



ACCOUNTING STANDARDS BOARD

**Minutes of a meeting of the Accounting Standards Board (2006:13)  
held on 7 December 2006 at Aldwych House, 71-91 Aldwych, London WC2**

PRESENT

Ian Mackintosh	Chairman
David Loweth	Secretary and Acting Technical Director
Roger Marshall	
Robert Overend	
Helen Weir	
Peter Westlake	
Geoffrey Whittington	

IN ATTENDANCE

Isobel Sharp	Chairman, CASE (item 1, part)
John Coombs	Member, CASE (item 1, part)
Bob Garnett	IASB Observer
Andrew Lennard	Director of Research
Michael Kavanagh	IAASA Observer
David Tyrrall	DTI
David Watkins	HM Treasury
Evelyn Ryle	Minutes Secretary
Robert Langford	Minutes Secretary Observer

Technical Staff: Simon Billingsley, Michelle Crisp, Jennifer Guest, Hans Nailor, Alan O'Connor and Simon Peerless.

APOLOGIES FOR ABSENCE were received from Mike Ashley, Marisa Cassoni and Peter Elwin.

**1 FINANCIAL REPORTING STANDARD FOR SMALLER ENTITIES (FRSSE)  
TREATMENT OF EQUITY-SETTLED SHARE-BASED PAYMENT**

1.1 The Board had invited Isobel Sharp, Chairman of the Committee on Accounting for Smaller Entities (CASE) and John Coombs, a CASE colleague with experience of preparation of small-company accounts to present the arguments in favour of a disclosure only approach to the treatment of equity-settled share-based payments rather than applying the key principles of Financial Reporting Standard (FRS) 20 (IFRS 2) 'Share-based payment', as proposed in the Exposure Draft (ED).

1.2 The CASE members reported that there appeared to be very few instances of equity-settled share-based payment schemes in small entities; and that, where such schemes did exist, they were likely to be in companies that were expected to grow

beyond the FRSSE threshold. The use of such schemes to retain critical staff in the run-up to a sale was not believed to be common. There was little anecdotal evidence to suggest that much information would be lost by failing to implement the key principles of FRS 20 within the FRSSE, with disclosure only being the preferred option among practitioners. It was noted that some 80% of small companies did not employ an auditor. Annual valuations of the business would be required in order to implement FRS 20 and, even if the entity had an auditor, an outside valuer would have to be employed to do the work. There might also be doubts as to the reliability of the valuation for financial reporting purposes. The CASE members stressed that there was already a degree of non-compliance with company law and accounting standards, especially in areas such as pensions and deferred tax, and that including the key principles of FRS 20 in the FRSSE could lead to increased non-compliance. They believed the credibility of the FRSSE was already under threat because of recent complex changes, such as those on pensions and the proposed changes for FRS 20 could fatally undermine it. Further, the use of intrinsic-value under the key principles approach would provide an accounting number with limited accompanying disclosure which could be more difficult to understand than the disclosure only option.

1.3 The Board noted that the arguments were finely balanced; all seemed to be double edged. It could be argued that, since share-based payment schemes were very rare among small companies, there would be no harm in including the key principles of FRS 20 in the FRSSE and that it would not increase burdens on small companies. The FRSSE was a simplified version of full GAAP, and it would be more credible if it reflected the principles of FRS 20 which was the appropriate method of reporting such schemes. On the other hand, such inclusion would lengthen and complicate the FRSSE, for little benefit if the schemes were very rare. That could equally be seen to undermine the credibility of the FRSSE. The Board's view was that, if smaller entities did use such schemes, they should be accounting for them, but it was important to ensure that the figure reported would be relevant and would make sense to users of the accounts. If the inclusion of the key principles of FRS 20 within the FRSSE would produce figures of doubtful reliability, with no accompanying disclosure, the results might not be useful. It appeared in this case that disclosure could provide more information than a single number prepared under the FRS 20 intrinsic-value option.

1.4 On a vote, the Board decided by a majority to adopt the disclosure only approach in the FRSSE in place of the inclusion of the key principles of FRS 20 that was proposed in the Exposure Draft.

## 2 MINUTES

The minutes of the meeting held on 23 November 2006 (2006:12) were agreed and approved for publication.

### 3 CHAIRMAN'S UPDATE AND REPORTS

3.1 The Board noted that the structure of the draft Financial Reporting Council (FRC) Strategic Framework had been simplified. The proposed wording of Outcome 2 (on corporate reporting) now contained an explicit reference to stewardship. The document would be published for public consultation in December 2006.

3.2 The Board noted that the International Accounting Standards Board (IASB) had published a number of documents since its previous meeting, notably a discussion paper on fair value measurement, which would be considered by the Board at future meetings.

3.3 The Board noted that the European Financial Reporting Advisory Group (EFRAG) had issued a second discussion paper under the Pro-active Accounting Activities in Europe (PAAinE) initiative. This paper considered performance reporting, with a deadline for comments of 31 March 2007. The December meeting of the EFRAG Technical Experts Group (TEG) had discussed a number of other issues, including the IASB roundtable on liabilities, a potential further PAAinE discussion paper on liabilities and equity, and an education session on proposals to improve insurance accounting. It was noted that the process for endorsement of International Financial Reporting Standards (IFRS) for use within the EU was likely to be lengthened by the addition of further scrutiny by the European Parliament.

3.4 The Board noted the activity and status reports and approved the latter for publication on the website.

### 4 RETIREMENT BENEFITS: DRAFT REPORTING STATEMENT

4.1 The Board considered a draft of a Reporting Statement on retirement benefits. It was agreed that the non-mandatory status of the Reporting Statement needed to be made clear to users who should be encouraged to see it as a best practice guide. Since amended FRS 17 now matched the disclosures in international standards, the Reporting Statement should state explicitly that its recommendations applied to entities applying either IFRS or UK GAAP.

4.2 Board members made a number of suggestions to improve the drafting of the proposed Reporting Statement. It was agreed that a revised text would be circulated for approval outside the meeting and that the text would be sent out for fatal flaw review. A press notice would be issued to the effect that the Reporting Statement would be published in January 2007.

## 5 RETIREMENT BENEFITS: REPORTING ASSETS AND LIABILITIES

5.1 The Board received a report on issues considered by the Pensions Advisory Panel (PAP) and the EFRAG working group on pensions. The Board agreed that the discussion paper should recommend that the balance sheet recognise an asset to the extent that an entity could recover a surplus in the retirement benefit scheme and a liability to the extent that the deficit reflected the employer's legal or constructive obligation. The Board further agreed that the discussion paper should discuss but not emphasis corridor and deferral mechanisms.

5.2 The Board considered the options for showing gains and losses in the financial statements and concluded that they should be reported through the profit and loss account rather than through the statement of other recognised income and expense. The gains and losses should be shown as a single line item. A single line for the whole pension fund, excluding service cost, was also advocated. The movement should be presented by recognising actual return (dividend income and capital growth). The resulting volatility in the profit and loss account would have to be managed. The Board also concluded that the recognition and measurement criterion for financial assets in IAS 39 should be applied to assets held to fund retirement benefit schemes and that the fair value option should be used in all cases.

5.3 The Board agreed that it was important to ensure that its work on pensions was widely disseminated, particularly to international bodies such as the IASB.

## 6 IASB ROUNDTABLE: PROPOSED AMENDMENTS TO IAS 37

6.1 The Board noted that a meeting of UK representatives had taken place on 30 November 2006 at which views on the IASB's proposed amendment to IAS 37 had been aired, in advance of the IASB roundtables on 8 December 2006. A large number of issues had been raised. Participants were strongly in favour of a 'more likely than not' threshold for deciding whether an obligation existed. The proposed amendments seemed to constitute a worrying move away from the entity-specific approach. Concerns were also expressed about issues of probability, contingent liabilities, and various aspects of measurement. The Board expressed scepticism about the use of single point numbers. Disclosure could provide better information though boiler-plate should be avoided.

6.2 The Board hoped that the concerns of UK constituents would be clearly articulated to the IASB at the roundtable, though it noted that the IASB might not be persuaded of the case for change, even then. On a number of the principles in the IASB's paper for the roundtable, strong counter-arguments could be raised.

## 7 INTERIM REPORTS: DRAFT OF A REPORTING STATEMENT

7.1 The Board considered the draft of a Reporting Statement to update the existing statement 'Interim Reports' in the light of the EU Transparency Directive

(TD) and the Financial Services Authority's (FSA's) Disclosure and Transparency Rules (DTR). It was noted that the changes to the existing Statement had been kept to a minimum.

7.2 The Board noted that, although the draft Reporting Statement was, by definition, not mandatory, quoted entities that were not applying IFRS were required to state that their financial statements provided a true and fair view and that the FSA had stated that entities complying with pronouncements by the ASB (such as the proposed Reporting Statement) would be deemed (by the FSA) to have provided a true and fair view. That would make the non-mandatory Reporting Statement effectively mandatory for those entities. It would be important for that position to be made clear in the Reporting Statement.

7.3 Board members made a number of suggestions for improvements to the draft text. Since it had not been possible (for reasons of time) to prepare the document from scratch, the Board concluded that it could not be regarded as best practice. It was, rather, guidance to help entities to do what was required of them by the TD and the DTR. Against that background, the Board decided that the document should be issued as guidance on half-yearly financial reports and renamed appropriately.

7.4 The Board noted that the Transparency Directive had to be implemented by 20 January 2007. The Board agreed to consider a revised draft text at its next meeting with a view to publication by the end of January 2007 and a closing date for comments of the end of April 2007.

## 8 REVIEW OF NARRATIVE REPORTING BY UK LISTED COMPANIES

8.1 The Board considered the draft of a staff report of a review of the quality of narrative reporting in company reports, prepared at the request of the FRC. The review had included a survey of surveys together with some new material. Its aims were to review how UK companies were complying with the requirement relating to narrative reporting, with particular reference to the Business Review, and how companies were measuring up against best practice, as set out in the ASB's Reporting Statement on the Operating and Financial Review (OFR).

8.2 Board members made a number of suggestions for improving the potential impact of the report, particularly by the inclusion of examples of good practice. A revised text would be circulated for clearance outside the meeting, with the aim of publishing the final version in early January 2007 so that the report could influence those companies with December year ends.

## 9 ABI SORP ON INSURANCE: PROPOSED AMENDMENT

9.1 The Board noted that the FSA had issued proposals for changes to the regulations affecting insurance companies and that a consequential amendment to the Association of British Insurers (ABI) Statement of Recommended Practice (SORP)

was being sought. The timescale imposed by the FSA was very short and an abbreviated consultation exercise had been carried out by the ABI. The amendment would remove the need to set any negative liability within an insurance portfolio to nil. In effect, the value of the portfolio might be the net of liabilities and negative liabilities.

9.2 The Board recognised the apparent illogicality in the proposal, namely, that portfolios were not permitted to be shown as assets, but individual policies within those portfolios could be shown as assets. However, measurement of these insurance liabilities was essentially a portfolio measurement and individual policy values were not viewed as meaningful. It was also important to bring the accounting for insurance portfolios into line with the requirements of the regulator. The Board therefore approved the proposed amendment.

## 10 REAPPOINTMENTS TO CAPE

The Board approved five reappointments to the Committee on Public-Benefit Entities.

## 11 IASB UPDATE

The Board noted the IASB's update for November 2006.

## 12 NEXT MEETING

Thursday, 18 January 2007, at 9.00 a.m.