

# IFRS in Brief

August 2005, **Issue 16**

This issue of *IFRS in Brief* covers the July 2005 meeting of the International Accounting Standards Board (IASB). At this meeting the Board reviewed the progress on some of its projects and held a number of educational sessions.

## **Income Taxes – Short-Term Convergence with U.S. GAAP**

The Board's discussion focused on possible guidance on tax bases and special deductions.

### **Tax Bases**

The Board decided to propose new guidance on:

- the tax base when the available deductions will differ depending on whether the asset is used or sold, and if it is sold, on whether it is sold separately or in a single-asset entity
- the tax rate that should be used when different rates are applicable depending on whether the asset is used or sold.

The Board also decided to propose implementation guidance on:

- how to derive a tax balance sheet
- procedures for the computation of deferred taxes.

The Board decided to propose amendments to the definitions of cost and fair value in IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 40 *Investment Property* to clarify that on initial recognition cost is fair value assuming full deductibility for tax purposes of the amount paid.

### **Special Deductions**

At its March 2005 meeting the Board considered whether to include in IAS 12 the same guidance on special deductions as in SFAS 109 *Income Taxes*. The Board concluded that it would not be appropriate to include in IAS 12 a list of jurisdiction-specific special deductions as included in SFAS 109. The Board also decided to develop a general principle for special deductions that would be consistent with SFAS 109. At this meeting the Board asked the staff to consider whether an approach of conditional and unconditional grants based on the Board's planned amendments to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* could be applied to special deductions.

The Board decided to restructure IAS 12 *Income Taxes* to separate principles from implementation guidance and basis for conclusions. Therefore, the Board expects to expose a re-drafted standard rather than just propose amendments.

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

### Consolidation (including Special Purpose Entities)

At its November 2004 meeting the Board decided to propose incorporating the guidance that it had developed on the concept of control into IAS 27 *Consolidated and Separate Financial Statements*. At that meeting the Board decided that before proceeding with the exposure draft it needed to consider further whether the proposed new guidance would address special purpose entities. At this meeting the Board reviewed its decisions to date and discussed the timing of the project. No decisions were made. The Board will continue to discuss the project at its September 2005 meeting. Issues to be explored include:

- the definition of control that focuses on the **power** to control
- **benefits** received from control
- the **ability** to use power to gain benefits
- whether the ability to control should be based on a majority of total possible power or of votes normally cast (often referred to as *de facto* control).

### Review of the Board's Agenda

The Board started to discuss possible projects for inclusion in its future agenda. It noted that the review of its agenda has to take into consideration the discussions held in April 2005 by the European Commission and the U.S. Securities and Exchange Commission that encourage the convergence between IFRSs and U.S. GAAP. The Board will consider fair value measurement guidance and emission rights as possible future agenda items.

### Financial Instruments Working Group Meeting

The IASB was updated on the discussions at the third meeting of the

Financial Instruments Working Group (FIWG) held on 15 July. The main topics discussed by the FIWG were:

- the IASB's and FASB's decision to focus resources on developing a new standard rather than improving IAS 39 *Financial Instruments: Recognition and Measurement*
- developing new securitisation / derecognition material as a first priority
- disaggregation of fair value income (e.g., based on managed / not managed, interest rate, foreign exchange or other)
- whether it is meaningful to report interest income and expense in a fair value model
- decisions made at the April 2005 joint IASB and FASB meeting to focus their first effort for a new financial instruments standard on a single fair value measurement approach.

### Small and Medium-sized Entities (SMEs)

The Board was informed that:

- the SME Working Group had met on 29 and 30 of June and started to discuss the responses to the Board's recognition and measurement questionnaire
- the SME round table meetings with constituents had been scheduled for 13 and 14 October
- the issues related to the SME project will be discussed at the meeting with world standard setters scheduled for 26 September 2005.

### Conceptual Framework – Joint Project with the U.S. FASB Stewardship and Accountability

The Board agreed not to include stewardship and accountability as explicit objectives of financial reporting in the converged conceptual framework.

### Qualitative Characteristics

The Board's previous discussions on how to address potential conflicts between the different qualitative characteristics of financial reporting information focused on hierarchy of or "trade-off" between the characteristics. At this meeting the staff presented an alternative process-based approach to consideration of qualitative characteristics in preparing decision-useful financial reports. This process would assess possible decisions against a sequence of characteristics (e.g., first relevance, then faithful representation) but only for items that are relevant. The Board agreed to pursue the process-based approach.

### Other

The Board received an update on issues raised during the IASB's "roadshows" in Europe.

The Board held educational sessions addressing SME issues, phase II of its insurance accounting project, and extractive industry issues.

### IASB Observer Notes

IFRG has arranged to make available to our 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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