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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: **January 2009, London**

Project: **Annual Improvements 2009**

Subject: **Comment Analysis – Session overview Summary of preliminary comment analysis, deliberation objective and provisional project plan (Agenda Paper 6A)**

INTRODUCTION

1. The purpose of this agenda paper is to summarise the preliminary analysis of the comments received on the ED. The analysis highlights the proposed amendments that the staff believes the Board can deliberate now, so that the Board can issue final amendments within its intended timetable.
2. The staff ask the Board to consider the main points raised in the comment letters and as a result:
 - (a) affirm the redeliberation objectives;
 - (b) approve the initial staff assessment of proposed amendments; and
 - (c) approve the staff's project plan.

REDELIBERATION OBJECTIVES

3. The Board previously confirmed the general project plan of the annual improvements process. That project plan includes, among other things, a project timetable template. Some of the key dates are extracted as follows:
 - (a) ED published no later than *3 October each year*
 - (b) Comment period (90 days) ends *31 December each year*
 - (c) Present comment letter analysis to *February* Board meeting
 - (d) Ballot final standard and publish 1 April each year (*effective date of amendments to be for periods beginning 1 January of the following year*)
4. The actual timetable of this project reflects that the Board published the ED on 7 August 2008. The comment period ended 7 November 2008 and the Board received 60 comment letters, 18 letters being received subsequent to the comment letter deadline and the final comment letter received on 15 December. Consequently, comment letter analysis and the redeliberations will take place at both the January and February (and March if needed) meetings if the Board is to publish final amendments for publication in April 2009 and with an effective date as of 1 January 2010.
5. Because of the extent of comments summarised in Agenda Paper 6C and the Appendices to this agenda paper, and the number of proposed amendments to be finalised in a short period of time, the staff will ask the Board to approve the initial categorization of amendments (as set out in Agenda Paper 6C and the Appendices to this agenda paper) as the way forward for redeliberation at this and subsequent meetings.

OVERVIEW OF COMMENTS RECEIVED

6. Agenda paper 6B contains a full list of respondents to the invitation to comment and a breakdown of respondent categories by type and geography.

7. The following paragraphs summarise additional comments received that were general in nature.

Summary of general comments

8. Nearly all respondents support the Board's objective of providing a streamlined approach to dealing with miscellaneous necessary but non-urgent amendments that are improvements to IFRSs. Some respondents continue to question whether the proposed amendments and the process in its current form meet the objective as stated in the ED. The main themes of concerns raised from general comments continue to include:
 - (a) scope – editorial clarifications vs. new requirements
 - (b) due process and procedures – changes from wording in near-final drafts
 - (c) other issues.
9. These comments are similar to comments previously received and considered by the Board as part of the October 2007 ED.
10. **Are there additional issues that the Board identified in its review of the comment letters that it would like the staff to consider?**

Summary of preliminary comment analysis

11. The staff has sorted the proposed amendments into the following three categories on the basis of our preliminary analysis:
 - (a) **AGENDA PAPER 6C *Minor Issues*** – Amendments that received broad support and, subject to minor editorial changes in some cases, are ready for the Board to reaffirm without redeliberation,
 - (b) **APPENDIX 1** – Amendments that require more staff work but can be completed in time to meet the timetable for publication in April, and
 - (c) **APPENDIX 2** – Amendments that require more staff work but cannot be completed in time.

12. At this meeting, Agenda Paper 6C and its appendices outline in greater detail the minor issues raised by respondents for 7 of the proposed amendments (affecting 6 standards). That agenda paper and its appendices also include the staff's recommendation, and any necessary revised wording. The staff does not intend to discuss any of these proposed amendments at the Board meeting unless requested by Board members.
13. If the Board approves these proposed changes as minor issues, the staff will provide any necessary re-drafting of the proposed amendments and the respective Bases for Conclusions in the ballot draft.
14. At this meeting, the staff will present Agenda Paper 6D to discuss the main points raised by respondents, and the staff's analysis and recommendations, for the proposed amendment in **APPENDIX 1** (see attached).
15. The staff intends to complete the analysis required and make recommendations on the remaining proposed amendments in **APPENDIX 1** (see attached) at the Board's meeting in February, along with any follow-up from this meeting.
16. If the Board's redeliberations of comments received generate significant debate for a specific proposed amendment, the staff will move the proposal to **APPENDIX 2** (see attached). Subject to time constraints, the staff will also update the project plan as necessary.
17. **Does the Board agree with the initial classification of amendments in both Agenda Paper 6C and Appendices 1 and 2 to this agenda paper?**
18. **Does the Board agree with the staff's proposed responses for the minor issues (addressed within Agenda Paper 6C) and any proposed changes? If yes, the staff will provide any necessary re-drafting in the ballot draft.**

PROJECT PLAN

19. The project plan of the Board's redeliberations to achieve final publication by April 2009 is set out below. It identifies the Board meeting at which the staff

expects to present additional analysis according to the respective proposed amendment's preliminary category as assessed earlier. If considered necessary, the staff will request Board time for additional follow-up sessions, which may also affect the overall timetable.

Meeting date	Issue
19-23 January 2009	<p>Re-deliberation overview</p> <ul style="list-style-type: none"> ▪ Affirm project objectives ▪ Discuss comment letter analysis summary (general comments) ▪ Discuss/approve initial categorization of proposed amendments ▪ Approve project plan <p>Amendments with minor issues not requiring deliberation (Agenda Paper 6C)</p> <ul style="list-style-type: none"> ▪ 7 proposed amendments (covering 6 standards) to be finalized. These will not be discussed at the Board meeting unless a Board member requests. <p>Re-deliberation of individual issues</p> <ul style="list-style-type: none"> ▪ IAS 7 – Classification of expenditures on unrecognized assets
16-20 February 2009	<p>Follow up of issues from January meeting (if any)</p> <p>Specific issues and proposed amendments (from Appendix 1)</p> <ul style="list-style-type: none"> ▪ IAS 39 – Scope exemption for business combination contracts ▪ IAS 39 – Cash flow hedge accounting
16-20 March 2009	<p>Sweep issues</p> <ul style="list-style-type: none"> ▪ If any <p>Remaining issues and proposed amendments (from Appendix 2)</p> <ul style="list-style-type: none"> ▪ To be determined after publication of final amendments from the 2008 ED

20. The staff will ballot all items as timely as possible (balloting issues in groups, if possible, for ease of review) after redeliberation of each individual issue and agreement by the Board with the above project plan.

21. **Does the Board agree with the project plan?**

APPENDIX 1

Amendments that require more staff work but can be completed in time for inclusion within the April 2009 final publication

Proposed amendment	Standard affected	Comments
<p>Scope exemption for business combination contracts</p> <p>The proposal was to clarify that the scope exemption in paragraph 2(g) applies only to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date.</p>	<p>IAS 39</p>	<ul style="list-style-type: none"> • The amendment to paragraph 2(g) may result in an option arrangement, that is not currently exercisable, to purchase shares in an entity that holds a property (or group of properties) to be accounted for as a derivative. In contrast, the very same arrangement, except that the option is currently exercisable, would be excluded from the scope of IAS 39 based on paragraph 2 (a). Further, a contract to purchase a property directly (rather than through shares in an entity) would not be accounted for as a derivative as it would generally be a contract to purchase a non-financial item that cannot be net settled in cash in accordance with IAS 39, paragraph 5. Consequently, transactions that are economically identical would be accounted for differently and result in a situation where form over substance of an arrangement impacts the accounting treatment. • We do not believe that it is clear that such option contracts are excluded by paragraph 2(a). While we acknowledge that such option contracts are included in the consideration of whether an entity has control over another entity, we understand that these contracts should be recognised separately from the investment in subsidiary. Therefore, we do not understand why such contracts would be excluded by paragraph 2(a). We suggest that this conclusion be reconsidered and/or greater clarity be provided to support the conclusion (in BC3 or otherwise). • It appears the proposed amendment only deals with “forward contracts” and does not go into “in-substance forward contracts”. It seems important to us to address the accounting treatment of the “in-substance forward contracts” since there are

Proposed amendment	Standard affected	Comments
		<p>diversity in practice, especially when some of the “in-substance forward contracts” result in a business combination. For example, “2 (g) any forward contract, <u>or other instrument(s) that is (are) in substance similar to a forward contract...</u>”</p> <ul style="list-style-type: none"> • We wonder why such an exemption is not granted to contracts that result in an investment in an associate accounted for under IAS 28 Investments in Associates. IAS 28.20 states that “the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting the acquisition of an investment in an associate.” We consider it useful if the IASB would clarify why this scope exemption is not granted to investments in associates. • Given other various amendments to IAS 39 and the complex issues involved, we believe it may have been more appropriate to expose these amendments in an IAS 39 specific ED. • We would appreciate a requirement to disclose such agreements on future business combinations that are encompassed by the scope exemption and therefore excluded from accounting as we see that neither IFRS 3.59 (revised 2008) nor IAS 10.22 will require such disclosure if the acquisition date is after the financial statements have been authorised for issue (and not only after the end of the reporting period). • The scope exemption should be limited to forward contracts that transfer control within the normal time frame for a business combination, for example, in a time frame sufficient only to allow necessary regulatory and legal processes, such as required third party approvals, to be completed. • Clarification that the effective date is to be applied prospectively for new transactions entered into for annual periods beginning on or after 1 January 2010, which will “grandfather” an entity’s accounting for existing transactions that

Proposed amendment	Standard affected	Comments
		<p>would no longer be in accordance with the proposed new rule change similar to the way that fundamental changes to accounting for business combinations under IFRS 3 are only applicable to new transactions after the effective date.</p> <ul style="list-style-type: none"> • The wording in paragraph 2(g) describes the parties to such forward contracts as being the ‘acquirer and vendor’. Generally, such forward contracts are either between an acquirer and an acquiree or an acquirer and another shareholder. Using the term vendor appears to restrict the scope exception to only forward contracts between an acquirer and vendor.
<p>Cash flow hedge accounting The proposal was to clarify that the gains or losses on the hedging instrument should be reclassified from equity to profit or loss as a reclassification adjustment in the period that the hedged forecast cash flows affect profit or loss.</p>	<p>IAS 39</p>	<ul style="list-style-type: none"> • As IAS 39.97 and .100 after having been amended require the same accounting for gain and losses that had been recognised in other comprehensive income, we think two separate paragraphs are no longer necessary and IAS 39.97 and .100 could therefore be combined into one paragraph.

APPENDIX 2

Amendments that require more staff work and cannot be completed in time for inclusion within the April 2009 final publication

Proposed amendment	Standard affected	Comments
<p>Application of the fair value option</p> <p>The proposal was to clarify that the fair value option in paragraph 11A applies only to financial instruments within the scope of IAS 39 that contain embedded derivatives</p>	<p>IAS 39</p>	<ul style="list-style-type: none"> • The proposed amendment contradicts the requirement to fair value the entire hybrid contract if the embedded derivative cannot be reliably separated (39.12). • We note that the application of the fair value option to those contracts to buy or sell a non-financial item that falls within the scope of IAS 39 as defined in IAS 39.5, which are not financial instruments, is not addressed. • The fair value option in IAS 39.11A should apply both to financial and non-financial host contracts. We believe that the Boards rationale for permitting the fair value option for financial contracts with embedded derivatives applies equally well to non-financial contracts with embedded derivatives.
<p>Bifurcation of an embedded foreign currency derivative</p> <p>The proposal was to clarify that contracts denominated in foreign currencies that have one or more of the characteristics of a functional currency (as set out in IAS 21 <i>The Effect of Changes in Foreign Exchange Rates</i>) are likely to be integral to the contractual arrangement and</p>	<p>IAS 39</p>	<ul style="list-style-type: none"> • While we support the Board's intention to prohibit the separation of embedded foreign currency derivatives that are integral to the arrangement, we believe that the proposed amendment to paragraph AG33(d)(iii), as currently drafted, is technically flawed and too narrow in scope. • We are concerned that the amendment to AG33 introduces a new phrase "integral to the arrangement" - in discussing whether the 'closely related' test is met. If this phrase is considered helpful in explaining what 'closely related' means - and we think it is- it should be used more generally than the one specific example in AG33. • The limited scope amendment, intended to address the issue of determining

Proposed amendment	Standard affected	Comments
therefore closely related to the host contract and prohibited from being accounted for separately.		<p>whether a foreign currency embedded derivative was integral to the arrangement and thus closely related to the terms of the contract, was not clear and fails to resolve existing practical issues.</p> <ul style="list-style-type: none"> • We believe that the revised language proposed is more restrictive than that of the current standard and therefore does not reflect the underlying economics since this most likely will result in embedded derivatives being separated from the host contract even in cases where they have been entered into for reasons that are clearly not based on achieving a desired accounting result or for speculative purposes. • We note that para BC19 clearly explains the principle of the amendment and provided a more comprehensible text than AG33(d) (iii). Hence, we recommend that para AG33(d) (iii) be replaced with par BC19. • The proposed amendment would make IAS 39.AG33(d)(iii) overlap with AG33(d)(i) (functional currency of any substantial party to the contract). AG33(d)(i) sets a higher requirement and so will be rendered irrelevant. • The proposal would probably require the reporting entity to try and obtain knowledge of the counter-party's financial reporting environment in order to identify the characteristics of its functional currency listed in IAS 21.9. • The factors specified in paragraph 9 of IAS 21, which “mainly” influence sales prices, competitive forces, costs, etc., are intended to be applied in the context of analysing the functional currency of an entity as a whole, rather than in evaluating individual contracts. In our view, those factors are not sufficiently comprehensive to cover the examples of currencies, as listed in BC19, that are likely to be integral to a contractual arrangement. Accordingly, we believe that an approach based on paragraph 9 of IAS 21 would not be an effective solution and recommend that the

Proposed amendment	Standard affected	Comments
		<p>Board does not proceed with this proposal as drafted.</p> <ul style="list-style-type: none"> • We believe it is only appropriate to require separation of an embedded currency derivative that includes leverage, is not a forward, or is inconsistent with normal market practise that participants in the market would rationally undertake. • We suggest that the indicators identified in paragraph BC19 are preferable to relying on IAS 21 and their inclusion in the Application Guidance to IAS 39 would help clarify the requirements.