

The International Accounting Standards Board met in Toronto, Canada on 20 and 24 October 2003, when it discussed:

- Business combinations
- Financial instruments
- Improvements to existing IFRSs
- Revenue recognition
- Share-based payment
- Small and medium-sized entities.

The IASB met the Accounting Standards Board (Canada) and the US Financial Accounting Standards Board on 21 October 2003, when they discussed:

- Disclosure framework
- Measurement objectives
- Revenue recognition
- Share-based payment.

Finally, the IASB and the FASB met on 22 October 2003 when they discussed:

- Agenda priorities
- Business combinations
- Convergence issues
- Reporting comprehensive income.

IASB Meeting

Business combinations (phase I)

The Board considered an analysis of the comments received on question 7 in the Invitation to Comment on [draft] IAS 36 *Impairment of Assets*. Question 7 was concerned with the proposal that an entity should disclose a variety of information for each segment, based on the entity's primary reporting format, that includes within its carrying amount goodwill or intangible assets with indefinite useful lives. The Board also considered:

- an analysis of issues raised during the field visits¹ on that same disclosure proposal; and

¹ Field visits were conducted from early December 2002 to mid-April 2003, and involved Board members and staff in meetings with 41 companies in Australia, France, Germany, Japan,

- analyses of other issues raised by respondents to the Phase I Exposure Drafts that did not relate to specific questions asked in the Invitations to Comment.

Disclosures for segments that include goodwill or intangible assets with indefinite useful lives

The Board reconfirmed its previous conclusion that information that assists users in evaluating the reliability of other information is itself relevant, increasing in relevance as the reliability of that other information decreases. Therefore, entities should be required to disclose information that assists users in evaluating the reliability of the estimates used by management to support the carrying amounts of goodwill and indefinite life intangibles. The Board noted that almost all field visit participants and many respondents expressed support for the Board's conclusion that, because non-amortisation of goodwill and indefinite lived intangible assets increases the reliance that must be placed on impairment tests of those assets, some form of additional disclosure is necessary to provide users with information for evaluating the reliability of those impairment tests.

However, the Board agreed that it is clear from field visit participants' responses that the proposed disclosures cannot be meaningfully aggregated at the segment level to the extent the Board had hoped might be the case. As a result, the proposal to require the information to be disclosed on an aggregate basis for each segment, but with disaggregated disclosures for cash-generating units in the circumstances set out in paragraph 137 of [draft] IAS 36 would not result in a reasonable balance between the objective of the disclosures and their potential magnitude. The Board was also sympathetic to field visit participants' and respondents' concerns that the proposed disclosures go beyond their intended objective of providing

South Africa, Switzerland and the United Kingdom.

users with relevant information for evaluating the reliability of the impairment tests for goodwill and indefinite lived intangible assets.

Therefore, the Board considered the following interrelated issues:

- If the proposed disclosures go beyond their intended objective, what information should be disclosed so that users have sufficient information for evaluating the reliability of impairment tests?
- How should this information be presented so that there is an appropriate balance between providing users with information for evaluating the reliability of the impairment tests, and the potential magnitude of those disclosures?

As a result, the Board agreed:

- to amend the requirement for the information to be disclosed in aggregate for each segment and separately for cash-generating units within a segment in certain circumstances. Instead, information for evaluating the reliability of the impairment tests for goodwill and indefinite lived intangible assets should be disclosed only for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the total carrying amount of goodwill or intangible assets with indefinite useful lives.

(continued...)

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Business combinations (phase I) (continued)

- to amend paragraph 134(d) of [draft] IAS 36, which proposed that an entity should disclose the amount by which the recoverable amount of a cash-generating unit exceeds its carrying amount. Instead, an entity need disclose this information only if a reasonably possible change in a key assumption on which management has based its determination of the unit's recoverable amount would cause the unit's carrying amount to exceed its recoverable amount.
- to amend paragraph 134(e) and (f) of [draft] IAS 36, which proposed that an entity should disclose the value assigned to each key assumption on which management has based its recoverable amount determination, and the amount by which that value must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's recoverable amount to be equal to its carrying amount. Instead, an entity need disclose only a description of each key assumption on which management has based its recoverable amount determination, management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect experience and/or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from experience and/or external sources of information. However, if a reasonably possible change in a key assumption would cause the unit's carrying amount to exceed its recoverable amount, the entity would also be required to disclose the value assigned to the key assumption, and the amount by which that value must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's recoverable amount to be equal to its carrying amount.
- to require information about key assumptions to be disclosed also for any key assumption that is relevant to the recoverable amount determination of multiple cash-generating units that individually contain insignificant amounts of goodwill or indefinite life intangible assets, but contain, in aggregate, significant amounts of goodwill or indefinite life intangible assets.

Other issues raised by respondents to ED 3

The Board considered an analysis of the other issues raised by respondents to ED 3 *Business Combinations* that did not relate to specific questions asked in the Invitation to Comment.

Those issues related primarily to:

- transitional provisions and effective date;
- disclosures; and
- measuring the cost of a business combination

Transitional provisions and effective date

The Board considered whether the IFRS arising from ED 3 should prohibit retrospective application, or should, consistently with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, permit retrospective application from a date of the entity's choosing. In considering this issue, the Board noted the following:

- Requiring the IFRS arising from ED 3 to be applied retrospectively to all business combinations would be problematic—it would be impracticable for many

combinations because the information needed may not exist or may no longer be obtainable, and it would require the determination of estimates that would have been made at an earlier date, and therefore raises problems in relation to the role of hindsight.

- IFRS preparers that are also US registrants would have the necessary information to apply FASB Statements of Financial Accounting Standards 141 *Business Combinations* and 142 *Goodwill and Other Intangible Assets*, from the effective date of those Standards. The availability of that information would make retrospective application of the IFRS arising from ED 3 and [draft] IASs 36 and 38 practicable from at least that same date.

The Board also noted that giving entities the option of retrospectively applying the IFRS arising from ED 3 would impair the comparability of financial information. However, the Board concluded that if it were practicable for an entity to apply the IFRS retrospectively, the entity would provide the users of its financial statements with more useful information than it had previously provided by applying IAS 22 *Business Combinations*. Therefore the Board agreed that the IFRS arising from ED 3 should permit entities to apply the IFRS retrospectively from a date of the entity's choosing, provided:

- the valuations and other information needed to apply the IFRS to the past business combinations were obtained at the time of initially accounting for those combinations; and
- the entity also retrospectively applies [draft] IAS 36 and [draft] IAS 38 from that same date, and the valuations and other information needed to apply those Standards from that date were previously obtained by the entity so that there would be no need to determine estimates that would have been made at an earlier date.

The Board also agreed:

- to clarify in the IFRS that if an entity previously recognised goodwill as a deduction from equity, it cannot recognise that goodwill in net profit or loss if it disposes of all or part of the operation to which that goodwill relates or if a cash-generating unit to which the goodwill relates becomes impaired.
- to amend paragraphs 79-81 of ED 3, which deal with the transitional arrangements for pre-existing goodwill, negative goodwill and intangible assets, to deal also with those items when they have arisen from interests in jointly controlled entities accounted for by applying proportionate consolidation.

Disclosures

The Board agreed:

- to amend paragraph 66(f) of ED 3 to require disclosure of: “the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, and, unless disclosure would be impracticable, the carrying amounts of each of those classes, determined in accordance with IFRSs, immediately before the combination. If such disclosure would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.”
- to amend paragraph 66(i) of ED 3 to require disclosure of: “the amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period, unless disclosure would be impracticable. If

such disclosure would be impracticable, that fact shall be disclosed, together with an explanation of why this is the case.”

Measuring the cost of a business combination

The Board noted that:

- ED 3 carried forward from IAS 22, without reconsideration, the principle that the cost of a business combination should be measured by the acquirer as the aggregate of: the fair values, as at the date of exchange, of assets given, liabilities incurred, and equity instruments issued by the acquirer, in exchange for control over the acquiree; plus any costs directly attributable to the business combination.
- ED 3 incorporated, without reconsideration, the requirements of SIC-28 *Business Combinations – “Date of Exchange” and Fair Value of Equity Instruments* on the distinction between the ‘date of exchange’ and the ‘acquisition date’, and, with one amendment, measuring the fair value of equity instruments issued as part of the cost of a business combination.
- it is reconsidering the requirements on measuring the cost of a combination as part of its joint Business Combinations phase II project with the FASB.

The Board agreed that no changes should be made at this time to the proposals in ED 3 on measuring the cost of a business combination.

Other issues raised by respondents to [draft] IAS 36 and [draft] IAS 38

After considering the other issues raised by respondents, the Board agreed that no additional amendments should be made to [draft] IAS 36. However, the Board agreed to clarify in IAS 28 *Accounting for Investments in Associates* that any goodwill impairment loss recognised by an investee should be excluded from the investor’s share of the investee’s profit or loss for the period. For example, if an investor has a 25 per cent ownership interest in an investee, and the investee’s profit for the period is 100 after recognising a goodwill impairment loss of 20, the investor’s share of the investee’s profit for the period would be 30 [25% of 120]. The investor then tests for impairment under [draft] IAS 36 the entire carrying amount of its investment in the investee by comparing the investment’s recoverable amount with its carrying amount whenever there is an indication that the investment may be impaired.

The Board also agreed to some minor clarifications to [draft] IAS 38.

Business combinations (phase II)

Convergence issues

The application of the purchase method is a joint project of the IASB and the FASB. An important objective of the joint project is to achieve convergence between FASB and IASB guidance on accounting for business combinations. The Board considered at this meeting the following differences between the IASB’s and the FASB’s conclusions in the joint project to establish whether there may be opportunities to eliminate differences before publishing the Exposure Drafts.

Transitional provisions for minority interest decisions

In May 2003, the IASB considered the transitional provisions for the forthcoming Exposure Draft on the ‘minority interests’ issues addressed in this project. The IASB agreed to require retrospective application of all the ‘minority interests’ decisions, except that prospective application would be permitted if retrospective application were not practicable.

At its 28 May 2003 meeting, the FASB also considered the transitional provisions for decisions on minority interests.

Some FASB members were uncomfortable with allowing a broad “if practicable” exception to retrospective application. They preferred to be specific about what could be retrospectively restated and what could not.

In October 2003, the IASB considered whether it should reaffirm its previous decision, or whether it should, consistently with the FASB, provide more specific transitional provisions for each minority interest proposal. The Board noted that both boards had previously reached generally consistent conclusions about which transitional provisions could be applied retrospectively and which might need to be applied prospectively. The Board agreed to converge with the FASB and therefore to include in the Exposure Draft language along the following lines:

“This [draft] Standard shall apply on a retrospective basis to the following:

- (a) The classification and presentation of minority interests.
- (b) The accounting for decreases, before the effective date of this [draft] Standard, in a parent’s controlling ownership interest in a subsidiary without losing control in that subsidiary. Therefore, any gains or losses previously recognised in profit or loss shall be reclassified directly to equity.
- (c) The accounting for losses, before the effective date of this [draft] Standard, that were attributable to minority interests in a subsidiary, but which exceeded the carrying amount of those minority interests. Therefore, any such losses previously attributed to the parent shall be reclassified to minority interests.

This [draft] Standard shall apply on a prospective basis to the following:

- (d) The accounting for a parent’s retained ownership interest in a subsidiary that was disposed of before the effective date of this [draft] Standard.
- (e) The accounting for acquisitions of minority interests before the effective date of this [draft] Standard.”

The Board agreed to explain in the Basis for Conclusions on the exposure draft how these specific requirements are consistent with the principles the Board is using in other IFRSs to determine whether an IFRS should be applied retrospectively or prospectively.

Deferred tax assets

At its December 2002 and April 2003 meetings, the IASB considered the subsequent recognition of deferred tax benefits acquired in a business combination that did not satisfy the criteria for separate recognition when a business combination was recognised initially, but that are subsequently realised.

The IASB agreed that the acquirer should reduce the carrying amount of goodwill to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset at the acquisition date under IAS 12 *Income Taxes*. Any excess of the deferred tax benefit amount that would have been recognised over the carrying amount of goodwill acquired in the business combination should be recorded as a gain in profit or loss.

However, the FASB agreed to require deferred tax benefits recognised since the business combination to be recognised as a reduction of income tax expense. The FASB also agreed:

- (a) to include a rebuttable presumption² that acquired deferred tax benefits recognised within one year following the acquisition date (ie by reduction of any valuation allowance

² That rebuttable presumption is not applicable to deferred tax benefits associated with changes in tax laws or rates.

for acquired deferred tax assets) be reported as an adjustment to goodwill, rather than as a reduction of income tax expense. However, if the rebuttable presumption were overcome, the deferred tax benefit would be reported as a reduction of income tax expense for that period. The rebuttable presumption is overcome if the recognition of the acquired deferred tax benefit results from a discrete event or circumstance that occurred after the acquisition and could not have been foreseen at the acquisition date, and, thus, was appropriately excluded from the acquirer's assessment in arriving at the valuation allowance at the date of acquisition.

- (b) to require disclosure of the events or change in circumstances that resulted in the subsequent recognition of deferred tax benefits.

The IASB reconsidered this issue at this meeting and agreed to converge with the above FASB decision.

Disclosure of the effects of transactions with minority interests in a supplementary schedule and an additional EPS measure

At its 27 August 2003 meeting the FASB decided:

- (a) to require entities with one or more partially owned subsidiaries to disclose in the notes to the consolidated financial statements *an additional schedule* showing the effects of transactions with minority shareholders on the controlling interest's equity.
- (b) that companies that present earnings per share information should be required also to disclose an additional per share metric that includes in the numerator the effects of equity transactions with minority shareholders.

At this meeting the IASB considered the FASB's proposed disclosures in (a) and noted that information about the effects of transactions with minority interests on the controlling interest's equity will, under IFRSs, be provided in the statement of changes in equity or in the notes to the financial statements. This is because [draft] IAS 1 *Presentation of Financial Statements* requires an entity to present, either within the statement of changes in equity or in the notes, a reconciliation between the carrying amount of each class of equity reserve at the beginning and end of the period, disclosing separately each movement.

The IASB also considered the proposed additional per-share measure and agreed to discuss this issue further at its November 2003 meeting.

Contingent assets

The Board re-examined its previous tentative decision to amend the definition of a contingent asset in IAS 37 from a "possible asset" to a "present right that arises from past events that may result in a future cash inflow (or other economic benefits) based on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise."

The Board considered three examples of items that might meet this proposed revised definition of a contingent asset: an in-process legal claim against a competitor through the courts; an application for an operating licence; and a significant contract in the final stage of negotiation with a customer with whom it has had no prior contractual relationship.

The Board observed that in each of these examples there are two elements: an unconditional (or non-contingent) element and a conditional (or contingent) element. The Board agreed that the unconditional element gives rise to an asset while the conditional element gives rise to a contingent asset. For example, an entity pursuing a legal claim has only a conditional right to damages, because that right is conditional on a future event outside the entity's control (eg court decision).

Therefore, this element is a contingent asset. However, the

claim itself gives rise to an asset, being a present right to have its claim considered by the courts, which arises from what the entity has done to get to the point of pursuing its claim.

Therefore, the Board agreed to reverse its earlier tentative decision to amend the definition of a contingent asset in IAS 37 from a "possible asset" to a "present right". Instead, the Board tentatively agreed that the definition should be modified as follows:

"~~a possible asset conditional right~~ that arises from past events ~~and whose existence will be confirmed only by that~~ may result in a future cash inflow (or other economic benefits) based on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the ~~enterprise entity~~."

The Board agreed that because contingent assets are not assets, they should not be recognised (either in or outside a business combination). However, the Board agreed that the unconditional right associated with a contingent asset might qualify for recognition as an intangible asset under IAS 38 *Intangible Assets*. The Board directed the staff to consider further the question of whether these unconditional rights would qualify in a business combination for recognition separate from goodwill.

The Board also directed the staff to consider the implications of its analysis of a contingent asset on its analysis of a contingent liability. The Board agreed that the definitions and treatment of contingent assets and liabilities should be symmetric.

Disclosure

Disclosure of gains and losses on obtaining or losing control of subsidiaries

The IASB agreed to require separate disclosures of gains or losses recognised in profit or loss for:

- remeasurements to fair value of previous investments in an acquiree in a step acquisition
- remeasurement to fair value of any retained investment in a former subsidiary on the disposition of that subsidiary
- dispositions of subsidiaries.

Disclosure of an overpayment

At its March 2003 meeting the IASB agreed that when there is evidence to suggest that a business combination is not an exchange of equal values, any excess of the consideration paid over the fair value of the acquirer's interest in the net assets acquired (ie any overpayment) should be recognised in profit or loss at the date of acquisition. At this meeting, the IASB agreed that entities should be required to disclose separately the amount of any overpayment, the income statement line item in which the overpayment is presented, and the reasons for the overpayment.

Acquiree's profit or loss since the acquisition date

Paragraph 66(i) of ED 3 *Business Combinations* proposed disclosure of the amount of the acquiree's profit or loss since the acquisition date included in the profit or loss of the combined entity for a business combination that was effected during the reporting period. As part of phase I of the Business Combinations project, the IASB considered at this meeting an analysis of the comments received on this proposed disclosure, and agreed to modify paragraph 66(i) to require disclosure of the information only if practicable.

The FASB discussed in August 2003 the disclosure proposed in paragraph 66(i) of ED 3, and agreed to require the following:

For public business enterprises, revenue and net income of the acquired business, if practicable, for a minimum of the period from the date of acquisition through the end of the current fiscal year. This disclosure would be required for the current fiscal

year, the current interim period, and cumulative interim periods from the acquisition date through the end of the current fiscal year.

The IASB agreed at this meeting, as part of its 'application of the purchase method' project, to expand the disclosure in paragraph 66(i) of ED 3 also to include, unless impracticable, a requirement to disclose revenue of the acquiree since the acquisition date.

Financial instruments

Improvements to IAS 32 *Financial Instruments: Disclosure and Presentation*

The Board tentatively agreed to clarify the definitions of a financial asset and a financial liability, and the description of an equity instrument. As a result, a financial instrument would be an equity instrument rather than a financial liability only if both conditions (a) and (b) are met:

- (a) The instrument includes no obligation:
 - (i) to deliver cash or other financial assets; or
 - (ii) to exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.
- (b) If the instrument will or may be settled in the entity's own equity instruments, it is:
 - (i) a non-derivative that includes no obligation for the entity to deliver a variable number of its own equity instruments; or
 - (ii) a derivative that will be settled by the entity exchanging a fixed amount of cash or of other financial assets for a fixed number of its own equity instruments (other than its own equity instruments that are themselves contracts for the future receipt or delivery of equity instruments)

The Board tentatively agreed to add guidance on calculating the amount of change in the fair value of a financial liability that is not attributable to changes in a benchmark rate of interest.

The Board tentatively agreed to add guidance that when an entity amends the terms of a convertible debt instrument to induce early conversion, an expense is recognised for the difference between the fair value of the shares or other consideration paid on exercise of the conversion option under the revised terms as compared with its fair value under the original terms.

Improvements to IAS 39 *Financial Instruments: Recognition and Measurement*

Fair value measurement consideration in inactive markets

The Board reconfirmed the tentative decision made at its June meeting that, for determining the fair value of a financial instrument that is not traded in an active market, the best evidence of the fair value at initial recognition is the transaction price (ie the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable, current market transactions or is based on a valuation technique whose variables include only data from observable markets. The Board tentatively agreed to clarify that data from observable markets should not be extrapolated.

Contracts to buy or sell non-financial items

The Board discussed what contracts to buy or sell non-financial items should be within the scope of IAS 39. It tentatively agreed to leave paragraph 6 of the Exposure Draft unchanged, with the result that a contract to buy or sell a non-financial item is within the scope of IAS 39 if it:

- (a) can be settled net in cash or another financial instrument; and

- (b) is not 'normal' (ie it does not meet the test of being entered into and continuing to be held for the purpose of receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements).

The Board asked the staff to redraft paragraph 7 of the Exposure Draft to make it clearer that the following contracts to buy or sell a non-financial item meet both of the above conditions and hence are within the scope of IAS 39:

- contracts for which the entity has a past practice of settling net in cash (either with the counterparty or by entering into offsetting contracts), and
- contracts for which the entity has a past practice of taking delivery of the underlying and selling it within a short period for the purpose of generating a profit from short-term fluctuations in price or dealer's margin.

Prospective effectiveness testing

The Board discussed what should be the requirement for prospective effectiveness testing. The Board tentatively agreed to revert to the proposal in the Exposure Draft (ie the same as IAS 39) that a hedge is regarded as highly effective if, at inception and throughout the life of the hedge, the entity expects changes in the fair value of cash flows of the hedged item to be almost fully offset by the changes in fair value or cash flows of the hedging instrument.

The Board also tentatively agreed to include an example to illustrate how expected effectiveness can be maximised by selecting the most appropriate hedge ratio.

Derecognition

The Board tentatively agreed to include guidance that when a financial asset either fails derecognition or is measured under continuing involvement, the entity should recognise any income arising on the asset and any expense incurred on the associated liability and they should not be offset.

Other issues

The Board discussed other issues that had arisen during the process of finalising IAS 39 and tentatively agreed:

- to add a presumption that, when calculating the amortised cost of a group of similar assets using the effective interest method, the future cash flows and expected life can be reliably estimated.
- to clarify that if an entity transfers an amortising asset and retains an amortising interest rate swap, the swap may have the effect that the entity retains significant prepayment risk if the amortisation of the swap reflects the amortisation of the transferred asset.
- to permit, but not require, retrospective application of the derecognition requirements if relevant information about the transaction as at the time the transaction took place is available.
- to reinstate the requirement that, when performing a collective assessment of impairment, a change in a factor, such as unemployment rates, that correlates with defaults on the assets being assessed is required for an impairment loss to be recognised.
- to clarify that financial assets that are assessed individually for impairment and found not to be impaired may be grouped with financial assets that have similar credit risk characteristics but are assessed for impairment only on a collective basis. However, the loss probabilities and other loss statistics differ between the two types of asset, and a different amount of impairment may be required.

Improvements to existing IFRSs

The Board discussed issues on the following Standards revised in its project on ‘Improvements to International Accounting Standards’:

IAS 1 *Presentation of Financial Statements*

The Board considered the criteria in IAS 1 for identifying current assets and current liabilities, and decided that:

- (a) the revised IAS 1 should not be amended for the proposal in Exposure Draft ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations* that non-current assets should not be classified as current merely because they are held for sale. Any such amendment to IAS 1 should be a consequential amendment arising from the Standard developed from ED 4.
- (b) all text on the classification of assets and liabilities in the revised IAS 1 should be consistent with the principle that the period for identifying assets and liabilities as current is the longer of twelve months after the balance sheet date and the entity’s normal operating cycle.
- (c) the revised IAS 1 should state that the same normal operating cycle applies to the classification of an entity’s assets and liabilities.

The Board decided not to require an additional line item in income statements for expenses.

IAS 16 *Property, Plant and Equipment*

Both the IASB and the FASB previously decided that when evaluating whether exchange transactions have commercial substance, an entity should consider after-tax cash flows in determining entity-specific value. However, at a recent FASB meeting, the FASB decided to include wording in the Basis for Conclusions to APB 29 *Accounting for Nonmonetary Transactions* that would prohibit commercial substance from being predicated on tax cash flows that arise solely because the tax business purpose is based on achieving a specified financial reporting result.

The Board decided not to include similar language in IAS 16. The fundamental question is whether the respective tax authority is going to grant the tax treatment, and that cannot be answered by a financial reporting standard. It was noted, however, that excluding such language from IAS 16 would not necessarily result in a different accounting treatment for entities that operate in the US tax jurisdiction.

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

The Allocation of Goodwill for Foreign Currency Translation Purposes

The Board confirmed that for foreign currency translation purposes, goodwill should be allocated to the level of each functional currency of the acquired foreign operation.

Accordingly, the level to which goodwill is allocated for foreign currency translation purposes may differ from the level at which goodwill is tested for impairment. Entities should follow the requirements in IAS 36 *Impairment of Assets* to determine the level at which goodwill should be tested for impairment.

The Board also confirmed that no additional guidance on goodwill allocation should be provided in the Standard. Rather, the Basis for Conclusions should be revised to reflect the Board’s views on goodwill allocation for foreign currency translation and impairment testing purposes.

Revenue recognition

The Board continued its discussion of a proposed conceptual model for analysing the assets and liabilities that arise from contractual rights and obligations. The Board considered case studies on long-term construction contracts, wireless service contracts and real estate contracts.

The Board considered but did not reach a conclusion on whether:

- (a) the proposed model could be applied to long-term construction contracts, wireless service contracts and real estate contracts, provided that the fair values of performance obligations to customers can be measured reliably;
- (b) implementation issues for the proposed conceptual approach should be addressed both in proposals for amendments to the IASB *Framework* and for the replacement Standard for IAS 18 *Revenue*; and
- (c) assets and liabilities arising from unconditional contractual rights and obligations should be remeasured after their initial recognition.

Some Board members expressed concern about using “wholesale fair value” to measure the fair values of obligations to customers in the case studies discussed. They argued that using that measure results in the inappropriate recognition of revenues at the inception of contracts. They also argued that measuring obligations to customers at the amount the entity would need to pay other entities to assume those obligations implies the entity will settle those obligations by sub-contracting, even if that is not its intention.

Other Board members commented that in some case studies the Board has considered on revenue arrangements with multiple deliverables, relatively large amounts of revenues from successful selling efforts may have arisen partly because of simplifying assumptions. For example, some case studies have assumed for simplicity that performance guarantees and contract management obligations are immaterial. These Board members recommended illustrating in greater detail the components of a contractor’s performance obligations, and that when an entity’s obligations to customers are specified fully, revenues from successful selling efforts would often be less significant.

Some Board members argued that the wholesale fair value of a general contractor’s performance obligation to a customer should be determined as the amount that another general contractor would charge to assume that obligation.

The Board decided to discuss at a future meeting whether wholesale fair values should be used to measure obligations to customers.

The Board discussed whether the Revenue Recognition project should address whether internally generated customer relationships that meet the definition of assets and are measurable reliably should be recognised as intangible assets. The Board deferred making a decision on this issue until a future meeting. The Board requested staff to address whether revenues from successful selling efforts arise from differences between contractual assets and liabilities and/or from the creation or enhancement of customer relationships. Some Board members requested the staff to address the issue of whether contract origination could give rise to revenue that exceeds the amount receivable from the customer if it cancels the contract.

The Board will consider at future meetings:

- (a) further applications of the proposed conceptual model to other types of contracts;
- (b) whether, and in which circumstances, the fair value of an entity's obligation to its customers should be measured on a retail basis (or an adjusted retail value); and
- (c) whether internally generated customer relationships that meet the definition of assets and are measurable reliably should be recognised as intangible assets.

Share-based payment

The Board discussed the scope of the IFRS on share-based payment and the standards on financial instruments (IAS 32 and IAS 39). The Board first discussed the circumstances in which contracts to buy or sell a non-financial item are within the scope of IAS 39 (refer to the section on IAS 39).

As a result of the Board's tentative decision on the scope of IAS 39, the decision reached at its September meeting on the scope of the IFRS on share-based payment no longer applies. Contracts in which the entity receives a non-financial item will be within the scope of the IFRS on share-based payment if the transaction (a) meets the definition of a share-based payment transaction and (b) is not within the scope of IAS 32 & IAS 39. The Board then continued its discussions of transactions with parties other than employees (or others providing similar services). The Board tentatively agreed that if the entity rebuts the presumption that the fair value of the goods or services can be measured reliably, the entity should measure the transaction based on the fair value of the equity instruments granted to the counterparty, measured at the date the goods or services are received.

The Board reconsidered its tentative decision (reached at the September meeting) concerning the classification of arrangements in which the entity has the choice of settlement in cash or equity. The Board tentatively agreed to retain the proposal in ED 2, ie the classification as liabilities or equity depends on whether that entity has a present obligation to settle in cash. The Board also tentatively agreed to clarify the guidance on the circumstances in which the entity has an obligation to settle in cash.

The Board discussed modifications to equity-settled transactions (other than repricing, which the Board considered at a previous meeting). The Board tentatively agreed that the entity should recognise the grant date fair value of the equity instruments granted over the vesting period, unless the employee fails to vest in those equity instruments under the original vesting conditions. Hence, remuneration expense is not reduced for modifications that:

- decrease the fair value of the equity instruments—any decrease in fair value is not recognised.
- decrease the number of equity instruments granted—the reduction is a partial cancellation of the grant, and hence the entity should recognise immediately any unrecognised remuneration expense relating to the cancelled equity instruments.
- decrease the probability of vesting, either by increasing the vesting period or by changing a performance condition—the entity should continue to account for the grant on the basis of the original vesting conditions.
- change the classification of the arrangement from equity to liabilities during the vesting period—the entity should continue to recognise remuneration expense on the basis of the grant date fair value of the equity instruments. However, it should also recognise changes in the fair value

of the liability between the modification date and the settlement date.

Furthermore, the entity should recognise the effects of modifications that increase the benefits given under the grant, eg if the entity modifies the grant:

- to increase the fair value of the equity instruments of the equity instruments—the incremental fair value granted is recognised over the remainder of the vesting period, in addition to continuing to recognise the expense based on the grant date fair value of the equity instruments
- to increase the number of equity instruments—the fair value of the additional equity instruments, measured at the date of the modification, is recognised over the remainder of the vesting period, in addition to continuing to recognise the expense based on the grant date fair value of the equity instruments originally granted
- to increase the probability of vesting, by either shortening the vesting period or changing a performance condition—the entity should account for the modification via the 'trueing up' mechanism under the modified grant date method.

The Board agreed that some examples to illustrate the above requirement should be included in an appendix to the IFRS.

In reaching the above tentative decisions, the Board considered the decisions reached by the FASB. The Board noted that, in most instances, the two boards had reached the same conclusions. There are some differences, however. For example, the Board discussed a decision reached by the FASB concerning the reconveyance of a grant. The FASB recently agreed that if an employee reconveys an award to the entity, the entity should recognise a credit in the income statement equal to the lesser of (a) the fair value of the award on the reconveyance date and (b) the recognised cumulative compensation expense associated with that award. The Board tentatively agreed that a similar requirement should not be included in the IFRS.

The Board then considered an analysis of comments received in response to Question 25 in the Invitation to Comment, which asked respondents whether they had any other comments on the proposals in ED 2. The Board tentatively agreed that the interaction between the scope of the IFRS on share-based payment and IAS 22 *Business Combinations* should be clarified, ie:

- equity instruments issued in a business combination in exchange for control of the acquiree are not within the scope of the IFRS (because IAS 22 applies in this situation)
- however, equity instruments granted to employees of the acquiree in their capacity as employees, eg in return for continued service, are within the scope of the IFRS.
- the cancellation, replacement or other modifications to share-based payment arrangements because of a business combination (or other equity restructuring) should be accounted for in accordance with the requirements of the IFRS.

Small and medium-sized entities

At its September 2003 meeting, the Board decided that it should issue accounting standards appropriate for small and medium-sized entities (SMEs) and that development of IASB SME standards should start by extracting the fundamental concepts from the IASB *Framework* and the principles and related mandatory guidance from IFRSs and Interpretations. Any modifications to those concepts or principles must be based on the identified needs of users of SME financial statements. The Board thought that it was likely that some disclosure and presentation modifications might be justified on the basis of users' needs, but there would be a rebuttable presumption that no modifications would be made to the recognition and measurement principles in IFRSs.

At this meeting, the staff presented, for discussion, a proposed implementation of the foregoing approach with respect to IAS 19 *Employee Benefits*.

Board members commented on the draft extraction, but no formal Board decisions were made. Among the comments:

- Add a statement of objective and an executive summary at the beginning.
- Explicitly mention the fallback to the full IFRS in each SME standard, including this one.
- The staff's suggested SME version of IAS 19 is much more readable than the full IAS 19. The document may have an educational use in relation to IAS 19.
- The staff should indicate its justification for each proposed recognition and measurement change or disclosure omission or simplification.
- The Board should agree on the types of entities for which it believes its SME standards appropriate (ie who is the target company), but should not adopt quantified size criteria.
- The staff should present the proposed SME standards to the Board in a marked draft reflecting all changes to the principles in the related IFRS.

At the December IASB meeting, the staff will ask the Board to discuss:

- A revised draft of the IAS 19 SME standard, based on comments at this meeting.
- A draft of a definition of small and medium-sized entities.

The staff indicated that it intends to seek the views of the IASB SME Advisory Panel on each draft SME standard and also intends to develop a small network of users of financial statements of SMEs from whom comments will be invited on draft SME standards.

Joint IASB/ AcSB/ FASB meeting

Measurement objectives

In 2002, the IASB and its national standard-setting partners asked the Canadian Accounting Standards Board (AcSB) staff to undertake a preliminary investigation of measurement bases in financial accounting. The purpose of the project is to identify, consider and make recommendations with respect to issues related to the selection of an appropriate basis (or set of bases) for measuring assets and liabilities on initial recognition and on asset impairment. The project is intended to provide the IASB with a basis for initiating a project to amend the IASB *Framework* in respect of measurement and to review the measurement requirements of IFRSs on a conceptual basis.

In March, April, July and September 2003, the IASB considered sections of a draft discussion paper setting out a preliminary analysis of measurement on initial recognition of assets and liabilities. Two of those meetings were held with the IASB's national standard-setting partners.

At this meeting, the boards provided input on:

- (a) what needs to be done to the material that has been developed in the draft discussion paper to provide a basis for making decisions
- (b) what directions should be taken next in carrying on the project, and the expected timing
- (c) whether the discussion paper setting out preliminary conclusions should be published, and
- (d) the need to achieve and maintain consistent thinking about fair value in the IASB and FASB projects that address that issue.

No board decisions were made about the selection of an appropriate measurement basis (or bases). The AcSB project team will prepare a final draft of the discussion paper for consideration at the IASB's meeting with its national standard-setting partners in April 2004. The discussion paper would include an analysis of the measurement of asset impairment.

Board members agreed that the discussion paper should be published in some manner. Some requested that the discussion paper include an analysis of measuring self-constructed assets on initial recognition, including the treatment of related borrowing costs.

Revenue recognition

The boards discussed the conceptual model for revenue recognition with emphasis on measurement of performance obligations. Specifically, the boards discussed the application of the fair value hierarchy described in the FASB project on fair value measurement in measuring those obligations. Board members generally agreed that fair value is the relevant measurement attribute and that decisions about which measure of fair value to use should be based on the relative reliability of those measures. However, some IASB members questioned whether the fair values of performance obligations should be measured in the "retail" markets as opposed to the "wholesale" markets as previously agreed, in concept, by the FASB and as a working principle for purposes of this project by the IASB. Wholesale fair values measure performance obligations at the amount that an entity would pay a third party to assume those obligations. Retail prices measure performance obligations at the amount at which the reporting entity sold (or could sell) identical or similar products or services to similarly situated customers.

The boards also discussed the FASB's fair value hierarchy and several board members noted that there might be difficulty in

discerning differences between Level 2 and Level 3 estimates of fair value (see *IASB Update*, June 2002, for an explanation of the fair value hierarchy). Also, several Board members noted that less reliable estimates of fair value should not be called “default” measures because “default” measures are inconsistent with the measurement objective of fair value.

Share-based payment

The boards considered various convergence issues arising from the IASB’s and FASB’s respective projects on share-based payment. The IASB is finalising an IFRS on share-based payment, after considering respondents’ comments on the proposals in ED 2 *Share-based Payment*. The FASB is developing an exposure draft to revise FAS 123 *Accounting for Stock-Based Compensation*. The boards noted that they had reached the same conclusions on many issues. For example, the boards have concluded that all share-based payment transactions should be recognised in the financial statements, including transactions in which share options are granted to employees, measured on a fair value measurement basis.

However, a few areas of divergence remained. In some instances, the Boards noted that full convergence is not possible in the short term, as summarised below.

- The classification of some share-based payment arrangements as liabilities or equity. There are some differences between the classification of contracts on own shares as liabilities or equity under the proposals in ED 2 and the revised IAS 32 *Financial Instruments: Disclosure and Presentation*. The IASB has tentatively agreed to retain those differences, pending the outcome of its concepts project, which includes reviewing the distinction between liabilities and equity. The FASB has agreed that the exposure draft to revise FAS 123 should incorporate the debt/equity distinction applied in FAS 150 *Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity*. The debt/equity distinction applied in FAS 150 is not the same as that applied in IAS 32. The FASB also has a project to review the definitions of liabilities and equity in its conceptual framework. Therefore, convergence of this aspect of the boards’ respective conceptual frameworks should enable convergence of this aspect of the boards’ standards on share-based payment.
- Transactions with parties other than employees. The IASB standard will deal with transactions with employees and with parties other than employees. The FASB has recently decided to defer consideration of transactions with parties other than employees until the second phase of its equity-based compensation project. In the interim, existing guidance will continue to apply. There are differences between the IASB’s tentative conclusions on the measurement of transactions with parties other than employees and existing US GAAP. Whether those differences will remain depends on the outcome of the FASB deliberations in the second phase of its equity-based compensation project. If the FASB decides on an approach that differs from that applied in the IFRS, the IASB will consider whether to revise its IFRS.
- The FASB will reconsider the proposals in its exposure draft to revise FAS 123, after reviewing respondents’ comments received. This might result in other convergence issues emerging.

The IASB and FASB agreed that when both Boards have standards on share-based payment, they would consider undertaking a convergence project to eliminate any remaining differences between their standards.

The boards then considered the treatment of tax effects of share-based payment transactions. Before the meeting, the IASB had agreed to retain the proposals in ED 2, whereby all tax effects are recognised in profit or loss (see IASB Meeting section, above). In contrast, the FASB had agreed to retain the approach applied in FAS 123, whereby the tax effects are allocated between the income statement and equity, (although it agreed to modify the allocation method applied in FAS 123).

The boards considered the following issues:

- Whether the tax effects relate to an income statement item only, or to both an income statement item and an equity item, or to an equity item only.
- If it is accepted that the tax effects relate to both an income statement and an equity item, how the tax effects should be allocated between the income statement and equity.

On the first issue, the IASB and FASB agreed that the tax effects relate to both an income statement item and an equity item. The boards then considered various methods to allocate the tax effects between the income statement and equity, including the method applied in FAS 123, the revised method recently agreed by the FASB, and two methods proposed by the IASB and FASB staff. It was noted that the differences between the allocation methods are:

- The interpretation of tax legislation that bases the tax deduction on the difference between the share price and the exercise price at exercise date, ie whether this represents an intrinsic value or a fair value measurement basis for tax purposes.
- The treatment of tax effects that arise from the application of a later measurement date for tax purposes, particularly where the application of a later measurement date results in a lower tax deduction than would have occurred had that tax deduction been measured at grant date.
- The recognition of the deferred tax asset between the date when the expense is recognised and the date when the tax deduction is received, including whether the current share price should be considered in measuring that deferred tax asset (for either recognition or impairment purposes) and whether a deferred tax asset should be recognised for the expected future tax benefits relating to the equity item.

The boards did not reach any conclusions on these issues and agreed to continue their discussions in November.

The boards then considered the treatment of a reload feature when estimating the fair value of a share option at grant date. The IASB had earlier agreed to retain the proposal in ED 2, whereby the reload feature should be taken into account, where practicable, when measuring the fair value of the options granted. If the reload feature is not taken into account in the measurement of the fair value of the options at grant date, then the reload option, when subsequently granted, is accounted for as a new option grant. In contrast, the FASB had earlier agreed to retain the approach applied in FAS 123, whereby the reload feature is not included in the grant date valuation of the share options, and hence any reload options subsequently granted are accounted for as a new option grant. The boards discussed this difference in treatment. The IASB and FASB agreed that both boards should adopt the approach applied in FAS 123.

Disclosure framework

The IASB, AcSB and FASB discussed the benefits of having a framework dealing with presentation and disclosure issues. The boards provided input on the objective and scope of such a framework. The AcSB staff was encouraged to expand the scope of such an initiative for further discussion. The boards did not make any decisions on this topic.

Agenda planning

The FASB and IASB discussed strategies for converging their future agendas. This portion of the meeting was administrative; no technical or agenda decisions were made.

Business combinations (phase II)

The IASB and FASB discussed the status of the following convergence issues:

- (a) *Measurement period*: Whether the measurement period applies to components of the consideration paid.
- (b) *Overpayments*: Whether an excess of the consideration paid over the fair value of the acquirer's interest in the net assets acquired should be recognised in profit or loss at the date of acquisition.
- (c) *Transitional provisions for minority interests decisions*: Whether the transitional provisions for the proposals on the minority interest issues should state specifically which proposals should be applied retrospectively and which prospectively.
- (d) *Subsequent recognition of deferred tax benefits*: Whether goodwill should be adjusted for the subsequent recognition of deferred tax benefits acquired in a business combination that did not satisfy the criteria for separate recognition when the combination was recognised initially, but that are subsequently realised.
- (e) *Disclosure of an additional schedule if an entity is partially owned*: Whether to require disclosure of an additional schedule that illustrates the effects of transactions with minority interests on the controlling interest's equity attributable to common shareholders and an additional per share metric that includes in the numerator the effects of equity transactions with minority interests.

The staff reported that issues (a), (c) and (d) had been resolved by the boards and were no longer convergence issues. More particularly:

- At its 8 October 2003 meeting, the FASB agreed that the measurement period should include components of the consideration paid, which is consistent with the IASB's decision for issue (a).
- At its 20 October 2003 meeting (see IASB Meeting, above), the IASB agreed that the transitional provisions for the proposals on the minority interest issues should state specifically which proposals should be applied retrospectively and which should be applied prospectively to converge with the FASB on issue (c).
- At its 20 October 2003 meeting, the IASB agreed that goodwill should not be adjusted for the subsequent recognition of deferred tax benefits acquired in a business combination to converge with the FASB on issue (d).

With respect to issue (e), at its 20 October 2003 meeting the IASB noted that information about the effects of transactions with minority interests on the controlling interest's equity will, under IFRSs, be provided in the statement of changes in equity or in the notes to the financial statements. This is because [draft] IAS 1 *Presentation of Financial Statements* requires an entity to present, either within the statement of changes in equity or in the notes, a reconciliation between the carrying amount of each class of equity reserve at the beginning and end of the period, disclosing separately each movement. The IASB also considered a proposed additional per share measure that includes in the numerator the effects of equity transactions with

minority interests disclosures, and agreed to discuss this issue further at its November 2003 meeting.

The Boards then discussed issue (b), specifically, whether an excess of the consideration paid over the fair value of the acquirer's interest in the net assets acquired (ie any overpayment) should be recognised in profit or loss at the date of acquisition. At its 8 October 2003 meeting, the FASB decided that overpayments should not be recognised as an expense on the acquisition date. Therefore any excess of the consideration paid over the fair value of the acquirer's interest in the net assets acquired would be subsumed into goodwill and subsequently tested for impairment. In contrast, the IASB agreed that when there is evidence to suggest that the business combination transaction is not an exchange of equal values, any overpayment should be recognised in profit or loss at the date of acquisition. Members of each board considered the other board's basis for its tentative conclusion, but did not reach a converged conclusion on this issue. Therefore the boards agreed to proceed with each board exposing for comment the answer it prefers, but explaining the other board's view in the Basis for Conclusions, and seeking input via the Invitation to Comment. The boards will then use the input they receive as a basis for revisiting the issue during the redeliberation phase, with the objective of ultimately achieving a converged answer.

The boards then dedicated the majority of the discussion time to the following issues:

- determining which identifiable assets and liabilities should be included in the business combination accounting (versus post-combination)
- whether some business risks (contingencies) resulting from the acquiree's past actions constitute an obligation to stand ready when acquired.

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

The boards considered the following two views:

View A: The objective of View A is to reflect the economic condition of the acquiree (including the effects of the acquiree's past actions) the moment before the business combination. View A would include the identifiable assets, liabilities, and contingent liabilities of the acquiree immediately before the business combination.

View B: The objective of View B is to reflect the assets and liabilities that are acquired and assumed as part of the business combination. View B would include the items acquired and assumed directly from the acquired entity (business) that met the definition of an asset or liability at the date of acquisition, as well as other assets acquired and liabilities assumed from the owners (seller) of the acquired entity or third parties that are included as a condition of the combination and are essential to the business combination (for both the buyer and the seller).

After discussing the above two views, the boards agreed to proceed with a modified version of View A, under which the following would be included in the business combination accounting:

- the fair values of the identifiable assets and liabilities of the acquiree immediately before the business combination, determined assuming that, from the acquiree's perspective, there is no prospect of it being acquired in a business combination.
- the other identifiable assets arising from the business combination and liabilities assumed by the acquirer, but

only provided they result from the actions or requirements of external parties (such as regulators, legislative provisions, etc).

The Boards agreed that the following examples illustrate liabilities that represent post-combination expenses and, therefore, are not included in the business combination accounting:

- Acquirer Co acquires 100 per cent of Sub Co. Sub Co has an existing contractual agreement with one of its suppliers. That agreement requires Sub Co to make a fixed payment to the supplier if Sub Co is acquired in a business combination. Although the contractual agreement means that Sub Co has a present obligation immediately before the business combination, the value attributed to that liability as part of the business combination must be determined by assuming there is no prospect of Sub Co being acquired in a business combination. Therefore, the value assigned to that obligation as part of the business combination accounting would be zero. The future payment to the supplier (which is triggered by the business combination) would, in effect, be treated as a post-combination expense of the combined entity.
- Acquirer Co acquires 100 per cent of Sub Co. Sub Co has a pre-existing contractual agreement that requires it to make payments to its employees if it is acquired. Although the contractual agreement means Sub Co has a present obligation immediately before the business combination, the value attributed to that liability as part of the business combination must be determined by assuming there is no prospect of Sub Co being acquired in a business combination. Therefore, the value assigned to that obligation as part of the business combination accounting would be zero. The payments that Sub Co is contractually required to make if it is acquired would, in effect, be treated as post-combination expenses of the combined entity.

The boards agreed that the following example illustrates a liability that should be included in the business combination accounting:

- A law is passed that requires the removal of asbestos. As part of that law, some companies (including Sub Co) are “grandfathered” and not required to remove the asbestos unless they are acquired in a business combination. Acquirer Co acquires 100 per cent of Sub Co, and as a result the combined entity is required to incur the costs to remove the asbestos. The obligation to remove the asbestos would be part of the business combination accounting because Acquirer Co would assume it as a result of legislative provisions that must be complied with in the event of a business combination.

The boards also agreed to consider further the treatment of contingent liabilities of the acquiree in a business combination.

Convergence project

The FASB and the IASB discussed (a) the progress achieved in its joint project on short-term convergence and possible additions to the project’s original scope, (b) the classification of a liability when the loan agreement has been breached but there is a grace period in effect at the balance sheet date, and (c) the decisions made by the IASB regarding differences in the accounting for income taxes.

Progress achieved and possible additions to the project’s original scope

The boards affirmed that the scope of phase II of the project should comprise issues related to convergence on income taxes, interim reporting, and research and development. The boards

decided not to add any further convergence issues to the scope of the project at this time.

Classification of a liability when the loan agreement has been breached but there is a grace period in effect at the balance sheet date

The FASB and the IASB decided that a liability for which a loan agreement has been breached but the creditor has agreed at the balance sheet date to effect a grace period shorter than 12 months should be classified as a current liability, even if the breach is (a) expected to be rectified before the grace period expires, or (b) rectified after the balance sheet date but before the financial statements are issued. The FASB decided to change its definition of current liability to match that of the IAS 1 *Presentation of Financial Statements*, which reads:

A liability shall be classified as current when it:

- (a) is expected to be settled in the normal course of the entity’s operating cycle; or
- (b) is due to be settled within twelve months of the balance sheet date.

All other liabilities shall be classified as non-current.

The Boards agreed that such a liability should be classified as current because it is not within the entity’s control to ensure that the debt will *not* be called within twelve months (or within one operating cycle, if longer).

Income taxes

The Boards decided on the general approach to be taken for convergence between FAS 109 *Accounting for Income Taxes*, and IAS 12 *Income Taxes*. Under this approach, the IASB would first consider all of the differences between the standards and reach tentative conclusions on what it believes are the highest quality solutions. The IASB would then present for deliberation by the FASB what it believes to be the highest quality converged standard. Any differences between the IASB’s tentative conclusions and the conclusions to be reached by the FASB in its deliberations will then be reconsidered.

Reporting comprehensive income

The boards discussed their respective projects on reporting comprehensive income (financial performance). They emphasised the importance of convergence on the project and discussed the similarities and differences between both projects. More specifically, the boards discussed the differences in and the theories behind the FASB’s and IASB’s definitions for the ‘business’ and ‘financing’ categories. They discussed the FASB’s decision to retain other comprehensive income as required by FASB Statement No. 130, *Reporting Comprehensive Income*, which the IASB rejected. The Boards discussed issues the FASB still needs to deliberate, including remeasurements, recycling, and earnings per share. The Boards agreed to form a joint working group to research and form recommendations to reduce areas of divergence and develop a timetable for the release of public documents for this project.

Meeting dates: 2003-2004

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

2003

17—21 November[†]

17—19 December

2004

21—23 January

18—20; 23, 24 February[†]

17—19 March

21—23; 26,27 April[‡]

19—21 May

21—25 June, Oslo, Norway[†]

21—23 July

22—24; 27, 28 September[‡]

20—22 October, Norwalk, Connecticut, USA

15—19 November[†]

15—17 December

[†] Includes a meeting with the Standards Advisory Council

[‡] Includes meetings with partner standard-setters