

August 2010

IFRS

Important discussions on Amortised cost, Impairment & Consolidation

The International Accounting Standards Board met in London on 19 - 23 July 2010. The US Financial Accounting Standards Board (FASB) joined the IASB for some sessions.

We present to you the topics on which the IASB arrived at a tentative decision:-

Conceptual framework – measurement

The IASB reached the following tentative decisions relating to the development of preliminary views for the measurement chapter of the Conceptual Framework:

- **Implications of the objective of financial reporting for measurement** - the financial statements are complements, and all of them provide information that is useful to users of financial reports. Consequently, the best way to satisfy the objective of financial reporting through measurement is to consider the effect of a particular measurement selection on all of the financial statements, instead of emphasising the statement of financial position over the statement of comprehensive income or vice versa.
- **General implications of the fundamental qualitative characteristics for measurement** - an explanation of how the fundamental qualitative characteristics of useful financial information - relevance and faithful representation - must be considered in selecting measurements should be developed within the measurement chapter. The Board discussed specific points supporting this tentative decision which will be developed further.
- **Specific implications of the fundamental qualitative characteristics for historical cost and fair value** - the objective of selecting a measurement for a particular item is to maximise the information about the reporting entity's prospects for future cash flows subject to the ability to faithfully represent it at a cost that is justified by the benefits.
- **What should the measurement chapter accomplish** - the measurement chapter should list and describe possible measurements, arrange or classify the measurements in a manner that facilitates standard-setting decisions, describe the advantages and disadvantages of each measurement in terms of the qualitative characteristics of useful financial information, and discuss at a conceptual level how the qualitative characteristics and cost constraint should be considered together in identifying an appropriate measurement. Without prescribing specific measurements for particular assets and liabilities, the measurement chapter should discuss how its concepts might be applied to individual

classes of assets and liabilities.

Consolidation

The IASB discussed the disclosure requirements for consolidated subsidiaries and unconsolidated structured entities. The Board tentatively decided that for subsidiaries with non-controlling interests that are individually material to a reporting entity, the reporting entity should disclose:

- the name;
- the country of incorporation or residence;
- the method of allocating the profits or losses to the non-controlling interest and, if it is different to the proportion of ownership interests, the proportion of voting rights held by the non-controlling interest; and
- summarised financial information.

The Board affirmed that a reporting entity should disclose information that helps users of financial statements to understand the nature of, and changes in, the risks associated with the reporting entity's involvement with structured entities. A reporting entity must provide this disclosure for both contractual and non-contractual involvements that expose the reporting entity to variability of returns of the structured entity.

In addition, the Board tentatively decided that that a reporting entity should be required to disclose for unconsolidated structured entities that the reporting entity has sponsored, but with which the reporting entity has no involvement at the reporting date:

- income in the reporting period from the structured entities that it has sponsored; and
- the carrying amount (at the time of transfer) of the assets transferred to those structured entities during the reporting period.

The reporting entity should present the information in a tabular format, unless another format is more appropriate, and separate the activity into relevant categories (such as by type of structured entity or asset that exposes the reporting entity to different risks). The reporting entity should also explain its policy as to how it determines whether it has sponsored a structured entity.

The Board's tentative decisions complete its deliberation of the responses to ED 10 *Consolidated Financial Statements*.

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