

# IFRS in Brief

August 2006, **Issue 27**

This issue of *IFRS in Brief* covers the July 2006 meeting of the International Accounting Standards Board (IASB), and the IASB's press release published on 24 July 2006 announcing steps taken to assist in the adoption of IFRSs and to reinforce consultation.

- discussed comments received in response to the ED of *Proposed Amendments to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations*
- continued exploring a revenue recognition model whereby revenue would be recognised if the customer is obligated to accept performance to date
- discussed comments received in response to ED 8 *Operating Segments*
- discussed the short-term convergence project on accounting for joint ventures
- discussed the overall format for the presentation of the primary financial statements.

## IASB Meeting

At its July 2006 meeting the Board:

- continued re-deliberating proposals in the Exposure Draft (ED) of *Proposed Amendments to IFRS 3 Business Combinations*
- continued discussing phase II of the insurance project
- continued discussing a draft ED of *IFRS for Small and Medium-sized Entities* (SMEs)
- continued re-deliberating proposals in the ED of *Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*

## Business Combinations

The Board continued re-deliberating proposals in the ED of *Proposed Amendments to IFRS 3*. The Board:

- reaffirmed the general principles proposed in the ED for identifying separate transactions in a business combination, and tentatively decided that the final standard should include further guidance on this issue
- reaffirmed the proposal in the ED that liabilities for restructuring costs should be recognised as part of the purchase accounting only if they meet the recognition criteria of IAS 37

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- reaffirmed the proposal in the ED that the fair value of equity instruments issued as consideration in a business combination should be measured at the acquisition date.

### Insurance

The Board continued discussing phase II of the insurance project. The Board:

- discussed its plan for publishing a discussion paper at the end of 2006
- discussed whether insurance premiums should be recognised as revenue, deposits or a combination of both, and tentatively decided that the discussion paper should discuss alternatives but should not include a preliminary view
- tentatively decided that the portion of the premium reimbursing the insurer for contract acquisition costs should be presented as revenue
- discussed the presentation and measurement of assets and liabilities related to contracts in which insurance benefits are dependent upon a designated pool of assets managed similarly to a mutual fund, and tentatively decided that the discussion paper should discuss alternatives but should not include a preliminary view.

### IFRS for SMEs

The Board continued discussing a draft *IFRS for SMEs*, particularly accounting for financial instruments and income taxes. The Board:

- discussed a "timing differences" approach to accounting for income taxes, which would not require preparation of a tax balance sheet and would result in the recognition of deferred tax on all timing differences between income and expenses recognised for tax purposes and income and expenses recognised for accounting purposes

- tentatively decided that all financial instruments would be measured at fair value through profit or loss except for certain items measured at cost or amortised cost, including receivables, payables and similar debt instruments, forwards and options on such instruments, and equity instruments whose fair value cannot be measured reliably
- tentatively decided that financial assets would be derecognised when one of the following criteria is met:
  - contractual rights to the asset's cash flows expire or are settled
  - all significant risks and rewards of the asset are transferred to another party
  - physical control of the asset is transferred to another party such that the transferee is able to sell the asset
- discussed a simplified hedge accounting model whereby a hedge would be assumed to be effective if a set of strict criteria were met
- tentatively decided that an SME would have a choice of applying IAS 39 *Financial Instruments: Recognition and Measurement* in full.

### Provisions

The Board continued re-deliberating proposals in the ED of *Proposed Amendments to IAS 37 and IAS 19*.

The Board:

- reaffirmed the proposal in the ED to eliminate the term "contingent liability" on the basis that only present (not possible) obligations should be recognised as liabilities and that the current definition of "contingent liability" encompasses notions of possible as well as unrecognised present obligations
- discussed the implications of eliminating the term "contingent liability" on disclosure requirements, and tentatively

decided to explore requiring specific disclosures about items that are not recognised as liabilities at the reporting date

- discussed a concern raised by some constituents that recognition of a liability arising from litigation may impact the outcome of the legal proceedings, and tentatively decided that the standard should not contain exemptions beyond the disclosure exemption allowed currently.

### Amendments to IFRS 2

The Board discussed comments received in response to the ED of *Proposed Amendments to IFRS 2 – Vesting Conditions and Cancellations*. The Board:

- reaffirmed the proposal in the ED to restrict vesting conditions to performance or service conditions, and decided that the definition of vesting conditions should be clarified
- reaffirmed the proposal in the ED that cancellations by parties other than the entity be accounted for in the same way as cancellations by the entity.

### Revenue Recognition

The Board continued exploring a revenue recognition model whereby revenue would be recognised if the customer is obligated to accept performance to date. The Board tentatively decided that revenue would be recognised in proportion to work performed to date if the legal remedy in the event of contract breach by the customer is specific performance (i.e., performance by both parties as stipulated in the contract), reimbursement of costs incurred plus a profit margin, or reimbursement of the difference between the contract price and the sale price to another customer. The Board tentatively decided that when a contract stipulates specific

milestones at which the customer is obligated to pay a specified portion of the total contract price, revenue would be recognised only at those specified milestones.

### Segment Reporting

The Board discussed comments received in response to ED 8 *Operating Segments*. The Board:

- reaffirmed the proposal in the ED to adopt the management approach to identifying and measuring operating segments
- tentatively decided not to extend the scope of the standard to entities that hold assets in a fiduciary capacity, but agreed to consider proposing a future amendment to include publicly accountable entities in the scope
- tentatively decided that the final standard should include an exemption from segment reporting currently provided by IAS 14 *Segment Reporting* for separate financial statements included in a report also containing the entity's consolidated financial statements
- tentatively decided not to provide an exemption from segment reporting when the disclosure of segment information might compromise the entity's competitive position.

### Joint Ventures

The Board discussed its short-term convergence project on accounting for joint ventures. The Board tentatively decided that interests in joint arrangements should be classified as either direct interests in the underlying assets and liabilities of the arrangement, or indirect interests in the expected outcome of the arrangement. Direct interests would be accounted for in accordance with standards applicable to those particular assets and liabilities, and indirect interests

would be accounted for using the equity method.

### Financial Statement Presentation

As part of its financial statement presentation project the Board discussed the overall format for the presentation of the primary financial statements and made the following tentative decisions:

- The primary financial statements would use consistent categories to classify assets and liabilities and changes therein; business and financing categories would represent primary sections in each of the financial statements.
- The financing category would include liabilities for which IFRSs require the separate calculation of financing income or expense.
- Entities would be allowed an accounting policy choice to classify a liability meeting the definition of financing in the business category if one of the following criteria is met:
  - the classification of remeasurement gains or losses as financing would be misleading
  - the entity does not view the financing in question as interchangeable with other financing sources
  - the entity views the activity in question as part of its overall business.
- Notes to the financial statements would include a reconciliation of amounts reported in financing categories on the face of the financial statements to amounts meeting the definition of financing.
- Financing transactions with owners and non-owners would be reported separately on the face of the statement of cash flows.
- The business category would be split between treasury and operating sections, with all financial assets included in the treasury section; entities would be allowed an

accounting policy choice to classify financial assets other than cash and cash equivalents as operating.

- Cash and cash equivalents would be presented separately within the treasury section on the face of the statement of financial position and would not include bank overdrafts.
- The operating section in a statement of financial position would be divided into operating working capital (which would include assets and liabilities expected to be realised or settled within the entity's operating cycle) and other operating assets and liabilities; this disaggregation would not be used for the statement of cash flows or the statement of recognised income and expense.

### Other

The Board also:

- discussed a working definition of an asset as part of phase B of the conceptual framework project
- discussed a concept of control that would focus on the control of assets and liabilities of the entity, which would be assessed using specific indicators
- reviewed decisions made at the July 2006 meeting of the International Financial Reporting Interpretations Committee, in which it was noted that two draft interpretations are almost finalised: customer loyalty programmes, and minimum funding requirements in a defined benefit plan
- decided to add to its agenda a long-term project on employee benefits (including pensions) with a goal of publishing an interim revised standard on pension accounting by 2010
- decided to add to its agenda a joint project with the U.S. Financial Accounting Standards Board on lease accounting, with a goal of

publishing a joint discussion paper in 2008

- decided to add to its agenda a project to amend IAS 24 *Related Party Disclosures* in relation to state-controlled entities, with a goal of publishing an ED by the end of 2006 and final amendments by the end of 2007
- decided to adopt a procedure whereby non-urgent, minor amendments to standards would be published annually in a single ED with an exposure period of 90 days and an effective date of 12 months after the end of the exposure period.

### IASB Press Release

On 24 July 2006 the Board published a press release announcing steps taken to assist the adoption of IFRSs

and to reinforce consultation, including the following:

- New standards and significant amendments will have effective dates that are a minimum of one year after publication dates; no new IFRSs or significant amendments will be effective before 1 January 2009.
- The first consultation documents expected to be issued for each of the sections of the conceptual framework project, and for the fair value measurement project, will be discussion papers.
- Public round-table discussions will be held on the proposed amendments to IAS 37 and on the measurement phase of the conceptual framework project in the fourth quarter of 2006 and the first quarter of 2007, respectively.

### 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 talk to your usual local KPMG contact to receive this publication.

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Publication name: *IFRS in Brief*

Publication number: Issue 27

Publication date: August 2006