Board Meeting Highlights

The International Accounting Standards Board met in London, UK, on 10-13 September 2001, where it:

- Met with the chairs of the IASB's national standard setter partners
- Discussed certain aspects of the Board's projects on Business Combinations, First-time Application of IASB Standards, and Share-based Payment.

Meeting with National Chairs

On 10-11 September 2001, the IASB met with the chairs of those national accounting standard setters having an IASB liaison member in residence. All such standard setters were represented. The meeting focused on:

- The IASB's technical agenda;
- Making the 'partnership' between the IASB and national standard setters envisaged by the IASC Strategy Working Party and the IASB Constitution operational; and
- The sharing of technical staff resources.

Improvements to IFRS

Liaison standard setters were asked to comment on the potential elimination of the following choices in existing IFRS. A sub-committee of the Board has proposed that the Board eliminate those choices. Some liaison standard setters expressed concerns, in particular, about eliminating the choices in IAS 17, *Leases*, and IAS 23, *Borrowing Costs*, in the improvements project, arguing that those choices raise broader conceptual issues.

- Cost formulas (FIFO vs. LIFO) for inventories (IAS 2, *Inventories*)
- Treatment of fundamental errors and changes in accounting policy (IAS 8, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policy*)
- Treatment of initial direct costs by lessors (IAS 17)
- Translation of goodwill and fair value adjustments resulting from an acquisition of a foreign entity (IAS 21, *The Effect of Changes in Foreign Exchange Rates*)
- Treatment of borrowing costs (IAS 23)
- Measurement of investments in subsidiaries and associates in the investor's separate financial statements (IAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries,* and IAS 28, *Accounting for Investments in Associates*)
- Accounting for joint ventures (IAS 31, *Financial Reporting of Interests in Joint Ventures*)

The Board will further discuss all choices raised by the sub-committee together with other potential topics raised for the improvements project.

Share-Based Payment

The Board agreed to invite additional comments on the IASC Staff Discussion Paper, *Accounting for Share-Based Payment*, originally published by the IASC Staff and other members of the G4+1group of standard setters in July 2000. The deadline for any additional comments is **15 December 2001**. The Board hopes to raise awareness of the accounting issues it is now considering, particularly the more complex measurement issues, and to obtain more information from constituents. Although the Board will be discussing various issues relating to the project over the next few months, any conclusions reached will be tentative and subject to reconsideration in the light of comments received. This includes the tentative decisions made at the September meeting, which are set out below.

The Board considered whether share-based payment transactions, involving the purchase of goods or services with payment made in shares or options, should be recognised in the financial statements, resulting in the recognition of an expense in the income statement when those goods or services are consumed (or when the attributed amount does not continue to form part of a recognisable asset). The Board tentatively agreed that, in principle, these transactions should be recognised in the financial statements, subject to the discussion of measurement and other issues.

The Board also discussed various issues relating to the measurement of share-based payment transactions. The Board tentatively agreed that, in principle, these transactions should be measured at the fair value of the shares or options issued. It also tentatively agreed that, where an observable market price does not exist, an option-pricing model should be used to estimate the fair value of share options, and that it was not necessary to specify which particular model should be used. The Board discussed how to adjust option-pricing models to incorporate features common to employee share options and options issued by unlisted companies, but no tentative conclusions were reached. It agreed to continue its discussions of these issues at future meetings.

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Business Combinations

The Board continued its discussion of business combinations (not including goodwill – see below). The Board reached, or reaffirmed the following tentative conclusions:

- All business combinations should be accounted for using the purchase method
- Further guidance should be included clarifying certain aspects of combinations of entities under common control
- Separate entities brought together to form a 'dual listed company' should be excluded from the scope of this standard
- An appendix illustrating a range of intangible assets that would satisfy the criteria for recognition separately from goodwill should be included in the standard
- Intangible assets with finite useful lives acquired in a business combination should be accounted for in accordance with IAS 38, *Intangible Assets*
- An intangible asset with an indefinite useful life should not be amortised but tested for impairment at least annually in accordance with IAS 36, *Impairment of Assets*
- Intangible assets with indefinite useful lives should be permitted to be remeasured in accordance with IAS 38
- In-process research and development acquired in a business combination should be recognised as an asset separate from goodwill when it is separable or arises as a result of legal/contractual rights. IPR&D that does not qualify for recognition as a separate asset is included in the amount attributed to goodwill
- Subsequent expenditure on IPR&D acquired in a business combination and recognised as an asset separate from goodwill would be accounted for in accordance with the requirements if IAS 38, paragraphs 42 and 45 – i.e., research expenditures would be expensed and development expenditure meeting the criteria for recognition as an asset would be so recognised.

Business Combinations – Goodwill

The Board discussed the nature of goodwill and reached a tentative conclusion that it should be described as an asset under the IASB Framework and recognised on the balance sheet on acquisition.

The Board discussed the subsequent treatment of goodwill, in particular the options of amortisation, non-amortisation with impairment testing or a mixed approach. The Board reached a tentative conclusion that if a workable impairment test could be devised, amortisation of goodwill should be prohibited.

The Board considered issues relating to the form of impairment test to be applied to goodwill and reached the following tentative conclusions:

- There should be an annual impairment test
- The test should be done at the smallest group of cash generating unit to which goodwill can be allocated on a reasonable and consistent basis. This level is the lowest level of the entity at which appropriate cash flow information is provided by existing management reporting systems
- The measurement objective should be the same as IAS 36, i.e., the higher of value in use and net selling price, pending further consideration of measurement in general
- Guidance on the cash flows projected, as in IAS 36, paragraphs 32 – 47, should be provided
- An impairment should be determined by comparing the recoverable amount of the cash generating unit(s) with the carrying value of the recognised net assets. However, a detailed calculation of recoverable amount need not be made if other existing information indicates that impairment is unlikely
- If an impairment is identified, it should be measured by comparing the carrying amount of goodwill with its implied fair value. Its implied fair value is the difference between the recoverable amount of the cash-generating unit(s) and the fair value of the net assets that would be identified and recognised if the unit(s) were acquired at the date of the impairment test.
- A subsequent cash flow test is required whenever an impairment test is based on projected future cash flows
- The necessary amendments should be made to IAS 36 rather than excluding goodwill from IAS 36

Insurance Contracts

The Board authorised the staff to carry out brief field visits to a number of insurers later this year. The field visits will assess the practical and conceptual issues that would arise in measuring insurance contracts at entity-specific value or fair value. In due course, the staff will present a proposal for a more comprehensive field test, to be carried out in 2002.

Next Meeting

The IASB will next meet **16-20 October 2001** (Tuesday – Saturday) in Washington DC, USA. The Board meets with the Standards Advisory Council (SAC) **16-17 October 2001** and in technical session thereafter. The meeting will be held at the Grand Hyatt Hotel, 1000 H Street NW, Washington DC. Agenda details and Observer registration information will be posted to the IASB Website, www.iasb.org.uk.

Subsequent IASB meetings are expected to be as follows:

- 27-29 November 2001, London, UK
- 18-20 December 2001, Paris, France
- 21-25 January 2002, London, UK[1]
- 19-23 February 2002, London, UK[2]

[1] 21-22 January 2002 – Meeting with the chairs of the National Standard Setter partners.

[2] 19-20 February 2002 – Meeting with the Standards Advisory Council.