

IFRS in Brief

April 2007, **Issue 34**

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

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

AUDIT ■ TAX ■ ADVISORY

- discussed proposals in the earnings per share project
- discussed the financial instruments consultation document
- began discussing the lease accounting project
- reviewed the technical plan and discussed recent International Financial Reporting Interpretations Committee (IFRIC) activities.

Provisions

As part of its redeliberations on the proposals in the ED of *Proposed Amendments to IAS 37 and IAS 19*, the Board:

- tentatively agreed that the existence of a present obligation distinguishes a liability from a business risk, and that the following indicate the existence of a present obligation:
 - an *irrevocable commitment* by the entity to act in a particular way
 - an *enforceable right* of an external party to call upon the entity to carry out that action
- tentatively affirmed that the notion of a stand ready obligation, which is an obligation to act in a certain way if called upon to do so by an external party, can be applied to both contractual and non-contractual obligations, but asked the staff to consider an alternative wording for the term “stand ready obligation”

Summary

At its March 2007 meeting the Board:

- continued redeliberating proposals in the Exposure Draft (ED) of *Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*
- continued discussing the post-employment benefits project
- discussed five issues for its annual improvements ED
- continued redeliberating proposals in the ED of *Proposed Amendments to IFRS 3 Business Combinations*
- discussed the financial statement presentation project

Post-employment Benefits

The Board continued discussing its forthcoming discussion paper on post-employment benefits, and tentatively decided in respect of changes in plan assets and post-employment benefit obligations:

- to propose that all such changes be recognised in comprehensive income in the period in which they are incurred; this was a change from the Board's previous preliminary view that such changes should be recognised in profit or loss as incurred
- not to express a preliminary view on the presentation of such changes, but to include the following alternatives in the discussion paper:
 - recognise all gains and losses in profit or loss
 - recognise financing costs outside of profit or loss
 - recognise remeasurement changes outside of profit or loss.

The Board asked the staff to consider the arguments supporting each approach.

Annual Improvements

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

- amending IAS 16 *Property, Plant and Equipment* to replace the term "net selling price" in the definition of recoverable amount with "fair value less costs to sell"; in order to achieve consistency with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 36 *Impairment of Assets*
- amending IAS 19 to remove the reference to the recognition of a contingent liability in order to achieve consistency with IAS 37, which states that a contingent liability should not be recognised
- amending IAS 19 to replace the term "fall due" in the definition of employee benefits with "expected

to be settled", in order to remove the perceived conflict with the term "expected to occur" used in the description of compensated absences

- amending IAS 39 *Financial Instruments: Recognition and Measurement* to remove the references to the need to designate hedging instruments at the segment level, in order to eliminate a conflict with IFRS 8 *Operating Segments*
- amending IAS 40 *Investment Property* to clarify the treatment of any lease liability in determining the carrying amount of an investment property held under a lease.

Business Combinations

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

- tentatively affirmed that only new information about facts and circumstances that existed at the acquisition date should result in measurement period adjustments
- tentatively affirmed that contingent consideration should be recognised at fair value at the acquisition date and classified as a liability (subsequently remeasured to fair value) or equity (not remeasured) as appropriate in accordance with other IFRSs
- tentatively agreed to require non-controlling interests to be measured at fair value unless it would cause "undue cost and effort", in which case they would be measured at the acquirer's proportionate interest in the identified assets and liabilities of the acquiree; this requirement also would apply to a bargain purchase
- tentatively affirmed that any acquisitions or dispositions of non-controlling interests should be accounted for as equity transactions and that this would apply also to non-controlling interests recognised before the revised IFRS 3 comes into effect

- decided that non-reciprocal transfers to owners (de-mergers or spin-offs) should not be addressed in the revised standard
- tentatively decided that an acquired assembled workforce is unlikely to meet the separability test and therefore should not be recognised separately from goodwill
- tentatively affirmed the following disclosures in respect of contingent consideration:
 - its fair value at the acquisition date
 - the range of potential future payments (undiscounted), or the fact that there is no limit
 - changes in the amount of contingent consideration recognised or in the range of possible payments, and the reasons therefor
 - the valuation technique(s) used to measure the contingent consideration
- tentatively agreed disclosures in respect of receivables acquired in a business combination.

Financial Statement Presentation

The Board continued discussing its forthcoming discussion paper on financial statement presentation, and tentatively decided:

- to propose that changes in individual line items in the statement of financial position be linked to similarly classified items in the statement of comprehensive income and statement of cash flows
- to propose that information related to changes in assets and liabilities be disaggregated based on the characteristics of "persistence" and "measurement subjectivity"
- to propose continuing to require a reconciliation between operating income and cash flows from operating activities if the indirect method is used to report operating cash flows

- to include different alternatives in the discussion paper for the presentation of other comprehensive income items in the statement of comprehensive income
- not to provide classification guidance for other comprehensive income items except for foreign currency translation adjustments, which would be classified as operating (for subsidiaries and proportionately consolidated joint ventures) or, for equity accounted investees, in the same category as the investment
- to address the accounting for other comprehensive income items on an individual basis outside of the financial statement presentation project
- to propose removing the notion of cash equivalents from financial statement presentation.

Earning per Share

The Board discussed proposals in its forthcoming ED on earnings per share, and decided to propose excluding the following from the calculation of diluted earnings per share:

- options and warrants classified as liabilities
- convertible instruments classified wholly as liabilities and measured at fair value through profit or loss.

IFRIC Update

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

- redeliberations on D19 *IAS 19*
– *The Asset Ceiling: Availability of*

Economic Benefits and Minimum Funding Requirements and *D20 Customer Loyalty Programmes*; both interpretations are expected to be presented for the Board's approval after the IFRIC meeting in May

- discussions on sales of real estate, and on hedging a net investment; draft text for both interpretations will be considered by the IFRIC at its May meeting.

Other

Without reaching any decisions, the Board also discussed:

- the forthcoming financial instruments consultation document and different approaches to the project, including:
 - developing an ED of the fair value model
 - developing and implementing one or more interim steps before requiring the fair value model
- a draft paper summarising the round-table meetings on measurement held in January and February 2007 as part of the conceptual framework project.

The Board also:

- commenced discussions as part of its lease accounting project, which is a joint project with the U.S. Financial Accounting Standards Board; the staff were instructed to research further a "rights of use approach", in which the lessee recognises its right to use the asset and an

obligation to pay therefor, and the lessor recognises its right to receive payments and its residual interest in the asset at the end of the lease

- discussed an updated technical plan and project timetables, which will be available on the IASB's Web site.

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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