



ACCOUNTING STANDARDS BOARD

**Minutes of a meeting of the Accounting Standards Board (2006:09)  
held on 14 September 2006 at Aldwych House, 71-91 Aldwych, London WC2**

PRESENT

|                      |   |
|----------------------|---|
| Ian Mackintosh       | Chairman                                |
| David Loweth         | Secretary and Acting Technical Director |
| Mike Ashley          |   |
| Peter Elwin          |   |
| Roger Marshall       | (Item 4 onwards)                        |
| Robert Overend       |   |
| Helen Weir           |   |
| Peter Westlake       |   |
| Geoffrey Whittington |   |

IN ATTENDANCE

|                  |                                       |
|------------------|---------------------------------------|
| Andrew Lennard   | Director of Research                  |
| Jon Grant        | Executive Director, APB (item 3 only) |
| Michael Kavanagh | IAASA Observer                        |
| Ben Higgin       | DTI                                   |
| Evelyn Ryle      | Minutes Secretary                     |

Technical Staff: Simon Billingsley, Peter Godsall, Seema Jamil-O'Neill,  
Alan O'Connor, Hans Nailor and Simon Peerless.

APOLOGIES FOR ABSENCE were received from Marisa Cassoni.

1 MINUTES

The minutes of the meeting held on 13 July 2006 (2006:08) were agreed and approved for publication.

2 CHAIRMAN'S UPDATE AND REPORTS

2.1 The Board noted the International Accounting Standards Board's (IASB) announcement in July 2006 that it would not require the application of new International Financial Reporting Standards (IFRS) under development or major amendments to existing IFRS before 1 January 2009. An article by the Chairman had appeared in the *Financial Times* on 24 August seeking to counter criticisms of IFRS and further work was being done in that area.

2.2 On European issues, the Board noted that the EU Accounting Directives had been amended during August 2006, partly to deal with post-Enron developments

relating to off-balance sheet transactions and related party disclosures. The requirements of the Directives would apply to all preparers, whether or not operating under IFRS. The EU Commission was seeking candidates for its Standards Advice Review Group (SARG), an oversight mechanism. The European Financial Reporting Advisory Group (EFRAG) was seeking candidates for a User Advisory Panel. The EU Commission's second Roundtable on consistent application of IFRS was scheduled to take place on 20 September 2006.

2.3 The Board noted that the US Financial Accounting Standards Board (FASB) had yet to publish its Statement on Fair Value Measurement (this was subsequently published on 15 September). The IASB planned to issue a discussion paper on the issue in the fourth quarter of 2006.

2.4 The Board noted the status report and the activity report.

### 3 HERITAGE ASSETS

3.1 The Board considered a draft Exposure Draft (ED) on Heritage Assets, noting that there was general support from the museums and galleries sector for the proposals it contained. The Board expressed some concerns about the proposals, particularly the extent to which entities might choose to adopt a policy of non-reporting of all heritage assets, on the grounds that valuation was not practicable. While enhanced disclosures would be an improvement, they could not take the place of accounting information in financial statements. It was suggested that a clearer focus on individual collections within the total heritage assets of an entity might be a helpful way forward. However, such a focus should not be allowed to lead to an inconsistent approach. The Board also suggested that material be added relating to the criteria for valuations and for non-recognition.

3.2 While accepting that the ED was necessarily a compromise, the Board took the view that it would be an improvement on the current FRS. For the ED, the Board wished to emphasise that the aim was to encourage a valuation approach as much as possible. If the proposed standard did not achieve that in practice, it would need to be revisited.

3.3 The Board did not favour the suggestion that a reliability criterion be used, for reasons of auditability, instead of the criterion of practicability in the draft ED. The reliability of valuations of heritage assets was questionable; and the use of such a criterion was likely to lead to a decrease in the use of valuations by holders of heritage assets.

3.4 The Board suggested a number of amendments to the draft ED including a question on auditability and changes in the degree of emphasis to be given to cost-benefits in relation to the practicality test. It was agreed that a revised draft ED should be circulated for comments by email, with a view to early clearance. If that

did not prove possible, the revised draft would be considered at the Board's next meeting, in October.

#### 4 RESPONSES TO IASB AND EFRAG IASB EXPOSURE DRAFT ON AMENDMENTS TO IAS 23

4.1 The Board considered draft responses to the IASB and to EFRAG on the IASB's ED on amendments to IAS 23, noting that the proposed changes to IFRS formed part of the IASB/FASB convergence project. The Board noted that the proposed amendment would require capitalisation of borrowing costs attributable to the acquisition, construction or production of assets and would not remove all the differences between SFAS 34 and IAS 23. However, on grounds of convergence, the Board was prepared to accept the amendment.

4.2 The Board approved responses to the IASB and EFRAG, with some amendments to the draft text.

#### 5 RESPONSE TO EFRAG IASB EXPOSURE DRAFT: AMENDMENT TO IAS 32

5.1 The Board considered a draft response to EFRAG on the IASB's proposed amendment to IAS 32 which would allow certain financial instruments, puttable at fair value, to be reclassified from liabilities to equity. The Board noted that the amendment appeared to have been developed to meet the needs of a single company. The Board broadly shared the concerns raised by EFRAG about the proposed amendment, including the inconsistency between the definition of liability and the Framework, the rules-based nature of the exception, and the likelihood of unintended consequences. The position would not be resolved until the IASB/FASB debt/equity project was completed.

5.2 The Board noted that the proposed exception would not cover UK building societies and co-operatives and that there would be consequences for UK unit trusts. There was also the possibility that the amendment could give scope for financial engineering. It would certainly lead to unnecessary increased complexity.

5.3 The Board agreed that the draft response should be reworked to give greater weight to its concerns and should be circulated for clearance outside the meeting.

#### 6 STRATEGY FOR CONVERGENCE

6.1 The Board considered the responses to the press notice (PN289) of May 2006 which had sought views on the future application of reporting requirements for UK companies. Four tentative proposals had been included in the press notice: whether all UK public quoted and other publicly accountable companies should be required to apply full IFRS; the possible extension of the FRSSE to medium-sized companies;

the reporting requirements for UK subsidiaries of group companies applying full IFRS; and the treatment of entities that did not fall within the first three groups.

6.2 The Board noted that the responses to the press notice had been broadly supportive of the two-tier approach, with the lower level potentially to be based on the IASB's SME project. The Board also noted the concerns that any IASB SME standard should not be too complicated. The Board's proposals would therefore be reviewed once the IASB's ED on the SME project was available. In the meantime, further research would be put in hand. The Board would also respond to those entities that had commented on the press notice and would put a statement on the ASB website.

## 7 IASB/FASB CONCEPTUAL FRAMEWORK PROJECT: PROGRESS

7.1 The Board noted progress on the IASB/FASB conceptual framework project. On the question of definitions of an asset and a liability, the project team would now seek to demonstrate that the proposals were an improvement on definitions already in use. Difficulties had arisen over concepts relating to options and a further paper on the subject was to be taken at the IASB.

7.2 The Board noted that the EFRAG project on the conceptual framework had not yet produced a draft that EFRAG had endorsed. A further draft was to be prepared for the end of September.

## 8 EXPOSURE DRAFT: AMENDMENT TO THE FRSSSE

8.1 The Board received an update on the responses to the ED of an amendment to the FRSSSE. The Board noted that the major concerns in the responses to the ED had centred on the issue of share-based payment where a large number of respondents had been seeking simplified requirements for smaller entities. Various suggestions had been put forward in responses but the Board did not reach agreement on a preferred option.

8.2 The Board commissioned a revised draft standard offering alternative treatments of the issue of share-based payment for its next meeting.

## 9 PENSIONS PROJECT UPDATE

9.1 The Board received an update on recent work on the pensions project. It was noted that the EFRAG working group on pensions had had a productive meeting in mid-September, concentrating largely on the measurement of liabilities. Further work had been commissioned on the case for the inclusion of credit risk.

9.2 The Board noted that the Pensions Advisory Panel was working in tandem with the EFRAG working group and considering some of the same papers. It would

be important to make early progress on the drafting of the project report so that the project timetable could be met.

10 URGENT ISSUES TASK FORCE (UITF) APPOINTMENTS

10.1 The Board approved the appointment of Bill Hicks and the re-appointment of Geoffrey Mitchell to the UITF, both for two-year terms.

11 REPORTS OF JULY MEETINGS OF THE IASB AND EFRAG TEG

11.1 The Board noted the reports of the July meetings of the IASB and EFRAG Technical Experts Group (TEG).

12 NEXT MEETING

Thursday, 19 October 2006, at 9.00 a.m.