

IFRS Briefing Sheet

Exposure Draft of *Proposed Improvements to IFRSs*

August 2008, **Issue 102**

This IFRS Briefing Sheet summarises the International Accounting Standards Board's (IASB or Board) proposed amendments to International Financial Reporting Standards (IFRSs) contained in the Exposure Draft (ED) of *Proposed Improvements to IFRSs*, which was published on 7 August 2008.

Overview

The ED is the result of the IASB's second annual improvements project, in which the Board accumulates throughout the year what it believes are non-urgent but necessary improvements to IFRSs. The ED provides these proposed improvements on a collective basis. The final amendments related to these proposed improvements to IFRSs are expected to be published in April 2009.

Proposed Amendments

The following is a summary of the proposed amendments to IFRSs contained in the ED:

IFRS 2 *Share-based Payment*

- **Scope of IFRS 2 and revised IFRS 3 *Business Combinations (2008)***

The ED proposes to amend IFRS 2 to clarify that combinations of entities or businesses under common control and the

contribution of a business on the formation of a joint venture are both outside the scope of IFRS 2, notwithstanding that such transactions are outside the scope of revised IFRS 3 (2008).

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

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

The ED proposes to amend IFRS 5 to clarify that the disclosures required for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in IFRS 5, and that disclosures in other IFRSs are applicable only to the extent that they specifically refer to non-current assets (or disposal groups) held for sale.

IFRS 8 *Operating Segments*

- **Disclosure of information about segment assets**

The ED proposes to amend the Basis for Conclusions accompanying IFRS 8 in respect of the Board's rationale for requiring disclosure of segment assets. The amendment would clarify that there may be situations in which segment assets would not be disclosed (e.g., when segment assets are not provided to the chief operating decision maker).

KPMG's update on International Financial Reporting Standards (IFRSs)

IAS 7 Statement of Cash Flows

- **Classification of expenditures on unrecognised assets**

The ED proposes to amend IAS 7 to specify that only expenditures that result initially in the recognition of an asset can be classified as cash flows from investing activities.

IAS 18 Revenue

- **Determining whether an entity is acting as a principal or as an agent**

The ED proposes to amend the appendix accompanying IAS 18 to specify that an entity acts as a principal when it is exposed to the significant risks and rewards associated with the sale of goods or rendering of services. The ED also proposes to include in the appendix to IAS 18 indicators for consideration in assessing whether an entity is acting as a principal or an agent.

IAS 36 Impairment of Assets

- **Unit of accounting for goodwill impairment**

The ED proposes to amend IAS 36 to clarify that when allocating goodwill arising from a business combination to cash-generating units or a group of cash-generating units, the largest unit permitted for impairment testing would be the lowest level of operating segment as defined in IFRS 8, prior to any aggregation.

IAS 38 Intangible Assets

- **Additional consequential amendments arising from revised IFRS 3 (2008)**

As a consequence of revised IFRS 3 (2008), the ED proposes additional consequential amendments to IAS 38 to clarify that intangible assets acquired in a business combination should be recognised

separately. Complementary intangible assets with similar useful lives and intangible assets that are separable only with another intangible asset may however be recognised as a single asset.

- **Measuring the fair value of an intangible asset acquired in a business combination**

The ED proposes to include descriptions of valuation techniques that typically are applied to measure the fair value of intangible assets acquired in a business combination when no active market exists.

IAS 39 Financial Instruments: Recognition and Measurement

- **Scope exemption of business combination contracts**

The ED proposes to amend the scope exemption in paragraph 2(g) of IAS 39 to clarify that only forward contracts between an acquirer and a vendor in a business combination, that are entered into prior to the acquirer obtaining control, to buy or sell an acquiree at a future date based on a specified price would be outside of the scope of IAS 39.

- **Application of the fair value option**

The ED proposes to clarify that contracts containing embedded derivatives that are not within the scope of IAS 39 are not eligible for the fair value option under IAS 39.

- **Cash flow hedge accounting**

The ED proposes to clarify that gains or losses on hedging instruments in a cash flow hedge of a forecasted transaction would be reclassified to profit or loss from equity in the period (or periods) that the hedged cash flows affect profit or loss.

- **Bifurcation of an embedded foreign currency derivative**

The ED proposes to clarify that embedded foreign currency derivatives are likely to be integral to the contractual arrangement if the foreign currency in which the contract is denominated has one or more of the attributes of the functional currency as set out in IAS 21 *The Effects of Changes in Foreign Exchange Rates*; accordingly, such embedded derivatives would be considered closely related to the host contract with separation prohibited.

Effective Date

With the exception of the amendments arising from revised IFRS 3 (2008) (the amendment to IFRS 2 and the amendment to IAS 38 as a consequence of IFRS 3), the ED proposes an effective date of annual periods beginning on or after 1 January 2010; earlier application would be permitted. The proposed effective date for those amendments arising from revised IFRS 3 (2008) is annual periods beginning on or after 1 July 2009, and should be applied to an earlier period if an entity applies revised IFRS 3 to that earlier period.

Response to the IASB

The IASB has invited comments on the ED by 7 November 2008.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please speak with your usual local KPMG contact or call any of KPMG firms' offices.

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