



ACCOUNTING STANDARDS BOARD

**Minutes of a meeting of the Accounting Standards Board (2008:08)
held on 19 June 2008 at Aldwych House, 71-91 Aldwych, London, WC2**

PRESENT

Ian Mackintosh	Chairman
David Loweth	Technical Director
Nick Anderson	
Mike Ashley	
Edward Beale	
Marisa Cassoni	
Peter Elwin	
Robert Overend	
Andy Simmonds	
Geoffrey Whittington	

IN ATTENDANCE

Sue Ludolph	Project Director, Accounting, South African Institute of Chartered Accountants (for item 2)
David Watkins	HM Treasury
Simon Peerless	Secretary
Roger Nicklen	Minutes Secretary

Technical Staff: Seema Jamil-O'Neill and Alan O'Connor.

APOLOGIES FOR ABSENCE were received from Ken Lever.

1 MINUTES

The minutes of the meeting held on 22 May 2008 (2008:07) were agreed subject to one minor correction and approved for publication.

2 PROPOSED IFRS FOR SMEs: SOUTH AFRICAN EXPERIENCE

2.1 The Board received an oral briefing from Sue Ludolph on South Africa's experience of issuing the Exposure Draft of the IFRS for SMEs as a Statement of Generally Recognised Accounting Practice for use by all entities other than the widely held entities that were required to use full IFRS.

2.2 The Board was informed that the main drivers for use of the new statement were the increasing complexity of IFRS and the relief from financial instrument disclosure requirements. The main areas of difficulty in applying the statement related to deferred tax; property, plant and equipment; and the requirement for consolidation (for companies not otherwise needing to produce consolidated accounts). There were, potentially, issues around the extent to which national jurisdictions would have discretion to amend the scope (although the Board's view was that if the standard were introduced as part of UK GAAP the Board would have full discretion to determine its applicability in the UK).

3 CHAIRMAN'S UPDATE AND REPORTS

3.1 The Board discussed the latest developments in relation to:

- a. the International Accounting Standards Committee Foundation (IASCF) constitution review,
- b. United States adoption of IFRS,
- c. the IASB's Technical Plan to 2011,
- d. the European Financial Reporting Advisory Group (EFRAG) Technical Experts Group (TEG),
- e. the potential for reaching a common view among the main standard setters in the EU on the financial reporting implications of the credit crunch, and
- f. the discussions on new governance arrangements for EFRAG.

3.2 The Board noted:

- a. publication of further reports on the 'credit crunch' from the International Organisation of Securities Commissions (IOSCO), the Basle Committee and from the Committee of European Banking Supervisors (CEBS),
- b. the establishment by the President of France of a task force to look at complex financial instruments, including the financial reporting implications, and
- c. the formation by the IASB of an expert advisory panel on the valuation of financial instruments in inactive markets.

3.3 The Board noted that summary minutes of Urgent Issues Task Force meetings were now being published on the website.

3.4 The Board also noted the status report and activity report and approved the status report for publication.

4 AMENDMENTS TO FRS 25 (IAS 32) 'FINANCIAL INSTRUMENTS: PRESENTATION': PUTTABLE FINANCIAL INSTRUMENTS AND OBLIGATIONS ARISING ON LIQUIDATION

4.1 The Board considered constituents' responses to the Exposure Draft (ED) of amendments to FRS 25 'Financial Instruments: Presentation'.

4.2 The Board noted that the main issues raised by respondents had related to:

- a. the inconsistent treatment of shares of authorised funds;
- b. the complexity of the rules when applied to entities with complex structures;
- c. the costs (in time and effort) that would be imposed on preparers and the related issue of implementation date;
- d. the implications of delay in European Union (EU) endorsement;
- e. the amended disclosure requirements in IAS 1 'Presentation of Financial Statements'; and
- f. the need for the relevant industry Statements of Recommended Practice (SORPs) to be amended.

4.3 The Board considered how best to bring the new IAS 1 disclosure requirements into UK GAAP and discussed the desirability of working with industry representatives to ensure that appropriate industry guidance, consistent with IFRS, was available in good time.

4.4 The Board agreed that the amendment to FRS 25 should be published before the summer break with an implementation date of periods beginning 1 January 2010 and early adoption for periods beginning 1 January 2009, to allow time for affected entities to undertake the necessary analyses and to allow for any slippage in EU endorsement.

5 THE DISTINCTION BETWEEN LIABILITIES AND EQUITY

5.1 The Board considered the International Accounting Standards Board (IASB) Discussion Paper (IASB DP) 'Financial Instruments with Characteristics of Equity', the Financial Accounting Standards Board (FASB) Preliminary Views (FASB PV) paper 'Financial Instruments with Characteristics of Equity' and the European Financial Reporting Advisory Group (EFRAG) Pro-Active Accounting Issues in Europe (PAAinE) Discussion Paper (PAAinE DP) 'Distinguishing between liabilities and equity'.

5.2 The Board took the view that the issue of the distinction between liabilities and equity needed to be addressed as part of the IASB/FASB Conceptual Framework project and that neither the FASB PV nor the IASB DP offered an appropriate basis from which to start. The Board welcomed the PAAinE DP as a useful contribution to the debate.

5.3 The Board agreed that responses to the IASB DP, the FASB PV and the PAAinE DP should be prepared on the basis discussed at the meeting and brought back for consideration at the next meeting.

6 IASB DISCUSSION PAPER 'REDUCING COMPLEXITY IN REPORTING FINANCIAL INSTRUMENTS'

6.1 The Board resumed its consideration of the IASB Discussion Paper 'Reducing Complexity in Reporting Financial Instruments'.

6.2 The Board noted that arrangements had been made to ascertain the views of key constituents that could then be taken into account in developing the Board's response.

6.3 The Board discussed a number of issues arising from the current complexity in reporting financial instruments and considered alternative ways in which that complexity might be reduced.

6.4 The Board agreed that further work should be done to develop its response to the IASB discussion paper, including consideration of simplification of the drafting in the current standard and development of some of the ideas related to simplification of hedge accounting requirements.

7 IPSASB CONSULTATION PAPER ON SERVICE CONCESSION ARRANGEMENTS

7.1 The Board considered the International Public Sector Accounting Standards Board (IPSASB) Consultation Paper (CP) 'Accounting and Financial Reporting for Service Concession Arrangements' and discussed a draft response prepared by its Committee on Accounting for Public-benefit Entities (CAPE).

7.2 The Board noted that although there was currently a gap in the IPSASB suite of accounting standards in relation to service concession arrangements they were addressed in UK GAAP by Application Note F 'Private Finance Initiative and Similar Contracts' to FRS 5 'Reporting the Substance of Transactions'. The Board also noted that HM Treasury had issued final text on accounting for private finance initiative (PFI) arrangements (based on IFRIC 12 'Service Concession Arrangements') for inclusion in the IFRS based Financial Reporting Manual (iFReM) that will apply to central government bodies from 2009-10.

7.3 The Board discussed the consistency between the CP proposals and IFRIC 12 in relation to the residual interest control criteria and suggested that clarification of the implications of the IPSASB proposals should be sought. The Board also discussed the CP proposals on reporting the liability and suggested that further development of the IPSASB proposals was needed.

7.4 The Board agreed that the draft response should be amended to take its views into account.

8 IASB/FASB CONCEPTUAL FRAMEWORK PROJECT

8.1 The Board considered:

- a. the IASB Exposure Draft (ED) 'An improved Conceptual Framework for Financial Reporting - Chapter 1: The Objective of Financial Reporting & Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information'
- b. the IASB Discussion Paper (DP) 'Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity', and
- c. a draft of a public consultation document (relating to the IASB ED) 'Application to not-for-profit entities in the private and public sector' being prepared for the standard setters in Australia, Canada, New Zealand and the UK.

8.2 The Board also briefly considered the latest developments in the PAAinE working group on the conceptual framework and in particular their consideration of the working definition of an asset.

8.3 The Board made a number of observations on the papers and agreed to consider its responses further.

9 EU ENDORSEMENT OF THE ANNUAL IMPROVEMENTS TO IFRS AND OF THE AMENDMENT TO IAS 1 AND IAS 32 'COST OF AN INVESTMENT IN A SUBSIDIARY, JOINTLY CONTROLLED ENTITY OR ASSOCIATE'

9.1 The Board considered EFRAG's invitations to comment on its assessments of the improvements to IFRS and of the amendment to IFRS 1 and IAS 27 'Cost of an investment in a subsidiary, jointly controlled entity or associate'.

9.2 The Board approved responses agreeing with EFRAG's advice that the improvements and amendments should be endorsed for use in the European Union.

10 APPOINTMENTS TO FSOSIC AND TO THE HEFE SORP BOARD

10.1 The Board approved the re-appointment to its Financial Services and Other Special Industries Committee (FSOSIC) of James MacLeod and Rajan Kapoor for a further two years to 30 June 2010 and of David Cairns for a further two years to 31 August 2010.

10.2 The Board also approved the appointment of Professor Adrian Smith as Chair and of Andrew Connolly as a member of the Higher Education and Further Education (HEFE) SORP Board.

11 REPORTS OF THE MAY MEETINGS OF EFRAG TEG AND OF THE IASB

The Board noted the reports of the May meetings of EFRAG TEG and of the IASB and welcomed the IASB's decision to change the title of the IFRS for SMEs to 'IFRS for Private Entities'.

12 NEXT MEETING

Wednesday 16 July, 9.00 a.m.