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*Decisions become final only after completion of a formal ballot to issue a Standard or Interpretation or to publish an Exposure Draft.*

The International Accounting Standards Board met in London on 22 – 24 January, when it discussed:

- Earnings per share
- Annual improvements process
- Revenue recognition
- IAS 24 *Related Party Disclosures*
- Update on IFRIC activities
- Financial instruments
- Liabilities and equity
- Puttable financial instruments and obligations arising on liquidation
- Insurance contracts

## Earnings per share

The Board considered a summary of the tentative decisions made in the Earnings per Share project. The staff asked the Board to clarify some of its tentative decisions:

- Paragraph 24 of IAS 33 explains that shares that are issuable solely after the passage of time are not contingently issuable shares, because the passage of time is a certainty. The Board affirmed its tentative decision that the calculation of basic EPS should include only those shares that (a) are currently either exercisable or convertible for little or no cost or (b) can currently participate in profit or loss with ordinary shareholders.
- The Board had tentatively decided to amend the calculation of diluted EPS for options, warrants and their equivalents. The Board clarified that it intended the same proposed amendments to apply to contracts that require the entity to repurchase its own shares, such as written put options and forward purchase contracts.

- As part of its proposed amendments to the calculation of diluted EPS, the Board had tentatively decided that the denominator of diluted EPS should not be adjusted for instruments that are measured at fair value through profit or loss (fair value method). The Board clarified that the fair value method should also apply to share based payment awards that are classified as a liability and measured at the market-based measure required in IFRS 2.
- The two-class method in paragraph A14 of IAS 33 is limited to participating equity instruments and two-class ordinary shares. The Board clarified that it intends to amend the scope of the two-class method to include all participating instruments, regardless of whether they are classified as liabilities or equity.

The Board asked the staff to begin drafting the exposure draft on the proposed amendments to IAS 33.

## Annual improvements process

### Disclosures required for non-current assets (or disposal groups) classified as held for sale or discontinued operations

The Board identified a need to clarify the disclosure requirements for non-current assets (or disposal groups) classified as held for sale or discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The Board tentatively decided to add a paragraph in the scope section of IFRS 5 to clarify that:

- IFRS 5 specifies disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations;
- disclosures in other IFRSs do not apply to such assets (or disposal groups) unless those IFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; and
- additional disclosures about such assets (or disposal groups) may be

necessary to comply with the general requirements of IAS 1 *Presentation of Financial Statements*.

The Board noted that this clarification would imply that any information relating to the assets and liabilities within a disposal group would be pulled out from the general notes and disclosed in a single note.

The Board also noted that when the criteria for classification as held for sale or discontinued operations are met, the assets and liabilities within a disposal group are separately identifiable from the other assets and liabilities. This is because, for the purpose of the planned sale, the entity has identified which of assets and liabilities will be disposed of and which will be retained.

The Board also noted that when a disposal group includes assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, disclosures about measurement of these assets and liabilities are normally provided in the other notes to the financial statements. Such disclosures do not need to be repeated, unless doing so better enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

The Board asked the staff to prepare an amendment to IFRS 5 that reflects its tentative decisions.

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## Revenue recognition

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The Board considered the second of the two revenue recognition models that had been developed over the past year by the staff and a group of board members (drawn from both the IASB and FASB). This second model is called the customer consideration model.

### Customer consideration model

In the customer consideration model, an entity accounts for the contract asset or liability that arises from the rights and obligations (performance obligations) in an enforceable contract with a customer. At contract inception, the rights in the contract are measured at the amount of customer consideration in the contract. That amount is then allocated to the individual performance obligations identified within the contract in proportion to the stand-alone selling price of each good or service underlying the performance obligation. Therefore, at contract inception, the sum of the amounts allocated to the individual performance obligations equals the customer consideration so that neither a contract asset nor a contract liability is recognised. Subsequently, the performance obligations are measured at the amount of the customer consideration allocated to them at contract inception. They are not remeasured except when the contract is judged to be onerous. As each performance obligation identified in the contract is satisfied, the resulting decrease in the contract liability or increase in the contract asset results in the recognition of revenue.

### Performance obligations

The Board also considered the nature of performance obligations. Both revenue recognition models had been developed on the basis of the principle that after contract inception revenue is recognised when performance obligations are satisfied.

The staff suggested that a performance obligation is a promise in a contract between the entity and a customer to transfer an economic resource to a customer. Therefore, a performance obligation would be satisfied (and revenue recognised) when the economic resource is transferred to the customer. The staff proposed that:

- in the case of a good, this is when the entity relinquishes its enforceable right (or other access) to the good and the customer obtains that right (or other access) to that good;
- in the case of a service, this is when the activities undertaken by the entity result in an immediate benefit to the customer (because the activities enhance an economic resource of the customer or the activities produce cash inflows for the customer or reduce cash outflows).

The Board asked the staff to explore further the examples discussed at the meeting in order to identify the different views about the identification of performance obligations and the timing of their satisfaction.

## IAS 24 Related Party Disclosures

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The Board continued its discussion of responses to the exposure draft of proposed Amendments to IAS 24 Related Party Disclosures—*State-controlled Entities and the Definition of a Related Party*. The Board tentatively confirmed its previous decisions as follows:

- The proposed exemption for state-controlled entities would not be available if either:

- (a) the reporting entity influenced a transaction with that other state-controlled entity, or that entity influenced a transaction with the reporting entity; or
- (b) the reporting entity influenced, ie participated in, the financial and operating policy decisions of that other entity, or that entity influenced the financial and operating policy decisions of the reporting entity.

For both (a) and (b), influence is sufficient to preclude the use of the exemption. Significant influence, as defined in IAS 24, is not required.

- If a transaction is not on arms' length terms (exposure draft, paragraph 17B(a)), the exemption for state-controlled entities would not be available. The remaining indicators proposed in the exposure draft (paragraphs 17B(b) and (c), 17C and 17D) would remain as indicators that there might have been influence, rather than as definitive criteria that influence had been exerted.

In addition, the Board tentatively decided to clarify that a transaction is on arms' length terms if the same terms, including price, would apply if it had taken place between unrelated parties.

During the discussion, some Board members and staff questioned whether the proposed approach for state-controlled entities is fully operational. The staff will research these concerns and report back to the Board. At that time, the Board will also discuss various follow up issues.

## Update on IFRIC activities

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The IFRIC Co-ordinator reported on the IFRIC's meeting in January. Details of the meeting had been published in IFRIC *Update*, which was available on the IASB Website.

The IFRIC had begun its redeliberations of draft Interpretations D21 *Real Estate Sales* and D22 *Hedges of a Net Investment in a Foreign Operation* by considering comments received. On D21, the IFRIC was focusing on reaching conclusions on real estate sales before it considered the draft Interpretation's applicability to other situations. Application of the draft Interpretation to industries other than real estate was a concern of respondents. The staff is developing a flowchart to illustrate the accounting for real estate sale agreements in accordance with IAS 18 and IAS 11 for the IFRIC to consider at its next meeting.

On D22, most respondents agreed with the IFRIC's conclusions in the draft Interpretation although many asked for more guidance on its application to specific situations. The IFRIC confirmed its conclusions but asked the staff to develop a comprehensive example to illustrate their application. This example will be considered at the next meeting and should resolve outstanding concerns raised by respondents.

The IFRIC confirmed its tentative agenda decisions on five issues, which were then published as final, and reached a tentative agenda decision on one issue. One tentative agenda decision from November was not finalised because more work was needed to clarify the reason for it. One issue was discussed but required further research by the staff. A request for an interpretation had recently been received but the staff were expecting another submission on the same topic shortly and intended to analyse them at the same time.

## Financial instruments

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At their joint meeting in April 2006, the IASB and the FASB agreed on a goal of publishing a due process document (a discussion paper) on financial instruments (as envisaged in their Memorandum of Understanding).

In January 2008 the Financial Instruments Working Group (FIWG) reviewed extracts of the draft discussion paper *Reducing Complexity in Reporting Financial Instruments* for clarity and completeness. At this meeting, the staff reported the main points raised by the FIWG on the draft discussion paper. The Board also discussed questions to be included in the discussion paper.

No decisions were made at this meeting.

## Liabilities and equity

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Liabilities and Equity is a modified joint project on which the FASB has taken the lead for the research stage. In November 2007 the FASB published a Preliminary Views document *Financial Instruments with Characteristics of Equity*.

Under their Memorandum of Understanding, the IASB and the FASB are committed to publishing a due process document on liabilities and equity. To meet this commitment, the Board tentatively decided that an IASB discussion paper on liabilities and equity should contain an IASB Invitation to Comment and the FASB Preliminary Views document.

In January 2008, the Financial Instruments Working Group (FIWG) reviewed a draft of the Invitation to Comment.

At this meeting, the Board discussed that draft and the main points raised by the FIWG. The Board asked the staff to prepare a ballot draft of the discussion paper. The Board expects to publish the paper in the first quarter of 2008.

## Puttable financial instruments and obligations arising on liquidation

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The Board published the exposure draft Financial Instruments Puttable at Fair Value and Obligations arising on Liquidation in June 2006. The comment period ended in October 2006. An analysis of the 87 comment letters received was presented to the Board in January 2007. Since then the Board has deliberated issues raised by respondents. In November 2007 the Board held two public round-table discussions to consider a staff draft of the proposed amendments.

At this meeting, the Board discussed and clarified one particular feature that a puttable instrument must have in order to be classified as an equity instrument. The Board clarified that the total expected cash flows attributable to each puttable instrument over the life of the instrument (rather than the class of puttable instruments over the life of the class) must be based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument itself). The Board expects to issue the amendments in the next few weeks.

## Insurance contracts

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The discussion paper *Preliminary Views on Insurance Contracts* proposed three building blocks for use in measuring insurance liabilities. One of those building blocks is a margin. Representatives of Ernst & Young briefed the Board on a recent report made by the firm at the request of the Group of

North American Insurance Enterprises. The report examined one approach to determining margins (the cost of capital method) in two contexts:

- general purpose financial reporting
- regulatory capital standards.

The session was educational and no decisions were made.

### Next steps

The staff intend to present a high level summary of responses to the discussion paper at the Board's meeting in February.

### Future Board meetings

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

#### 2008

18—22 February

10—14 March

14—18 April

21—22 April (joint with FASB)

19—23 May

16—20 June

21—25 July

15—19 September

13—17 October

20—22 October (joint with FASB), Norwalk, Connecticut, USA

17—21 November

15—19 December