporting Advisory Group ('EFRAG'). The ASB will continue to maintain its dialogue with constituents in the UK and Republic of Ireland and encourage them to make their views known directly to such bodies.

5 The ASB also intends:

- to continue to address issues that arise in the context of UK standards either through UK accounting standards or through its Urgent Issues Task Force ('UITF');

- to maintain the Financial Reporting Standard for Smaller Entities ('FRSSE'); and

- to continue to oversee the development of Statements of Recommended Practice ('SORPs') where these give appropriate sectoral guidance.

6 A more extended discussion on the future role of the ASB is given in Section 8 of this paper.

INVITATION TO COMMENT

The ASB is requesting comments on the proposals set out in this Discussion Paper by 30 June 2004, and in particular in response to the questions set out below.

ASB's proposed strategy

(i) The ASB plans to adopt UK standards based on the principles of IFRS. Do you agree that relevant considerations for the Board in developing its convergence strategy are (i) the need to maintain the quality of UK financial reporting and (ii) the minimisation of the burden of change—in particular avoiding successive changes in respect of the same subject?

(ii) Do you have any other comments on the strategy as outlined in Section 2 of the paper?

(iii) Do you agree with the specific proposals set out in Section 3 and explained in Section 4 of this paper? If you disagree, please state what alternative course of action you would favour and explain your reasoning.

(iv) Section 5 reviews some of the topics where the ASB is minded to await the outcome of reviews in progress by the IASB and then to consult on proposals for UK standards based on the likely text of the new IFRS. Please identify any cases where you consider ASB should propose new UK standards sooner than indicated in Section 5.

(v) Sections 6 and 7 explain that the Board intends to maintain for the time being its policy and practices in relation to the Financial Reporting Standard for Smaller Entities ('FRSSE') and Statements of Recommended Practice ('SORPs'). Do you agree with these proposals?

(vi) Do you have any comments on the ASB's future role as outlined in Section 8?

Specific proposals

Views are sought on the following specific proposals:

(vii) How quickly should the ASB move to implement FRED 28 'Inventories; Construction and Service Contracts'? (See paragraphs 4.13-4.14)

(viii) Should the ASB propose the adoption of a UK standard based on IAS 41 'Agriculture'? Do you agree that standard should be available for use for accounting periods beginning on or after 1 January 2005 but should not, for the time being be made mandatory? (See paragraphs 4.41-4.42)

(ix) When should ASB proceed to adopt a UK standard based on IAS 21 'The Effects of Changes in Foreign Exchange Rates'? When it does, should the UK standard require 'recycling'? (See paragraph 5.9)

(x) Should the ASB propose an amendment to SSAP 21 'Accounting for Leases and Hire Purchase Contracts' to supplement or replace its requirements for the disclosure of operating lease commitments with new requirements based on those of IAS 17 'Leases'? (See paragraph 5.33)

1 BACKGROUND

1.1 This paper presents and seeks comment on the ASB's strategy for the future of UK accounting standards. This takes account of the EU Regulation* that requires the consolidated accounts of listed companies to comply with adopted international accounting standards for accounting periods commencing on or after 1 January 2005.

1.2 The intention is that these 'adopted international accounting standards' will be the standards published by the International Accounting Standards Board ('IASB') without modification. The ASB supports the vision of a single set of high quality accounting standards for use throughout the world. This paper assumes that all the IASB standards will be promptly adopted by the European authorities for use by EU companies preparing accounts under the Regulation.

1.3 In this paper, International Financial Reporting Standards ('IFRS') includes both new accounting standards issued by the IASB and International Accounting Standards issued by its predecessor body, including later revisions.

1.4 The EU Regulation permits member states to allow or require the wider use of EU adopted IFRS. The UK Government has announced that its intended policy will be to permit, but not require, a company reporting under the Companies Act 1985 to elect to prepare its accounts under EU adopted IFRS. The Department of Trade and Industry (DTI) is publishing its detailed proposals: reference should be made to the Consultation Document† for a full understanding of them. The following highlights the

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* *Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.*

† *DTI website www.dti.gov.uk/consultations.*

aspects and implications of these proposals that are relevant to ASB's convergence strategy.

1.5 The general effect of the Regulation and the Government's proposals are that the following companies will continue to be able, if they wish, to prepare their accounts in accordance with UK accounting standards:

- all companies within a listed group for their individual accounts (and, where a consolidation is prepared by an unlisted subsidiary, for those consolidated accounts);
- unlisted companies; and
- other entities, including many public benefit entities.

1.6 Equally, a large number of companies will be able to elect to prepare their accounts under EU adopted IFRS. With a few exceptions, this choice is expected to be irrevocable: once a company chooses to prepare its accounts in accordance with IFRS, it will not be able to elect to revert to the use of UK standards for a later accounting period.

1.7 The choice of whether to use EU adopted IFRS or UK accounting standards may, of course, be further constrained by regulators. For example, the Financial Services Authority ('FSA') has consulted on whether listed companies that have no subsidiaries—and hence do not prepare consolidated accounts—should be required to use IFRS in their individual accounts. The FSA has yet to announce a decision on its plans in this area and therefore this paper assumes that, from 1 January 2005, some listed companies will continue to use UK standards.

1.8 It is uncertain how many companies will avail themselves of the option to use EU adopted IFRS. In making the choice, companies may be influenced by a number of factors, including comparability with companies that use IFRS, the relative cost of complying with IFRS and UK standards and other consequences, such as those relating to taxation and the determination of distributable profits. However, it seems probable that a significant number of entities will, at least in the near future, continue to use UK standards. Some preparers and auditors may, for some time, be familiar only with UK standards.

1.9 Companies which do not prepare their accounts under EU adopted IFRS will continue to be subject to EU Directives as implemented in national legislation. The intention is that these will be regularly amended to permit the use of IFRS. In most EU countries, it is presently expected that national requirements will remain in place for the time being. In the UK, compliance with companies legislation presently requires compliance with UK accounting standards. In the Republic of Ireland companies legislation presently requires compliance with the accounting standards of the ASB, promulgated by the Institute of Chartered Accountants in Ireland.

1.10 In 2002, the ASB published a number of exposure drafts based on international standards, many of which the IASB proposed to revise as part of its 'improvements' project: others dealt with closely related subjects. The intention was that these would be introduced as UK standards once the final international standards were agreed, thus beginning the process of convergence between UK standards and IFRS.

1.11 The improvements project has taken longer to complete than was originally envisaged, with most of the improved standards being published in December 2003. The IASB has indicated that all the standards which will be mandatory for 2005 will be published by the end of March this year.

1.12 The publication of the DTI's Consultation Document and the improved IFRS make this an appropriate time to set out the ASB's views on the possible developments of UK accounting standards* and to consult on its plans. That is the objective of this paper.

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* *As part of the convergence process the ASB will withdraw or make consequential changes to UITF Abstracts where required by changes in the related standards.*

2 ASB'S PROPOSED STRATEGY

2.1 This section explains the ASB's proposed strategy for convergence and its rationale.

Fundamental principles

2.2 UK financial reporting is generally regarded as being of high quality. The Board believes that it is responsible for ensuring that it issues UK standards that maintain, and continue to improve, that quality.

2.3 In the Board's view, there can be no case for the use in the UK of two sets of wholly different standards in the medium term. Distinct sets of standards impose extra burdens on preparers of financial statements, their auditors and users of the financial statements. The credibility of financial reporting is undermined if different companies report similar transactions in different ways. Comparability is important both within the UK environment and internationally: users of financial statements will be increasingly familiar with IFRS and will not easily understand financial statements prepared under standards based on different principles.

2.4 To attain the full benefit of convergence it is not enough that the requirements of a UK standard are roughly similar to those of a corresponding IFRS. Unless the requirements of the two standards are expressed in the same words, there is always a risk that they may be interpreted differently in similar circumstances. For this reason, there should be few substantive differences between the text of a UK standard and its corresponding IFRS. Ideally, any differences should be temporary or restricted to what is clearly necessary—for example changes in cross-references. Differences must be clear and the reasons for them must be obvious.

2.5 Ultimately, IFRS might be required for use by all UK companies. For this to be possible it would be necessary that

IFRS include a set of requirements suitable for smaller unlisted companies. The IASB has a current project addressing the needs of such entities: this is discussed further in Section 6 below.

The convergence process

2.6 A possible approach would be for the ASB to make few changes to UK standards, pending a single change to IFRS (or IFRS-based) standards at a future time. Such a major change might be disruptive: there would be many changes to the underlying standards to be coped with at the same time. Whilst this is inevitable in the case of those companies that are required or choose to use IFRS from 1 January 2005, it is not clear that the costs of such a change should be borne by other companies. Furthermore, the hurdle for a company choosing to adopt IFRS at a later date would become greater if UK standards did not keep up with changes to IFRS in the interim. As noted above, the Government proposes that use of IFRS will be optional for many companies; this implies that they will be able to choose to change to use of IFRS when that seems appropriate in their circumstances: this seems at odds with a large change being required at a future date.

2.7 Perhaps more importantly, a complete standstill is not a credible option: new UK standards will be required to keep UK accounting practice up to the standard of practice in other jurisdictions; for example where new IASB standards address new subjects or clearly provide a sounder basis for financial reporting than current standards. New UK standards will also be required to deal with issues stemming from changes in the law—for example those resulting from the implementation of the EU Modernisation and Fair Value Directives.

2.8 Given that accounting standards will continue to change, the Board proposes to adopt a phased approach to convergence, bringing in UK standards based on IFRS. In pursuing this strategy, the Board will pay close attention to its responsibility to try to minimise the burdens of change.

2.9 In practical terms, this means:

- effective in 2005 and 2006, new standards that will enhance existing UK financial reporting requirements and keep them in step with changes in the law; and

- thereafter, a series of 'step changes' replacing one or more existing UK accounting standards with standards based on IFRS, as IASB projects are completed.

2.10 EU adopted IFRS will be required for the consolidated accounts of listed companies. The European Commission has indicated that, as the Regulation is a 'maximum harmonisation' measure, national authorities (which include the ASB) should not impose additional requirements. As these financial statements, which are generally the most important for the capital markets, will be wholly regulated by EU adopted IFRS, there is little justification for requiring a higher standard for other financial statements. In this sense, IFRS will generally set a boundary within which UK standards will be set: the ASB's current view is that it should not seek to issue new UK standards that are more demanding or restrictive than IFRS. This is consistent with a focus on the quality of financial reporting because the Board anticipates that, in time, IFRS will reflect the best of modern thinking on accounting. (As noted in Section 8 below, the Board intends to continue to play a major part in contributing to this thinking.) However, there are some instances where UK standards are already more demanding than those of IFRS: it may be right to maintain the UK standard during the convergence process where it is likely that the relevant IFRS will in turn be improved. Examples of such situations are Retirement Benefits, which is discussed in Section 4 below, and Fixed Assets, which is discussed in Section 5.

2.11 On the other hand, there is a case on cost-benefit grounds for UK standards to be less demanding than IFRS in certain instances, particularly as they will mainly be used by entities other than large companies. For the reasons set out above, the essential principles of UK standards should be the same as those of IFRS: however, it may be justifiable, for example, to have less onerous disclosures in a UK standard than those of an IFRS or to prescribe a later effective date—although in such cases early adoption would usually be permitted.

2.12 It is clearly undesirable to require any company to make more than one change of accounting policy within a short period in respect of the same matter. For this reason, ASB will in general endeavour not to propose the introduction of a UK standard based on IFRS if there is any indication that the relevant IFRS is likely to change significantly in the near future. However, this may not be possible in all cases as UK standards and IFRS do not correspond one-to-one: some possible changes to IFRS might have implications for several existing UK standards.

2.13 As noted above, there is an overwhelming case that accounting standards used throughout the world should be based on similar principles. The ASB will therefore endeavour to conform UK standards to the principles of IFRS as quickly as possible. Given the present uncertainties in the international financial reporting climate, it would be unwise to suggest a specific date by which total conformity may be achieved, but the ASB hopes that the period of convergence will not be unduly prolonged.

3 SPECIFIC PROPOSALS

3.1 This section outlines the Board's current intentions for standards for the immediate future: naturally these may require revision in the light of developments that cannot now be foreseen. In accordance with the Board's usual due process, decisions to issue standards will be taken on the basis of exposure drafts and the Board's consideration of the responses received on them. In certain cases exposure drafts already issued provide the basis for new accounting standards: in the case of new proposals, the Board will issue new exposure drafts setting out the proposals in full.

3.2 Some new exposure drafts have to be issued fairly soon: in other cases, where the proposed changes may have less widespread impact, the Board will not issue an exposure draft until it has had an opportunity to consider the responses to this paper. In accordance with its normal due process, the Board will not take a final decision on any new standard until it has considered the responses to an exposure draft.

3.3 The standards expected to become effective for accounting periods starting in 2005 and 2006 are as follows:

2005

FRS 17 'Retirement benefits' (see paragraphs 4.3-4.9).

Financial instruments: UK standards based on IAS 32 'Financial Instruments: Disclosure and Presentation' and, for listed companies (and on a voluntary basis for other companies), much of IAS 39 'Financial Instruments: Recognition and Measurement' (see paragraphs 4.15-4.30), following FRED 30 (published June 2002) and a further exposure draft to be published in April 2004.

Post balance sheet events: a UK standard based on IAS 10 'Events after the Balance Sheet Date', replacing SSAP 17

'Accounting for post balance sheet events' (see paragraphs 4.31-4.32), following FRED 27 (published May 2002).

Earnings per share: a UK standard (applicable to listed companies only) based on IAS 33 'Earnings per share' replacing FRS 14 (see paragraphs 4.33-4.35), following FRED 26 (published May 2002).

FRS 20 'Share-based payment', based on IFRS 2 (for listed companies only) (see paragraphs 4.36-4.38), following FRED 31 (published November 2002).

FRS 2 'Accounting for subsidiary undertakings': a minor amendment consequential to the Government's expected change to the legal definition of a subsidiary undertaking (see paragraph 5.29), and for which an exposure draft will be issued in due course.

2006

FRS 20 'Share-based payment', based on IFRS 2 (for unlisted companies) (see paragraphs 4.36-4.38).

Related party disclosures: a UK standard based on IAS 24 'Related Party Disclosures', replacing FRS 8 (see paragraphs 4.39-4.40), following FRED 25 (published May 2002).

3.4 In addition, the ASB may, after consideration of the responses to this Discussion Paper, issue exposure drafts for:

a UK standard based on IAS 41 'Agriculture'. The Board is suggesting a standard available for use for accounting periods beginning on or after 1 January 2005 (see paragraphs 4.41-4.42); and

the introduction of revised disclosures in respect of operating lease commitments, based on those in IAS 17 'Leases' (see paragraph 5.33).

3.5 Other standards to become effective in 2007 and in subsequent years will depend on IASB's timetable and progress, as indicated in Section 5.

4 THE RATIONALE FOR SPECIFIC PROPOSALS

4.1 As mentioned above, the ASB needs to have regard to certain conflicting influences in framing its convergence policy. Within its responsibility for maintaining the quality of existing UK standards, it wishes UK standards to converge with IFRS as quickly as possible.

4.2 The latter consideration suggests that it might seek to propose the adoption of UK standards based on IFRS where these seem unlikely to change significantly in the near future. The most important accounting topics of this kind are discussed in this section and the reasons for the Board's specific proposals, as summarised in Section 3 above, are explained. Section 5 then considers a number of subjects where replacements for existing UK standards based on current IFRS would incur the risk of further change as a result of likely changes in the related IFRS.

Retirement benefits

4.3 The principal requirements of FRS 17 'Retirement Benefits' are similar to those of IAS 19 'Employee Benefits'. The most significant difference is in the treatment of actuarial gains and losses:

- FRS 17 requires recognition of actuarial gains and losses in full in the period in which they arise. These are reported in the statement of total recognised gains and losses;

- IAS 19 requires actuarial gains and losses to be included in the profit and loss account, but permits them not to be recognised if they do not exceed a certain threshold. It also permits them to be amortised over the average remaining working lives of the employees.

4.4 In November 2002 the Board issued an amendment to FRS 17, deferring the date for it to become fully effective to accounting periods beginning on or after 1 January 2005. This amendment was made in the light of indications that IASB was reconsidering the requirements of IAS 19, and in accordance with the Board's policy of avoiding requiring two changes in quick succession in respect of the same accounting issue. When it issued the amendment, the Board stated that it continued to encourage early adoption of all the requirements of FRS 17 and a number of companies have chosen to do so.

4.5 The IASB remains committed to a longer-term review of the requirements of IAS 19 but immediate progress on this has, unfortunately, been delayed. Amongst the tentative decisions IASB has already made in the course of discussing such a longer-term solution is that actuarial gains and losses should be recognised immediately.

4.6 In the short term, the IASB has agreed a limited amendment to IAS 19, and an international exposure draft is planned to be issued soon. The proposal is to permit entities that recognise actuarial gains and losses in full in the period in which they occur to recognise them in a statement of recognised income and expenses rather than charge them to the profit and loss account. If these proposals are reflected in a standard that is available for use from 1 January 2005, the effect would be that those companies that elect to comply in full with FRS 17 would be able to maintain similar accounting as they adopt IFRS.

4.7 In the light of current standards in other jurisdictions, and the tentative decisions of IASB, it is clear that SSAP 24 'Accounting for Pension Costs' is largely discredited, due to the range of methods it allows and its lack of clarity of the information it requires to be disclosed. From 2005 it will be completely out of line with the way in which companies complying with IFRS report their pension costs. The Board has therefore decided that it should not further delay the mandatory full application of FRS 17, which replaces SSAP 24, in UK accounting standards.

4.8 The effect of this will be that the requirements of the UK standard will be more restrictive than those expected to be contained in IAS 19. However, this will probably be simply a transitional issue: when the longer term review of IAS 19 is completed reflecting IASB's tentative decisions, the new IFRS seems likely to be similar to FRS 17.

4.9 At the same time as making the above proposal, the ASB is continuing to discuss questions of pension accounting with its constituents and to debate the conceptual issues of this subject with a view to making a positive contribution to the IASB's long-term consideration of accounting for employee benefits.

FRS 5 'Reporting the Substance of Transactions'

4.10 One of the more striking differences between IFRS and UK standards is that there is no single standard within IFRS that corresponds to FRS 5 'Reporting the Substance of Transactions'. As well as establishing authoritatively that it is the substance of a transaction, not just its form, that should be reflected in financial statements, FRS 5 governs the reporting of a wide range of transactions and circumstances, including:

- the circumstances in which a transaction, often one characterised as a 'sale', should be accounted for as a sale or should be reported by continuing to recognise the asset and recognising as well a liability in respect of the amount received from the other party. These provisions apply to 'sales' of both financial and non-financial assets;

- whether contracts that are legally distinct should be viewed independently for accounting purposes or construed as a single transaction;

- the consolidation in the financial statements of an interest in entities that are not within the legal definition of a subsidiary;
- the use of a linked presentation for certain assets sold with limited recourse;
- Private Finance Initiative, Public-Private Partnerships and similar contracts (Application Note F); and
- revenue recognition (Application Note G).

4.11 Some of the issues covered by FRS 5 are addressed under IFRS or in IASB's current agenda, but in various places. For example, although the derecognition of financial instruments is addressed in IAS 39, there is little in IFRS on the derecognition of non-financial assets. IASB's International Financial Reporting Interpretations Committee ('IFRIC') is working on one aspect of this—service concessions: this work may lead to a suitable successor to Application Note F of FRS 5. IASB has an active project (jointly with the US Financial Accounting Standards Board) to develop a replacement for its current standard on revenue recognition, IAS 18. IFRIC has also been doing some work on the linkage of legally distinct contracts.

4.12 The ASB believes that FRS 5 plays a critical role in the context of UK financial reporting and should be retained until such time as it is clear that its most important requirements, including those on revenue recognition, have adequate counterparts under IFRS.

Stocks and long-term contracts

4.13 In FRED 28 'Inventories & Construction and Service Contracts' the Board proposed introducing two UK accounting standards—one based on IAS 2 'Inventories' and another based on IAS 11 'Construction contracts', incorporating parts of IAS 18 'Revenue'. These were proposed to replace SSAP 9 'Stocks and Long-term

Contracts'. Since then, in November last year, the Board issued Application Note G to FRS 5 'Reporting the Substance of Transactions' which addresses revenue recognition. Part of the new Application Note refers to the requirements of SSAP 9.

4.14 There are two possible ways forward:

- UK standards might be introduced based on IAS 2 and IAS 11, with amendments to the Application Note to FRS 5, referring to the new standards; or

- SSAP 9 and Application Note G could remain substantially unchanged until IASB's project on Revenue Recognition results in a standard. At that time, UK standards based on IAS 2 and IAS 11 (as amended) would be introduced, as well as the new standard on revenue recognition.

The Board has a preference for the second of these options, although views on both would be welcome.

Financial instruments

4.15 The Board's proposals for the introduction of UK standards based on IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' reflect the interplay of several complex factors including, importantly, the need to set requirements responsive to the implementation of two amendments to the EU Accounting Directives.

4.16 The Board is strongly of the view that standards on measurement and disclosure of derivatives and other financial instruments are important and will become more so, and that all entities should be brought within the scope of these standards as soon as practicable. It also believes that once the IASB has issued its revised versions of IASs 32 and 39, these should form the basis for UK standards on financial instruments.

4.17 However, it recognises the need to allow adequate time for preparation by unlisted entities in relation to the measurement requirements of IAS 39, and proposes to continue its phased approach to implementation so that these entities will be able to build on the experience of listed companies in developing solutions to implementation issues.

4.18 Consistent with its views expressed in paragraph 4.12, the Board does not intend to implement the sections of IAS 39 relating to recognition and derecognition at this time; it believes that the requirements of FRS 5, which cover a wider scope than the derecognition of financial assets dealt with in IAS 39, should be retained for the present.

4.19 The Board has therefore decided to implement the proposals set out in FRED 30 'Financial Instruments: Disclosure and Presentation & Recognition and Measurement'. It is also proposing two scope extensions to FRED 30. First, it proposes that all listed entities should be required to apply the measurement and hedge accounting requirements of IAS 39. Secondly, it proposes that the scope of the financial instrument disclosure requirements in IAS 32 should be extended to all entities (other than those applying the FRSSE) rather than just listed entities and banking entities.

4.20 The ASB expects the Government to implement by statutory instrument the requirements of the Fair Value Directive in UK company law this year, effective for accounting periods commencing on or after 1 January 2005. The Directive was introduced to permit companies drawing up accounts under the Company Law Directives to adopt IAS 39. This introduces fair value as a new optional measurement basis for derivatives and other financial instruments into Schedule 4 of the Companies Act (with corresponding amendments to Schedules 7, 9 and 9A). This basis of measurement is not currently addressed by UK standards.

4.21 The Board notes, however, that the Directive was drafted to correspond to the version of IAS 39 issued in 2000, and does not reflect the changes to the standard made subsequently. In particular, IAS 39 presently allows a reporting entity to designate *any* financial asset or financial liability to be measured at fair value through profit and loss, provided, in the case of an equity instrument, it can be measured reliably. (The IASB is, however, considering further amendments to limit the circumstances in which this designation may be made.)

4.22 The Directive does not permit such designation, but restricts the use of fair values to specified categories of asset and liability. However, the Board intends to implement the latest version of IAS 39 rather than the 2000 version, since the inconsistencies with the Directive relate to an optional designation rather than a requirement. Entities choosing to adopt fair value accounting for certain instruments may find it necessary to consider how the true and fair override relates to their circumstances.

4.23 The Board believes that the requirements for measurement of financial instruments set out in IAS 39 should be applied mandatorily to all listed entities, defined (in the same way as in the IAS Regulation) as entities with securities in issue that are listed on a regulated exchange in the EU. The Board regards a standard on measurement of financial instruments as important, and this proposal means that the single-entity accounts of parent companies of listed groups, and those listed companies that have no subsidiary undertakings, will be brought closer into line with listed groups using IAS under the Regulation in the important area of accounting for derivatives and other financial instruments.

4.24 For the same reasons, the Board is proposing to implement the hedge accounting requirements in IAS 39 for all entities on a phased basis, starting in 2005 with all listed entities and all other entities adopting fair value accounting. If that proposal is adopted, the Board will not presently proceed with FRED 23 ‘Financial Instruments: Hedge Accounting’.

4.25 As explained in paragraphs 5.7 and 5.8 below, the Board does not intend to amend the IAS 39 requirements relating to recycling, and will modify the proposals of FRED 30 accordingly.

4.26 Implementation of the Modernisation Directive from 2005 in UK company law will introduce a requirement for classification of items within the balance sheet and profit and loss formats to take account of the substance of the items; accordingly, preference shares that meet the definition of a liability will be classified as such and not as part of shareholders' funds, with dividends on such shares treated as an interest cost rather than an appropriation. The requirements of FRS 4 for the classification of capital instruments will therefore be withdrawn and replaced by IAS 32. Some requirements of FRS 4 have equivalents in IAS 39 and IAS 1 'Presentation of Financial Statements' and these sections of FRS 4 will be retained for the transitional period until the requirements of IAS 39 and IAS 1 are implemented generally in the UK.

4.27 Implementation of the disclosure requirements of IAS 32 will maintain consistency with the accounting requirements for capital instruments and, for those entities adopting the fair value measurement basis of the Fair Value Directive, consistency with the requirements of IAS 39. The new requirements will include most of the disclosures required by the Fair Value Directive, both for those entities adopting the fair value measurement and for those entities that do not. The disclosure requirements of FRS 13 will be withdrawn.

4.28 When the Board issued FRS 13, it took the view that it would be best, initially, to require financial instrument disclosures only where the case for them was most compelling—entities whose capital instruments are listed or publicly traded on a stock exchange or market and banks—but with the stated intention that the requirement would be extended in due course to all entities. The Board now believes that it is appropriate for financial instrument disclosures to be required more generally and proposes to extend the scope of the standard implementing IAS 32 to all entities with the exception of those using the FRSSE.

4.29 The IASB is currently considering a revision to IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' that would amend the disclosure requirements of IAS 32 and be applicable to all entities. The Board's current intention is to implement these proposals when they are issued by the IASB, with early adoption permitted.

4.30 The proposals to extend the scope of the financial instruments disclosure and measurement requirements were not included in FRED 30. Accordingly, the Board will issue an exposure draft of these scope extensions. This exposure draft is expected to be issued during the consultation period of this paper, followed by standards later this year. To correspond with the timing of the Fair Value Directive, these standards will apply to accounting periods beginning on or after 1 January 2005.

Post balance sheet events

4.31 The Government is expected to amend the law with effect for accounting periods beginning after 1 January 2005 to remove the requirement to report proposed dividends in the profit and loss account. This is in accordance with the now generally accepted view that dividends declared after the balance sheet date should not be reported as liabilities. This is reflected in IAS 10 'Events after the Balance Sheet Date', and is the principal difference between that standard and SSAP 17 'Accounting for Post Balance Sheet Events'.

4.32 The Board has already proposed, in FRED 27, that it should introduce a UK standard based on IAS 10 to replace SSAP 17 and now intends to proceed to introduce a UK standard to come into effect at the same time as the changes in the law.

Earnings per share

4.33 In FRED 26, the ASB proposed issuing a standard based on IAS 33 'Earnings per share' to replace FRS 14. Like FRS 14, the standard would apply only to listed entities.

4.34 The Board intends to proceed to issue such a standard to take effect for accounting periods starting on or after 1 January 2005, as this will ensure that the basis of calculation for earnings per share reported by all listed companies is comparable, avoiding the risk that a listed company that does not prepare its accounts using IFRS (as may be the case for a company that has no subsidiaries) would compute earnings per share on a different basis from that used by others.

4.35 If, as proposed above, a UK standard based on IAS 32 is introduced, some of the modifications to the text of IAS 33 proposed in FRED 26 would not be necessary.

Share-based payment

4.36 In February, IASB published IFRS 2 'Share-based Payment', which has an effective date of 1 January 2005. The requirements of UK standards lag considerably behind the requirements of IFRS 2, particularly as they require only the intrinsic value of share awards to be reported as an expense, and because they do not apply to Save As You Earn ('SAYE') and similar schemes.

4.37 When the IFRS was issued in draft form in 2002, the ASB proposed (in FRED 31 'Share-based Payment') that the final standard should be implemented as a UK standard with the same effective date as the IFRS. Earlier this year the ASB announced that it had decided, for listed entities, to implement that proposal unchanged (in other words, a UK standard based on IFRS 2 would come into effect from 1 January 2005 for listed entities not adopting IFRS); all other UK entities will be required to comply with the FRS with effect from 2006.

4.38 This is in accordance with the ASB's policy of improving UK accounting practice, where IFRS are clearly superior to existing UK standards (as set out in paragraph 2.7 above).

Related Party Disclosures

4.39 The Board proposed in FRED 25 'Related Party Disclosures' to introduce a UK standard based on the revised version of IAS 24, which would replace FRS 8. There is no reason for preserving largely similar, but different, standards on a subject of this importance—especially as they do not affect the amounts recognised in the primary financial statements.

4.40 The revised version of IAS 24 has now been finalised, and the Board intends to introduce a UK standard. It suggests, however, that the changeover to the new standard should be mandatory only for accounting periods beginning in 2006. In finalising the standard the Board will consider its scope, especially as IAS 24, unlike FRS 8, has no exemption for subsidiaries.

Agriculture

4.41 It is difficult to discern widespread demand for a UK standard on the subject of agriculture. Nonetheless, companies reporting under the EU Regulation will have to comply with IAS 41 'Agriculture' from 1 January 2005; other companies (for example, those reporting under UK standards, but whose accounts will be included in consolidated accounts prepared under the Regulation) may also wish to adopt IAS 41. Although this will probably be possible from the perspective of company law as the Government is expected to take up the relevant member state option in the Modernisation Directive with effect from that date, there may be a risk, without timely action from the Board, that the requirements of other accounting standards will be seen as an obstacle.

4.42 The Board therefore intends to propose the introduction of a UK standard based on IAS 41, subject to any possible changes arising from the review of IAS 20 ‘Accounting for Government Grants and Disclosure of Government Assistance’, (see paragraph 5.26 below). If possible, the new UK standard will be available for implementation for accounting periods beginning on or after 1 January 2005. However, in view of the significant implications of such a standard for many, particularly smaller, companies it would seem reasonable that compliance with the new accounting standard should not be mandatory for some time.

5 STANDARDS UNDER REVIEW BY THE IASB

5.1 As noted in paragraph 2.12 above, the burdens of change will be minimised if companies are not required to make more than one change of accounting policy within a short period. The ASB will not therefore in general propose the introduction of a UK standard based on IFRS if there is an indication that the IFRS is likely to change significantly in the near future. This section discusses certain standards that are under review by the IASB, and recommends certain UK standards for retention until the related IASB projects are complete.

5.2 In many of the cases discussed below, an IASB project would affect several UK standards. Implementing the changes would therefore entail replacing several UK standards at the same time with new standards based on IFRS. Thus UK standards would converge with IFRS in a series of significant, but discrete, steps rather than a number of piecemeal changes being introduced over a number of years.

Reporting comprehensive income

5.3 A constant motif in the work of the ASB has been the improvement in the reporting of financial performance. This was the subject of FRS 3 (issued in 1992) and of various subsequent ASB papers and proposals, most recently FRED 22 'Revision of FRS 3 "Reporting Financial Performance"' (December 2000). Throughout this period, the Board has always been critical of the importance often attached to a single measure such as earnings per share. FRS 3 noted:

> *"It is not possible to distil the performance of a complex organisation into a single measure. ...To assess the performance of a reporting entity during a period all components of its activities must be considered."* (paragraph 52)

5.4 Reflecting this perspective, FRS 3 requires the presentation of a statement of total recognised gains and losses, which reports those gains and losses that are not taken account of in the profit and loss account. It also prohibits the practice of 'recycling' gains and losses—that is transferring them to the profit and loss account in a subsequent period, for example, when the gain or loss is 'realised'. Further discussion of the Board's view on reporting comprehensive income and 'recycling' is contained in Appendix A.

5.5 In recent years, the ASB's work on the subject has been carried out in collaboration with international partners, notably in the continuing joint project with IASB on 'Reporting Comprehensive Income'. The next planned step on this project is a Discussion Paper, which it is hoped will be prepared in co-ordination with the parallel project of the FASB.

5.6 In contrast to UK standards, which do not permit recycling in any circumstance, US standards require recycling of all gains and losses recognised outside the profit and loss account. IFRS permit or require some gains and losses to be recognised outside the profit and loss account, and in the following cases require them to be recycled:

- IAS 39 'Financial Instruments: Recognition and Measurement' requires recycling for gains and losses resulting from remeasuring financial instruments classified as "available for sale". Recycling also is a prominent feature of that standard's requirements where hedge accounting is used for cash flow hedges.

- IAS 21 'The Effects of Changes in Foreign Exchange Rates' requires recycling of translation differences originally taken to equity on disposal of a foreign operation.

5.7 The recycling of gains and losses on cash flow hedges is necessary if hedge accounting is to have its intended effect—that the gains and losses on the hedging instrument are recognised in profit and loss at the same time as the gains and losses on the hedged position that the hedge is intended to offset. The alternative to recycling, proposed by the ASB in FRED 30, would be to defer gains and losses on cash flow hedges as separate assets and liabilities in the balance sheet, rather than recognising these in equity and later recycling them. However, the IASB has rejected this approach, and it is not compatible with the requirements of the Fair Value Directive. Accordingly, the Board proposes partially to implement IAS 39 (see paragraphs 4.15 to 4.25) including the recycling of cash flow hedge gains and losses.

5.8 There are no similar constraints requiring the recycling of gains and losses on available for sale securities. However, the Board is of the view that it would be unnecessarily confusing to implement an amended version of IAS 39 which prohibited recycling in relation to available for sale securities. This would be inconsistent with the international standard used in the group accounts of UK listed companies and other entities world-wide. The Board has therefore concluded that no change to the IAS 39 recycling requirements for available for sale securities should be made.

5.9 In the case of IAS 21 'The Effects of Changes in Foreign Exchange Rates', the Board faces a choice. In 2002, when the ASB issued FRED 24, it proposed implementation of IAS 21 (and also of IAS 29 'Financial Reporting in Hyperinflationary Economies') but with amendment to eliminate recycling. The main options appear to be:

- to continue with this proposal. This would maintain what the Board firmly believes is the better principle and be consistent with the Board's objective of not making changes for the sake of convergence where a further change to international standards on the same subject is foreseen. It would, however, have the disadvantage of introducing a new standard that diverged from IFRS; or

- to retain SSAP 20 'Foreign Currency Translation' until the comprehensive income project is complete, although the Board notes that, in most respects, the reissued IAS 21 is a better written standard than SSAP 20.

Views on this issue are specifically invited.

5.10 The joint ASB/IASB project on Comprehensive Income may result in new requirements that may affect a number of standards. For this reason, the Board does not propose at this time issuing IFRS-based standards to replace FRS 1 'Cash Flow Statements'; FRS 3 'Reporting Financial Performance' or SSAP 25 'Segmental Reporting'. It would consequently also be necessary to retain FRS 18 'Accounting Policies', as the corresponding requirements in IFRS are contained in IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' which may also be revised as a result of the project on Comprehensive Income.

5.11 There is a case for replacing SSAP 25 with a standard based on IAS 14 'Segmental Reporting' at an early date. However, SSAP 25 is mandatory only for listed companies and very large private companies: accordingly, this would mainly affect those listed companies that do not prepare consolidated accounts and have distinguishable segments: it is unlikely that there are many such companies. The requirements of SSAP 25 do not appear to pose an obstacle to entities that wish also to comply with the requirements of IAS 14. Thus, the introduction of a standard based on IAS 14 would impose an additional burden on some UK companies with little additional benefit.

5.12 The way forward that seems to offer the best compromise between burdens and benefits is for the ASB to await the completion of the project on 'Reporting Comprehensive Income' and then swiftly to propose the introduction of UK standards, replacing those mentioned in paragraph 5.10

above, as a single step change in UK financial reporting requirements.

Disposal of Non-current Assets and Presentation of Discontinued Operations

5.13 In July 2003 IASB published ED 4 'Disposal of Non-current Assets and Presentation of Discontinued Operations'. At the same time the ASB published the IASB's proposals as FRED 32. In that exposure draft the ASB noted that in due course, as part of the programme to converge UK standards with IFRS, a new UK standard would be issued based on IFRS.

5.14 Since then the IASB has redeliberated the proposals of ED 4 and expects to publish a standard (IFRS [5]) based on it by the end of March 2004. One area where the standard will differ from the Exposure Draft is in the definition of a discontinued operation. However, the IASB has signalled that this aspect of the standard will be an interim solution, pending further work to refine the definition to try to ensure it best meets the needs of users.

5.15 The ASB believes that the presentation of discontinued operations (including their definition) is an integral part of the 'Reporting Comprehensive Income' project. The international treatment of the fixed assets of discontinuing operations would also require a change to the UK's FRS 15. The Board's current view is therefore that a UK standard based on IFRS should only be brought forward when the subject is addressed in the 'Reporting Comprehensive Income' project or alternatively when revisions arising from IAS 16 'Property, Plant and Equipment' are made to FRS 15 'Tangible Fixed Assets'.

Fixed assets and investment properties

5.16 The ASB shares the views of IASB and standard-setters from certain other jurisdictions that measurement bases that reflect the economic environment prevailing at the balance sheet date provide, in many instances, more relevant information than historical cost. For this reason, current measurement bases should be preferred where they are useful and sufficiently reliable.

5.17 Important issues arise relating to the current measurement of assets and liabilities. Appendix B provides an overview of the Board's current thinking on this subject. Current IFRS are not clearly based on a single coherent basis of measurement and IASB is working with its partner standard-setters (including the ASB) to achieve consensus on this matter.

5.18 A particularly noticeable example is IAS 16 'Property, Plant and Equipment', which contains little guidance on the basis of measurement to be used where assets are revalued. It requires that the revalued amount should be the 'fair value' of the asset, and notes that this is usually determined from market-based evidence, but may be estimated using either an income or a depreciated replacement cost approach where there is no market-based evidence because of the asset's specialised nature. The Basis for Conclusions to IAS 16 notes that IASB is carrying out research with national standard-setters that aims to identify the preferred measurement attribute for revaluations, which could lead to proposals to amend IAS 16.

5.19 The corresponding UK standard is FRS 15 'Tangible Fixed Assets'. It specifies the basis to be used for revalued assets, as follows:

(a) for non-specialised assets, existing use value (EUV) is to be used, with open market value (OMV) disclosed in the notes where materially different;

(b) for specialised property, depreciated replacement cost; and

(c) for properties surplus to requirements, OMV, with expected selling costs deducted where material.

5.20 In general, the ASB's constituents appear to regard these requirements as appropriate. There is thus a strong case for retaining FRS 15 until the international project on measurement is complete. Its requirements are more specific than those of the corresponding IFRS. IAS 16 is also subject to review. If a UK standard based on the existing IAS 16 were issued, revaluations might be made on a different basis—and that basis might have to change again. The IASB's work on measurement may also amend the requirements of IAS 23 'Borrowing Costs' the subject of which is also addressed in FRS 15. The ASB intends, therefore, not to replace FRS 15 with standards based on IAS 16 and IAS 23 (as proposed in FRED 29 'Property, plant and equipment & Borrowing costs') until the basis of valuation to be used under IFRS is clear.

5.21 A related subject is that of investment properties. SSAP 19 'Accounting for Investment Properties' requires investment properties (including all leasehold investment properties) to be reported at market value. In contrast, IAS 40 'Investment Property' permits a choice between open market value and a cost basis. Its newly-revised version permits leasehold investment properties to be treated as investment properties, but only if they are accounted for as finance leases (and certain other conditions are met). Furthermore, entities are permitted to choose on a property-by-property basis which of their leasehold properties are to be treated as investment properties.

5.22 The requirements of SSAP 19 do not seem to be widely regarded as unduly burdensome. The market value information it provides is clearly more relevant than the cost-based information that is sufficient to secure compliance with the requirements of IAS 40. Furthermore, it seems likely that IAS 40 will be revised again, perhaps fundamentally, either as an independent project or in conjunction with IASB's work on leasing (see paragraph 5.31). The ASB is therefore currently minded not to replace SSAP 19 with a standard based on IAS 40, but hopes that in due course a revised IFRS will provide a suitable basis for a replacement

Business combinations, impairment and intangibles

5.23 The IASB's IFRS [3] marks the first phase in its project on business combinations. It is based on the material in ED 3, published by the IASB in December 2002. It requires significant amendments to IAS 36 'Impairment of Assets' and IAS 38 'Intangible Assets', which also deals with research and development. The IASB is continuing its work on accounting for business combinations and further international exposure drafts will be published. Introduction of standards based on IFRS resulting from the completed IASB project would be likely to involve replacing the following UK standards:

- SSAP 13 'Accounting for Research and Development'
- FRS 6 'Acquisitions and Mergers'
- FRS 7 'Fair Values in Acquisition Accounting'
- FRS 10 'Goodwill and Intangible Assets'
- FRS 11 'Impairment of Fixed Assets and Goodwill'

5.24 The ASB published IASB's exposure draft, ED 3, in a UK Consultation Paper in which it explained that it was minded to consult on introducing UK standards based on IFRS only when IASB's business combinations project is complete. The Board remains of that view.

Provisions, contingent liabilities and contingent assets

5.25 IAS 37 and FRS 12, both entitled 'Provisions, Contingent Liabilities and Contingent Assets' were developed jointly by the ASB and the International Accounting Standards Committee (the predecessor organisation to IASB), and their requirements are virtually identical. IASB is currently considering modifying the requirements of IAS 37. The ASB will consult on adopting a UK standard based on the revised IAS 37 when the IASB publishes its proposals.

Government grants

5.26 IASB is considering withdrawing or revising IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'. At this stage it is not possible to know what may replace it. It is therefore not appropriate to propose adopting a UK standard based on IAS 20 at this time.

Consolidation, associates and joint ventures

5.27 The IASB has a current project on the subject of consolidation. This may lead to proposals to revise IAS 27 'Consolidated and Separate Financial Statements'; IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures'.

5.28 It is hoped that in due course this will lead to standards which might provide replacements for FRS 2 'Accounting for Subsidiary Undertakings' and FRS 9 'Associates and Joint Ventures'. The IASB project is likely also to address accounting for 'special purpose entities' and so a new international standard on consolidation might also replace parts of FRS 5.

5.29 In the meantime if, as expected, the Government introduces changes in the legal definition of a subsidiary undertaking with effect from accounting periods beginning on or after 1 January 2005, a minor consequential amendment to FRS 2 will be necessary.

Taxation

5.30 Certain issues within IAS 12 'Income Taxes' are to be addressed by IASB and the FASB as part of their short-term convergence project. Proposals to replace FRS 16 'Current

Tax' and FRS 19 'Deferred Tax' with a UK standard based on IFRS must await the finalisation of this work.

Leasing

5.31 The ASB and the IASB are co-operating on a re-examination of lease accounting. This is expected to lead to replacements for IAS 17 'Leases' and SSAP 21 'Accounting for Leases and Hire Purchase Contracts'. As most investment properties are let on leases, the product of this project may also result in a standard that will provide the basis for a replacement of SSAP 19 'Accounting for Investment Properties'.

5.32 Whilst the basic principles of IAS 17 and SSAP 21 are similar, there are some differences. IAS 17 requires, in general, that a lease of property is treated as two leases—one of the building and one of the land (unless the lease payments cannot be reliably allocated between these two elements), but SSAP 21 does not. SSAP 21 requires lessors to recognise income from finance leases using the 'net cash investment' method: in many cases this will produce results that are, within the bounds of materiality, the same as those arising under the 'net investment' method required by IAS 17. However, the Board understands that, in some circumstances the differences can be substantial: it also appears that the conceptual merits of the 'net cash investment' method and the 'net investment' method have not been extensively debated. In the light of these issues, and the prospect of further changes in lease accounting referred to above, the Board does not intend to replace SSAP 21 with a standard based on IAS 17 in the near future.

5.33 There is, however, one specific aspect where SSAP 21 is notably inferior to IAS 17 (and the similar accounting standards of other jurisdictions): the disclosure by a lessee of operating lease commitments. SSAP 21 does not require the *total* amount of such commitments to be disclosed: instead, it requires the *annual* commitment to be disclosed, with an indication of the period to expiry of that commitment. In the Board's view the IAS 17 disclosure is superior to that of SSAP 21, and more consonant with the perception that operating lease commitments are akin to liabilities. The Board is therefore minded, subject to consideration of responses to this Discussion Paper, to issue an exposure draft proposing that disclosure requirements based on paragraph 35(a) of IAS 17 should supplement or replace those of paragraph 56 of SSAP 21.

Insurance

5.34 The IASB's initial agenda, announced in July 2001, included a priority project "to develop a standard on accounting for insurance contracts that is consistent with the conceptual framework definitions of assets and liabilities". Subsequent agenda pressures have meant that it has not been feasible for the IASB to complete its project on insurance contracts in time for 2005. The international exposure draft (ED5) published in July 2003 and soon to be converted into IFRS [4] therefore proposed only limited guidance on accounting practices for insurance contracts, without requiring major changes that may need to be reversed when the IASB completes the second phase of the project.

5.35 The ASB is pursuing its own study of insurance accounting in order to respond to a request from the Government following the publication of the report from Lord Penrose into the situation at the Equitable Life Assurance Society and also to give input to the IASB's phase 2 project. The Board is not presently proposing the implementation of IFRS [4] as a UK standard.

6 THE FINANCIAL REPORTING STANDARD FOR SMALLER ENTITIES ('FRSSE')

6.1 The Financial Reporting Standard for Smaller Entities (FRSSE) was first issued in November 1997 and has been updated three times since then. It is designed to provide smaller entities with a single accounting standard that is tailored to their particular circumstances. Smaller entities that choose to adopt the FRSSE are exempt from other accounting standards and UITF Abstracts.

6.2 The definitions and accounting treatments that are contained in the FRSSE are consistent with companies legislation. Furthermore, for the generality of smaller entities, they are the same as those required by other accounting standards or a simplified version of those requirements. However, the disclosure requirements in the FRSSE exclude many of those that are stipulated in other accounting standards.

6.3 Periodically, the Board's Committee on Accounting for Smaller Entities ('CASE') advises the Board of the changes to the FRSSE that are appropriate to reflect changes in accounting standards. Proposals for an update are published as an exposure draft in accordance with the Board's usual procedure.

6.4 There is currently no international equivalent standard to the FRSSE. The IASB is undertaking a project which aims to reduce the burden on small or medium-sized entities of applying IFRS. The Board supports these efforts and ASB member Isobel Sharp, Chairman of CASE, serves on IASB's advisory panel. The Board hopes that the IASB project will produce a set of requirements that will provide a suitable basis for the replacement of the FRSSE. However, the IASB project is in its early stages of development, and, for the present, the Board intends to retain the FRSSE.

6.5 The Board has recently published for limited consultation a Discussion Paper seeking views on a 'one stop shop' approach combining the relevant company law requirements with those of the FRSSE. It will also be considering later this year whether to issue an Exposure Draft setting out proposals to update the FRSSE to reflect recent accounting developments.

6.6 The Board's standards arising from the convergence process will not, of course, apply to entities that use the FRSSE, but will be taken account of in the usual periodic updates of the FRSSE.

7 STATEMENTS OF RECOMMENDED PRACTICE ('SORPs')

7.1 The ASB has followed a policy of supporting the development of Statements of Recommended Practice ('SORPs'). This policy involves the recognition of bodies which agree to comply with the ASB's Policy and Code of Practice to develop SORPs. On publication of a SORP, the ASB issues a statement confirming that it has carried out a limited review, that the SORP has been developed in accordance with its policy and indicating whether the requirements of the SORP conflict with current or contemplated accounting standards.

7.2 Current SORPs address a variety of public benefit entities including charities, local authorities and registered social landlords, and profit-oriented entities including banks, insurance businesses and various investment vehicles. The ASB believes that SORPs have made a significant contribution to the quality of UK financial reporting.

7.3 FRS 18 'Accounting Policies' requires entities within the scope of a SORP to disclose whether they have complied with that SORP, and provide details of the reasons for any departure.

7.4 The effect of the EU Regulation will vary widely between sectors. Most of the entities in some sectors may prepare accounts under EU adopted IFRS; in others all or nearly all entities may prepare accounts in accordance with UK standards. There may also be sectors in which a significant number of entities prepare accounts under both frameworks.

7.5 In the case of financial statements prepared under the Regulation, it presently appears that national authorities are unable to prescribe requirements additional to those in EU adopted IFRS. For this reason, it seems unlikely that SORPs will be mandatory for accounts prepared under the

Regulation and nor will the FRS 18 disclosure requirement apply. This does not, however, mean that SORPs will have no relevance to such accounts. They are likely to have a continuing role in establishing what is best financial reporting practice within a sector. Disclosure of compliance with a relevant SORP will also continue to be best practice. It therefore appears it would be useful for ASB to continue its support for the development of SORPs, even where they are likely to be used predominantly by entities complying with EU adopted IFRS.

7.6 ASB's policy requires SORP-making bodies to keep their SORPs under review. ASB is discussing with relevant SORP-making bodies, especially those in the private sector, the implication of the Regulation for their SORPs. Where many entities within the scope of a SORP will prepare their accounts in accordance with IFRS, a general review will be necessary to identify the changes necessary to maintain the usefulness of the SORP.

7.7 In those sectors where IFRS will seldom be used, SORPs will clearly need to be revised to reflect changes in UK standards, including those arising from the convergence process.

7.8 It would seem to be desirable that all SORPs indicate the financial reporting framework (or frameworks) under which they are intended to be used.

8 ASB's FUTURE ROLE

8.1 Whilst the main focus of this paper is on ASB's strategy for the convergence of UK standards with IFRS, it should be borne in mind that ASB's future role will not be confined to reproducing IFRS in a form suitable for use in the UK. The ASB's future role in connection with the FRSSE and SORPs have already been referred to above. Some of the other challenges that the ASB will undertake in the future are described in the following paragraphs.

8.2 It is ever more important that the UK voice is heard at the IASB and in other international fora where future accounting standards with which UK companies will be required to comply are discussed. The ASB strongly encourages its UK constituents to make their views known directly to such bodies.

8.3 The ASB works jointly as a partner standard-setter with the IASB. It maintains a regular dialogue with its liaison IASB member, is working in partnership with IASB on certain projects, and develops—and makes known—its views on every project IASB undertakes.

8.4 Effective working in the international partnership will continue to require the ASB to interface with other national standard-setters at a number of levels and in various ways. It will also include an active role for ASB in engaging in dialogue with the European Financial Reporting Advisory Group ('EFRAG'), to influence both EFRAG's input to IASB work and its advice on the European adoption process. From 1 April 2004 the Chairman of ASB will be *ex officio* an observer member of the EFRAG Technical Expert Group.

8.5 ASB will continue to exchange views with its constituents in the UK and Republic of Ireland. This will ensure that constituents interested in financial reporting are aware of IASB proposals for future accounting standards. It will also ensure that ASB is aware of the views of its constituents and thus enabled to feed them into international discussions.

8.6 The ASB will continue to address issues that arise in the context of entities that use UK standards. These may include, for example, issues that arise in the public benefit sector.

8.7 The Board's Urgent Issues Task Force ('UITF') will continue its work, identifying issues where it appears that further guidance would be welcome. Where, as will often be the case, these issues arise under IFRS, it will draw the issue to the attention of IFRIC and set out the UITF's suggested solution. In carrying out this task it will consult with—and respond to requests for consultation from—other national standard-setters.

8.8 The UITF will continue to take a close interest in the work of IFRIC, considering whether the same issues as those addressed by IFRIC require to be addressed in the context of UK standards. If so it will prepare and, after consultation, issue an Abstract.

8.9 The UITF will also issue Abstracts (again, after its usual consultation) on issues that arise only under UK standards, where it is appropriate to do so.

APPENDIX A

REPORTING COMPREHENSIVE INCOME AND RECYCLING

A.1 In accordance with UK law and accounting standards, certain gains and losses have been taken directly to reserves rather than being credited or charged to the profit and loss account. Examples include the gain arising on revaluation of fixed assets and the foreign currency difference arising on retranslation of a net investment in a foreign subsidiary. A more recent example, added by FRS 17 'Retirement Benefits', is the actuarial gain or loss on a defined benefit pension scheme.

A.2 Under FRS 3 'Reporting Financial Performance', all such gains and losses are reported once and for all when they occur, in the statement of total recognised gains and losses, and are not recycled (ie transferred to the profit and loss account) in a later period, on the occurrence of some subsequent event such as realisation, or amortisation.

A.3 The rationale for FRS 3's prohibition of recycling is that a gain or loss—even if estimated—should be reported in the period in which it occurs, in order to provide a complete picture of the economic impact of events of that period. Subsequent realisation may add certainty but does not increase the reporting entity's wealth and should not feature in a statement of income. Doubts over the certainty of a gain or loss need to be addressed at the time of initial recognition rather than by recognising the gain or loss in a kind of suspense account and deferring recognition in the profit and loss account to a later period. By requiring all recognised gains and losses—including profit or loss for the period—to be reported in a primary statement rather than as a movement on reserves (usually reported in a remote note), FRS 3 sought to ensure that the necessary prominence was given to them when they were relevant to decisions by users.

A.4 A further benefit from the FRS 3 approach is to introduce consistency between the various parts of the financial statements. If, for example, gains on revaluation are recycled, the profit or loss on sale of a revalued property is based, not on the amount at which it is carried in the balance sheet, but on its original cost. Yet the purpose of including a revalued amount in the balance sheet is to provide more up-to-date information on the entity's assets. It is inconsistent with this purpose to calculate a gain or loss on sale by reference to an amount that has not been used in the financial statements—sometimes for many years—and which, in consequence, may result in a gain being reported on a transaction that actually results in a loss compared with the more up-to-date balance sheet value.

A.5 For the above reasons, the Board continues to believe that recycling should, conceptually, have no place in financial statements. From its discussions through the 1990s with the G4+1 group of standard-setters, with whom it developed a research study followed by a discussion paper, and from more recent work with IASB, it believes that this view is widely shared. Nevertheless, at the practical level of pursuing convergence in accounting standards, it seems unlikely that rapid progress will be made towards achieving acceptance of this goal.

A.6 The present position is that US GAAP requires recycling in every case where gains are recognised outside the profit and loss account, as do IFRS, with one exception — IAS 16 'Property, Plant and Equipment' which, like FRS 15 'Tangible Fixed Assets', requires revaluation surpluses and deficits to be reported outside the profit and loss account, and not recycled.

A.7 IAS 21 'The Effects of Changes in Foreign Exchange Rates' originally allowed a choice between retaining the translation difference in equity and recycling it through the income statement, but recycling became the required treatment in 1995, following the precedent set by the equivalent US standard, FAS 52 'Foreign Currency Translation'.

Interestingly, that standard (which was issued in 1981), states that Board members were divided over whether or not to recognise the translation difference in the income statement on realisation; they decided on balance to do so "until the concepts of reporting all components of comprehensive income [were] further developed" (Basis for Conclusions paragraphs 112–19.)

A.8 Those who have favoured requiring recycling have often seen it as a useful compromise to get the right number in the balance sheet whilst remaining ambivalent about whether or in what sense the adjustment to the balance sheet amount constitutes income. Possibly a further influence is the importance attached to 'earnings'—a metric derived from the profit and loss account. Because of its perceived significance it is, on the one hand, considered important that 'earnings' can claim to be a representation of financial performance of the year: on the other hand, it is felt necessary that all gains and losses are credited to or charged against earnings for at least one year.

A.9 The ASB/IASB project on 'Reporting Comprehensive Income' has a different perspective. One of its aims is that of removing the impression that amounts reported in the profit and loss account are superior to, or more important than, gains and losses that are reported elsewhere (under UK standards, in the statement of total recognised gains and losses). The objective is not to replace one simple performance measure—earnings—with another: it is to provide a complete and well-structured set of information on all the components of comprehensive income to allow users to make their own assessment of the significance, from their own perspective, of these components. If financial performance were reported, as envisaged, in a single statement of comprehensive income, it is clear that recycling should have no place.

A.10 IAS 39 'Financial Instruments: Recognition and Measurement' requires recognition in equity of gains and losses resulting from remeasuring at fair values financial instruments classified as "available for sale" and transferring the accumulated gains and losses to the income statement on disposal. In view of the pivotal role played in IAS 39 by the categories of financial instruments and their respective treatments, it seems unlikely that recycling will be eliminated, from this standard at least, in the absence of a significant development in the understanding and portrayal of comprehensive income.

A.11 Because of the importance that it attaches to this subject, the ASB has joined with the IASB in a joint project called at various times 'Reporting Financial Performance' or 'Reporting Comprehensive Income'. The two Boards undertook numerous consultations with preparers and users of financial statements in 2003 on the basis of draft proposals for a radical re-shaping of the existing profit and loss account and statement of total recognised gains and losses. In the light of reactions, the Boards decided to proceed first to a discussion paper examining the issues and seeking comment on the priority that should be accorded to each. The opportunity is also being taken of co-ordinating work with the FASB, which has its own project covering some of the same ground. It remains to be seen, however, whether the re-scheduled joint project will result in the elimination of recycling from all standards at an early date.

APPENDIX B

MEASUREMENT

B.1 In recent years, accounting standard-setters have frequently expressed the view that, for certain kinds of transactions and situations, accounting based on current values provides better information for decision making than that based on historical cost accounting. The case for current values relies mainly on their superior relevance in that they reflect the economic circumstances prevailing at the balance sheet date. The advantage of this increased relevance must be judged against a possible loss of reliability in some circumstances.

B.2 The ASB is firmly of the view that there is a strong case for current measures where relevant and sufficiently reliable current measures can be obtained. This view is shared by IASB and standard-setters in other jurisdictions.

B.3 There are, however, some differences of view about the basis of current values that should be used. IASB has undertaken a research project on the basis of measurement, but no single philosophy can be discerned from current and proposed IFRS. IFRS define 'fair value' as follows:

> *"Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction."**

B.4 Where assets (and liabilities) are traded on active markets, this is unproblematic. 'Fair value' can easily be derived from market evidence, and the only issue is that of transaction costs which, on such a market, are unlikely to be very large.

B.5 These conditions are, however, not met in the case of many assets. An entity that requires specialist plant, for example,

* *IAS 32 'Financial Instruments: Disclosure and Presentation', paragraph 11.*

will often find it costly to buy and, should it face the need to sell it, find it difficult to obtain a good price—if indeed a buyer can be found. In such cases accounting must either be content to use historical cost throughout the life of the plant, which may be many years, or to specify clearly on what basis more up-to-date values are to be derived.

B.6 Other standard-setters suggest that, where assets are not traded on active markets but are to be carried at fair value, it is necessary to hypothesise what a market price would be, in the event that there were a market. This involves, for example, assuming that there is a buyer. Sometimes it is assumed that this hypothetical buyer is as knowledgeable about, and as enthusiastic to own, the asset as the current owner. It is reasonable to question the realism of such assumptions.

B.7 The ASB's view has long been that current values of input assets (such as fixed assets) should generally be based on input prices or, in other words, current replacement cost* (except in the case of impaired assets). This looks to the market in which the asset would be expected to be acquired—usually it is the transaction under which the asset was acquired, adjusted to reflect up-to-date prices.

B.8 Like fair values, current input prices may in some cases also be based on hypothetical assumptions, for example, where new assets are technologically more advanced than existing assets. However, this is not always the case: often replacement cost can be obtained without difficulty. It is

* *The ASB has, for example in its Statement of Principles for Financial Reporting* and in FRS 15 '*Tangible Fixed Assets*', explained its position by reference to the 'value to the business' model (sometimes also referred to as the 'deprival value' model) which has been established in theoretical literature for many years. The position set out in this Appendix is consistent with that model, but is explained in a different way to highlight the differences between the ASB's position and a 'fair value' model. For simplicity the discussion focuses on assets: a suggestion of how value to the business thinking may be applied to liabilities is in 'Liabilities and how to account for them: an exploratory essay' which may be downloaded from www.asb.org.uk/public/downloads.cfm

plausible that hypothetical assumptions would be needed less often for replacement cost than for fair values. Where there is no alternative to the use of hypothetical values —one alternative would be to default to the use of historical cost—replacement cost avoids the implication of 'fair value' that it is necessarily realistic to assume that the asset could be sold for its carrying amount at the balance sheet date.

B.9 Another advantage of replacement cost is that, in general, it operates at the level of aggregation at which the company ordinarily transacts. 'Fair value' is challenged by assets that are rarely, if ever, bought and sold except as part of a sale of a business: an example is semi-manufactured goods. In such cases it may be relatively straightforward to calculate a current replacement cost, but difficult to find a 'fair value' except for the business as a whole. Thus, if 'fair values' are used it is necessary to calculate the price that a sale of the whole business to a hypothetical buyer would realise and then, if accounting is to attempt to portray the individual assets, allocate that price to the individual assets—but it may not be possible to do so except arbitrarily.

B.10 A 'fair value' system calls into question the treatment of transaction costs. The acquisition of an asset may necessarily involve incurring costs such as professional fees and stamp duty. These cannot be sold (nor would a purchaser pay for them) so some adherents of fair value would urge recording them as an expense when incurred. However, to the extent that they stem directly from the decision to acquire the asset, an input price (replacement cost) perspective justifies treating them as part of the cost of the asset. This seems to provide a fair reflection of the amount of the entity's investment in the period. Moreover, it sets a more economically significant benchmark against which to assess the returns made by the entity on its investment in later periods.

B.11 In the ASB's view replacement cost is not only the *usual* basis of measurement to be used by a profitable entity for assets it profitably employs, it is also the *maximum* value.

Axiomatically, an asset can be worth no more than the amount for which it can be replaced; this has the consequence that the acquisition of an asset can never result in a gain (and will result in a loss only in the unusual case where it is impaired on acquisition). In contrast, if an asset is to be reported at an amount derived by modelling a hypothetical market, there is a risk that speculative future income might be used to justify reporting it at a higher carrying amount, which would lead to a reported gain.

B.12 Replacement cost, of course, does not provide a relevant measurement basis for all assets. Special considerations (explained in detail in FRS 11 'Impairment of Fixed Assets and Goodwill') arise in the case of impaired assets. In the case of an asset that has no utility to an entity, except through sale, it would be clearly inappropriate to value it at replacement cost, if, as is usually the case, this is higher than net realisable value.

B.13 It follows that different entities might report similar assets at different amounts: an entity that could use an asset profitably would report it at replacement cost, whilst another that could only sell it would report it at net realisable value. Some consider that this is, in principle, undesirable because it impairs comparability. In the ASB's view, however, it is clearly appropriate that the measurement basis used should reflect the economic constraints and opportunities available to the entity: it is unsurprising that the value of similar assets to their owners may be different if the economic position of their owners differs.

APPENDIX C

UK ACCOUNTING STANDARDS AND CONVERGENCE WITH IFRS

This Appendix provides an overview of current UK accounting standards and exposure drafts, briefly summarises the proposals made in this Discussion Paper, and provides a reference to the discussion of these proposals in the body of the paper.

The Appendix also includes comments on IASB projects and standards which do not have direct equivalents in current UK standards.

CURRENT UK STANDARDS

SSAP 4
Accounting for Government Grants

IASB is considering withdrawing or revising the corresponding IFRS, IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'. Proposals for a UK standard to replace SSAP 4 will await the issue of proposals from IASB. (See paragraph 5.26)

SSAP 5
Accounting for Value Added Tax

The Board will consider the continuing need for this standard in the light of developments on other standards, in particular that on revenue recognition.

SSAP 9
Stocks and Long-term Contracts

The Discussion Paper seeks views on whether (i) to introduce UK standards based on IAS 2 'Inventories' and IAS 11 'Construction Contracts' (as proposed in FRED 28) or (ii) to maintain SSAP 9 until the IASB's project on Revenue Recognition results in proposals for a standard. (See paragraphs 4.13-4.14)

SSAP 13
Accounting for Research and Development

See FRS 6, below, and paragraphs 5.23-5.24.

SSAP 17
Accounting for Post Balance Sheet Events

A UK standard based on the revised IAS 10 'Events After the Balance Sheet Date' will be issued this year, reflecting the proposals of FRED 27 and will be effective for accounting periods beginning on or after 1 January 2005. This will reflect expected changes in the law. (See paragraphs 4.31-4.32)

SSAP 19
Accounting for Investment Properties

The ASB does not intend to propose replacing SSAP 19 with a standard based on IAS 40 'Investment Property', but hopes that a revised IFRS will provide a suitable basis for a replacement. (See paragraphs 5.21-5.22)

SSAP 20
Foreign Currency Translation

The Discussion Paper seeks views on whether (i) to introduce a UK standard based on IAS 21 'The Effects of Changes in Foreign Exchange Rates' with amendment to eliminate recycling (as proposed in FRED 24) or (ii) to retain SSAP 20 until the IASB's project on Reporting Comprehensive Income is complete. (See paragraph 5.9)

SSAP 21
Accounting for Leases and Hire Purchase Contracts

It is not proposed to replace SSAP 21 with a standard based on the corresponding IFRS, IAS 17 'Leases'. When the international re-examination of lease accounting provides proposals, ASB will consult on a replacement for SSAP 21.

As an interim step the Board is minded, subject to consideration of responses to this Discussion Paper, to propose the introduction of revised disclosures in respect of operating lease commitments, based on those in IAS 17. (See paragraphs 5.31-5.33)

SSAP 24
Accounting for Pension Costs

This standard will be superseded by FRS 17 in 2005. See FRS 17, below, and paragraphs 4.3-4.9.

SSAP 25
Segmental Reporting

See FRS 3, below, and paragraphs 5.3-5.12.

FRS 1
Cash Flow Statements

See FRS 3, below, and paragraphs 5.3-5.12.

FRS 2
Accounting for Subsidiary Undertakings

It is hoped that IASB's project on consolidation will lead to standards that will provide suitable replacements for FRS 2 and FRS 9 'Associates and Joint Ventures'. If, as expected, the Government intends to change the definition of a subsidiary undertaking with effect from accounting periods beginning on or after 1 January 2005, a minor consequential amendment to FRS 2 will be necessary. (See paragraphs 5.27-5.29)

FRS 3
Reporting Financial Performance

It is proposed to await completion of the ASB/IASB project on 'Reporting Comprehensive Income' and then swiftly to adopt standards based on new IFRS to replace: SSAP 25 'Segmental Reporting'; FRS 1 'Cash Flow Statements'; FRS 3 'Reporting Financial Performance' and FRS 18 'Accounting Policies'. (See paragraphs 5.3-5.12)

FRS 4
Capital Instruments

See FRED 30, below, and paragraphs 4.15-4.30.

FRS 5
Reporting the Substance of Transactions

It is proposed that FRS 5 will be retained until its most important requirements have adequate counterparts under IFRS. (See paragraphs 4.10-4.12)

FRS 6
Acquisitions and Mergers

When IASB's project on business combinations is complete, ASB will propose the introduction of UK accounting standards based on IFRS which will replace: SSAP 13 'Accounting for Research and Development'; FRS 6 'Acquisitions and Mergers'; FRS 7 'Fair Values in Acquisition Accounting'; FRS 10 'Goodwill and Intangible Assets' and FRS 11 'Impairment of Fixed Assets and Goodwill'. (See paragraphs 5.23-5.24)

FRS 7
Fair Values in Acquisition Accounting

See FRS 6, above, and paragraphs 5.23-5.24.

FRS 8
Related Party Disclosures

A UK standard based on the revised IAS 24 will be issued this year, reflecting the proposals of FRED 25 and will be effective for accounting periods beginning on or after 1 January 2006. (See paragraphs 4.39-4.40)

FRS 9
Associates and Joint Ventures

See FRS 2, above, and paragraphs 5.27-5.29.

FRS 10
Goodwill and Intangible Assets

See FRS 6, above, and paragraphs 5.23-5.24.

FRS 11
Impairment of Fixed Assets and Goodwill

See FRS 6, above, and paragraphs 5.23-5.24.

FRS 12
Provisions, Contingent Liabilities and Contingent Assets

IASB is considering modifying the requirements of the corresponding IFRS, IAS 37. Proposals for a UK standard to replace FRS 12 will await the outcome of this consideration by IASB. (See paragraph 5.25)

FRS 13
Derivatives and other Financial Instruments: Disclosures

See FRED 30, below, and paragraphs 4.15-4.30.

FRS 14
Earnings per Share

Following FRED 26, a UK standard (applicable to listed companies only) based on the revised IAS 33 will be issued this year. It will be effective for accounting periods beginning on or after 1 January 2005. (See paragraphs 4.33-4.35)

FRS 15
Tangible Fixed Assets

Given that IAS 16 'Property, Plant and Equipment' is less specific than FRS 15 on the basis of valuation to be used where assets are revalued, and that this aspect may be the subject of a further review, the ASB does not intend to propose replacement of FRS 15 until the basis of valuation to be used under IFRS is clear. (See paragraphs 5.16-5.20)

FRS 16
Current Tax

See FRS 19, below and paragraph 5.30.

FRS 17
Retirement Benefits

FRS 17 will become fully effective for accounting periods beginning on or after 1 January 2005. It is not proposed to delay further its implementation. The IASB is expected to carry out a longer-term review of the corresponding IFRS, IAS 19, and the ASB will be making a contribution to this. (See paragraphs 4.3-4.9)

FRS 18
Accounting Policies

See FRS 3, above, and paragraphs 5.3-5.12.

FRS 19
Deferred Tax

The corresponding IFRS, IAS 12 'Income Taxes' may change as a result of the IASB short-term convergence project with the FASB. Once the changes are known, proposals will be issued to replace FRS 19 and FRS 16 'Current Tax' with a standard based on IFRS. (See paragraph 5.30)

FRSSE
Financial Reporting Standard for Smaller Entities

The ASB intends, for the present, to maintain its policy in respect of the FRSSE. (See Section 6)

UITF Abstracts

As part of the convergence process the ASB will withdraw or make consequential changes to UITF Abstracts where required by changes in the related standards.

CURRENT UK EXPOSURE DRAFTS

FRED 23
Financial Instruments: Hedge accounting

The Board is proposing to implement the hedge accounting requirements in IAS 39 'Financial Instruments: Recognition and Measurement' for all entities on a phased basis, starting in 2005 with all listed entities and all other entities adopting fair value accounting. If that proposal is adopted, the Board will not presently proceed with FRED 23. (See paragraphs 4.20-4.25)

FRED 24
The effects of changes in foreign exchange rates & Financial reporting in hyperinflationary economies

See SSAP 20, above, and paragraph 5.9.

FRED 25
Related party disclosures

See FRS 8, above, and paragraphs 4.39-4.40.

FRED 26
Earnings per share

See FRS 14, above, and paragraphs 4.33-4.35.

FRED 27
Events after the balance sheet date

See SSAP 17, above, and paragraphs 4.31-4.32.

FRED 28
Inventories; Construction and service contracts

See SSAP 9, above, and paragraphs 4.13-4.14.

FRED 29
Property, plant and equipment; Borrowing costs

See FRS 15, above, and paragraphs 5.16-5.20.

FRED 30
Financial Instruments: Disclosure and presentation & Recognition and measurement

The Board proposes UK standards based on IAS 32 'Financial Instruments: Disclosure and Presentation' and, for listed companies (and on a voluntary basis for other companies), much of IAS 39 'Financial Instruments: Recognition and Measurement', replacing FRS 4 'Capital Instruments'. This will also replace the disclosure requirements of FRS 13. (See paragraphs 4.15-4.30)

FRED 31
Share-based payment

A standard will be issued shortly, effective for accounting periods starting in 2005 for listed companies, and 2006 for unlisted companies. (See paragraphs 4.36-4.38)

FRED 32
Disposal of Non-current Assets and Presentation of Discontinued Operations

The ASB's current view is that a UK standard based on IFRS should only be brought forward with the 'Reporting Comprehensive Income' project. (See paragraphs 5.13-5.15)

OTHER IASB STANDARDS AND PROJECTS

IAS 41 'Agriculture'

Subject to consideration of responses to this Discussion Paper, the ASB will propose adoption of a UK standard based on IAS 41 'Agriculture' as soon as it is clear what revisions may be made in the light of changes to IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'. If possible, the new UK standard will be available for use for accounting periods beginning on or after 1 January 2005. (See paragraphs 4.41-4.42)

IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions'

The IASB is carrying out a review of this standard. If the standard is revised, the Board's current intention is to implement the revised standard in the UK, with earlier adoption permitted. (See paragraph 4.29)

IFRS 1
First-time Adoption of International Financial Reporting Standards

This standard is not relevant to financial reporting under UK requirements.

IFRS 2
Share-based Payment

See FRED 31, above, and paragraphs 4.36-4.38.

IFRS [3]
Business Combinations 1

See FRS 6, above, and paragraphs 5.23-5.24.

IFRS [4]
Insurance Contracts 1

The Board is not presently proposing the implementation of this IFRS as a UK standard. (See paragraphs 5.34-5.35)

IFRS [5]
Disposal of Non-current Assets and Presentation of Discontinued Operations

See FRED 32, above, and paragraphs 5.13-5.15.

ED 6
Exploration for and Evaluation of Mineral Resources

The proposals of this exposure draft are not directly relevant to financial reporting under UK requirements, at this stage of the convergence process.

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