



**Minutes of a meeting of the Accounting Standards Board (2010:07)
held on 17 June 2010 at Aldwych House, 71-91 Aldwych, London, WC2**

PRESENT

Ian Mackintosh	Chairman
David Loweth	Technical Director
Edward Beale	
Robert Overend	
Andy Simmonds	
Pauline Wallace	

IN ATTENDANCE

Matt Blake	HMRC
Michael Kavanagh	IAASA (for Items 1-3)
Andrew Lennard	ASB Director of Research
Dame Barbara Mills	Chair, Professional Oversight Board (for Item 4)
Louise Pryor	Director, Board for Actuarial Standards (for Item 4)
David Tyrrell	BIS
Roger Nicklen	Minutes Secretary

Technical Staff: Grant Chatterton, Jennifer Guest, Seema Jamil-O'Neill, Janice Lingwood, Helen Poole, Deepa Raval and Michelle Sansom.

APOLOGIES FOR ABSENCE were received from Nick Anderson (who had submitted written comments), Marisa Cassoni, Peter Elwin and Ken Lever.

1 MINUTES OF MEETING

1.1 The minutes of the meeting held on 20 May 2010 (2010:06) were agreed and approved for publication.

2 UPDATE AND REPORTS

2.1 The Board received an update on recent developments relating to the global financial crisis, other International Accounting Standard Board (IASB) and international developments, European Financial Reporting Advisory Group (EFRAG) and other European developments, and Financial Reporting Council (FRC) and ASB developments.

2.2 The Board noted:

- a. the joint statement by the IASB and US Financial Accounting Standards Board (FASB) that their convergence strategy was being modified and that the June 2011 target may not be achieved for everything;
 - b. the draft report from the European Parliament (EP) Special Committee on the Financial, Economic and Social Crisis (CRIS), which had made references to IASB governance and to the need for the IASB to take financial stability into account and had called for European legislation on corporate social responsibility to require the preparation of social, environmental and financial balance sheets;
 - c. publication by the European Commission of consultative documents covering corporate governance and remuneration and its key financial reform proposals which included the ambition of global financial reporting standards;
 - d. publication of the *Which?* Banking Commission report calling for some changes to the Companies Act;
 - e. publication of FASB's ED on 'Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities';
 - f. publication of the IASB's ED on 'Presentation of Items of Other Comprehensive Income' - the so-called 'page break' proposals - requiring a single statement of profit and loss and other comprehensive income;
 - g. publication of EFRAG's 2009 annual review;
 - h. publication by EFRAG's Planning and Resources Committee of a 'Strategy for European Pro-Active Financial Reporting Activities';
 - i. publication by the FRC of its new UK Corporate Governance Code that included a requirement for companies to explain their business model;
 - j. publication of the FRC Annual report for 2009/10 and Plan & Budget for 2010/11;
 - k. the new Government's intention to reinstate an Operating and Financial Review.
 - l. publication by PwC of a survey of investment professionals '*What investment professionals say about financial instrument reporting*';
 - m. the minutes of the UITF meeting held on 26 May; and
 - n. ASB staff changes.
- 2.3 The Board approved the Status Report for publication.

3 THE FUTURE OF UK GAAP

- 3.1 The Board continued its consideration of issues arising from the responses to its consultation paper 'Policy Proposal: the Future of UK GAAP'.
- 3.2 The Board considered issues relating to:
- a. the framework of tiers;
 - b. the need for amendments to the Financial Reporting Standard for Smaller Entities (FRSSE);
 - c. disclosure exemptions for subsidiaries using EU-adopted IFRS;
 - d. modifications to the IFRS for SMEs;
 - e. specific entities; and
 - f. financial instruments.
- 3.3 The Board also gave preliminary consideration to the structure of the Financial Reporting Exposure Draft (FRED).
- 3.4 On the framework of tiers the Board reaffirmed its proposals to have three tiers (EU-adopted IFRS, IFRS for SMEs and FRSSE) and agreed that each should have a sub-tier for subsidiaries.
- 3.5 On the FRSSE the Board tentatively agreed:
- a. not to make any changes to its scope;
 - b. to amend the FRSSE in respect of references to UK standards that would not work once they were withdrawn and reached tentative agreement specifically on changes needed in relation to accounting policies and to the disclosure exemptions in FRS 8 (subject to further consideration of disclosure exemptions in general).
- 3.6 On disclosure exemptions for subsidiaries using EU-adopted IFRS, the Board tentatively agreed that disclosure exemptions should be optional and there should be a disclosure requirement for any exemptions taken.
- 3.7 The Board also tentatively agreed disclosure exemptions for subsidiaries using EU-adopted IFRS in relation to:
- a. the disclosure exemptions on financial instruments, cash flows and related parties currently available in UK GAAP;
 - b. areas managed on a group basis, on the condition that equivalent information was available in the group accounts, namely –
 - i) business combinations (only where a subsidiary was doing an asset acquisition)
 - ii) share based payments (provided there was adequate disclosure elsewhere about the group scheme)
 - iii) management of capital

- iv) disclosure of IFRSs issued but not yet effective
 - v) defined benefit pension schemes
 - vi) associates
 - vii) impairment;
- c. disclosures not considered necessary for non-publicly accountable entities, namely -
- i) discontinued operations
 - ii) comparative reconciliations for property, plant and equipment, investment property and intangible assets that had not been restated in the previous year
 - iii) key management personnel.
- 3.8 The Board noted that further consideration would need to be given to the definition of 'equivalent' and endorsed the next steps to be taken in the development of its proposals.
- 3.9 On modifications to the IFRS for SMEs the Board tentatively agreed that:
- a. amendments should be made to ensure compliance with the Accounting Directives in relation to -
 - i) extraordinary items
 - ii) non-basic financial instruments (subject to a further review of the scope under the Accounting Directives to allow entities using the IFRS for SMEs to account for them under IAS 39)
 - iii) amortisation of goodwill and intangible assets.
 - iv) negative goodwill
 - v) impairment losses on goodwill
 - vi) unpaid called up share capital.
- 3.10 The Board also asked for further advice on any other aspects of the IFRS for SMEs that were in conflict with the Accounting Directives
- 3.11 The Board tentatively agreed that the requirement in the IFRS for SMEs on income tax should be replaced with IAS 12 as a single departure from its minimal changes rule on the grounds that the IFRS for SME's requirements on income tax were inconsistent with full IFRS.
- 3.12 The Board considered the issues around potential conflicts between the IFRS for SMEs and the requirements in law on preparing group accounts and tentatively agreed to change the Scope of Section 9 of the IFRS for SMEs to state that it applied where an entity was required to prepare consolidated accounts under the Companies Act.

- 3.13 The Board considered the issue of 'equivalence' in the requirements on group accounts and agreed to retain UITF 43 as part of new UK GAAP to ensure appropriate guidance on equivalence was available.
- 3.14 On specific entity issues the Board tentatively agreed that:
- a. credit unions, banks, building societies and friendly societies should be permitted to use the IFRS for SMEs if they met all three of the criteria for use of the FRSSE;
 - b. pension plans met the definition of public accountability and that the SORP would need to be rewritten to conform to IAS 26;
 - c. co-operatives in general did not meet the definition of public accountability;
 - d. all insurance entities met the definition of public accountability (subject to a further review of the available advice on general insurance entities) and that FRS 27 should be retained as part of UK GAAP (updated as necessary in the light of Solvency II) until a revised IFRS 4 was available for use in the UK;
 - e. dormant companies should be allowed to continue reporting using the UK GAAP accounting treatment in existence at the date of transition for all balances in existence at the date of transition;
 - f. infrastructure renewals accounting should not be a permitted exception to the full adoption of IFRS; and
 - g. the date of transition to IFRS should not be deferred for companies subject to regulatory price control.
- 3.15 On accounting for financial instruments the Board asked for further advice on the scope under the Accounting Directives to require use of full IFRS by IFRS for SME users with the reduced disclosures by retaining FRS 26 as part of UK GAAP and replacing the reference in the IFRS for SMEs to IAS 39 with a reference to FRS 26.

4 DEFINED BENEFIT PLANS

- 4.1 The Board gave further consideration to the IASB's Exposure Draft 'Defined Benefit Plans: proposed amendments to IAS 19' and considered EFRAG's draft comment letter.
- 4.2 The Board discussed:
- a. the scope for removal of the requirement to provide a narrative discussion of factors that that could cause contributions to differ looking forward over the next 5 years and to replacing it with a disclosure linking a reporting entity's funding arrangements with the liability of the pension scheme;

- b. the difficulties at the present time of asking the IASB to give priority to a comprehensive review of pension accounting;
 - c. the implications of removing the distinction between pension plans and other long-term benefits (on which the IASB had not sought views);
 - d. the differences between a 40 year pension scheme and a bonus scheme vesting over three years;
 - e. the IASB proposal that the finance cost component should comprise net interest on the defined benefit;
 - f. the increasing use of the OCI without it being backed with sufficiently clear thinking about what the OCI was for.
- 4.3 The Board approved responses to the IASB and to EFRAG.
- 4.4 The Board was informed that the Board for Actuarial Standards was considering whether to send its own response to the IASB reinforcing the points made by the ASB.
- 5 IASB EXPOSURE DRAFT - 'FINANCIAL INSTRUMENTS: AMORTISED COST AND IMPAIRMENT'
- 5.1 The Board resumed consideration of the IASB Exposure Draft - 'Financial Instruments: Amortised Cost and Impairment'.
- 5.2 The Board expressed a preference for the expected loss method over the incurred loss model.
- 5.3 The Board discussed the proposed IASB model, the latest information from the IASB's Expert Advisory Panel's on issues addressed and issues still needing to be resolved and the alternative models.
- 5.4 The Board approved a response to the IASB.
- 6 IASB EXPOSURE DRAFT - 'CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING - THE REPORTING ENTITY'
- 6.1 The Board considered the IASB Exposure Draft 'Conceptual Framework for Financial Reporting - The Reporting Entity' and EFRAG's draft comment letter.
- 6.2 The Board discussed a potential problem over the applicability of the proposals to not-for-profit entities because the IASB had replaced 'other capital providers' in the objectives of financial reporting with 'other creditors'.
- 6.3 The Board approved responses to the IASB and to EFRAG.

7 THE IASB EXPOSURE DRAFT - 'FAIR VALUE OPTION FOR FINANCIAL LIABILITIES'

7.1 The Board considered the IASB Exposure Draft - 'Fair Value Option for Financial Liabilities' and EFRAG's draft comment letter.

7.2 The Board:

- a. noted that there were difficulties visualising the model as a whole because it was not clear which parts of IAS 39 were to be carried forward into IFRS 9; and
- b. expressed strong reservations about the benefits of the proposed two-step approach.

7.3 The Board approved responses to the IASB and to EFRAG.

8 UITF ABSTRACT 47 (IFRIC INTERPRETATION 19) 'EXTINGUISHING FINANCIAL LIABILITIES WITH EQUITY INSTRUMENTS'

8.1 The Board approved publication of UITF Abstract 47 (IFRIC Interpretation 19) 'Extinguishing Financial Liabilities with Equity Instruments'.

9 FOREWORD TO UITF ABSTRACTS

9.1 The Board approved an amendment to the 'Foreword to UITF Abstracts' for publication and agreed that the future role of the UITF should be addressed in the FRED on new UK GAAP.

10 RE-APPOINTMENTS TO CAPE AND FSOSIC

10.1 The Board approved the re-appointments of Ian Carruthers and John Stanford as CAPE members for the two year period to 30 June 2012.

10.2 The Board also approved the re-appointments of Jim McLeod and Rajan Kapoor as FSOSIC members for the two year period to 30 June 2012, and David Cairns to 31 August 2012.

11 IASB UPDATES

11.1 The Board noted the 'Update' reports of the 17-21 May meeting of the IASB (including joint sessions with FASB) and of the 1 June meeting of the IASB and FASB.

12 NEXT MEETING

Wednesday 14 July, 9.00 a.m.

