

IFRS in Brief

August 2008, **Issue 49**

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

Summary

At its July 2008 meeting the IASB continued discussing the:

- proposed amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- consolidation project
- fair value measurement project
- financial statement presentation project
- exposure draft (ED) of an *IFRS for Private Entities* (previously *IFRS for Small and Medium-sized Entities*)
- income taxes project
- leases project
- management commentary project
- revenue recognition project
- financial instruments with characteristics of equity project
- findings from the valuation expert advisory panel.

In addition, at its July 2008 meeting the IASB discussed:

- agenda proposals
- recent International Financial Reporting Interpretations Committee (IFRIC) activities.

Proposed Amendments to IFRS 5

With respect to proposed amendments to IFRS 5, the Board tentatively decided that “businesses” as defined in IFRS 3 *Business Combinations* would, if on acquisition they are considered held for sale within IFRS 5, be:

- included in the definition of discontinued operations
- exempt from various IFRS 5 disclosures requirements.

In addition, the Board tentatively decided that reconciliations should be provided to show the differences in the amounts disclosed in the notes to the financial statements and the:

- post-tax profit or loss in the statement of comprehensive income for major income and expense items
- statement of financial position for classes of assets (liabilities) held for sale.

Consolidation Project

The Board reviewed a staff working draft of tentative decisions made to date on the consolidations project; the staff working draft showed how such decisions may be reflected in a future ED to replace IAS 27 *Consolidated Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*.

No decisions were made by the Board; however, after the Board discussions

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from this meeting are reflected in the staff working draft, it will be posted to the IASB Web site. The staff working draft is planned to be used as a basis for the upcoming September 2008 consolidation project round-table discussions.

Fair Value Measurement Project

Based on the Board's standard-by-standard review of fair value measurements currently required or permitted for use in IFRSs, the Board tentatively decided that fair value should be defined as "a current exit price".

At a future meeting the Board plans to further discuss the definition of fair value and also discuss the extent of existing uses of fair value, possible instances in which an exit price may not be appropriate and liabilities.

Financial Statement Presentation Project

In regards to the draft discussion paper (DP) on financial statement presentation, the Board confirmed that the DP would not propose changes to the current treatment of items included in other comprehensive income (OCI) or recycling adjustments / reclassifications from OCI to profit or loss.

Small and Medium-sized Entities

The Board continued its redeliberations of the proposals contained in the ED of an *IFRS for Small and Medium-sized Entities* (to be changed to *IFRS for Private Entities*), and specifically discussed issues related to the ED Sections 13-27.

Investments in Associates

The Board reaffirmed the ED proposals that an accounting policy choice would be available to account for investments in associates:

- at cost;
- using the equity method; or
- at fair value through profit or loss.

The Board tentatively decided that investments in associates could not

be accounted for at cost when the investment has a published quoted price.

In addition, the Board tentatively decided that the most currently available information should be used when the investor and associate (or jointly controlled entity) have different reporting dates, thereby removing the ED proposal that such dates cannot differ by more than three months.

Jointly Controlled Entities (JCEs)

The Board reaffirmed the ED proposals that an accounting policy choice would be available to account for interests in JCEs:

- at cost;
- using the equity method;
- using proportionate consolidation; or
- at fair value through profit or loss.

The Board tentatively decided that interests in JCEs could not be accounted for at cost when the investment has a published quoted price.

In addition, the Board tentatively decided that if ED 9 *Joint Arrangements* is issued prior to the issuance of the final standard *IFRS for Private Entities*, then the Board will consider the extent to which it will incorporate ED 9 into the *IFRS for Private Entities*.

Investment Property

The Board reaffirmed the ED proposals that:

- an entity would be able to elect the cost model or fair value through profit or loss model to account for investment property
- property held under operating leases would be permitted to be classified as investment property in certain circumstances
- an entity should separate mixed-use property between investment property and property, plant and equipment unless the cost model is used for both.

Property, Plant and Equipment (PPE)

The Board reaffirmed the ED proposals that an entity would be able to elect the cost model or the revaluation model for PPE, and that component accounting should be applied.

In addition, the Board tentatively decided that the reassessment of residual value, useful life and depreciation method would only be required on a triggering event basis.

Intangible Assets other than Goodwill

The Board reaffirmed the ED proposals that:

- the assessment of the useful lives of intangible assets as finite / indefinite would be required
- an indefinite-lived intangible asset would not be amortised
- an entity would be able to elect the cost model or the revaluation model for measuring intangible assets
- with regard to development costs, an entity could elect the expense or capitalisation model.

In addition, the Board tentatively decided that the reassessment of residual value, useful life and amortisation method would only be required on a triggering event basis.

Business Combinations

The Board reaffirmed the ED proposals to:

- prohibit the amortisation of goodwill
- require the separate recognition of intangible assets and contingent liabilities acquired in a business combination if fair value can be measured reliably
- prohibit the pooling of interests method.

The Board tentatively decided to add further guidance on business combinations determined provisionally.

Leases

The Board reaffirmed the ED proposals requiring the classification of leases as being either operating or finance.

Provisions and Contingencies

The Board reaffirmed the principles on provisions and contingencies contained in the ED; however, the Board tentatively decided that additional examples for implementation guidance would be added.

Equity

The Board reaffirmed the ED proposal that a compound financial instrument should be classified separately by the issuer according to its separate components (asset / liability / equity); however, the Board tentatively decided that additional examples for implementation guidance would be added.

Revenue

The Board tentatively reaffirmed the ED proposals supporting the percentage of completion method for recognising services and construction contract revenues; however, the Board tentatively decided that additional implementation guidance would be provided.

Government Grants

The Board tentatively decided that for government grants not related to assets measured at fair value through profit or loss, the option to apply IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* would be removed; therefore all government grants would be accounted for using the model for government grants outlined in the ED.

Borrowing Costs

The Board reaffirmed the ED proposals to allow either the expense or the capitalisation model for borrowing costs.

Impairment of Non-financial Assets

The Board reaffirmed the ED proposals that an impairment test would be required only on a triggering event basis.

In addition, the Board tentatively decided that the calculation of an impairment loss would be similar to the approach used in IAS 36 *Impairment of Assets*.

Post-employment Benefits

The Board reaffirmed the ED proposals that all actuarial gains and losses and past service costs would be recognised in profit or loss immediately.

The Board also discussed if, and when, measuring the defined benefit obligation at current liquidation amount would be possible; however, no decisions were made by the Board on this item.

Income Taxes Project

The Board discussed the pre-ballot draft of the ED of amendments to IAS 12 *Income Taxes* and tentatively decided that:

- the form of the ED would be a draft IFRS (i.e., not an amendment)
- there would be no tax basis for equity instruments issued by an entity; rather any tax consequences of the equity instruments would be viewed as an item with a tax basis but a nil asset / liability carrying amount
- changes in deferred tax assets and liabilities when foreign subsidiaries no longer remain subsidiaries, or when foreign investments become subsidiaries, would be treated consistent with disposals and step-acquisitions in accordance with revised IFRS 3 *Business Combinations* (2008)
- tax rates would be considered substantively enacted when it is unlikely that the remaining steps of the enactment process, based on historical experience, would not affect the outcome
- the focus of disclosures should be on changes in recognised amounts
- changes arising from uncertain tax positions would be recognised in continuing operations
- for first-time adopters IFRS 1 *First-time Adoption of International Financial Reporting Standards* requirements would apply, thus removing the proposed transitional requirements.

The Board also reconfirmed several tentative decisions made at previous meetings.

Leases Project

The Board continued discussing the leases project and issues to be addressed in the forthcoming DP. The Board decided that the leases project would focus on accounting for leases by the *lessee* and would not address accounting by the lessor. The Board also decided that the existing finance lease model would be the basis for accounting for all leases by a lessee.

In addition, the Board tentatively decided that:

- options to extend a lease, or terminate a lease early would not be recognised as separate assets; rather the assets and liabilities recognised would be based on the lease term
- contractual, non-contractual and business factors should be assessed in considering the lease term; however, no decisions were made overall on how to determine the lease term
- a new probability-weighted best estimate model would be considered for contingent lease payments
- the present value of lease payments would be used to measure the lessee's right of use asset and obligation on initial recognition
- a lessee's incremental borrowing rate would be used for discounting the present value of lease payments
- the right of use asset would be amortised over the shorter of the lease term and the economic life of the leased asset
- lease payments would be split between an interest component and the reduction of the obligation
- there would no longer be separate classification of leases as finance or operating.

Management Commentary Project

The Board discussed the management commentary project and tentatively decided that:

- this project would be based upon the work currently being completed on the ED of *An improved Conceptual Framework for Financial Reporting: Chapter 1 The Objective of Financial Reporting and Chapter 2 Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*
- the following specific items would be included in management commentary:
 - how management is evaluated
 - how taxes are minimised and the interaction with uncertain tax positions
 - key resources and financing obligations
- management commentary presentation requirements should be linked to IFRS 8 *Operating Segments*.

Revenue Recognition Project

The Board continued its discussions on its forthcoming DP on revenue recognition.

The Board previously expressed a preliminary view favouring 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.

At this meeting, the Board tentatively decided that the allocation of the contract price to individual obligations would be done *pro rata* to the observed or estimated stand-alone selling price for each promised good or service. However, if an appropriate fair value measure is available, then the promised good or service would be measured at that amount.

Financial Instruments with Characteristics of Equity Project

The Board was presented with an approach for distinguishing between

liabilities and equity, which was developed by task forces from the Proactive Accounting Activities in Europe initiative of the European Financial Reporting Advisory Group and the German Accounting Standards Board.

No decisions were made by the Board on this item.

Valuation Expert Advisory Panel

The Board reviewed the findings from the July meetings of the valuation expert advisory panel (the advisory panel). The advisory panel discussed a variety of measurement issues, including:

- users having to develop new methods for valuing certain instruments
- the use of transaction prices when limited transactions are occurring in the market
- understanding how prices from external sources are derived
- selecting and adjusting valuation model inputs
- the consequences of a forced transaction
- the impact of non-performance risk.

The advisory panel plans to first address valuation practice issues and then the related disclosure issues.

Agenda Proposals

The Board added two projects to its active agenda being the:

- financial instruments with characteristics of equity project
- derecognition of financial instruments project.

IFRIC Update

The IFRIC started its redeliberations on D23 *Distributions of Non-cash Assets to Owners*. The IFRIC plans to continue

with the existing scope of the project and clarified that:

- distribution of shares of a group entity to shareholders outside the group are within the scope of D23
- dividends payable would be measured by reference to the fair value of the asset distributed.

The IFRIC also started redeliberations on D24 *Customer Contributions* and noted that the proposals in D24 for recognition and measurement of a contributed asset would be retained.

In addition, the IFRIC made a final decision not to add the issue of the *application of the effective interest rate method* to its agenda, and tentatively decided not to add the following issues to its agenda:

- IAS 17 *Leases – Time pattern of the user's benefit*
- IAS 18 *Revenue – Accounting for trailing commissions*
- IAS 32 *Financial Instruments: Presentation – Transaction costs to be deducted from equity*.

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