

IFRS Briefing Sheet

IASB's Project Plan

April 2006, **Issue 48**

This IFRS Briefing Sheet summarises the status of the current projects of the International Accounting Standards Board (IASB). It reflects significant discussions of the IASB up to and including those that took place at its March 2006 meeting.

The following project summaries set out a description of each project and the major areas of existing IFRSs that may be affected by the project. IASB documents related to project are identified and the latest estimates of the timing to completion noted.

**A supplement to KPMG's
publication IFRS in Brief**

Project description	Overview	Timing / Status
<p>Borrowing costs (convergence with U.S. GAAP)</p>	<p>This is a joint short-term convergence project with the U.S. Financial Accounting Standards Board (FASB) to remove the main differences between IAS 23 <i>Borrowing Costs</i> and U.S. SFAS 34 <i>Capitalization of Interest Cost</i>.</p> <p>The Board tentatively decided to propose eliminating the option available currently in IAS 23 to expense borrowing costs associated with the acquisition, construction or production of a “qualifying” asset.</p> <p>The Board decided not to extend the scope of the project to other differences between SFAS 34 and IAS 23.</p>	<p>An exposure draft (ED) is expected in the second quarter of 2006.</p>
<p>Business combinations phase II: application of the purchase method (convergence with U.S. GAAP)</p>	<p>This is a joint project with the FASB that addresses the application of the purchase method of accounting for business combinations.</p> <p>In 2005 the Board published an ED of <i>Proposed Amendments to IFRS 3 Business Combinations</i> and related EDs on minority interests and provisions (see below).</p> <p>Under the proposals, the acquirer would measure the business acquired at its full fair value even if the business combination is achieved in stages, or if less than 100 percent of the equity interests in the acquiree are owned at the acquisition date. This would result in recognition of the full amount of goodwill, including the portion attributable to non-controlling (minority) interests.</p> <p>A summary of this ED can be found in IFRS Briefing Sheet – <i>Issue 29: Publication of the Exposure Draft of Proposed Amendments to IFRS 3 Business Combinations</i>.</p>	<p>This ED was published in June 2005.</p> <p>The comment period closed on 28 October 2005.</p> <p>The final standard is expected in the second half of 2007.</p>
<p>Conceptual framework (convergence with U.S. GAAP)</p>	<p>This is a joint project with the FASB aimed at developing a common conceptual framework. The framework will be built upon the IASB’s and FASB’s existing conceptual frameworks and will provide a basis for developing future accounting standards by the Boards.</p> <p>The Boards have identified the following phases of this project:</p> <ul style="list-style-type: none"> • phase A: Objectives and qualitative characteristics • phase B: Elements, recognition and measurement attributes • phase C: Measurement • phase D: Reporting entity • phase E: Presentation and disclosure • phase F: Purpose and status • phase G: Application to not-for-profit entities • phase H: Finalisation. <p>The Boards have substantially completed their analysis of issues in phase A, and have started deliberating issues in phases B and D, including working definitions of asset and liability, and the reporting entity concept.</p>	<p>An ED on phase A is expected in the second quarter of 2006.</p> <p>Discussion papers on phases B and D are expected in the first half of 2007.</p>

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<p>Consolidation and minority interests – amendments to IAS 27 <i>Consolidated and Separate Financial Statements</i> (convergence with U.S. GAAP)</p>	<p>As part of the business combinations phase II project, the Board published an ED of <i>Proposed Amendments to IAS 27 Consolidated and Separate Financial Statements</i>.</p> <p>The proposed changes would affect how non-controlling (minority) interests are accounted for. The most significant proposals are precluding the recognition of gains or losses in profit or loss on changes in non-controlling interests that do not involve a change in control, and requiring the remeasurement of any remaining non-controlling interest in a former subsidiary to fair value upon the loss of control.</p> <p>A summary of this ED can be found in <i>IFRS Briefing Sheet – Issue 30: Publication of Exposure Draft of Proposed Amendments to IAS 27 Consolidated and Separate Financial Statements</i>.</p>	<p>This ED was published in June 2005.</p> <p>The comment period closed on 28 October 2005.</p> <p>The final standard is expected in the second half of 2007.</p>
<p>Consolidation, including special purpose entities (SPEs)</p>	<p>The objective of this project is to develop the basis for consolidation that would apply to all entities, including SPEs. Ultimately the IASB intends to issue a new consolidation standard, replacing IAS 27 <i>Consolidated and Separate Financial Statements</i> and SIC-12 <i>Consolidation – Special Purpose Entities</i>.</p> <p>The Board tentatively decided that control over the entity would be defined as “the ability to direct the strategic financing and operating policies of an entity so as to access benefits flowing from the entity and increase, maintain or protect the amount of those benefits”.</p>	<p>An ED is expected in the first half of 2007.</p>
<p>Earnings per share (partial convergence with U.S. GAAP)</p>	<p>The Board decided to consider limited amendments to IAS 33 <i>Earnings per Share</i> in light of FASB’s publication of its ED on earnings per share.</p> <p>The IASB decided to propose amending the definition of “assumed proceeds” from the exercise of dilutive options, warrants and their equivalents. The new definition would include the carrying amount of any liability recognised for these instruments that would be extinguished upon their exercise or settlement. This is consistent with the FASB proposals in its ED on earnings per share.</p> <p>The Board also decided to propose that the “treasury stock method” be applied when calculating the dilutive effect of all convertible instruments rather than being limited to options, warrants and their equivalents; this proposal would create divergence from the U.S. GAAP.</p>	<p>An ED is expected in the second quarter of 2006.</p>

Project description	Overview	Timing / Status
Emission trading schemes and government grants (convergence with U.S. GAAP)	<p>The goal of this project is to amend IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>.</p> <p>The Board decided to add to its active agenda a project on emission trading. The Board expects to address this issue through amendments to existing standards, rather than a new standard or interpretation. Accounting for emission rights issued at less than full value will be considered as part of the amendments to IAS 20.</p>	An ED is expected in the second half of 2007.
Fair value measurements	<p>This project is focused on developing comprehensive guidance on how entities should measure fair value when fair value measurement is required by a standard.</p> <p>The working draft of the FASB's standard <i>Fair Value Measurement</i> dated 21 October 2005 defines fair value as "the price that would be received for an asset or paid to transfer a liability in a current transaction between marketplace participants in the reference market for the asset or liability."</p> <p>The Board tentatively decided to adopt the definition of fair value proposed by the FASB, subject to gaining a better understanding of the concept of a "reference market".</p>	An ED is expected in the third quarter of 2006.
Financial instruments puttable at fair value	<p>The focus of this project is the classification as liabilities or equity of financial instruments puttable at fair value. Currently IAS 32 <i>Financial Instruments: Disclosure and Presentation</i> requires instruments puttable at fair value to be classified as liabilities, and IAS 39 <i>Financial Instruments: Recognition and Measurement</i> requires that they be measured at fair value with changes in fair value recognised in the income statement.</p> <p>The Board decided to propose an amendment to IAS 32 that would result in classifying certain instruments puttable at fair value as equity. Equity classification will be proposed for items that represent the residual interest in the issuer or that are payable only on liquidation, provided that they are in the most subordinated class of the issuer's instruments and all instruments in that class have the same rights.</p> <p>The Board also decided to amend IAS 1 to require additional disclosures in respect of financial instruments puttable at fair value.</p>	An ED is expected in the second quarter of 2006.

Project description	Overview	Timing / Status
<p>Financial statement presentation (formerly performance reporting; convergence with U.S. GAAP)</p>	<p>This project is a joint project with the FASB. The objective of the project is to enhance the usefulness of information presented in the primary financial statements.</p> <p>The project consists of three phases. Phase A focuses on convergence issues related to the content of primary financial statements and comparative data. As a result of phase A of the project, the Board published an ED of <i>Amendments to IAS 1 Presentation of Financial Statements – A Revised Presentation</i>. The main change proposed by the ED is to present all non-owner changes in equity (changes in equity not resulting from transactions with owners in their capacity as owners) in one or two statements: either a single statement of recognised income and expense; or in a statement of profit or loss plus a statement detailing other recognised income and expense. A summary of this ED can be found in <i>IFRS Briefing Sheet – Issue 47: Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements – A Revised Presentation</i>.</p> <p>Phase B of this joint project focuses on more detailed issues related to the presentation of information on the face of financial statements, including required totals and sub-totals.</p> <p>Phase C will focus on interim reporting.</p>	<p>The ED on phase A was published in March 2006.</p> <p>The comment period closes on 17 July 2006.</p> <p>The final amendments resulting from phase A are expected to be published in the first half of 2007.</p> <p>A discussion paper on phase B is expected in the first quarter of 2007.</p>
<p>Income taxes – amendments to IAS 12 <i>Income Taxes</i> (convergence with U.S. GAAP)</p>	<p>Both IAS 12 and the equivalent U.S. standard SFAS 109 <i>Accounting for Income Taxes</i> are based on the balance sheet liability approach to accounting for deferred taxes. However, differences arise because both standards have exceptions to their basic principles. The objective of this project is not to reconsider the underlying approach, but rather to eliminate exceptions to the basic principles.</p> <p>Convergence issues being considered by the Boards include the definition of tax base, exemptions from the initial recognition of deferred tax assets and liabilities, the measurement of deferred taxes, accounting for uncertainties in income taxes, the allocation of income taxes to profit and loss or equity, and special deductions.</p> <p>The IASB has made tentative decisions with respect to most convergence issues.</p>	<p>An ED is expected in the third quarter of 2006.</p>

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Insurance contracts phase II	<p>This project seeks to develop further some of the issues identified in the 1999 Issues Paper <i>Insurance</i>. Any resulting standard would replace IFRS 4 <i>Insurance Contracts</i>.</p> <p>The Board tentatively decided that insurance liabilities should be measured using a current value model. Possible current value approaches are to measure an insurance liability based on what a policyholder would pay for an identical contract (current entry value), or to measure it based on what the insurer would have to pay to transfer its obligations to another entity (current exit value). Under both approaches measurement would be based on discounted expected future cash flows, and would include an explicit risk margin.</p>	A discussion paper is expected in the fourth quarter of 2006.
Joint ventures	<p>This project comprises both a joint short-term convergence project with the FASB and a longer term research project aimed at determining the most appropriate method of accounting for interests in jointly-controlled entities. As part of the short-term project, the Board tentatively decided to propose removing the proportionate consolidation option from IAS 31 <i>Interests in Joint Ventures</i>.</p>	An ED is expected in the fourth quarter of 2006.
Management commentary	<p>The IASB's Discussion Paper <i>Management Commentary</i> considers the role of the IASB in developing principles for management commentary that accompanies financial statements, and includes proposals for the main components of a standard.</p> <p>The Board will consider responses to the discussion paper when deliberating presentation and disclosure issues as part of phase E of its conceptual framework project.</p> <p>A summary of the discussion paper can be found in <i>IFRS Briefing Sheet – Issue 38: IASB Issues Discussion Paper on Management Commentary</i>.</p>	<p>This discussion paper was published in October 2005.</p> <p>The comment period closes on 28 April 2006.</p>
Measurement objectives	<p>The IASB's Discussion Paper <i>Measurement Bases for Financial Accounting</i> analyses a number of possible bases of measurement for assets and liabilities on initial recognition. The Board will consider responses to the discussion paper when deliberating measurement issues as part of its conceptual framework project.</p> <p>A summary of the discussion paper can be found in <i>IFRS Briefing Sheet – Issue 39: IASB Issues Discussion Paper on Measurement Bases for Financial Accounting – Measurement on Initial Recognition</i>.</p>	<p>This discussion paper was published in November 2005.</p> <p>The comment period closes on 19 May 2006.</p>

Project description	Overview	Timing / Status
<p>Provisions – amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits (partial convergence with U.S. GAAP)</p>	<p>The Board published an ED of <i>Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits</i> in 2005. The proposals arise in part from a joint short-term convergence project with the FASB to converge requirements for the recognition of restructuring provisions, and from phase II of the business combinations project.</p> <p>This ED proposes major changes to the accounting for items that currently are treated as contingent liabilities and contingent assets. The proposed amendments also would impact the recognition of constructive obligations, onerous contracts, restructuring provisions and termination benefits.</p> <p>A summary of this ED can be found in <i>IFRS Briefing Sheet – Issue 31: Publication of Exposure Draft of Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits</i>.</p>	<p>This ED was published in June 2005.</p> <p>The comment period closed on 28 October 2005.</p> <p>The final standard is expected in the second half of 2007.</p>
<p>Revenue recognition (convergence with U.S. GAAP)</p>	<p>This is a joint project with the FASB to develop a comprehensive set of principles for revenue recognition.</p> <p>The Boards are exploring a revenue recognition method that would:</p> <ul style="list-style-type: none"> • recognise revenue based on changes in assets and liabilities that are created by contracts with customers without consideration of additional criteria, such as earnings and realisation • identify separate liabilities (performance obligations) that arise from a contract • measure performance obligations based on consideration paid or payable by the customers for fulfilling them, rather than the amount that the entity would pay to transfer them to another entity. 	<p>A discussion paper is expected in the fourth quarter of 2006.</p>
<p>Share-based payment – amendments to IFRS 2 Share-based Payment</p>	<p>An ED of <i>Proposed Amendments to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations</i> proposes that:</p> <ul style="list-style-type: none"> • vesting conditions be limited to service and performance conditions • cancellations by parties other than the entity be accounted for in the same way as cancellations by the entity. <p>A summary of the ED can be found in <i>IFRS Briefing Sheet - Issue 45: Exposure Draft of Proposed Amendments to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations</i>.</p>	<p>This ED was issued in February 2006.</p> <p>The comment period closes on 2 June 2006.</p> <p>The final amendment is expected to be issued in the fourth quarter of 2006.</p>

Project description	Overview	Timing / Status
<p>Segment reporting (convergence with U.S. GAAP)</p>	<p>This is a joint short-term convergence project with the FASB to align IAS 14 <i>Segment Reporting</i> with the comparable U.S. standard SFAS 131 <i>Disclosure about Segments of an Enterprise and Related Information</i>.</p> <p>The IASB issued ED 8 <i>Operating Segments</i> proposing adoption of the U.S. management approach to the identification of segments and reporting of segment information.</p> <p>This ED proposes segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Such components (operating segments) would be identified on the basis of internal reports that the entity's chief operating decision maker reviews regularly in allocating resources to segments and in assessing their performance.</p> <p>A summary of this ED can be found in <i>IFRS Briefing Sheet – Issue 44: Exposure Draft 8 Operating Segments</i>.</p>	<p>This ED was issued in January 2006.</p> <p>The comment period closes on 19 May 2006.</p> <p>The final standard is expected in the fourth quarter of 2006.</p>
<p>Small and medium-sized entities (SMEs)</p>	<p>The Board is developing accounting standards appropriate for SMEs. The proposals are expected to be based on the basic principles of IFRSs, but with modifications to simplify disclosure and presentation, as well as selected recognition and measurement requirements.</p> <p>The Board published a discussion paper in 2004. A summary of the discussion paper can be found in <i>IFRS Briefing Sheet – Issue 3: Publication of Discussion Paper on SMEs, IFRIC D7, IFRIC D8 and IFRIC D9</i>.</p> <p>The Board has reached tentative decisions with respect to most recognition and measurement requirements that would apply to SMEs.</p>	<p>This discussion paper was published in June 2004.</p> <p>The comment period closed on 24 September 2004.</p> <p>An ED is expected in the third quarter of 2006.</p>

Forthcoming documents

Second quarter 2006	Third quarter 2006	Fourth quarter 2006	2007 and later
Borrowing costs – exposure draft	Income taxes: amendments to IAS 12 – exposure draft	Revenue recognition – discussion paper	Business combinations: phase II – final standard
Conceptual framework: phase A – exposure draft	Fair value measurements – exposure draft	Amendments to IFRS 2 – final standard	Consolidation and minority interests: amendments to IAS 27 – final standard
Earnings per share – exposure draft	SMEs – exposure draft	Joint ventures – exposure draft	Provisions: amendments to IAS 37 and IAS 19 – final standard
Financial instruments puttable at fair value – exposure draft		Segment reporting – final standard	Emission trading schemes and government grants – exposure draft
		Insurance contracts phase II – discussion paper	Financial statement presentation: phase A – final standard
			Financial statement presentation: phase B – discussion paper
			Conceptual framework: phases B and D – discussion papers
			Consolidation, including SPEs – exposure draft

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Publication name: *IFRS Briefing Sheet: IASB's project plan*

Publication number: Issue 48

Publication date: April 2006