

IFRS in Brief

March 2007, **Issue 33**

This issue of *IFRS in Brief* covers the February 2007 meeting of the International Accounting Standards Board (IASB).

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

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- discussed comment letter analyses on recent consultation papers.

Business Combinations

The Board continued redeliberating proposals in the ED of *Proposed Amendments to IFRS 3*, and:

Summary

At its February 2007 meeting the Board:

- continued redeliberating proposals in the Exposure Draft (ED) of *Proposed Amendments to IFRS 3 Business Combinations*
- discussed the forthcoming discussion paper on insurance contracts
- discussed the post-employment benefits project
- continued discussing the financial statement presentation project
- discussed four issues for its annual improvements draft ED
- discussed the distinction between liabilities and equity as part of the conceptual framework project
- tentatively decided that the fair value of assets subject to an operating lease in which the acquiree is the lessor should incorporate the terms of the lease, consistent with the guidance in IAS 40 *Investment Property*
- instructed the staff to develop principles to determine what triggers a reassessment of the classification or designation of assets, liabilities or contracts acquired or assumed
- tentatively reaffirmed that the proposed standard should be applied prospectively to business combinations that occur on or after its effective date; retrospective application would not be allowed, but early application would be permitted
- decided that the proposed standard should be applied at the same time as the proposed revised IAS 27 *Consolidated and Separate Financial Statements*
- tentatively decided to reject the ED proposal that contingent liabilities resulting from previous acquisitions be reassessed and measured retrospectively.

The Board also continued redeliberating the proposed amendments to IAS 27, and tentatively decided:

- that profits or losses and other changes in equity should be allocated to controlling and non-controlling interests based on ownership interests, or based on a contractual agreement if one exists
- that losses should continue to be allocated to non-controlling interests even if this results in a deficit
- that principle-based indicators should be used in determining whether or not to account for multiple transactions as one
- that the proposed standard should be applied at the same time as the proposed IFRS 3; early application would be permitted
- that the proposed transitional provisions should be maintained except that transactions resulting in a loss of control should not require prior period restatement.

Insurance Contracts

The Board discussed the pre-ballot draft of the forthcoming discussion paper on insurance contracts, and decided that:

- the discussion paper should mention that the Board is not aware of significant differences between current exit value as used in the discussion paper and fair value in the U.S. Standard SFAS 157 *Fair Value Measurements*, which is the subject of the current discussion paper *Fair Value Measurements* (see *IFRS Briefing Sheet* Issue 60); a final conclusion will be reached once both projects have been finalised
- market participant servicing costs should be incorporated into the cash flow estimates used to determine current exit values
- interest cash flows used as part of the measurement of universal life contracts should be discounted

using rates that the insurer expects to pay based on a legal or constructive obligation.

The Board also discussed how to unbundle the deposit and insurance components of an insurance contract, and tentatively decided that if the components are:

- interdependent and can be measured only arbitrarily, then the whole contract should be measured under phase II of the standard
- not interdependent, then IAS 39 *Financial Instruments: Recognition and Measurement* should be used to measure the deposit component and phase II of the standard should be used to measure the insurance component
- interdependent and measurement is not arbitrary, then phase II of the standard should be used to measure the whole contract with the insurance component being measured as the difference between the insurance contract measured as a whole and the deposit component measured under IAS 39.

The Board approved the discussion paper with an expected issue date of March 2007 and a 180-day comment period.

Post-employment Benefits

The Board discussed its project on post-employment benefits and tentatively decided that:

- the forthcoming discussion paper should be based on current IAS 1 *Presentation of Financial Statements*
- the forthcoming discussion paper should include a preliminary view that all changes in plan assets and post-employment benefit obligations should be recorded in profit or loss; however, the following additional alternatives will be discussed:

- service costs and actuarial gains and losses, excluding the impact of changes in the discount rate, recognised in profit or loss; interest costs, changes in the discount rate and all changes in plan assets recognised outside profit or loss
- as above except that interest costs (other than from changes in the discount rate) and dividends and interest on plan assets recognised in profit or loss
- post employment benefit plans (promises) should be segregated into three categories:
 - defined contribution promises: no obligation once defined contributions have been made; account in accordance with IAS 19 *Employee Benefits*
 - asset-based promises: obligation changes in relation to the value of an asset or index (excluding fixed increases); measure at fair value
 - defined benefit promises: includes all other promises; account in accordance with IAS 19.

Financial Statement Presentation

The Board discussed the financial statement presentation project, particularly the presentation of information based on liquidity, and:

- instructed the staff to explore the notion of solvency and whether it should be included in the principle dealing with the assessment of liquidity
- decided that financial statements should include qualitative information about management's policies and procedures in respect of liquidity management
- decided that maturity details of short- and long-term assets and liabilities should be provided based on how an entity manages its cash needs; several alternative disclosures were proposed

- asked the staff to show how the above was similar to or different from IFRS 7 *Financial Instruments: Disclosures*.

Annual Improvements

As part of its forthcoming annual improvements ED the Board decided to propose:

- amending IAS 41 *Agriculture* to remove the exclusion from using increases in cash flows from additional biological transformation in the measurement of fair value
- clarifying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to indicate that implementation guidance is not mandatory
- restructuring IFRS 1 *First-time Adoption of International Financial Reporting Standards* so that transitional provisions related to new standards will appear as appendices rather than as amendments to the body of the standard

- amending IAS 39 so that contracts that are indexed to non-financial variables will be excluded from the definition of a derivative.

Other

Without reaching any decisions, the Board also discussed:

- as part of the conceptual framework project, an approach in which liabilities and equity would no longer be separate elements in the financial statements, but would form a combined element called "claims"; the Board agreed to re-examine the issue after the U.S. Financial Accounting Standards Board's (FASB) discussions and after having analysed how this would impact the FASB-led liabilities and equity project
- the results of the FASB research on its liabilities and equity project
- comment letters in response to the conceptual framework discussion paper

- comment letters in response to the ED *Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*.

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