

IFRS in Brief

March 2009, **Issue 55**

This issue of IFRS in Brief covers the February 2009 meeting of the International Accounting Standards Board (IASB or Board).

Highlights

- **Derecognition exposure draft expected in March or April 2009**
- **Fair value exposure draft expected early second quarter 2009**
- **IFRS for non-publicly accountable entities (formerly IFRS for SMEs) to be considered for re-exposure in March**
- **No changes expected to the proposals in the exposure draft on embedded derivatives after deliberations of comments received.**

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

AUDIT ■ TAX ■ ADVISORY

Summary

At its February 2009 meeting the IASB continued discussing the:

- Board's responses to the credit crisis
- annual improvements project
- insurance project
- issues relating to a proposed IFRS for non-publicly accountable entities (previously *IFRS for Small and Medium-sized Entities*)
- post-employment benefits project
- rate-regulated activities project.

In addition, the Board discussed the interim financial reporting project.

Board's Responses to the Credit Crisis

The Board discussed the following aspects of its response to the credit crisis:

- derecognition
- fair value measurement
- financial instruments: embedded derivatives.

Derecognition

At its previous meetings, the IASB discussed two approaches to the derecognition of financial assets. At its February 2009 meeting the Board tentatively decided that overall the term "transfers" would be broadly defined and would include all forms of exchange (e.g., sale, assignment).

With respect to approach two, the Board made the following tentative decisions:

- The reporting entity level would be the level at which an asset would be assessed for derecognition and / or continuing involvement.
- When determining whether an asset should be derecognised, the basis of the interest in the asset that remains would be used, e.g., a proportionate part of an equity instrument (which is contrary to a previous Board decision that a proportionate part of an equity instrument would not qualify for derecognition).
- If the transferor has an agreement resulting in continuing involvement with a transferred asset, then the "practical ability to transfer" test would be applied to the counterparty of such an agreement.
- A transferor would treat both remaining proportionate interests in a financial asset and an investment in a transferee vehicle (e.g., a proportionate beneficial

interest) acquired in connection with a transfer as part of the asset previously recognised. When an investment in a transferee vehicle contains investments in assets and liabilities, other than the assets transferred, the investment would be split between:

- a proportionate interest in the previously recognised assets; and
- a proportionate interest in the new assets or liabilities.

Such treatment of an investment in a transferred vehicle is contrary to a previous tentative decision.

Exposure Draft (ED) on Derecognition

The Board tentatively decided to provide in the ED both approaches to derecognition that have been discussed; however, approach one would be provided only as an alternative view. With respect to approach two, the Board tentatively decided to propose disclosures that would provide adequate information about:

- the nature of, and risks associated with, an entity's continuing involvement with derecognised assets
- the relationship between assets and associated liabilities when an asset is not derecognised after a transaction.

With respect to transitional requirements, the Board tentatively decided that the derecognition standard would be applied prospectively, without restatement of comparative figures but with earlier application permitted.

Fair Value Measurement

The Board discussed:

- fair value of liabilities
- day one gains or losses
- financial liabilities with a demand feature.

Fair Value of Liabilities

The Board tentatively decided that the fair value of a liability would always equal the fair value of the counterparty's asset.

Day One Gains or Losses

The Board reaffirmed its tentative decision that generally the transaction price is the best evidence of fair value at initial recognition. In accordance with the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*, a day one gain or loss would be recognised if the transaction price is not representative of a financial instrument's fair value at initial recognition. Any deferred gain or loss would not be part of the fair value and would be recognised as a separate item. Such treatment of day one gains and losses is contrary to a previous tentative decision.

Financial Liabilities with a Demand Feature

The Board tentatively decided that the ED on fair value measurement would not address the measurement of a financial liability with a demand feature.

Financial Instruments: Embedded Derivatives

In December 2008 the Board published an ED *Embedded Derivatives – Proposed amendments to IAS 39 and IFRIC 9*.

At this meeting the Board discussed the responses to the ED and tentatively decided to retain the proposals included the ED. The Board also tentatively decided to require application of the final amendments for annual periods ending on or after 30 June 2009.

Annual Improvements Project Annual Improvements 2008

The Board reconsidered a number of issues from the ED of proposed improvements to IFRSs, published in August 2008.

With respect to disclosure of information about segment assets, the Board tentatively decided to clarify, with an amendment to IFRS 8 *Operating Segments*, that such information should be disclosed for each reportable segment if it is regularly provided to the chief operating decision maker.

With respect to cash flow hedge accounting, the Board tentatively decided to clarify, with an amendment to IAS 39, that gains and losses on hedging instruments should be reclassified from equity to profit or loss as a reclassification adjustment at the same time that the hedged forecast cash flows affect profit or loss.

With respect to the classification of land leases, the Board tentatively decided that, for transition requirements when adopting this amendment, an entity would need to:

- reassess whether unexpired land leases are operating or finance leases on the basis of conditions that existed at the inception of the leases
- recognise land leases that, as a result of the amendment, would be finance leases, using fair values that existed at the inception of the leases.

If such information is not available, then the requirements would be applied prospectively based on conditions and fair values at the adoption date.

Annual Improvements 2009

The Board tentatively decided to propose an amendment to paragraph 106 of IAS 1 *Presentation of Financial Statements* to clarify that the reconciliation of each item of accumulated other comprehensive income may be either presented in the statement of changes in equity or disclosed in the notes.

Insurance Project

The Board tentatively decided that insurance contract liabilities should be measured considering the time value of money (i.e., discounted) and margins. In addition, the measurement approach should use:

- estimates of financial market variables that are in line with observable market prices
- explicit current estimates of the expected cash flows.

The Board tentatively decided that the margin should be measured at inception by reference to any premium, with no day one gains recognised in profit or loss.

The Board asked the staff to consider other measurement approaches, including revenue recognition, financial instruments and non-financial liabilities measurement approaches, and present such analyses at a future meeting. In addition, the Board plans to discuss at a future meeting certain insurance contract liabilities that might not need to take into consideration the time value of money or margins.

IFRS for Non-publicly Accountable Entities (NPAEs)

The Board tentatively decided that, with respect to the IFRS for NPAEs project, NPAEs should use the defined benefit pension accounting requirements of IAS 19 *Employee Benefits*, if the necessary information is available already or can be obtained without undue cost. If such information is unavailable or cannot be obtained

without undue cost, then a simplified approach would be applied, ignoring future salary increases, future service and possible mortality prior to the retirement date.

The Board also tentatively decided that comprehensive valuations would normally be needed only once every three years; however, specific roll-forward requirements for interim periods would need to be followed.

The Board plans to assess in March 2009 whether there is a need to re-expose the ED.

Post-employment Benefits Project

The Board discussed how to segregate changes in the defined benefit obligation (DBO) included in profit or loss, and tentatively decided that there should be a remeasurement component that would:

- exclude service and interest cost
- include the total return on plan assets and actuarial gains and losses on the DBO.

The Board plans to further consider how entities should present these items in profit or loss.

Rate-regulated Activities

With respect to the scope of the rate-regulated activities project, the Board tentatively decided to include situations in which:

- an authorised body is empowered to establish rates for customers

- the rate regulation has the form of a cost-of-service regulation, which means that such rates intend to recover an entity's costs of providing the rate-regulated goods and services, resulting in a specified return.

Interim Financial Reporting Project

With respect to the interim financial reporting project, the Board discussed whether IAS 34 *Interim Financial Reporting* should be amended to require additional disclosures given current market conditions. The Board tentatively decided that, while the disclosure principles in IAS 34 are sufficient, it will consider whether any further guidance to illustrate the application of such principles is needed.

IASB Observer Notes

KPMG International Financial Reporting Group has arranged to make available to KPMG member firms' clients and contacts copies of the *IASB Observer*, a publication of European Research Associates Limited. The *IASB Observer* provides timely, detailed reporting of IASB meetings. Please speak to your usual local KPMG contact to receive this publication.

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

KPMG International Financial Reporting Group is part of KPMG IFRG Limited.

KPMG International is a Swiss cooperative. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2009 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Publication name: *IFRS in Brief*

Publication number: Issue 55

Publication date: March 2009