



ACCOUNTING STANDARDS BOARD

**Minutes of a meeting of the Accounting Standards Board (2007:06)
held on 10 May 2007 at Aldwych House, 71-91 Aldwych, London WC2**

PRESENT

Ian Mackintosh	Chairman
David Loweth	Technical Director and Secretary
Edward Beale	
Peter Elwin	
Roger Marshall	
Robert Overend	
Geoffrey Whittington	

IN ATTENDANCE

Andrew Lennard	Director of Research
Michael Kavanagh	IAASA Observer
David Watkins	HM Treasury
David Tyrrall	DTI
Evelyn Ryle	Minutes Secretary

Technical Staff: Michelle Crisp (MDC), Jennifer Guest, Seema Jamil-O'Neill (SJO), Alan O'Connor and Simon Peerless.

APOLOGIES FOR ABSENCE were received from Mike Ashley, Marisa Cassoni, Peter Westlake and Helen Weir.

1 MINUTES

The minutes of the meeting held on 19 April 2007 (2007:05) were agreed and approved for publication.

2 CHAIRMAN'S UPDATE AND REPORTS

2.1 The Board noted that the European Parliament had published a draft Resolution calling on the European Commission not to proceed with the adoption of International Financial Reporting Standard (IFRS) 8 'Operating Segments'. The Commission had agreed to carry out an impact assessment as requested by the Parliament and a Parliamentary vote on the Resolution was now scheduled for September. The Board agreed that there had been some misunderstanding of the UK's position on IFRS 8 and that the Chairman should consider writing to clarify that there was a large measure of support in the UK for endorsement of IFRS 8, but also suggesting that a post-implementation review of IFRS 8 should be carried out.

The Board considered that a proper system of post-implementation reviews of all adopted IFRS might usefully be set up by the EU.

2.2 The Board recognised that the International Accounting Standards Board's (IASB's) commitment to convergence with Financial Accounting Standards Board (FASB) standards involved some risks, particularly if strong objections from constituents were to be rejected in order to achieve convergence. The Board noted that there had been some movement in the attitude of the Securities and Exchange Commission (SEC) over the use of IFRS in the USA, partly as a result of pressure from the capital markets.

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

3 STATEMENT OF PRINCIPLES FOR FINANCIAL REPORTING: PROPOSED INTERPRETATION FOR PUBLIC BENEFIT ENTITIES

3.1 The Board considered a draft of the proposed Statement of Principles: Interpretation for Public Benefit Entities (SoP:I) and agreed in principle that it should be published, even though its life might be relatively short given the number of international projects that were addressing accounting frameworks. The SoP:I would be particularly useful for bodies drawing up Statements of Recommended Practice (SORPs) and to help with the work of the International Public Sector Accounting Standards Board (IPSASB).

3.2 The Board considered issues relating to Registered Social Landlords (RSLs) and agreed that capital grants to RSLs presented difficult problems for financial accounting, as did the measurement of assets. The Board agreed a number of drafting changes to the proposed SoP:I. A final draft would be cleared by Board members outside the meeting.

4 IASB EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IAS 24 RESPONSES TO IASB AND EFRAG

4.1 The Board considered draft responses to the IASB and to the European Financial Reporting Advisory Group (EFRAG) on the IASB's exposure draft (ED) of proposed amendments to International Accounting Standard (IAS) 24 Related Party Disclosures 'State-controlled Entities and the Definition of a Related Party'. The Board had concluded that the IASB's proposals both improved and clarified the standard. The draft response to the IASB was agreed.

4.2 The Board noted that, although EFRAG's draft covering letter to the IASB supported the ED, EFRAG disagreed with the ED proposals in a number of detailed areas. The Board agreed a response that agreed with EFRAG in welcoming the IASB's initiative but noted that the Board did not support a number of EFRAG's detailed comments.

5 FINANCIAL REPORTING EXPOSURE DRAFT 41:
RELATED PARTY DISCLOSURES (IAS 24)

5.1 The Board considered a draft of Financial Reporting Exposure Draft (FRED) 41 'Related Party Disclosures' based on IAS 24, noting that it would replace the proposals issued as FRED 25 in 2002. The Department of Trade & Industry (DTI) had announced that the accounting provisions in Part 15 of the Companies Act 2006 would be brought into force for accounting periods beginning on or after 6 April 2008. There was some uncertainty as to whether the proposals in draft FRED 41 would fully meet the requirements of the Directive and the staff was asked to request DTI to provide speedy legal advice on the point, so that it could be incorporated into FRED 41 before issue.

5.2 The Board agreed that FRED 41 should make clear that it either would be possible to converge UK GAAP with IAS 24 without amendment; or to include amendments to IAS 24, particularly to provide an exemption for wholly-owned subsidiaries. In theory, it would also be possible to remain with FRS 8, but this would be unsatisfactory, since the amendment to the Companies Act 2006 would bring the definition of related parties into line with IAS 24 and conflict with FRS 8. Constituents would be invited to comment on those options. It should be made clear that, apart from the very small number of amendments to IAS 24 being proposed by the Board, no other changes would be made. If FRED 41 were to be issued quickly, there would be a possibility that the resulting Financial Reporting Standard (FRS) could be issued to coincide with the final regulations to be issued by the DTI to apply from April 2008. Timing would depend, in part, on when the IASB issued the amended IAS 24, which was expected to be in the first quarter of 2008.

6 IASB/FASB CONCEPTUAL FRAMEWORK PROJECT: STEWARDSHIP

6.1 The Board received an analysis of the comments on stewardship as an objective of financial reporting that had been sent in response to the Preliminary Views Discussion Paper issued by the IASB in July 2006. The analysis demonstrated a very significant degree of support for stewardship as an objective of financial reporting. The Board had noted, with concern, that although stewardship was part of the IASB's existing framework, the IASB proposed to remove it from the revised framework without explaining how the framework would be improved by the change.

6.2 A number of examples were discussed to demonstrate instances where the omission of stewardship as an objective would result in inadequate financial reporting. That was particularly the case in the not-for-profit sector and for private entities. Discontinued operations and capitalisation of acquisition costs were examples where omission of stewardship as an objective resulted in very different financial reporting.

6.3 The Board agreed that a short paper should be produced giving examples of past and current practice with a view to publishing it on the website.

7 BUSINESS COMBINATIONS: UPDATE ON IASB PHASE II PROJECT

The Board registered its concern that Phase II of the IASB's project on business combinations was likely to encounter considerable opposition. The Board was concerned as to whether the IASB were aware of the considerable opposition to its proposals that remained despite the IASB proposing two options for the valuation of the non-controlling interest. It was noted the addition of the second option (to value non-controlling interests at its proportionate interest in the acquiree's identifiable net assets at the acquisition date) undermined the entity model that the IASB wished to apply. The Board was concerned to learn that the IASB proposed to issue the IFRS without re-exposing the changes.

8 REVIEW OF COMMITTEE ON ACCOUNTING FOR PUBLIC-BENEFIT ENTITIES (CAPE)

The Board considered the results of the review by the Committee on Accounting for Public-benefit Entities (CAPE) of its role and noted the proposal for a review of SORPs to ensure their consistency. It was noted that it might be necessary, in the future, to deal with the particular requirements of the not-for-profits sector via FRSs rather than SORPs. The Board would consider that at a later date, in the light of CAPE's review of SORPs.

9 REPORTS OF IASB AND IASB/FASB MEETINGS

The Board noted a report on the April meeting of the IASB and of the joint IASB/FASB meeting.

10 NEXT MEETING

Friday 25 May 2007, at 9.00 a.m.