

The International Accounting Standards Board met in London on 21 April and met the US Financial Accounting Standards Board on 22 and 23 April. In addition, it met the partner national standard-setters on 26 and 27 April. The following matters were discussed:

IASB Meeting

- Business combinations (phase II)
- Financial instruments
- IFRIC issues
- Leases
- Revenue recognition
- Small and medium-sized entities

IASB/ FASB joint meeting

- Board priorities
- Business combinations (phase II)
- Reporting comprehensive income
- Revenue recognition
- Short-term convergence topics

Partner standard-setters' meeting

- Board priorities
- IASCF constitutional review
- Reports on research projects
- Role of the national standard-setter in an IFRS environment

IASB meeting

Business combinations

Revisiting recognition of contingent liabilities in a business combination

The Board continued its consideration of the treatment of contingent liabilities by an acquirer in a business combination.

The Board had previously decided that the definition of a contingent liability should be modified to a "conditional obligation that arises from past events that may require an outflow of resources embodying economic benefits based on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity." As a consequence, present obligations that fail to qualify for recognition under IAS 37 *Provisions, Contingent*

Liabilities and Contingent Assets and are therefore at present defined as contingent liabilities, will no longer satisfy this definition. However, such obligations, whilst not recognised under IAS 37, will qualify as liabilities to be considered for recognition in a business combination. The Board had also previously observed that in some cases a contingent liability is accompanied by an associated unconditional obligation that satisfies the definition of a liability. In a business combination, the unconditional obligation accompanying the contingent liability will qualify as a liability to be considered for recognition.

At this meeting, the Board considered the treatment of contingent liabilities (as newly defined) that are not accompanied by associated unconditional obligations. The Board observed that such conditional obligations affect the price that an acquirer would be willing to pay for an acquiree and therefore have a fair value. Nonetheless, the Board decided that no exception should be made to the general principle in the second phase of the Business Combinations project that only those identifiable items that satisfy the definition of an asset or liability under the IASB *Framework* should be recognised in a business combination separately from goodwill. Therefore the Board decided that contingent liabilities, in the absence of an unconditional obligation, should not be considered for recognition separately from goodwill.

The Board noted that its decision converged with that of the FASB.

Determining which identifiable assets and liabilities should be included in the business combination accounting

The Board reconsidered the decision reached at the October 2003 joint meeting of the FASB and the IASB about which assets and liabilities should be included as part of the business combination accounting. This reconsideration came after it became clear that FASB and IASB members had different, and possibly inconsistent, interpretations of the October 2003 decision.

As a result of the reconsideration, the Board decided that an acquirer should recognise as part of the business combination accounting the assets acquired and liabilities assumed as part of the business combination at their fair values at the acquisition date.

Transactions entered into by the parties to the combination (ie by the acquirer, the acquiree or its owners) and past events affecting those parties should be assessed to determine whether the transactions or events result in elements that should be part of the business combination accounting. The objective of that assessment is to ensure that only those assets and liabilities that are substantive to the combination are recognised as part of the business combination accounting.

The Board decided that assets or liabilities arising from such transactions or events should be recognised as part of the business combination accounting to the extent that the benefits derived from the transactions or events are to be received by the acquiree. To the extent that a transaction or event relates to benefits to be received by the acquirer or the combined entity, it is post-combination in nature and therefore should not be recognised as part of the business combination accounting.

(Continued...)

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30 Cannon Street,
London EC4M 6XH, United Kingdom
Email: iasb@iasb.org
Website: www.iasb.org

IASB Publications Department,
30 Cannon Street, London, EC4M 6XH
United Kingdom
Tel: +44 (0)20 7332 2730
Fax: +44 (0)20 7332 2749
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Business combinations (phase II) (continued)

The following factors (which are neither mutually exclusive nor individually conclusive) should be considered in assessing whether a transaction or event relates to benefits to be received by the acquiree (or its owners):

- (a) whether the acquiree (or its owners) or the acquirer (or the combined entity) is the most significant beneficiary of the transaction or event. For example, if a compensation arrangement with employees provides remuneration for past (pre-combination) services, the associated liability would be considered a transaction that relates to benefits received by the acquiree. However, if the compensation arrangement is for services to be provided by employees in the future (post-combination), any associated obligation would result in post-combination expenses of the combined entity that would be excluded from the business combination accounting.
- (b) the timing of the event or transaction. For example, if an obligating event occurs during the negotiations of a business combination, it may provide evidence that the transaction was entered into in contemplation of the business combination for the purpose of providing future benefits to the combined entity. In other words, the transaction may have been entered into to shift post-combination expenses into the business combination accounting.
- (c) the reason for the transaction.
- (d) who initiated the transaction.

Sweep issues for the draft Exposure Draft of amendments to IAS 27

A first draft of an Exposure Draft of proposed amendments to IAS 27 *Consolidated and Separate Financial Statements* had been circulated to Board members. The proposed amendments arise from phase II of the Business Combinations project. The Board discussed at this meeting a number of 'sweep' issues that Board members identified in relation to the draft.

The first issue is whether gains or losses relating to a subsidiary that were recognised directly in equity should be recognised in profit or loss ('recycled') when the parent loses control of the subsidiary. The Board decided to proceed with its previous decision that loss of control should give rise to recognition in profit or loss of:

- the parent's share of deferred foreign exchange differences recognised directly in equity in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* for a net investment in a foreign subsidiary;
- the parent's share of accumulated hedging gains or losses recognised directly in equity in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* for a net investment in a foreign subsidiary; and
- any amounts that would have been required to be recognised in profit or loss had there been a direct disposal of the subsidiary's individual assets and liabilities (for example, the parent's share of any accumulated gains or losses recognised directly in equity in relation to a subsidiary's available-for-sale financial assets).

In addition, the Board decided that IAS 21 and IAS 39 should clarify that the parent's share of any deferred foreign exchange differences or accumulated hedging gains or losses for a net

investment in a foreign subsidiary should be recognised in profit or loss only when control of the foreign subsidiary is lost.

The second issue is whether, when a parent loses control of a subsidiary that was classified as a foreign operation but retains an investment in that foreign operation (being an associate or joint venture), the parent should recognise in profit or loss:

- its entire share of any accumulated foreign exchange gain or loss (or hedging gain or loss) that relates to a net investment in a foreign subsidiary; or
- only that proportion of the accumulated gain or loss attributable to the ownership interest disposed of by the parent.

The Board decided that the entire cumulative gain or loss attributable to the parent should be recognised in profit or loss on loss of control, even if an investment that is classified as a foreign operation is retained in the former subsidiary. In addition, the parent should recognise in profit or loss any other amounts recognised directly in equity that relate to the former subsidiary that IFRSs require to be 'recycled' through profit and loss (for example, the parent's share of any accumulated gains or losses recognised directly in equity in relation to a subsidiary's available-for-sale financial assets). This is the only approach that is consistent with the Board's previous conclusion that any remaining investment should be recognised at its fair value when control of the former subsidiary is lost.

The Board then discussed a number of consequential amendments arising from the above decisions; in particular, the nature of events that should result in the recognition in profit and loss of any accumulated foreign exchange gain or loss (or hedging gain or loss) recognised directly in equity that relates to a net investment in a foreign operation that is an associate or a joint venture. The Board decided that IAS 21 and IAS 39 should be amended to require an investor to recognise in profit or loss a proportionate share of any such accumulated foreign exchange gain or loss (or hedging gain or loss) if the investor's proportionate ownership interest in the foreign associate or joint venture is reduced, but the investor continues to have significant influence or joint control over the investee. For example, a dilution of the investor's proportionate ownership interest in an associate without loss of significant influence would result in the recognition in profit or loss of a pro rata share of any accumulated foreign exchange gain or loss or hedging gain or loss relating to the investee. In addition, the investor should recognise in profit or loss a proportionate share of any other amounts recognised directly in equity that relate to the foreign operation investee and that IFRSs require to be 'recycled' through profit and loss (for example, a proportionate share of any accumulated gain or loss relating to an investee's available-for-sale financial assets).

The Board also decided that IAS 21 and IAS 39 should be amended to require that on loss of significant influence or joint control, the investor should recognise in profit or loss the entire amount of any accumulated foreign exchange gain or loss (or hedging gain or loss) recognised directly in equity that relates to a net investment in a foreign operation that had been an associate or a joint venture. This will be the case even if the investor retains an investment in the former investee. In addition, the investor should recognise in profit or loss any other amounts recognised directly in equity that relate to the former investee and that IFRSs require to be 'recycled' through profit and loss (for example, the entire amount of any

accumulated gain or loss attributable to the investor relating to an investee's available-for-sale financial assets).

Finally, the Board decided that IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures* should be amended to require that on the loss of significant influence or joint control, any investment remaining in a former associate or joint venture should be remeasured to its fair value at that date and subsequently accounted for in accordance with IAS 39. The fair value of the remaining investment at the date significant influence or joint control is lost should be regarded as the cost on initial measurement of a financial asset in accordance with IAS 39.

Financial instruments

IAS 39 *Financial Instruments: Recognition and Measurement* – Transition and 'day one' profit recognition

The Board discussed concerns raised by constituents regarding retrospective application of the requirements in paragraph AG76 of IAS 39. This paragraph states that the best evidence of the fair value of a financial instrument at initial recognition is the transaction price, unless the fair value can be evidenced by comparison with other observable current market transactions, or is based on a valuation technique whose variables include only data from observable markets. It follows that a 'day one' profit can be recognised only if evidenced in this way.

The Board noted that retrospective application of these requirements would be difficult and expensive for some entities. It also noted that retrospective application differs from US generally accepted accounting principles. In US GAAP, very similar requirements are applied prospectively to transactions occurring after 25 October 2002. One of the Board's primary objectives when deciding on the requirements in paragraph AG76 was to converge with US GAAP. While it had achieved this objective as regards the measurement requirements, it had not achieved it with respect to transition. Furthermore, given that many of the entities most affected by this issue reconcile their results to US GAAP and that many of the instruments affected have a long life, this difference in transition requirements could result in a reconciling item that would persist for many years. Accordingly, the Board tentatively decided that it should amend the transition requirements so that such a reconciling item could be avoided. The Board also noted that not all of the entities affected by this requirement reconcile their results to US GAAP and that some entities may have already obtained the information necessary to apply the requirements in paragraph AG76 retrospectively.

In the light of the above, the Board tentatively decided to propose:

- (a) to amend IAS 39 to give entities a choice of applying the requirements of paragraph AG76 either
 - (i) prospectively to transactions occurring after 25 October 2002, or
 - (ii) retrospectively as required by paragraph 104 of IAS 39.
- (b) to clarify in the application guidance on IAS 39 that when the application of paragraph AG76 leads to non-recognition of profits on 'day one', subsequent measurement should not lead to the full recognition of those profits on 'day two.'
The subsequent recognition of such profits should be consistent with the guidance in IAS 39.

The Board also tentatively decided to include these proposals in the Exposure Draft of Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4

Insurance Contracts—Financial Guarantees and Credit Insurance.

IFRIC issues

Changes in Existing Decommissioning, Restoration and Similar Liabilities – sweep issue

The Board was asked whether, as a matter of due process, there was a need to expose the proposed consequential amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* resulting from this Interpretation. The amendment would allow first-time adopters to choose an alternative to the normal requirements when starting to apply the new Interpretation. The approach in question had been exposed in D2, the exposure draft leading to IFRIC 1. However, it was exposed in the context of applying a retrospective approach for changes in the liabilities in question, rather than in the context of the prospective approach now set out in IFRIC 1.

The Board concluded that the approach itself had been adequately exposed through D2 and that no further benefit from re-exposure was likely.

The Board also noted that IFRIC 1 would not affect the existing transitional provisions in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The Board observed that those provisions probably presumed an approach similar to what is now proposed for first-time adopters.

Leases

Staff of the UK Accounting Standards Board are undertaking the leasing research project. The Board discussed examples of leases with variable lease payments and the resulting assets and liabilities that would be considered for initial recognition under the conceptual approach being explored. The Board noted that measurement of assets and liabilities, on initial recognition and subsequently, would be considered later in the project. However, it was decided that the project should advance using a working assumption that assets and liabilities would be measured on initial recognition at fair value of the rights and obligations that are conveyed by the lease. Three categories of variable lease payments were discussed: (i) lease payments whose variation is conditional on external factors, such as price changes; (ii) lease payments whose variation is conditional on the lessee's usage; (iii) lease payments whose variation is conditional on the lessee's financial or other performance.

Examples of the first category are leases in which the payments are linked to a consumer price index or periodically adjusted to open market rents (including those on an upwards-only basis). The Board tentatively decided that the lessor has an unconditional right to receive, and the lessee has an unconditional obligation to pay, future amounts that are uncertain and that the expected value of the variable lease payments would be reflected in the assets and liabilities that arise from the lease.

The Board considered alternative approaches to the second category. The first approach is that the lease gives rise to an asset for the lessor and a liability for the lessee that reflects the forecast usage. The second approach is that only the minimum payments required by the lease (reflecting a right of use and an option to purchase more usage) would be considered for recognition as assets and liabilities arising from the lease if the usage is under the lessee's control. The Board expressed a variety of opinions in relation to both approaches. Some argued that if the lessee had a right of use for a period of time, the expected usage should at least in some cases be taken into account in measuring the respective rights and obligations. The

Board also questioned how the approach being discussed in the Revenue Recognition project would deal with this issue from a lessor perspective.

An example of the third category is a lease of property in which additional lease payments are conditional on the amount of the lessee's revenue. The Board considered alternative approaches. The first approach, presented as a 'liability' approach, is that assets and liabilities that arise from such leases should reflect the expected value of the variable lease payments. The second approach, presented as a 'no liability' approach, is that the lessee does not have a present obligation to make additional lease payments that are conditional on its future revenue. Under this approach, the lessor has an asset that is a right to participate in the lessee's performance.

The Board tentatively agreed with the 'liability' approach. The Board concluded that the lessor has an unconditional right to receive additional payments if any revenue threshold is reached, which meets the definition of an asset. The lessee has an unconditional obligation to pay additional amounts if the revenue threshold is reached, which meets the definition of a liability. The expected value of the conditional payments (eg based on forecast revenue) is reflected in the measurement of the asset and liability. The Board noted, however, that it would be necessary to consider the implications of this approach for other types of contractual arrangements, such as licences of intangible assets, in which similar issues arise.

The Board decided that a future Discussion Paper would, as appropriate, set out alternative approaches on such issues with reasons for the Board's preliminary views.

Revenue recognition

The Board discussed four papers related to developing a conceptual definition of revenues. The primary purpose of the discussion was to develop preliminary views for discussing the same agenda papers at the Board's joint meeting with the FASB on 23 April 2004 (see below).

First, the Board discussed the distinctions between components of comprehensive income such as revenues and gains and the merits of such distinctions. Second, the Board discussed whether the production of readily marketable commodities gives rise to a component of comprehensive income, and whether that component is a revenue, a gain, or some other type of comprehensive income. Third, the Board discussed whether engaging a third party to perform on behalf of an entity by means of subcontracting or outsourcing ultimately gives rise to revenue, and also discussed related matters of display in the financial statements. Finally, the Board discussed whether non-reciprocal transfers from other entities should be included in the definition of revenues or in a different component of comprehensive income, and the related implications of the latter conclusion for the definition of revenues.

The Board tentatively decided that an entity should not recognise revenues for the performance by third parties of its obligations to deliver goods or render services to customers if those obligations are legally assumed by those third parties. The Board did not seek to make decisions on other issues at this meeting.

Financial reporting standards for small and medium-sized entities

The Board reviewed a revised draft of a Discussion Paper on *Accounting Standards for Small and Medium-sized Entities (SMEs)*. The draft reflected decisions that had been made by the Board in March 2004, as well changes resulting from a review by members of the IASB's Advisory Panel on SMEs.

The Board asked that further changes to the draft be made, including the following:

- Clarify that the objectives of financial reporting set out in the IASB *Framework* are appropriate for SMEs as well as for entities following IFRSs.
- IFRSs, rather than IASB standards for SMEs, should be regarded as appropriate for entities that are economically significant in their home country based on criteria such as total assets, total revenue, number of employees, degree of market dominance, and the nature and extent of external borrowings.
- If an SME that is otherwise using IASB standards for SMEs elects to use a treatment in an IFRS that differs from the treatment in the related IASB standard for SMEs, it must use that IFRS in its entirety, not just selected parts of it.
- Explain that initially the Board would issue a single comprehensive exposure draft of "SME versions" of all existing IFRSs (including IASs) and Interpretations. Once the initial set of IASB standards for SMEs is in place, the Board expects to keep them up to date by including SME-related proposals in each exposure draft or draft Interpretation. The effective dates of new or revised IASB standards for SMEs would be the same as the effective dates of new or revised IFRSs.

The Board approved the Discussion Paper for publication, subject to reviewing and commenting on a ballot draft of the document. There will be a 90-day comment period.

IASB/ FASB joint meeting

Board priorities

The Boards discussed plans for coordinating their future standard-setting activities. Among the issues discussed were

- (a) a staff proposal to undertake a joint project to develop a common conceptual framework for use by both Boards and
- (b) whether other existing and future agenda projects should be undertaken either jointly or concurrently.

The meeting was administrative in nature; no changes to the either the FASB or IASB technical agendas were made.

The Boards agreed with the objective of moving toward a single conceptual framework that would be used by both Boards. The Boards directed the staff to develop a plan that would have as its objective the convergence of the IASB *Framework* and the FASB's *Statements of Accounting Concepts*.

The Boards directed the staff to develop, for further consideration by both Boards, an approach to undertaking technical agenda projects referred to as the 'modified' joint approach. Under that approach, the initial due process document would be a discussion paper developed primarily through the deliberations of a 'lead' Board (those deliberations would be led by a single staff team that includes IASB and FASB staff, and possibly staff from other national standard-setting bodies). That discussion paper would be published by the IASB and the FASB for public comment. Following analysis of comments received, the Boards would plan to undertake a joint project with the objective of issuing identical or substantially similar final standards.

The Boards discussed projects on their existing active agendas and made the following decisions:

- The Boards agreed to consider, at a future meeting, whether the following active projects should be undertaken using the

modified joint approach: the FASB project on liabilities and equity (the FASB would lead) and the IASB project on accounting for insurance contracts (the IASB would lead).

- The Boards discussed the active FASB project on accounting for the extinguishment of liabilities. The IASB decided it would consider, at a future meeting, whether to add a similar project to its agenda that would be undertaken jointly with the FASB.
- The Boards discussed their respective projects to address issues relating to consolidation policy, and agreed with the objective of developing convergent accounting standards in this area. The Boards agreed to continue to deliberate issues separately, but directed the staff to consider ways (including joint deliberations) to coordinate more closely the Boards' activities.

The Boards discussed potential major projects that might be added to the joint agenda. The Boards agreed that projects on accounting for leasing, employee benefits, and intangible assets should be considered for admission to the joint agenda as resources become available. The Boards did not, however, discuss the relative priorities of those important improvement projects. The Boards also directed the staff to analyse existing differences in the accounting for financial instruments and develop, for discussion at a future meeting, a proposal for one or more potential projects to reduce or eliminate those differences ('convergence projects'), or improve existing financial reporting ('improvements projects').

The Boards also discussed the scope of their existing joint short-term convergence project. The Boards directed the staff to develop proposals, which would be discussed at future meetings, for short-term convergence projects that would seek to eliminate or reduce differences in the accounting for property, plant, and equipment, investments in real estate properties, and joint ventures.

The Boards also directed the staff to undertake research efforts in the area of accounting for joint ventures, extractive industries, and the use of the equity method of accounting for investments.

Business combinations (phase II)

This is a joint project of the FASB and the IASB and is viewed by both Boards as a broad reconsideration of existing purchase accounting guidance. An important objective of the joint project is to achieve convergence between FASB and IASB guidance on purchase method accounting.

The Boards discussed the status of the following issues for which the Boards had previously reached either a different conclusion or a different interpretation of the same conclusion:

- which assets and liabilities should be included as part of the business combination accounting.
- the treatment in a business combination of contingent liabilities¹ of the acquiree.

A collaborative group of FASB and IASB Board members and staff (the Group) had been formed to discuss those convergence issues and develop recommendations for both Boards. The Group reported at the joint meeting that each Board had considered the Group's recommendations at their separate April 2004 meetings preceding the joint meeting and had reached

decisions that converged. Those decisions are reported in *FASB Action Alert* and *IASB Update*.

It was noted that the use of the Group as a mechanism for resolving convergence issues had proved to be effective and that such a mechanism should continue to be used in the future as needed.

In addition, the IASB staff reported that the IASB decided at its separate April 2004 meeting to extend its decisions on 'recycling' amounts recognised directly in equity when control of a subsidiary is lost to circumstances in which an investor loses significant influence or joint control of an associate or joint venture (see *IASB meeting – Business Combinations* above). The FASB asked the staff to consider whether the FASB should also consider proposing similar amendments.

Reporting comprehensive income

The purpose of this discussion was for the Boards to agree on the path forward for this project and the type and timing of any future public discussion documents.

The Boards agreed that the goals associated with the project have different characteristics such that the work should be performed in segments. Accordingly, the project has been divided into segments as described below and the tasks within each segment are listed in the order in which they are expected to be performed. The Boards expect to pursue both segments contemporaneously, although it is likely that issues in Segment A will be resolved first.

Segment A includes:

- whether to require a single statement of comprehensive income that includes a subtotal similar to the concept of "net income from continuing operations" or "profit and loss"
- the required primary financial statements
- the number of years required to be presented in comparative financial statements and related disclosures in the notes to the financial statements
- considering whether the direct method should be required for the presentation of the statement of cash flows.

Segment B includes:

- considering whether there is value in the notion of "recycling" items between the subtotals of net income and other comprehensive income and, if so, the basis for the types of transactions and events that should be recycled and when recycling should occur
- developing consistent principles for disaggregating information on each of the required financial statements
- defining the totals and subtotals to be reported on each of the required financial statements (that the statements might include, for example, categories such as business and financing).

The Boards expect that a public discussion document on Segment A would be published in the second quarter of 2005.

The Boards directed the staff to form an international joint advisory group to advise the Boards and staff in the course of this project.

The Boards agreed not to exclude any types of entities from the scope of this project.

¹ The IASB has tentatively concluded that a *contingent liability* should be defined as a "conditional obligation that arises from past events that may require an outflow of resources embodying economic benefits based on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity."

Revenue recognition

The Boards discussed four topics. First, the Boards discussed the distinctions between components of comprehensive income such as revenues and gains and the merits of such distinctions. Second, the Boards considered whether the production of readily marketable commodities gives rise to a component of comprehensive income, and whether that component is a revenue, a gain, or some other type of comprehensive income. Third, the Boards considered whether engaging a third party to perform on behalf of a reporting entity by means of subcontracting or outsourcing ultimately gives rise to revenue, and also considered related matters of display in the financial statements. Finally, the Boards discussed whether non-reciprocal transfers from other entities should be included in the definition of revenues or in a different component of comprehensive income, and the related implications of the latter conclusion for the definition of revenues.

The Boards reached the following tentative conclusions:

- (a) Distinctions between different components of comprehensive income, such as revenues and gains, provide useful information to investors and creditors.
- (b) The present distinctions between revenues and gains should be sharpened; this may require defining other components of comprehensive income.
- (c) Production can give rise to a component of comprehensive income.
- (d) A reporting entity should not recognise revenues for the performance by third parties of its obligations to deliver goods or render services to customers if those obligations are legally assumed by those third parties.
- (e) In all other circumstances, a reporting entity should recognise revenues for the performance by third parties of its obligations to deliver goods or render services to customers.
- (f) Disclosures regarding outsourcing and subcontracting activities should not be required to be made on the face of the income statement, either by disaggregating revenues or by means of a line item for expenses.
- (g) Non-reciprocal transfers received should not be excluded from revenues, and should be disclosed as a separate line item in income statements.

Short-term convergence projects

IAS 12 Income Taxes and Statement 109 Accounting for Income Taxes

The Boards discussed the issue of accounting for the tax effects of acquisitions of assets that are not accounted for as a business combination when the amount paid is different from the tax base of the asset acquired. At its March 2004 meeting, the IASB tentatively concluded that in those situations an entity would allocate the consideration paid between the asset and the related deferred tax asset or liability using the simultaneous equations method; any tax benefit in excess of the cost of the related asset would be recognised immediately in profit or loss.

The FASB recently began deliberations on this issue and considered two additional methodologies not considered by the IASB at its March 2004 meeting. Accordingly, the FASB asked that this issue be discussed at this joint meeting so that the IASB could consider those additional methodologies.

The IASB amended its previous decision and the Boards tentatively concluded that the asset should be recognised at its fair value (which typically would assume full deductibility for tax purposes). The corresponding deferred tax asset or liability

would be recognised as the difference between the fair value of the asset and its tax base multiplied by the tax rate. Any difference between the consideration paid and the sum of the fair value of the asset and the recognised deferred tax amount would be recognised as a purchase discount allowance on the deferred tax amount. The purchase discount would be recognised in profit or loss as the related tax benefits are realised.

Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

The IASB updated the FASB on the amendments it plans to make to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. These amendments have arisen from (a) the Short-term Convergence project, in which the Board has sought convergence of the recognition requirements for restructuring costs in IAS 37 with those of SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities* and (b) the second phase of the Business Combinations project, in which the Board has amended the definitions and analyses of contingent assets and liabilities. (Further details of these proposed amendments can be found in the project summary on the Board's Website.)

No technical decisions were made at the meeting, but the Boards discussed some of the remaining areas of divergence between IAS 37 and FASB Statements on liabilities. The IASB decided that, as it develops its exposure draft, it would prepare a paper for the FASB's consideration of these matters.

Research and development

The Boards considered the scope of the research and development part of the short-term convergence project. The Boards noted that elimination of the differences between IFRSs and US GAAP could involve consideration of fundamental issues and that those issues were part of a longer-term research project on intangibles being led by the Australian Accounting Standards Board. Nonetheless, the Boards agreed that they should explore possibilities to eliminate some IFRSs/US GAAP differences in the short-term. They instructed the staff

- (a) to consider the criteria for capitalisation of costs under SFAS 86 *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* to see if they could be used to make the criteria for internally-generated intangible assets in IAS 38 more operational and
- (b) to consider whether there are any aspects of US GAAP that could be moved closer to IAS 38, eg the requirements related to initial recognition of intangible assets acquired in transactions other than a business combination.

Meeting with partner standard-setters

Board priorities

The meeting discussed plans for coordinating their future standard-setting activities in light of the decisions reached at the IASB/ FASB joint meeting, reported above. The discussion was administrative in nature; no changes to any of the participating national standard-setters' technical agendas were made.

The 'modified approach' to joint projects developed at the IASB/ FASB joint meeting, and how it might affect the conduct of standard-setting projects, was introduced and explained. It was noted that the staff of both the IASB and FASB needed to study the proposed approach and consult the other national standard-setters in order to make it operational.

Participants supported the increased emphasis on conceptual issues, including matters related to the IASB *Framework* and the FASB's *Statements of Financial Accounting Concepts*. However, some wanted to see the broader 'vision' underlying the proposed agenda articulated.

The relative importance of convergence between IFRSs and US GAAP was discussed. Some participants thought that there was too much emphasis on short-term convergence topics, others stressed that preparers who reconcile to US GAAP were encouraging the IASB and FASB to eliminate as many reconciling items as possible.

Responding to concerns expressed by participants, it was noted that the agenda items had been classified but not prioritised by either the IASB or FASB. As such, the agenda was work-in-progress and not final. Both the IASB and FASB had to conduct further consultations before any final decisions were made on the allocation of resources.

Constitutional review

Members of the IASC Foundation Trustees' Constitution Review Committee invited comments from the partner national standard-setters on those aspects of the IASCF Constitution highlighted by the Trustees following the initial consultation. This session was one of a number of public consultations on the Constitution, including a similar session with the IASB's Standards Advisory Council in February 2004 and further public meetings to be held in June and July 2004 in Asia, Europe and the United States and in October 2004 in Latin America. Although all ten issues identified as part of the review were discussed, the following matters were discussed in greater depth.

Composition and oversight role of the Trustees

Most participants supported the idea of eliminating the absolute limits on geographical composition and the nominating rights of certain groups, preferring a general principle of diversity of skills and perspectives to reinforce the shared goal of high quality financial reporting standards. However, some participants noted that some respondents to the Trustees' Invitation to Comment had favoured a higher proportion of Trustees from regions that use IFRSs. One of the Trustees noted the difficulty of reconciling that view with the requirement of serving the public interest of all capital markets and the need to encourage convergence throughout the world.

Several participants commented that the oversight role of the Trustees was in need of review and clarification. National standard-setters emphasised the need for the Trustees to be visible in their oversight function of the Board and to demonstrate how they evaluated the performance of Board. Making a public report on an annual basis was suggested as an

option. It was noted that the Trustees needed to preserve the Board's independence and integrity while ensuring that the Board had followed its procedures and been responsive to constituents.

In a related matter, there was general agreement that the Trustees should explore ways to broaden the funding base of the organisation, with less reliance on individual contributions and sale of publications.

Composition and operations of the IASB

The national standard-setters generally supported the current constitutional arrangements regarding the composition of the Board, although some concern was expressed about the ability of part-time members to maintain their independence and keep up with the workload that a professional standard-setting body demands. Some called for a greater diversity of accounting traditions to be represented. Again, participants suggested that greater flexibility be provided for in the Constitution, preferring the principle of diversity of skills and backgrounds to rigid quotas.

The meeting discussed the existing 'liaison relationships' between the Board and national standard-setters. Most participants supported the existing arrangements, noting that the liaison relationship was vital to both the IASB and the individual standard-setters if the goal of a single set of high-quality accounting standards was to be achieved.

The meeting discussed the extent to which the Board's operating procedures should be included in the Constitution. Participants noted that the Board was already reviewing its operating procedures and suggested that the Trustees should not be tempted to include too much detail in the Constitution. There were already sufficient checks and balances to ensure that the Board followed its procedures appropriately. In a related matter, participants did not see any strong rationale for a change in the Board's voting requirements.

Interpretations

The participants discussed the role of the IFRIC. All agreed that the IFRIC was the appropriate body to issue authoritative Interpretations of IFRSs; however, there was a danger that individual jurisdictions, lacking the IFRIC's due process requirements, might respond to interpretation issues before the IFRIC was able to do so. The Trustees were encouraged to explore ways to make the IFRIC more responsive, while acknowledging the importance of balancing timeliness and due process.

Reports on research projects

Extractive activities

The meeting received a report from the project team, comprising staff from the national standard-setters in Australia, Canada, Norway and South Africa.

The meeting did not object to a project plan for the research project presented by the project team. The primary focus will be financial reporting issues related to reserves and resources.

Under the IASB's auspices, the project team will establish an advisory committee comprised of preparers, users, securities regulators and auditors with experience in both the mining and the oil and gas sectors. In addition, the project team will consult more widely on certain issues.

The project team will be developing a discussion document, which the IASB intends to publish with its preliminary views for public comment in due course.

Joint ventures

The AASB staff reported on the activities of the project team consisting of staff from national standard-setters in Australia, Hong Kong, Malaysia and New Zealand. The project team was seeking support for its project plan, which would ultimately result in the publication of a discussion paper.

The meeting supported the project team's proposed research approach, including the use of a questionnaire to gather information on a number of issues related to the substance and nature of joint venture arrangements. However, the meeting noted that it might be necessary to accelerate consideration of the issue of the appropriate method of accounting by venturers for interests in joint ventures. The project team will report to the next meeting of the group.

Intangible assets

The meeting received a report from the AASB staff on its planned work on intangible assets. It was noted that this is a longer-term project and was not intended to interfere with the current IASB/ FASB short-term convergence project on research and development.

The AASB staff was encouraged to continue its efforts and report to the national standard-setters as necessary.

Management commentary

The meeting received a report from the project team, comprising staff from the national standard-setters in Canada, Germany, New Zealand and the United Kingdom. The project team is developing a discussion paper on management commentary (ie Management's Discussion and Analysis, Operating and Financial Review etc).

The meeting supported the general principles suggested, including that management commentary:

- should provide information on the principal business factors and strategic and operating decision processes that generated the outcomes reported in the financial statements
- should supplement and complement financial statement information by providing a 'through the eyes of management' analysis of financial position and performance
- should include forward-looking information, focusing on the strategies in place for generating value for investors

The project team was encouraged to develop a discussion document, which the IASB intends to publish with its preliminary views for public comment in due course.

Role of the national standard-setters in an IFRS environment

The meeting considered a paper prepared by the staff of the AASB, with input from the national standard-setters in Germany, New Zealand and the UK, related to national standard-setters in jurisdictions that have adopted or converged with IFRSs. While the paper suggested a number of roles for national standard-setters, it suggested that the best way to achieve the highest quality financial reporting for users of financial statements was for national standard-setters to assume an active role in collaboration with the IASB and with each other.

The participants agreed that a national standard-setter was not one of the IASB's constituents. Rather, national standard-setters acted as a vital communication link between the IASB and the constituents in the standard-setter's jurisdiction. National standard-setters carry out this communications role in several ways, but primarily by:

- assisting the IASB to engage its constituents (including publicly listed entities, securities regulators, auditors,

securities analysts and other users) in the standard-setter's jurisdiction

- raising awareness of and interest in the IASB's activities in its jurisdiction. This would include assisting the IASB to understand the context of comments and concerns expressed by constituents through the IASB's due process and providing a conduit for such concerns in addition to that process.
- contributing to the process when there is a ratification/ endorsement process necessary to incorporate an IFRS or Interpretation into the jurisdiction's legal or regulatory framework.

It was noted that some national standard-setters had the capacity to amend IASB standards as part of the process of incorporating the standard into a jurisdiction's legal or regulatory framework. Participants were of a view that it would be helpful if national standard-setters did not exercise that capacity, except where such amendments were necessary to give effect to the standards in the context of the particular legal or regulatory framework. The need of national standard-setters to address jurisdiction-specific matters (eg sector-neutrality) was acknowledged.

The meeting also discussed matters related to Interpretations and education.

Meeting dates: 2004

The Board will next meet in public session on the following dates. Meetings take place in London, UK, unless otherwise noted.

17—19 May

21—25 June, Oslo, Norway[†]

20—22 July

22—24; 27[§], 28[†] September

18—20 October, Norwalk, Connecticut, USA

15—19 November[†]

15—17 December

[†] Includes a meeting with the Standards Advisory Council

[‡] Includes meetings with partner standard-setters

[§] Includes meetings with other national standard-setters