

IFRS in Brief

December 2006, **Issue 30**

This issue of *IFRS in Brief* covers the November 2006 meeting of the International Accounting Standards Board (IASB).

Summary

At its November meeting the Board:

- discussed the recognition and measurement of items within the scope of its financial instruments consultation document
- discussed the recognition and presentation of the components of post-employment benefits
- approved the International Financial Reporting Interpretations Committee's (IFRIC) interpretation on service concession arrangements
- discussed the definition of an "asset" and explored alternative

definitions to "liabilities" and "equity" as part of the conceptual framework project

- discussed three issues for the Annual Improvements Exposure Draft (ED)
- continued discussing the short-term convergence project on accounting for joint ventures
- discussed comments received in response to the ED of *Proposed Amendments to IAS 23 Borrowing Costs*
- discussed recent IFRIC activities.

Financial Instruments

The Board discussed the recognition and measurement of items within the scope of its planned consultation document on financial instruments, which will include the preliminary views of both the IASB and the U.S. Financial Accounting Standards Board (FASB), and:

- tentatively decided that the fair value of all items can be measured reliably
- tentatively decided that the individual instrument is the unit of account, rather than portions of an instrument or groups of instruments
- decided not to take a preliminary view on whether items should be measured initially at market exit value, transaction price or market entry value

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

- tentatively decided that fair value should be measured at the individual instrument level; a portfolio approach would be allowed only when the aim is to estimate the fair value of individual instruments
- subject to future discussions on hedge accounting, tentatively decided that all gains and losses on remeasurement should be recognised in profit or loss
- agreed to discuss at a future meeting the measurement of guarantees, and an entity's ability to benefit from a contractual financial instrument whose cash flows depend upon whether the other party to the contract exercises an option.

Post-employment Benefits

The Board discussed the recognition and presentation of the components of post-employment benefits, and tentatively decided to propose:

- the immediate recognition of all actuarial gains and losses and unvested past service costs
- the recognition of all gains and losses in profit or loss.

Service Concession Arrangements

The Board considered points raised at the November public meeting at which the near-final interpretation was discussed, and noted that there was broad support for the project.

The Board approved the interpretation with an effective date of 1 January 2008.

In addition, following comments made at the public meeting, the Board agreed to consider amending IAS 38 *Intangible Assets* so as not to imply that a method of amortisation based on reliable estimates of usage would never be appropriate.

Conceptual Framework

The Board discussed the following definition of an asset: "a present economic resource to which the entity has a present right or other privileged access", with each of the terms "economic resource", "a right or other privileged access" and "present" being explained further. Subject to some suggested improvements related to the explanation of "economic resource", the Board agreed to use the definition for the purpose of further consultation.

The Board discussed alternative definitions to "liabilities" and "equity" in order to explore the distinction between the two. The Board agreed that the staff should research the implications of defining only a single element, such as claims, and defining more than two elements.

Annual Improvements

As part of its forthcoming annual improvements ED the Board:

- discussed amending IAS 1 *Presentation of Financial Statements* to require disclosure of the difference between IFRSs and any reporting framework based on, but not the same as, IFRSs
- decided to propose amending the implementation guidance to IFRS 7 *Financial Instruments: Disclosures* so that the standard does not appear to recommend the net presentation of finance costs
- decided to propose amending IAS 1 so that the conversion of a liability to equity does not affect the classification of the liability as current or non-current; instead, liquidity and solvency factors (e.g., the timing of any cash settlement) would be the key determinants for classification.

Short-term Convergence

The staff reported the results of their informal field research on the Board's

proposed changes to IAS 31 *Interests in Joint Ventures*. Under the proposals proportionate consolidation would be eliminated, and the notion of direct and indirect interests in a joint venture would be introduced. The Board's proposals would require equity accounting indirect interests; direct interests would be accounted for under the IFRSs relevant to those assets and liabilities. The Board instructed the staff to prepare an ED based on its proposals.

The Board discussed comments received on the ED of *Proposed Amendments to IAS 23 Borrowing Costs*, which proposed eliminating the option of expensing all borrowing costs as incurred, noting that most respondents had disagreed with the proposals. The Board asked the staff to analyse the arguments of respondents who had disagreed with the proposals.

IFRIC Update

The Board received an update on IFRIC activities, which included:

- continued discussions on real estate sales and whether IAS 11 *Construction Contracts* or IAS 18 *Revenue* should be used to recognise revenue under pre-completion contracts
- continued discussions on initial fees and whether they should be amortised over the period that the customer receives the benefit
- a discussion on the lack of guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates* to deal with the hedging of net investments in foreign operations
- a discussion on the calculation of fair value under IAS 41 *Agriculture*, which will be coordinated with the Board's Fair Value Measurements project.

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.

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

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Publication name: *IFRS in Brief*

Publication number: Issue 30

Publication date: December 2006