



**Minutes of a meeting of the Accounting Standards Board (2010:13)  
held on 25 November 2010 at Aldwych House, 71-91 Aldwych, London, WC2**

PRESENT

Roger Marshall	Chairman
David Loweth	Technical Director
Nick Anderson	
Edward Beale	
Marisa Cassoni	
Peter Elwin	
Ken Lever	
Robert Overend	
Andy Simmonds	
Pauline Wallace	

IN ATTENDANCE

Mike Ashley	TEG Observer
Matt Blake	HMRC
John Instance	BAS (items 1 to 3, and item 8)
Jonathan Labrey	FRC Head of Communications (item 2 only)
Andrew Lennard	ASB Research Director
David Tyrrall	BIS
Chris Wobschall	HM Treasury
Ian Wright	FRC Director of Corporate Reporting (for items 1 to 2, and item 8)
Simon Peerless	Minutes Secretary

Technical Staff: Jenny Carter, Grant Chatterton, Faye Gordon, Seema Jamil-O'Neill, Joanna Spencer.

1 MINUTES AND NOTE OF MEETING

- 1.1 The minutes of the meeting held on 4 November 2010 (2010:12) were agreed and approved for publication.
- 1.2 The Board agreed to amend paragraph 8.1 of the minutes of the meeting held on 12 October (ASB 2010:11) to read: 'The Board received a paper and an oral presentation from Tim Bush, who had been asked to outline his concerns about FRS 26 and his recommendation that the standard needed to have a capital "underpinning" amendment. In Mr Bush's view, the interaction

between FRS 26 and Company law had resulted in banks not making sufficient provisions and that the provisions of the Companies Act were not properly understood within the Financial Reporting Council'.

## 2 UPDATE AND REPORTS

2.1 The Board received an update on recent developments relating to the global financial crisis, IASB and further international developments, EFRAG and other European developments, and FRC and ASB developments.

2.2 The Board noted:

- a. the reference to global accounting standards in the Seoul Summit Document following the G20 meeting;
- b. the reference to strengthening accounting standards in the Progress Report of the Financial Stability Board;
- c. the consultation document issued in November by the International Financial Reporting Standards Foundation (IFRSF) on its future strategy;
- d. a draft response from the FRC to the European Commission's consultation document 'Audit Policy: Lessons from the Crisis';
- e. the Commission's staff consultation on non-financial reporting;
- f. the agenda for the next meeting of EFRAG's Technical Experts Group;
- g. the Government proposals for the future of the UKLA, following the responses to HM Treasury's consultation document 'A new approach to financial regulation: judgement, focus and stability';
- h. the appearance of Baroness Hogg and Stephen Haddrill before the House of Lords Select Committee on Economic Affairs;
- i. the issue by the FRC of its latest 'Update for Audit Committees'.

2.3 The Board:

- a. expressed concern at the number of recent important consultations with short comment periods, especially at a time when there are many new documents being issued;
- b. noted similar concerns raised by the Accounting Standards Board of Canada; and
- c. agreed that the Chairman should write to the IFRSF Trustees and to the European Commission expressing these concerns.

2.4 The Board considered a draft of an FRC report of a study on capital maintenance disclosures and made comments on the recommendations made therein.

2.5 The Board noted the status report and approved its publication.

### 3 INSURANCE CONTRACTS

3.1 The Board considered the response to be made to the IASB and EFRAG on the IASB's exposure draft (ED) 'Insurance Contracts'.

3.2 The Board expressed the view that:

- a. the performance reporting proposals in the ED would not provide sufficient useful information for users, in particular relating to volume information on new business;
- b. more field testing, with greater transparency over the results, was necessary;
- c. interest should not be accreted on residual margin;
- d. residual margin should be available to absorb changes in risk margin;
- e. the simplified approach for short duration contracts should not be mandatory;
- f. the scope of the ED should include financial guarantee contracts, but that otherwise the scope should not be amended from IFRS 4;
- g. the transition provisions were unsatisfactory and would lead to a lack of comparability between different insurance entities for many years.

3.3 The Board commissioned preparation of revised responses to the IASB and EFRAG incorporating these views, to be approved outside the meeting.

### 4 LEASES

4.1 The Board considered the responses to be made to the IASB and EFRAG on the IASB's exposure draft (ED) 'Leases'.

4.2 The Board expressed the view that:

- a. the proposals in the ED needed further consideration and consultation before being taken forward to a standard; it would be preferable to address lessee and lessor accounting together, as many issues were related, but if the IASB saw an urgent need to issue a standard on lessee accounting, the lessor accounting proposals should be deferred;
- b. the derecognition approach to lessor accounting was highly preferable to the performance obligation approach, and the hybrid approach set out in the ED should not be taken forward;
- c. for leases with options, the lease term should be the minimum lease term as defined in IAS 17, and options if material should be recognised separately;
- d. the treatment of contingent rentals should depend on whether these were under the control of the lessee or not;

- e. purchase options should be recognised only on exercise;
  - f. an operating lease method was appropriate for short term leases;
  - g. the distinction between a sale and a lease, and the treatment of sale and leaseback arrangements, should be based on the definition of a sale in the revenue recognition standard, clarified in necessary;
  - h. contracts that combined a service contract and a lease should be separated if information was available to do this, and if not the treatment should depend on which element was more significant; and
  - i. the cost benefit analysis in the ED was insufficient.
- 4.3 The Board commissioned draft responses to the IASB and EFRAG to be prepared incorporating these views, for further consideration at the next Board meeting.

## 5 SEVERE HYPERINFLATION

- 5.1 The Board considered the responses to be made to the IASB and EFRAG on the IASB exposure draft 'Severe Hyperinflation'.
- 5.2 The Board expressed the view that:
- a. the proposals were an appropriate solution to the problem of applying IAS 29 where no reliable exchange rates were available as a result of severe hyperinflation;
  - b. the scope of the proposals appeared to be wider than intended; and
  - c. it would be preferable to make amendments to IAS 29 rather than IFRS 1 to address the issue.
- 5.3 The Board approved responses to the IASB and EFRAG expressing these views.

## 6 PUBLIC BENEFIT ENTITIES

- 6.1 The Board considered draft sections of the proposed standard on public benefit entities.
- 6.2 The Board:
- a. agreed the proposed outline of the exposure draft and its scope;
  - b. agreed that the requirements for recognising resources from non-exchange transactions, based on the requirements for government grants in the proposed FRSME;
  - c. agreed with the proposal to treat heritage assets as a separate category of asset, and to permit these to be measured on either a cost basis or at valuation, inline with the requirements of FRS 30.

- 6.3 The Board agreed to continue its deliberations on the proposed standard at a future meeting.

## 7 FINANCIAL STATEMENT PRESENTATION

- 7.1 The Board considered a draft paper setting out preliminary responses to the main issues raised in EFRAG's paper 'Financial Statement Presentation'.

- 7.2 The Board expressed the view that:

- a. the IASB should not issue any standard on presentation until fundamental issues were addressed;
- b. the proposals took the principles of disaggregation and cohesiveness too far;
- c. the direct method cash flow statement was not supported; and
- d. a reconciliation of net debt was useful.

- 7.3 The Board approved the preliminary views paper incorporating these views for publication on the website.

## 8 FRC PAPER 'EFFECTIVE STEWARDSHIP'

- 8.1 The Board considered a draft of the proposed FRC paper on effective stewardship and provided comments on the recommendations made therein.

## 9 REPORTS OF MEETINGS OF THE IASB AND EFRAG'S TECHNICAL EXPERTS GROUP

- 9.1 The Board noted the 'Update' reports of:

- a. the 27 October meeting of the IASB; and
- b. the October conference calls and November meeting of EFRAG's Technical Experts Group (TEG).

## 10 NEXT MEETING

Thursday 16 December, 9.00 a.m.