INTERNATIONAL FEDERATION OF ACCOUNTANTS

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DATE: 20 OCTOBER 2005
MEMO TO: MEMBERS OF THE IPSASB
FROM: RICK NEVILLE
SUBJECT: **UPDATE ON IFRIC'S PROJECT ON SERVICE CONCESSION ARRANGEMENTS**

ACTION REQUIRED

The Board is asked to:

- **note** the Update of IFRIC's Service Concession Arrangements project.

AGENDA MATERIAL:

		Pages
11.2	Update of IFRIC's Service Concession Arrangements Project since July 2005	11.2 – 11.6

BACKGROUND

At the previous IPSASB meeting in New York, the IPSASB appointed a subcommittee to monitor the IFRIC's progress on service concessions and to make relevant proposals to the IPSASB at the meeting in Cape Town re this project.

A report updating IFRIC's progress on its service concession arrangements project is attached as item 11.2. A brief history sheet of the IPSASB's project and an extract from the IASB's website which provides an overview of the Draft Interpretations are included as Appendices 1 and 2 to that report.

RECOMMENDATIONS BY THE SUBCOMMITTEE

As IFRIC is still discussing and considering the relevant issues raised by constituents, the subcommittee believes that it is currently premature to make any proposals in regards to this project. The subcommittee believes that it would be able to make proposals in regards to this project when IFRIC has made more progress on this project and weighed the IASB's reaction in regards to IFRIC's consideration and progress on this project – at the IPSASB's March 2006 (Tokyo) meeting.

If there are any further updates, I will provide a verbal update to the IPSASB during the meeting.

UPDATE - IFRIC's Service Concession Arrangements Project

(Date: 17 October 2005)

Objective of IPSASB subcommittee

Monitor the IFRIC's progress on service concessions arrangements and make proposals to the IPSASB at the Cape Town meeting re any action on this project. (Appendix 1 provides an overview and background of the draft interpretations issued by IFRIC.)

Members of the Subcommittee

Canada (Chair), Australia, Israel, France, New Zealand, South Africa, United Kingdom, USA

Materials sent to IPSASB subcommittee members since the July 2005 meeting

Staff sent to the subcommittee members IFRIC Updates for August 2005 and September 2005.

Update on IFRIC's Progress/Direction on the Project To Date Since the IPSASB's July 2005 meeting

1) At IFRIC's July 2005 meeting, IFRIC considered the major issues raised by respondents on Draft Interpretations D12, "Service Concessions Arrangements – Determining the Accounting Model". At the September 2005 meeting, IFRIC's discussion focused on the scope of the draft Interpretations. IFRIC will discuss the remaining points raised by respondents at future meetings.

2) The IFRIC members believed that, with its limited scope project, the IFRIC was better placed than the IASB to deal with the pressing issues in a timely way and decided to continue its work on the project. Therefore, IFRIC decided to progress its work on the project. Other recent decisions made by IFRIC are that:
   a. The Interpretations will not specify accounting by grantors. However, the basis for conclusions will note that, in many cases, the government/grantor will control the physical assets, but the resulting accounting had not been considered explicitly by IFRIC.
   b. The scope of the Interpretations will not include private-to-private service concession arrangements. However, IFRIC noted that application by analogy could be appropriate under the hierarchy in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors". IFRIC will consider examples to test this proposal at its next meetings (3-4 November and/or 1-2 December).
   c. For service concession arrangements within the scope of the draft Interpretations, the infrastructure should not be recognized as property, plant and equipment of the operator because the indicators of control lead to the conclusion that the grantor controls the asset. The control indicators are the grantor's ability to control the use of the infrastructure throughout the concession and its control of the residual infrastructure at the end of the concession.

3) Issues that IFRIC will re-consider in light of responses from constituents (some of these issues were also highlighted by the IPSASB in its submission to IFRIC):
   a. The meaning of 'control', 'public service obligation' and 'infrastructure';
   b. Distinction/boundary between the financial asset model and the intangible asset model based on "who paid for the arrangements";
   c. The lack of support from the majority of respondents on the recognition of revenue and profit and loss under the intangible asset model;
   d. The lack of guidance on sale and repurchase agreements in relation to service concession arrangements;
   e. Whether users and grantors should be considered separate parties in all instances;

f. Relationship of the scope of the Draft Interpretations to IFRIC 4, “Determining whether an Arrangement contains a Lease” and SIC 29, “Disclosure–Service Concession Arrangements”;
g. Exclusion of “whole of life” arrangements (arrangements for no significant residual interest exists); and
h. Lack of guidance on the application of the requirements proposed in the draft Interpretations to partly regulated assets.

4) IFRIC is unlikely to publish final Interpretations by end 2005, but may issue interim Interpretations that would:
   a. Clarify how existing standards apply to IFRSs; and
   b. Identify practices that could not be continued under IFRSs.

Process Going Forward

At the IASB’s October 2005 meeting, the IASB will review a report on key issues considered by the IFRIC at its August and September meetings. The IASB will have its first review of this project since the exposure period closed. (Note: Approved Interpretations are issued by the IASB. When the IFRIC has concluded a final Interpretation, the Interpretation will be put to the IASB for approval before being issued. The IASB votes on the text of the Interpretation put forward by the IFRIC. If an Interpretation is not approved by the IASB, the IASB will subsequently provide the IFRIC with an analysis of the objections and concerns of those voting against approving the Interpretation. Based on this analysis, the IASB will decide whether the matter should be referred back to the IFRIC, added to its own agenda or not be the subject of any further action.)

Staff Recommendation/Views

In view of the fact that IFRIC is still considering the issues raised by constituents and the IASB has yet to review the issues raised by respondents to the Draft Interpretations, staff believe that the IPSASB should not make any decisions re the future of any project on service concession arrangements at the Cape Town meeting. Rather, the IPSASB should continue to monitor IFRIC’s progress and make a more informed decision when the IASB and IFRIC have made more significant headway with the concession project. Staff anticipate any decisions made by the IPSASB could be done during March 2006, Tokyo meeting.

Appendix 1: History Sheet - Background on IPSASB's work on Service Concession Arrangements

The IPSASB has on its work program a project to deal with service concession arrangements. Part of the work in this project includes monitoring the IASB's IFRIC's project on service concession arrangements.

On 3 March 2005, IFRIC published for comment three draft Interpretations on service concession arrangements. At the IPSASB's 14 – 17 March 2005 meeting, a subcommittee was appointed to review the draft Interpretations and provide comments to staff to draft IPSASB's comment letter to IFRIC. The subcommittee comprised members from France, United Kingdom, Argentina, Australia, Israel, New Zealand, South Africa and USA. A draft letter was circulated out-of-session for approval by IPSASB members.

The IPSASB's submission was submitted to IFRIC on 1 June 05. The IPSASB's submission expressed concern on a number of requirements and arguments expressed in the draft Interpretations. These concerns include:

- the narrow scope of the draft Interpretations and the focus on providing guidance to the operator without considering the grantor's perspective;
- the introduction of the 'control' approach used in the draft Interpretations (IFRIC introduced a new meaning of control in those draft Interpretations);
- the rationale given that the 'control' approach was superior to the 'risks and rewards' approach;
- the use of different accounting models based solely on the identify of the payer/funder of the concession arrangements"; and
- the fact that IFRIC was issuing a series of Interpretations rather than the IASB issuing a single Standard to deal with the numerous issues that arise from service concession arrangements.

Appendix 2: Overview of the Draft Interpretations

The overview of the draft Interpretations below is extracted from the IASB's website when IFRIC initially issued the draft Interpretations for comment.

Introduction

1 On 3 March 2005, the IFRIC published for comment three draft Interpretations on service concessions. Comments have been requested by 31 May 2005.

2 The draft interpretations address arrangements whereby public services—such as the construction and operation of roads, hospitals, prisons, waste disposal plants or energy distribution facilities—are contracted to private 'operators'. The draft interpretations address only the accounting by the operators. They do not specify the accounting by the 'grantors' of the contracts, typically governments or their agencies.

3 These arrangements typically involve significant capital expenditure on infrastructure. The infrastructure may already exist and need only be maintained (and perhaps enhanced) by the operator. Or the concession may require the operator to construct the infrastructure before operating it.

4 The draft interpretations apply only to concessions in which the grantor retains control over the use to which the infrastructure is put: it decides what services the operator must provide, to whom it must provide them and at what price; and it retains control of the residual interest in the infrastructure at the end of the concession.

5 The way in which operators at present account for such infrastructure under their local GAAPs varies. In some countries, the accounting has been characterised by smoothing adjustments designed to report smooth profit trends over the concession. There has been uncertainty about the requirements of IFRSs. One question is about the nature of the operator's expenditure on construction of infrastructure—should the operator recognise property, plant and equipment or some other type of asset? Another question is about the treatment of borrowing costs incurred by the operator to finance the infrastructure. These borrowing costs tend to be higher in early years—can they be capitalised and allocated evenly over the contract?

6 The IFRIC has sought to address these questions and provide guidance on other aspects of service concession accounting. Because of the range of matters to be covered, the IFRIC has split the interpretations into three separate documents.

D12 Determining the Accounting Model

7 D12, the first draft Interpretation, specifies how an operator should classify its expenditure on construction of infrastructure. D12 proposes that, because the operator does not control the use of the infrastructure, it should not recognise it as its own property plant and equipment. Instead, it should account for the rights it receives in return for providing construction services to the grantor.

8 D12 proposes that the classification of the operator's rights should depend on who is required to pay for the concession services:

a) if the grantor will pay for the concession services itself, the operator has a contractual right to receive cash in exchange for its construction services. D12 proposes that such a right to receive cash meets the definition of a financial asset and should be accounted for as such.

b) if instead, the contract gives the operator a right to charge users for the concession services—for example, to charge tolls for operating a road—D12 proposes that the operator does not have a contractual right to receive cash. Instead, the operator has a right to charge users if and when they use the concession services—a right that meets the definition of an intangible asset. The operator should therefore recognise the right it receives in exchange for providing construction services as an intangible asset.

9 The two different models have different accounting consequences and are dealt with separately in the second and third of the interpretations.

D13 The Financial Asset Model

10 D13 sets out the accounting proposed when the financial asset model applies. The operator would apply standard construction contract accounting, recognising revenue on a percentage of completion basis as construction progressed. The resulting asset (the amount due from the grantor) would meet the definition of a financial asset and be accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The amounts subsequently received from the grantor for the concession services would be allocated between three components:

- repayment of the financial asset
- finance income — the effective interest on the outstanding receivable
- operating revenue — for provision of ongoing services such as maintenance and staffing.

11 Often an operator's borrowings will be similar to the amount due from the grantor, both tending to reduce over the duration of the contract. Applying the financial asset model, the impact on profit of higher borrowing costs in earlier years and lower borrowing costs in later years would tend to be offset by a similar pattern of finance income.

D14 The Intangible Asset Model

12 D14 sets out the accounting proposed when the intangible asset model applies. The operator would again apply construction contract accounting, recognising construction revenue on a percentage of completion basis as construction progressed. But it would not be receiving cash for its services. So instead of giving rise to a receivable, the revenue-earning activity would give rise to an intangible asset. This intangible asset would be accounted for in accordance with IAS 38.

13 The amounts reported in the income statement would be different from those reported under the financial asset model. Overall, the net profit or loss reported over the duration of the contract would be the same. But both revenues and operating expenses would be higher: all receipts from users—not just those attributable to operating the facilities after construction—would be recognised as revenues, matched by additional operating expenses from the amortisation of the intangible asset. And the pattern of profit recognition could be different: higher borrowing costs in earlier than later years would contribute to lower profits (or losses) being recognised in earlier years and higher profits in later years (because there would be no corresponding finance income). The IFRIC concluded that it would be inconsistent with IFRSs, and the IASB's conceptual framework, to defer borrowing costs in order to smooth profits over the duration of the contract.

Effective date

14 The IFRIC aims to issue the Interpretations in final form before the end of 2005. It is likely that, on that timetable, they would be effective for financial years commencing in January 2006 onwards.

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DATE:	21 OCTOBER 2005
MEMO TO:	MEMBERS OF THE IPSASB
FROM:	MIKE HATHORN
SUBJECT:	IASB-FASB CONCEPTUAL FRAMEWORK PROJECT - NATIONAL STANDARDS SETTERS MONITORING GROUP

ACTION REQUIRED

The IPSASB is asked to:

- **Note** this report on the National Standards Setters group set up to monitor the IASB-FASB work on the IASB conceptual framework.

AGENDA MATERIAL:

		Pages
11.4	Extract from notes of National Standards Setters meeting	11.9 - 11.11
11.5	Update: National Standards Setters communication with IASB	2nd distribution

BACKGROUND

At the July 2005 meeting, Members were advised that a group of national standards setters (Australia, Canada, New Zealand and UK), were monitoring the IASB-FASB conceptual framework project for possible public sector implications and had invited the IPSASB to participate. The Chair noted that he had responded positively to the invitation. The Chair proposed that:

- a subcommittee be established to consider materials being developed by the national standards setters and to provide input as appropriate;
- those wishing to join the subcommittee advise the Technical Director of their interest, including whether they were prepared to act as Chair of the subcommittee; and
- a report from the subcommittee chair would be made at IPSASB meetings as appropriate.

Members agreed that this invitation of the national standards setters should be accepted, and requested more information about the process as they considered their involvement in the IPSASB subcommittee. Details of the proposed monitoring process were forwarded to all members in August and the following member countries noted their interest in joining a subcommittee: UK (agreed to chair), Australia, France, Norway, South Africa.

Materials on IPSASB concepts previously considered by the IPSASB (then the PSC) in 2003 have been provided to the consultant (Mr Kevin Simpkins who is a former IPSASB member) engaged by the national standards-setters to prepare reports on IASB deliberations on this project. That material identified whether matters dealt with in the IASB framework have been dealt with in the IPSASs, and any differences in key definitions.

Mr Simpkins has provided two monitoring reports, which have been circulated to the subcommittee. In short they identify the following concerns:

- Process - the IASB-FASB intend to initially focus on a framework for private-sector business entities, and at the end of that process consider not-for-profit (NFP) entity (including perhaps public sector) issues. This is an inefficient process as all the concepts will need to be re-debated from the NFP perspective and raises doubts about whether decisions once made from a "for profit" perspective will be revisited for NFP implications;
- Objectives - the objectives which focus on decision usefulness do not give sufficient acknowledgement to accountability/stewardship which is a fundamental public sector principal; and
- The identification of users as present and potential investors is too narrow for the NFP and public sector. Similarly, the focus on reporting information that assists users to evaluate the effects of past or future events on future net cash inflows (or confirm or corrects previous evaluations of such) is also too narrow for the NFP and public sector, and has implications for the boundaries of financial statements.

The National Standards Setters met in London on September 25, 2005 to discuss a range of projects including the conceptual framework project. The Technical Director attended that meeting as an observer. An extract from the meeting notes dealing with the Conceptual Framework is attached.

Kevin Simpkins monitoring reports and the IPSASB 2003 material on differences between the IASB framework and IPSASs are available from staff on request.

ONGOING ACTION

The subcommittee will continue to monitor the development of the IASB project and identify relevant issues as input for the IPSASB's conceptual framework project scheduled for action during 2006.

The subcommittee will note the action proposed by the National Standards Setters in their communications with the IASB and any IASB response thereto, and will provide an update to the IPSASB on any developments at the forthcoming meeting.

Extract from National Standards Setters meeting: London September 25, 2005

1 INTRODUCTION

The group's origins had been as a meeting of IASB Liaison Standard Setters, who were no longer recognised in the new IASB constitution. ASBJ and FASB, were in a rather difference position from other standard setters since they had formal procedures for convergence. This meeting followed one in April 2005, when it had been acknowledged that the group's future would now need to be reviewed.

The group's main role had been in relation to research projects - work that was likely to continue to be worthwhile and which was consistent with the co-operative relationship between IASB and individual standard setters envisaged in the draft Statement of Best Practice. It had been considered important that the group should not appear to be working behind closed doors, hence the decision to invite observers (the response to which had exceeded expectations).

The main purpose of this meeting was to review current projects and to debate the group's future.

2 CONCEPTUAL FRAMEWORK

Introduction

The agenda item reflected a decision at the last meeting to have regular updates on the IASB/FASB Conceptual Frameworks project. As the topic was also on the agenda of the World Standard Setters meeting that discussion might better take place there.

The Conceptual Frameworks project was initially confining itself to the private sector so a separate review was being undertaken at the behest of the standard setters in the UK, Australia, Canada and New Zealand (with participation by the International Public Sector Accounting Standards Board) of the implications of the IASB/FASB Conceptual Frameworks Project for the public sector. It was felt there was a need to consider all similar transactions regardless of where they were carried out as this may have implications for the views taken in the Conceptual Frameworks project and revisiting not for profit entities later might not be the most satisfactory way of getting a result. The sponsoring standard setters had yet to discuss how the issues would be taken forward.

The purpose of the review had been to identify issues for the public sector (looking also at the not for profit sector), to enable proactive consideration by the sponsoring standard setters for their own standard setting activities and to enable those bodies to raise issues as appropriate with the IASB. Overall, the work of the Conceptual Projects team appeared to have been impressively thorough.

In terms of the plan for the Conceptual Frameworks Project, there was a case on efficiency, effectiveness and fairness grounds for considering the applicability of the developed concepts to not for profit entities at the end of each phase rather than at the end of the project as a whole.

In relation to the objectives of financial reporting the key issue was the focus on decision usefulness. This was not adequate for the public or not for profit sectors as it did not go far enough towards recognising discharge of accountability (stewardship). There were implications also for the definitions of relevance, the user set, the economic decisions language, the definition of materiality, influence over the economic decisions of users and the meaning of 'economic'. In addition there were issues about the boundaries of financial reporting.

The questions needing to be addressed were whether the concepts were appropriate to the public sector and whether they were complete.

Discussion

The IASB staff had no particular view on the approach that should be taken. The reason for starting with the private sector was that this was the only place where the IASB and FASB mandates overlapped. The comments about decision usefulness might be a reflection of too strong a focus on economic decisions. It was difficult to envisage users of financial statements not wanting to make some kind of decision as a result. This might be a resource allocation decision, a voting decision or a decision whether to fund a not for profit organization or public benefit entity which were not, strictly, economic decisions.

It was suggested that the quarrel was not so much with decision usefulness itself but the implications of lowering of the status of stewardship. On the question about economic decisions, provided that embraced decisions about service potential there should not be a problem.

On the stewardship question, there had not been a fully developed answer to the points in the staff paper about accountancy and stewardship meaning responsibility for assets and their effective and efficient employment. Many of the arguments that were being advanced had more relevance to governance than to financial reporting. Some important and decision useful information might not actually be relevant to financial statements.

It was pointed out that consideration of whether information was relevant to financial statements or more appropriate in proxy statements needed to take into account jurisdictional differences affecting whether proxy statements were permitted.

It was suggested that most of the issues identified in the review were a matter of emphasis on which a little more work might be needed so that they could be fed into the IASB/FASB considerations. Some of the thinking from the review had in fact already had an impact on the work of the staff team.

The evidence in Canada was that, even where the standard setter's mandate did not run to the public sector, there were high expectations of the need to be sensitive to the accounting issues for the sector. The question of stewardship might be a matter of emphasis, but the long-term credibility of the IASB/FASB initiative would be considerably enhanced if it were seen to be sensitive to the importance attached to stewardship in the broader context. However, it might not be enough just to pass the suggestion on to the project team. It might need to be further developed in an issues paper.

A question was raised about the extent of support among EU standard setters and whether the public sector issues should continue to be pursued by the four sponsoring standard setters. The EFRAG staff view was the review was likely to be very interesting. Given the growing interest in aligning public and private sector accounting in Europe there might be benefit in monitoring developments.

If the IASB/FASB project plan was to be changed to enable consideration of not for profit issues at the end of each phase, an early approach to IASB would be essential.

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DATE: 15 OCTOBER 2005
MEMO TO: MEMBERS OF THE IPSASB
FROM: LI LI LIAN
SUBJECT: **STATUS OF IASB PROJECTS AS AT OCTOBER 2005**

ACTION REQUIRED

The IPSASB is asked to **note** the update on the IASB work program.

AGENDA MATERIAL:

		Pages
Appendix 1:	IASB Timetable	11.18
Appendix 2:	IFRIC Update	11.19 – 11.20
Appendix 3:	Detailed updates on IASB's decisions on exchange revenue project	11.21

BACKGROUND

This memorandum provides an update of the developments in the IASB's work program since the IPSASB's meeting in New York in July 2005. The information contained in this update is drawn from IASB Updates (July 2005 – September 2005) and a review of the IASB web site www.iasb.org as at 15 September 2005. The timetable (located in Appendix 1) which is extracted from the IASB's Insight May/June 2005 edition shows the IASB's current expectations about the timing of projects on its active agenda. Some of the projects on the work program of the IASB have not been dealt with in this memo because they appear less relevant to the public sector.

Staff have also identified the Interpretations that have been issued and those that the IFRIC intends to issue during the first half of 2005. The issues currently being discussed by IFRIC are identified in Appendix 2.

DOCUMENTS ISSUED RECENTLY

Documents issued (and withdrawn) by the IASB and IFRIC since the last meeting are:

	Date of Issue	**Document**
1	28 July 05	IASB: Draft technical corrections policy (comments due 30 September 2005)
2	18 August 05	IASB: IFRS 7, "Financial Instruments: Disclosure"
3	18 August 05	IASB: IFRS to amend IFRS 4, "Insurance Contracts" and IAS 39, "Financial Instruments: Recognition and Measurement" on financial guarantee contracts and credit insurance
4	1 September 05	IFRIC: IFRIC 6, "Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment"

	Date of Issue	Document
5	30 September 05	IASB: Draft Technical Correction (DTC) 1, "Proposed Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*—Net Investment in a Foreign Operation" (comments due 31 October 2005)

DOCUMENTS ANTICIPATED TO BE ISSUED BY END OF 2005

Documents anticipated to be issued by the IASB and IFRIC by the end of 2005 are:

	Document
1	IASB: ED to amend IAS 12, "Income Taxes"
2	IASB: ED to replace IAS 14, "Segment Reporting"
3	IASB: ED to amend IAS 38, "Intangible Assets"
4	IASB: ED on performance reporting from Segment A
5	IASB: Discussion Paper on measurement objectives
6	IASB: Discussion Paper on measurement commentary (MD&A)
7	IFRIC: IFRIC X, "Applying IAS 29 Financial Reporting in Hyperinflationary Economies for the First time"
8	IFRIC: IFRIC X, "Changes in Contributions to Employee Share Purchase Plans (ESPP)"
9	IFRIC: IFRIC X, "Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions"

TECHNICAL PROJECTS

(i) IAS 20, "Government Grants and Disclosure of Government Assistance"

The PSC issued an ITC on non-exchange revenue (which includes taxes and grants) in January 2004. An ED amending IAS 20 was originally scheduled for issue around mid-2003. To date, the IASB has not progressed this project.

At the IASB's September 2005 meeting, the IASB decided to add to its technical agenda guidance on how to account for emissions trading scheme. (At the July 2005 meeting, the IPSASB agreed to include a project on the Kyoto Protocol in its work program. Based on the draft work program in item 6, it is anticipated that the IPSASB will consider a strategy on this project in 2007.) It is anticipated that the output for this project will be amendments to existing IFRSs – IAS 20 and IAS 38, "Intangible Assets". This project will interact with its current project to revise IAS 20. Therefore, the IASB will first consider the treatment of permits and licenses, including emission rights, issued to entities by government for less than fair value as part of its IAS 20 project. Later, the IASB will consider other issues relating to emission trading schemes.

(ii) Revenue – Framework and IAS 18, "Revenue"

IPSAS 9, "Revenue from Exchange Transactions" based on IAS 18, "Revenue" was issued in July 2001. Furthermore, the IPSASB is also now in the process to issue an ED on non-exchange revenue.

The IASB and the USA's Financial Accounting Standards Board (FASB) are working together to develop a conceptual model for revenue recognition and a general standard derived from that model. (This is a long-term project.) A discussion paper is anticipated to be issued the next year to seek public comment on proposed concepts and principles before developing EDs of amendments to the "Framework for the Preparation and Presentation of Financial Statements" and IAS 18.

The IASB continues to discuss how to identify the entity's contractual rights and obligations when it recognizes revenue. The IASB decided that a single contract may give rise to several different performance obligations that the entity may discharge at different times (eg delivery and servicing of goods). Such contracts should be disaggregated and each performance obligation should give rise to revenue. Revenue from each performance obligation should be recognized when that obligation is discharged. More details of IASB's reasons and decisions made during its recent meetings are in Appendix 3.

At the next IASB meeting, the IASB will consider the application the tentative decisions above to different revenue transactions.

(iii) Consolidation

The PSC issued IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities" based on IAS 27, "Consolidated Financial Statements and Accounting for Controlled Entities" in May 2000. IPSAS 6 is also currently being updated to converge with IAS 27 (December 2003 version) as part of the IPSAS Improvements project. The IASB's discussion on this issue may have implications for IPSAS 6. Currently, the IASB has two projects that impacts IAS 27:

- The first project proposes minor amendments on minority (non-controlling) interests emanating from the Business Combinations Phase II project. An ED amending IAS 27 was issued in June this year.
- The second project is a longer-term project that also considers special purpose entities. This project is entitled: "Control (including Special Purpose Entities)". The IASB continued its consideration of this project. at recent meetings Recent discussions include the timing of the recognition of an asset owned directly or through an option in an entity holding that asset, and issues related to determining if an entity is a subsidiary if there are options on ownership interest.

(iv) Short-term Convergence: Segment Reporting

IPSAS 18, "Segment Reporting" was issued in June 2002. It was based on IAS 14, "Segment Reporting" but with significant departure in a number of requirements and definitions (eg the definition of segments in IPSAS 18 is different from IAS 14.) The IASB's discussion on the issues noted below may have implications for IPSAS 18.

During 2004, the IASB agreed to consider a project to converge IAS 14 with the Financial Accounting Standards Board, USA (FASB)'s Statements of Financial Accounting Standards (SFAS) 131, "Disclosures about Segments of an Enterprise and Related Information". Recent decisions that the IASB made in regards to converge IAS 14 with SFAS 13 are:

- New IFRS (and withdraw IAS 14) entitled "Segments". The new IFRS will use the management approach used in SFAS 13, rather than an emphasis on the disaggregation of an entity's consolidated financial statements as currently in IAS 14;
- Amend scope of proposed IFRS to include entities that file or in the process of filing financial statements with regulatory organizations for the purpose of issuing instruments in a public market and entities that hold assets in a fiduciary capacity for a broad group of outsiders;
- Delete proposed requirement to disclose impairment by segment; and
- Include FASB's basis for conclusions on SFAS 131 as an appendix to the basis for conclusions on the proposed IFRS.

(v) IAS 21 – Net investment in a foreign operation

The PSC issued IPSAS 4, "The Effects of Changes in Foreign Exchange Rates" based on IAS 21, "The Effects of Changes in Foreign Exchange Rates" in May 2000. IPSAS 4 is also currently being updated to converge with IAS 21 (December 2003 version) as part of the IPSAS Improvements Project. The IASB's discussion on this issue may have implications for IPSAS 4.

As noted in the "Documents Issued Recently" section above, the IASB issued on 30 September 2005 Draft Technical Corrections 1 proposing amendments to IAS 21. Proposed amendments to IAS 21 are as follows:

- The last two sentences of paragraph 33 would be deleted and replaced with wording that clarifies that a monetary item denominated in a third currency (a currency that is the functional currency of neither the reporting entity nor the foreign operation) may form part of the reporting entity's net investment in a foreign operation, provided that the criteria in paragraph 15 of IAS 21 are met; and
- Paragraph 15 would be amended to clarify that the monetary item may be transacted between the foreign operation and any member of the consolidated group.

(vi) Performance Reporting

The Performance Reporting Project falls within both the IPSASB's second priority to converge IPSASs with IFRSs and third priority to converge IPSASs with statistical bases of reporting. The IASB and FASB are jointly working on the performance reporting project. Work on this project will be performed in 2 segments – Segment A will focus on convergence on the required financial statement requirements; and Segment B (a longer-term project) will focus on more fundamental reconsideration of presentation and display issues for all financial statements, including the recycling and disaggregation issues. There is no further update on this project as the IASB has not further discussed this project since the last IPSASB meeting.

(viii) Conceptual Framework

The IPSASB has a project to develop a conceptual framework (the current work program notes that work on this project will commence in 2006).

Currently, the IASB and FASB are working towards an objective of having a single (common) conceptual framework for use by both Boards. As previously reported, the Boards also agreed that the project should be divided into phases. (Staff anticipate that for each phase of this project, the IASB will issue a discussion paper requesting comments from constituents.) Initially, the focus will be on aspects of the framework dealing with objectives, qualitative characteristics, elements, recognition, and measurement. The project will also incorporate decisions made from other ongoing projects such as the revenue recognition project, measurement project (currently conducted by the Canadian Accounting Standards Board), and the liabilities and equity project (joint project with FASB).

Issues that the IASB has considered are:

- Qualitative characteristics of financial reporting – the IASB continued to refine a process chart describing the qualitative characteristics of financial reporting and how they interact;
- Project plan for reporting entity phase – the IASB approved the project plan. This phase will commence after a discussion paper on objectives and qualitative characteristics is substantially completed; and
- Prospective financial information – this issue will be considered within the later phase on presentation and disclosure. The IASB also agreed that that phase of the project will commence after the discussion paper on objectives and qualitative characteristics is substantially completed.

(Note: National standard-setters with representation for non-for-profit entities in private and/or public sector are also monitoring this project.)

(ix) Fair Value Measurement

In a number of IPSASs, entities are required to measure their assets or liabilities at fair value. At its September meeting, the IASB included the topic – *how entities should measure the fair value of assets and liabilities* in its agenda. This project would consider how fair value should be determined when an IFRS requires fair value measurement. The IASB will not consider when fair value measurement is required in IFRSs. Due to the lack of consistent, integrated guidance in IFRSs on fair value measurement, the IASB agreed to issue as soon as possible a standard on this matter. It is intended that this IFRS as close as possible the issue date of amended IFRS 3, “Business Combinations”. (As noted in the previous IASB Update in July 05, the IASB issued an ED amending IFRS 3 in June 05.) In view of the urgency of this issue, the IASB decided the following approaches:

- Use the ‘wrap-around’ method – Issue the FASB’s final statement on fair value measurements as an IASB ED. This ED will not change the wording of the FASB’s document, but will include a separate section in front of the ED that identifies the areas where the IASB disagrees with FASB’s document and asks constituents for their views; and
- After the comment period for the ED, the IASB will debate issues identified by constituents and make any necessary changes before issuing a final ED. This

discussion will also include the preparation of an Implementation Guidance in the final IFRS.

OTHER MATTERS

A IASB Technical Corrections Policy

On 28 July 2005, the IASB issued a technical corrections policy for comment by 30 September 2005. This technical corrections policy was issued to deal with certain practice problems that require changes to Standards. At present, the IASB has no means of making amendments to Standards, other than as part of a larger project subject to full due process, or by issuing small single issue exposure drafts.

A technical correction would address issues when it is clear that the words in a Standard are not properly conveying the IASB's intentions even when considered with the Basis for Conclusions and any related guidance. Technical corrections are not:

- consequential amendments arising from other projects,
- issues that the IFRIC could resolve by interpretation of existing standards, and
- editorial corrections.

Due to the nature of the technical correction, the IASB decided that an identified technical correction should be resolved as soon as possible. Therefore, if the IASB decided to amend a Standard, the proposed amendment would be published for comment on the IASB Website with notice in the IASB Update and a 30-day comment period would apply. Technical corrections would be titled as such eg Technical Correction 1 (TC1), Technical Correction 2 (TC2) etc, ensuring that they are distinguishable from amendments to Standards.

Appendix 1: IASB Update

The chart below shows the IASB's present expectations about the timing of projects on its active agenda, and lists the topics on its research agenda. This chart is extracted from IASB's *Insight* for April/May 2005. For projects on the IFRIC's agenda, see Appendix 2.

	2005			
	Qtr 2	**Qtr 3**	**Qtr 4**	**later**
THE ACTIVE AGENDA (see Note 1)				
Financial instruments:				
IAS 39 Fair value option	IFRS*			
IAS 39 and IFRS 4 Financial guarantee contracts and credit insurance		IFRS*		
ED 7 Disclosures	IFRS*			
IAS 32 Shares puttable at fair value			ED	
Joint projects with the FASB—				
A Business combinations and related issues:				
Phase II—Application of the purchase method	ED*			
Minority interests—amendment to IAS 27	ED*			
B Short-term convergence of IFRSs and US standards:				
IAS 12 *Income Taxes*			ED	
Amendment of IAS 20 (Government grants etc)				ED
Disclosures about segments (replacement of IAS 14)		ED		
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ED	ED*			
C Other joint projects:				
Reporting comprehensive income:				
• Segment A			ED	
• Segment B				DP
Revenue and related liabilities				DP
Conceptual framework				DP
Other IASB projects:				
Accounting standards for small and medium-sized entities (SMEs)				ED
Consolidation *possible joint project*:				
• Control ED				ED
• Special purpose entities				ED
Insurance contracts *phase II*				DP
Liabilities and equity				DP
Intangibles—amendment to IAS 38	ED			
THE RESEARCH AGENDA (see Note 2)				
Extractive activities				
Financial instruments, improvements to existing standards				
Hyperinflationary economies				
IAS 39 Interest margin hedging				
Intangible assets				
Investment entities				
Joint ventures				
Leases				
Management commentary		DP		
Measurement objectives	DP			

NOTES

1 Topics are placed on the active agenda after consultation with the Standards Advisory Council and a formal vote of the IASB in open meeting.

2 Topics that are candidates for the active agenda, but not yet under active deliberation by the IASB. They include topics being studied by other standard-setters or IASB working groups at the IASB's request. (Staff note: Discussion Papers are normally prepared by the IASB's national standard-setters, but will be reviewed and issued by the IASB for comment.)

Legend:
DP – Discussion Paper ED – Exposure Draft
IFRS – International Financial Reporting Standard (IFRSs include International Accounting Standards and Interpretations)
* - Issued

Appendix 2: IFRIC Update

IFRIC has a document on the website that identifies the items that have been considered but not added to its work program and reasons for rejecting them. The website address is: http://www.iasb.org/current/ifric_non_agenda.asp.

IFRICs Issued

1. IFRIC 1, "Changes in Existing Decommissioning, Restoration and Similar Liabilities"
2. IFRIC 2, "Members' Shares in Co-operative Entities and Similar Instruments"
3. *IFRIC 3, "Emission Rights" (withdrawn)*
4. IFRIC 4, "Determining whether an Arrangement contains a Lease"
5. IFRIC 5, "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
6. IFRIC, "Amendment to SIC-12 Consolidation – Special Purpose Entities"
7. IFRIC 6, "Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment"

Draft Interpretations Issued – comment period closed

1. D5, "Applying IAS 29 Financial Reporting in Hyperinflationary Economies for the First time" (issued on 11 March 2004, comment period closed on 14 May 2004)
2. D6, "Multi-employer Plans" (issued on 6 May 2004, comment period due on 9 July 2004) – *Staff note: IFRIC decided not to proceed with this issue in light of respondents comments which note that participants in multi-employer plans are able to obtain information necessary for defined benefit accounting.*
3. D9, "Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions" (issued 8 July 04, comment period closed 30 September 2004)
4. D11, "Changes in Contributions to Employee Share Purchase Plans (ESPP)" (issued on 16 December 2004, comment period closed on 1 March 2005)
5. D12, "Service Concession Arrangements – Determining the Accounting Model" (comment period closed on 31 May 2005)
6. D13, "Service Concession Arrangements – the Financial Asset Model" (comment period closed on 31 May 2005)
7. D14, "Service Concession Arrangements – the Intangible Asset Model" (comment period closed on 31 May 2005)
8. D15, "Reassessment of Embedded Derivatives" (comment period closed on 31 May 2005)
9. D16, "Scope of IFRS 2" (comments due 18 July 2005)
10. D17, "IFRS 2-Group and Treasury Share Transactions" (comments due 18 July 2005)

Other issues currently being considered by IFRIC

1. Sale and leasebacks with repurchase agreements – in respect to IAS 17, “Leases”
2. Proposed amendments to IAS 38, “Intangible Assets” on emission rights
3. Outstanding issues in respect to IAS 19, “Employee Benefits”: distinction between defined benefit and defined contribution arrangements, impact of a minimum funding requirement on asset ceiling

Appendix 3: Detailed updates on IASB's decisions on the exchange revenue project – Framework and IAS 18 "Revenue"

Recent decisions made by the IASB on its long-term revenue project are:

- Contracts should be disaggregated from the customer's perspective. Therefore, performance obligations should be identified as separate components when they provide 'utility to a customer'. Utility to a customer means that the good, service or other right underlying the performance obligation is, in and of itself, fit for some purpose or serviceable for some end;
- A future accounting standard based on this model should set out criteria, or indicators, for identifying the separate components that have utility to the customer. One indicator should be that the component is sold separately (or as an optional extra) by any seller or could be re-sold separately by the customer. Another indicator should be that the entity has an unconditional obligation to stand ready to provide goods, services, or other consideration if a specified event occurs. (Such stand-ready obligations would include warranties and financial guarantees.);
- Each of the performance obligations should be measured by allocating to it a share of the total consideration received or receivable from the customer under the contract. In general, the allocation should be made by reference to the 'customer-based value' of the obligation, ie the price at which the underlying good, service or other rights is, or is capable of being, sold on a stand-alone basis to a customer. Any residual (ie difference between the aggregate of the customer based values and the total contract consideration) should be allocated to the obligations on a pro-rata basis;
- the customer-based value for each component should be measured by reference to the most reliable available evidence. Evidence should be ranked according to the following hierarchy (from most reliable to least reliable): (i) current sales prices charged for that component by the entity itself in an active market; (ii) current sales prices charged by other entities (ie competitors) in an active market; (iii) current sale prices charged by the entity in an inactive market; (iv) estimates of sales prices using entity inputs that reflect the entity's own internal assumptions and data; and
- Although most performance obligations should be measured by reference to a customer-based value as described above, exceptions should be made for unconditional stand-ready obligations and recognized liabilities that other IFRSs require to be measured at fair value. These obligations should be measured at fair value and no residual should be allocated to them.