

# IFRS in Brief

June 2008, **Issue 47**

This issue of IFRS in Brief covers the May 2008 meeting of the International Accounting Standards Board (IASB).

*Liabilities and Contingent Assets and IAS 19 Employee Benefits.*

In addition, at its May 2008 meeting the IASB:

- announced a plan to create a valuation expert advisory panel
- discussed recent International Financial Reporting Interpretations Committee (IFRIC) activities
- commenced its discussions of the emissions trading schemes project added to its agenda in December 2007.

## Summary

At its May 2008 meeting the IASB continued discussing the:

- annual improvements project
- Exposure draft (ED) of an *IFRS for Small and Medium-sized Entities*
- proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* presented by staff of the Canadian Accounting Standards Board (AcSB)
- earnings per share project
- ED of *Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting*
- revenue recognition project
- ED of *Proposed Amendments to IAS 37 Provisions, Contingent*

## Annual Improvements Process

The Board discussed comments received from constituents on the scope and process for future annual improvements. The Board agreed that the reference to minor amendments would be removed from the overall project scope and that future *Improvements to IFRSs* would continue to be published in a single ED, unless special circumstances require a different approach.

In addition, as part of its second annual improvements ED, expected to be published in October 2008, the Board considered two proposed improvements to amend:

- IAS 38 *Intangible Assets* to include descriptions of valuation techniques that are typically applied to measure the fair value of intangible assets

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acquired in a business combination in situations when no active market exists for the intangible asset; this amendment would be applied prospectively

- IAS 38, as a result of revised IFRS 3 *Business Combinations* (2008), to clarify that appropriate fair value information is expected to be available for any identifiable intangible assets acquired in a business combination; this amendment would be effective 1 July 2009.

### Small and Medium-sized Entities

The Board continued its discussions of the proposals contained in the ED of an *IFRS for Small and Medium-sized Entities* (IFRS for SMEs), and specifically discussed issues identified in comment letters and from the results of field tests.

### Issues Raised by Constituents

The Board concluded on the following:

- The name of the standard would be changed from *IFRS for Small and Medium-sized Entities* to *IFRS for Private Entities*.
- The standard would not cross-reference to full IFRSs and should be a separate, stand-alone publication.
- In respect of accounting policy options contained in full IFRSs, the IFRS for SMEs would contain the less complex option in the body of the standard, while the more complex option would be made available and included in an appendix.
- The standard would not address segment information, earnings per share and interim reporting.
- The standard would exclude from its scope small listed entities.
- Entities holding funds in a fiduciary capacity, which represents their primary business, would be excluded from the scope of the standard as they are considered publicly accountable.

- For instances in which restatement is required, the “impracticability” exemption would remain and an “undue cost or effort” principle would not be included in the standard.
- For instances in which a fair value remeasurement is required, any guidance simply requiring “fair value” would be avoided, and would be replaced with a clear description of the required measurement basis.
- An assessment of the implementation issues encountered in practice should be completed when two years of financial statement information prepared under the standard is available for review.

### Issues Discussed Specifically on ED Sections 1-3

The Board discussed issues related to the ED Sections 1 – *Scope*, 2 – *Concepts and Pervasive Principles* and 3 – *Financial Statement Presentation* and concluded on the following:

- A subsidiary of an IFRS entity which applies recognition and measurement principles under full IFRSs also should comply with the disclosure requirements in full IFRSs.
- At a future meeting the Board will determine whether to include proposed changes to the objective and qualitative characteristics section of the ED based on the recently published ED of *An improved Conceptual Framework for Financial Reporting*.
- The principles in the ED Section 2 – *Concepts and Pervasive Principles* would not significantly differ from full IFRSs.
- The standard would incorporate the requirements included in revised IAS 1 *Presentation of Financial Statements* (2007) and would not further specify, more than already included in the ED, items such as required formats, subtotals, note disclosures etc.

### Proposed Amendments to IFRS 1

The Board continued to discuss proposed amendments to IFRS 1, presented by staff of the Canadian AcSB, aimed at addressing issues that may be encountered by companies adopting IFRSs in the near future. The Board tentatively decided to add the following principles to IFRS 1:

- If a first-time adopter determined the accounting for a transaction based on facts and circumstances under previous GAAP, and that assessment was identical to the assessment required by IFRS 1 at the date of transition to IFRSs, then a first-time adopter would not need to carry out the assessment required by IFRS 1, and would be permitted to continue with the assessment made under previous GAAP.
- The carrying amount under previous GAAP would be used if fair value was not previously available in situations in which IFRS 1 requires the determination of fair value prior to the date of transition.

In addition, the Board tentatively decided on the following proposed amendments to IFRS 1:

- An election would be added that would permit entities in the oil and gas industry who use full cost accounting to measure, on transition to IFRSs, exploration, evaluation, development and production assets using an allocation of the amount recognised under previous GAAP. However, an impairment test on the date of transition and certain disclosures would be required.
- An exemption would be added which would allow a rate-regulated entity to use the carrying amount of property, plant and equipment under previous GAAP as their deemed cost under IFRSs, on the date of transition, if it is impracticable to

identify amounts capitalised under previous GAAP that would not be capitalised under IFRSs.

An ED of the proposed amendments will be prepared by the Canadian AcSB.

### Earnings per Share

The Board tentatively concluded that the following would be addressed in the draft ED of proposed amendments to IAS 33 *Earnings per Share*:

- the recent puttable instruments equity versus liability classification amendments to IAS 32 *Financial Instruments: Presentation*
- the application of the treasury stock method to a forward contract to sell an entity's own shares
- the treatment of the tax benefit that results from share-based payment awards as part of the assumed proceeds of a diluted earnings per share calculation
- the treatment of gross physically settled forward contracts to buy an entity's own shares and mandatorily redeemable ordinary shares as repurchased
- the application of the "two-class method" when dividends on ordinary shares subject to a forward purchase contract are not remitted back to the entity.

The Board also tentatively concluded that early application of the final standard would be prohibited.

### Financial Instruments – Portions

The Board confirmed that the scope of the amendments to IAS 39 *Exposures Qualifying for Hedge Accounting* would be limited to:

- designating a purchased option in its entirety as a hedging instrument of an item containing no optionality in a manner that would result in zero ineffectiveness
- hedging inflation risk in certain situations.

The Board also tentatively decided that the amendments should be applied retrospectively and would be effective 1 January 2009.

### Revenue Recognition

The Board continued its discussions on its forthcoming discussion paper on revenue recognition.

The Board reviewed issues related to measuring a contract with a customer; specifically how to measure, at contract inception, the performance obligations and if the measurements should be updated after contract inception for changes other than performance. The Board discussed two possible approaches, being the *customer consideration approach* and the *current exit price approach*, and tentatively decided that the discussion paper would favour the *customer consideration approach*. In this approach, performance would be measured initially by an allocation of the contract price to individual obligations, and subsequently remeasured only if deemed onerous.

### Provisions

The Board continued to review comments on the ED of *Proposed Amendments to IAS 37 and IAS 19*. The Board made the following tentative decisions:

- "Short period" in the definition of voluntary termination benefits is the time between the offer for voluntary termination of employment and actual termination.
- Because of the "short period", voluntary termination benefits do not relate to future services.
- A liability should be recognised if an offer of voluntary termination benefits cannot be withdrawn by the entity.
- Employees must be aware of their termination before an obligation exists for involuntary termination benefits.

### Valuation Expert Advisory Panel

The Financial Stability Forum (FSF) recently issued a report on *Enhancing Market and Institutional Resilience* in which they recommended the IASB enhance its guidance on valuing financial instruments in markets that are no longer active. As a result, the IASB announced plans to form a valuation expert advisory panel to address the FSF's recommendation.

### IFRIC Update

The Board received an update on the May 2008 IFRIC meeting.

At its May 2008 meeting, the IFRIC completed its redeliberations of the draft interpretations D21 *Real Estate Sales* and D22 *Hedges of a Net Investment in a Foreign Operation*. The final interpretations are expected to be presented to the Board for approval in June 2008.

In addition, the IFRIC made two final agenda decisions in respect of IAS 37 – *Deposits on returnable containers* and IAS 19 – *Settlements*. The IFRIC decided not to add these two items to its agenda.

The IFRIC also made a tentative decision not to add the issue of *Application of the effective interest rate method* to its agenda.

At its May 2008 meeting, the IFRIC also approved its plan to address the comments received on the ED of IFRS 2 *Share-based Payment - Group cash-settled share-based payment transactions*.

### Emissions Trading Schemes

The Board tentatively decided that the emissions trading schemes project would be broad in scope and cover the accounting for all tradeable emissions rights and obligations under various emissions trading schemes.

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Publication name: *IFRS in Brief*

Publication number: Issue 47

Publication date: June 2008