

IFRS Briefing Sheet

IASB's Projects Overview

July 2007, **Issue 72**

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 June 2007 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 the 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 (see Appendix II for further details)
Annual improvements	<p>The annual improvements process is the IASB's process for dealing with non-urgent, minor amendments to standards that will be processed collectively on an annual basis. Under this process an omnibus exposure draft (ED) will be issued for comment in October each year with a 90-day comment period, and a final omnibus standard will be issued on 1 April each year. The amendments will be effective from 1 January the following year.</p> <p>As a part of its first annual improvements process, the IASB has discussed amendments to the following standards:</p> <ul style="list-style-type: none"> • IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Restructuring*</i> (February and March 2007) • IFRS 7 <i>Financial Instruments: Disclosures – Net finance costs*</i> (November 2006) • IFRS 7 and IAS 32 <i>Financial Instruments: Presentation – Disclosures required when investments in associates and jointly controlled entities are accounted for at fair value through profit or loss*</i> (May 2007) • IAS 1 <i>Presentation of Financial Statements – Reporting compliance with IFRSs*</i> (December 2006) • IAS 1 – Classification of the liability component of a convertible instrument* (November 2006) • IAS 1 – Current or non-current presentation of derivatives (June 2007) • IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors – Status of implementation guidance*</i> (February 2007) • IAS 16 <i>Property, Plant and Equipment – Recoverable amount*</i> (March 2007) • IAS 16 – Sale of assets held for rental (June 2007) • IAS 17 <i>Leases – Contingent rents*</i> (October 2006) • IAS 19 <i>Employee Benefits – Contingent liabilities*</i> (March 2007) • IAS 19 – “Fall due”* (March 2007) • IAS 19 – Curtailments and negative past service cost* (May 2007) • IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance – Terminology improvements*</i> (May 2007) • IAS 20 – Accounting for below-market rate loans from governments (June 2007) • IAS 27 <i>Consolidated and Separate Financial Statements</i> and IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations – Subsidiary held for sale in separate financial statements*</i> (May 2007) • IAS 29 <i>Financial Reporting in Hyperinflationary Economies – Terminology improvements*</i> (May 2007) <p>* Denotes that the Board has issued a near-final draft amendment. See Appendix I for further details.</p>	<p>An omnibus ED is expected in the fourth quarter of 2007.</p> <p>An omnibus final amendment is expected in the first half of 2008.</p>

Project description	Overview	Timing / Status (see Appendix II for further details)
Annual improvements (continued)	<ul style="list-style-type: none"> • IAS 36 <i>Impairment of Assets</i> – Impairment of an investment in associate (June 2007) • IAS 38 <i>Intangible Assets</i> – Advertising and promotional activities* (April, May and June 2007) • IAS 38 – Unit of production amortisation* (December 2006) • IAS 39 <i>Financial Instruments: Recognition and Measurement</i> – Contracts linked to non-financial variables* (February 2007) • IAS 39 – Segment reporting* (March 2007) • IAS 39 – Reclassification of derivatives into or out of the classification as at fair value through profit or loss (June 2007) • IAS 39 – Applicable effective interest rate on cessation of fair value hedge accounting (June 2007) • IAS 39 – Treating prepayment penalties as closely related embedded derivatives (June 2007) • IAS 39 – Costs of originating a loan (June 2007) • IAS 39 – Terminology improvements (June 2007) • IAS 40 <i>Investment Property</i> – Property under construction* (October 2006) • IAS 40 – Leased investment property* (March 2007) • IAS 41 <i>Agriculture</i> – Point-of-sale costs* (December 2006) • IAS 41 – Additional biological transformations* (February 2007) • IAS 41 – Discount rate for fair value calculations (June 2007) • IAS 41 – Replanting obligations (June 2007) • IAS 41 – Terminology improvements (June 2007). <p>* Denotes that the Board has issued a near-final draft amendment. See Appendix I for further details.</p>	
Business combinations phase II: application of the purchase method (convergence with U.S. GAAP)	<p>This is a joint project with the Financial Accounting Standards Board (FASB) that addresses the application of the purchase method of accounting for business combinations.</p> <p>In June 2005 the IASB published an ED of <i>Proposed Amendments to IFRS 3 Business Combinations</i>. In June 2007 the Board approved the final standard, which will include the following amendments once published in the second half of 2007:</p> <ul style="list-style-type: none"> • Business combinations involving two or more mutual entities or combinations in which separate entities are brought together to form a reporting entity by contract alone without obtaining an ownership interest, including combinations in which separate entities are brought together by contract to form a dual listed corporation, are included in the scope of revised IFRS 3 <i>Business Combinations</i>. • The definition of a business combination has been amended to focus on control and is defined as “a transaction or other event in which an acquirer obtains control of one or more businesses”. 	<p>An ED was published in June 2005.</p> <p>The comment period closed on 28 October 2005.</p> <p>A final standard is expected in the second half of 2007.</p>

Project description	Overview	Timing / Status (see Appendix II for further details)
<p>Business combinations phase II: application of the purchase method (convergence with U.S. GAAP) (continued)</p>	<ul style="list-style-type: none"> The costs incurred in connection with a business combination (e.g., finder's fees, advisory, legal and accounting fees, and valuation costs) are accounted for separately from the business combination itself, generally as expenses. All items of consideration transferred by the acquirer are measured and recognised at fair value at the acquisition date, including contingent consideration arrangements. The consideration transferred includes any non-controlling equity investment in the acquiree that the acquirer owned immediately before the acquisition date. Changes in the value of previously owned non-controlling interests are recognised in profit or loss. Subsequent adjustments to contingent purchase consideration are post-acquisition adjustments that do not result in an adjustment to goodwill. An entity can elect to measure any non-controlling (minority) interest at fair value at the date of acquisition, which means that goodwill includes the portion attributable to non-controlling interest; or at its proportionate interest in the identifiable assets and liabilities of the acquiree, which means that goodwill relates only to the interest acquired by the parent when that measurement alternative is elected. There are fewer exceptions to the fair value measurement principle. 	
<p>Conceptual framework (convergence with U.S. GAAP)</p>	<p>This is a joint project with the FASB, the objective of which is to develop a common conceptual framework that is both complete and internally consistent. 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> <p>A: Objectives and qualitative characteristics B: Elements and recognition C: Measurement D: Reporting entity E: Presentation and disclosure F: Purpose and status G: Application to not-for-profit entities H: Finalisation.</p>	<p>A discussion paper on phase A was issued in July 2006.</p> <p>The comment period closed on 3 November 2006.</p> <p>Round-table discussions were held in the first quarter of 2007.</p> <p>An ED on phase A is expected in the fourth quarter of 2007.</p> <p>A discussion paper on phase D is expected in the third quarter of 2007.</p> <p>A discussion paper on phase B is expected in the second half of 2008.</p>

Project description	Overview	Timing / Status (see Appendix II for further details)
<p>Conceptual framework (convergence with U.S. GAAP) (continued)</p>	<p>In 2006 as the result of phase A of the project the IASB published Discussion Paper <i>Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information</i>, which discussed the objectives and qualitative characteristics of general purpose financial reporting for business entities in the private sector. This is the only document that has been issued to date.</p> <p>A summary of this discussion paper can be found in <i>IFRS Briefing Sheet – Issue 52: Discussion Paper on Objectives and Qualitative Characteristics of Financial Reporting</i>.</p> <p>The Boards have deliberated issues in phases B and D, including working definitions of asset and liability, the reporting entity concept, and the concept of control.</p> <p>The Boards also have agreed on a plan for deliberating phase C and decided that it would consist of three milestones:</p> <ul style="list-style-type: none"> • definitions and properties • evaluation using qualitative characteristics • conclusions and application. <p>Each milestone will include public consultations and a consultation document (discussion paper or ED).</p> <p>In January and February 2007 the IASB and FASB held round-table discussions to deliberate:</p> <ul style="list-style-type: none"> • initial views on measurement • measurement issues identified in the measurement phase plan • potential measurement bases and terminology. 	
<p>Consolidation and minority interests – amendments to IAS 27 (convergence with U.S. GAAP)</p>	<p>As part of the business combinations project phase II (see above <i>Business combinations</i> phase II), the Board published an ED of <i>Proposed Amendments to IAS 27 Consolidated and Separate Financial Statements</i>.</p> <p>In June 2007 the Board approved the final standard, which will require changes to the accounting for events or transactions in which an investor loses control of an entity. Upon the loss of control, any retained investment is remeasured to fair value and a gain or loss is recognised in profit or loss. The recognition of gains or losses in profit or loss on changes in non-controlling (minority) interests that do not involve a change in control is precluded; and the remeasurement of any remaining non-controlling interest in a former subsidiary to fair value upon the loss of control is required.</p>	<p>An ED was published in June 2005.</p> <p>The comment period closed on 28 October 2005.</p> <p>A final standard is expected in the second half of 2007.</p>

Project description	Overview	Timing / Status (see Appendix II for further details)
<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 and SIC-12 <i>Consolidation – Special Purpose Entities</i>.</p> <p>The Board has tentatively decided that control should be defined as having “exclusive rights over an entity’s assets and liabilities which give it access to the benefits of those assets and liabilities and the ability to increase, maintain or protect the amount of those benefits.”</p>	<p>A discussion paper is expected in the first half of 2008.</p>
<p>Cost of an investment in a subsidiary in the separate financial statements of a parent on first-time adoption of IFRSs – amendments to IFRS 1</p>	<p>The objective of this project is to amend IFRS 1 to provide an exemption from restating the cost of an investment in a subsidiary in the separate financial statements of a parent in accordance with IAS 27 when doing so would be impracticable.</p> <p>In 2007 the IASB published an ED of <i>Proposed Amendments to IFRS 1 First-time Adoption of IFRSs – Cost of an Investment in a Subsidiary</i>.</p> <p>The ED proposes that a parent entity that is a first-time adopter of IFRSs be permitted, but not required, to measure the cost of its investments in subsidiaries at a “deemed cost” in its separate financial statements rather than determining cost under IFRSs. Deemed cost could be determined at the date of transition using either:</p> <ul style="list-style-type: none"> • the parent entity’s interest in the carrying amount of the net assets of the subsidiary, as determined based on the carrying amounts in the subsidiary’s IFRS balance sheet; or • the fair value of its investment in the subsidiary. <p>A summary of this ED can be found in <i>IFRS Briefing Sheet – Issue 61: Exposure Draft of Proposed Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Cost of an Investment in a Subsidiary</i>.</p>	<p>An ED was issued in January 2007.</p> <p>The comment period closed on 27 April 2007.</p> <p>A final standard is expected in the fourth quarter 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 the FASB’s publication of its EDs on earnings per share, and its subsequent deliberations.</p> <p>The Board decided to propose certain amendments to the methods used to calculate dilutive effects of options, warrants and their equivalents that are classified as liabilities. The proposals are consistent with the latest FASB proposals.</p>	<p>An ED is expected in the third quarter of 2007.</p> <p>A final standard is expected in the second half of 2008.</p>

Project description	Overview	Timing / Status (see Appendix II for further details)
Emission trading schemes and government grants (convergence with U.S. GAAP)	<p>The objective of this project is to amend IAS 20.</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 by issuing 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>	Work on this project has been deferred pending the conclusion of work on other relevant projects.
Fair value measurement guidance (convergence with U.S. GAAP)	<p>The objective of this project is to develop a consistent definition of, and to provide additional measurement guidance on, fair value; the objective is not to expand the use of fair value.</p> <p>In 2006 the IASB published Discussion Paper <i>Fair Value Measurements</i>. This discussion paper sets out the IASB's preliminary views on the U.S. standard SFAS 157 <i>Fair Value Measurements</i>.</p> <p>A summary of this discussion paper can be found in <i>IFRS Briefing Sheet – Issue 60: Discussion Paper Fair Value Measurements</i>.</p>	<p>A discussion paper was issued in November 2006.</p> <p>The comment period closed on 4 May 2007.</p> <p>Round-table discussions will be held in the third quarter of 2007.</p> <p>An ED is expected in the second half of 2008.</p>
Financial instruments: portions	<p>The objective of this project is to propose rules-based amendments to IAS 39 to simplify the hedge accounting requirements while avoiding a significant change from current practice by clarifying the risks that may be designated as hedged risks and the portion of cash flows of a financial instrument that may be designated as a hedged item.</p> <p>This project also is expected to address a practice issue discussed by IFRIC in May and July 2007 regarding hedging with written options.</p>	An ED is expected in the third quarter of 2007.
Financial instruments: puttable instruments	<p>The objective of this project is to provide a short-term, limited-scope amendment to improve the financial reporting of particular types of financial instruments that have characteristics similar to ordinary shares but are, at present, classified as financial liabilities.</p> <p>In 2006 the Board published an ED of <i>Proposed Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation</i>.</p>	<p>An ED was issued in June 2006.</p> <p>The comment period closed on 23 October 2006.</p> <p>A final standard is expected in the third quarter of 2007.</p>

Project description	Overview	Timing / Status (see Appendix II for further details)
<p>Financial instruments: puttable instruments (continued)</p>	<p>Subject to certain conditions, this ED proposes that the following financial instruments be classified as equity:</p> <ul style="list-style-type: none"> • ordinary shares, puttable to the issuer at fair value • ordinary shares of limited life entities • partners' interests in a partnership when the partnership terminates if a partner leaves. <p>A summary of this ED can be found in <i>IFRS Briefing Sheet – Issue 51: Exposure Draft of Proposed Amendments to IAS 32 and IAS 1 – Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation</i>.</p> <p>In May 2007 the Board tentatively decided to redraft the proposed amendments to IAS 32 and IAS 1 to emphasise that to be classified as equity an instrument must:</p> <ul style="list-style-type: none"> • be both issued and puttable at fair value • be in the most subordinated class of instrument • participate fully in the entity's performance over the instrument's life. 	
<p>Financial statement presentation (convergence with U.S. GAAP)</p>	<p>This project is a joint project with the FASB. The project is a fundamental reconsideration of the contents of primary financial statements especially items reported in the income statement versus items reported directly in equity.</p> <p>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>.</p> <p>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>An ED on phase A was published in March 2006.</p> <p>The comment period closed on 17 July 2006.</p> <p>Final revised IAS 1 resulting from phase A is expected in the third quarter of 2007.</p> <p>A discussion paper on phase B is expected in the fourth quarter of 2007.</p>

Project description	Overview	Timing / Status (see Appendix II for further details)
<p>Financial statement presentation (convergence with U.S. GAAP) (continued)</p>	<p>As part of its redeliberations of the proposals in the ED, the Board has reaffirmed that the main change in revised IAS 1 would be a requirement 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 an income statement and a statement of comprehensive income. Other changes include using the term “statement of financial position” to describe a balance sheet and requiring presentation of an additional balance sheet at the beginning of the comparative period when applying an accounting policy retrospectively, making a retrospective restatement or reclassifying items in the financial statements.</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 subtotals.</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 joint project with the FASB 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, removing the exceptions regarding the initial recognition and 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 decisions with respect to most convergence issues.</p>	<p>An ED is expected in the fourth quarter of 2007.</p> <p>A final standard is expected in the second half of 2008.</p>

Project description	Overview	Timing / Status (see Appendix II for further details)
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>In May 2007 the Board published Discussion Paper <i>Preliminary Views on Insurance Contracts</i>. This discussion paper applies to insurance contracts issued by insurers and reinsurance contracts held by insurers.</p> <p>The Board has proposed the following in respect of insurance contracts:</p> <ul style="list-style-type: none"> • measure insurance liabilities at current exit value • measure insurance liabilities based on discounted expected future cash flows calculated using probability-weighted and current estimates of contractual cash flows and including explicit and unbiased estimates of risk and service margins. <p>A summary of this discussion paper can be found in <i>IFRS Briefing Sheet – Issue 68: Discussion Paper Preliminary Views on Insurance Contracts</i>.</p>	<p>A discussion paper was issued in May 2007.</p> <p>The comment period closes on 16 November 2007.</p> <p>An ED is expected in the second half of 2008.</p>
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.</p> <p>As part of the short-term project, the Board tentatively decided that interests in joint arrangements should be classified as either direct interests in the underlying assets and liabilities of the arrangement, or indirect interests in the expected outcome of the arrangement. Direct interests would be accounted for in accordance with standards applicable to those particular assets and liabilities, and indirect interests would be accounted for using the equity method. Proportionate consolidation would not be allowed.</p>	<p>An ED is expected in the third quarter of 2007.</p> <p>A final standard is expected in the second half of 2008.</p>
Leasing (convergence with U.S. GAAP)	<p>This is a joint project with the FASB, the objective of which is to reconsider the accounting requirements for leasing arrangements. The resulting standard is expected to replace IAS 17.</p>	<p>A discussion paper is expected in the first half of 2008.</p>

Project description	Overview	Timing / Status (see Appendix II for further details)
<p>Liabilities – amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 (partial convergence with U.S. GAAP)</p>	<p>In 2005 the Board published an ED of <i>Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits</i>. 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 (see above <i>Business combinations phase II</i>).</p> <p>The ED proposes significant changes to the accounting for items that currently are treated as contingent liabilities and contingent assets. Under the proposals, contingent liabilities and contingent assets would no longer exist. Instead the term “contingency” would be used to describe uncertainty about the level of benefits (obligations) inherent in an asset (liability), rather than uncertainty about whether the asset (liability) exists. Probability would not be a criterion for the recognition of an asset or liability.</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>In November and December 2006 the Board held round-table discussions to deliberate:</p> <ul style="list-style-type: none"> • recognition and measurement principles proposed in the ED • principles underlying the proposed amendments to IAS 37 • other amendments proposed in the ED. 	<p>An ED was published in June 2005.</p> <p>The comment period closed on 28 October 2005.</p> <p>Round-table discussions were held in the fourth quarter of 2006.</p> <p>A final standard is expected in the second half of 2008.</p>
<p>Management commentary</p>	<p>In 2005 the Board published Discussion Paper <i>Management Commentary</i>, which 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 (see above <i>Conceptual framework</i>).</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>A discussion paper was published in October 2005.</p> <p>The comment period closed on 28 April 2006.</p>

Project description	Overview	Timing / Status (see Appendix II for further details)
Measurement	<p>In 2005 the Board published discussion paper <i>Measurement Bases for Financial Accounting</i>, which analyses a number of possible bases of measurement for assets and liabilities on initial recognition.</p> <p>The Board is expected to consider responses to the discussion paper when deliberating measurement issues as part of its conceptual framework project (see above <i>Conceptual framework</i>).</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>A discussion paper was published in November 2005.</p> <p>The comment period closed on 19 May 2006.</p>
Post-employment benefits, including pensions (convergence with U.S. GAAP)	<p>The objective of this project is to reconsider the accounting for employee benefits required by IAS 19. The project is divided into two phases. The first phase of the project will consider:</p> <ul style="list-style-type: none"> • presentation and disclosure • the definitions and measurement approaches of defined contribution, defined return (cash balance and similar plans) and defined benefit arrangements • smoothing and deferral mechanisms • treatment of settlements and curtailments. <p>The second phase of the project will consider all other issues.</p>	<p>A discussion paper related to the first phase of this project is expected in the fourth quarter of 2007.</p>
Related parties – amendments to IAS 24 <i>Related Party Disclosures</i>	<p>The objectives of this project are to clarify the requirements for state-controlled entities and the definition of a related party.</p> <p>In 2007 the Board published an ED of <i>Proposed Amendments to IAS 24 Related Party Disclosures – State-controlled Entities and the Definition of a Related Party</i>. The ED proposes amending IAS 24 to provide a disclosure exemption in respect of related party relationships that arise through common control by the state, except if indicators of influence exist between the entities. Therefore for entities that are controlled or significantly influenced by the state, the disclosure of related party transactions focuses on those transactions that have been impacted by the related party relationship.</p>	<p>An ED was issued in February 2007.</p> <p>The comment period closed on 25 May 2007.</p> <p>A final standard is expected in the first half of 2008.</p>

Project description	Overview	Timing / Status (see Appendix II for further details)
<p>Related parties – amendments to IAS 24 <i>Related Party Disclosures</i> (continued)</p>	<p>The ED also proposes to amend the definition of related parties to:</p> <ul style="list-style-type: none"> • include the relationship between a subsidiary and an associate of the same entity, in respect of the individual and / or separate financial statements of both the subsidiary and the associate • exclude situations in which two entities are related because a person has significant influence over an entity and a close family member of that person has significant influence over another entity • include other entities in which a significant investor of the reporting entity is a member of key management personnel. <p>The ED also proposes to clarify that:</p> <ul style="list-style-type: none"> • the IAS 24 disclosures apply to relationships and transactions between an entity and its related party – not between two related parties of an entity • related party transactions include future commitments • IAS 24 applies to consolidated, individual and separate financial statements. <p>A summary of the ED can be found in <i>IFRS Briefing Sheet – Issue 63: Exposure Draft of Proposed Amendments to IAS 24 Related Party Disclosures</i>.</p>	
<p>Revenue recognition (convergence with U.S. GAAP)</p>	<p>This is a joint project with the FASB, the objective of which is to develop a comprehensive set of principles for revenue recognition.</p> <p>The Boards are exploring a model of revenue recognition based on customer consideration and performance to date. Two approaches have been considered, but no decisions have been made:</p> <ul style="list-style-type: none"> • Under the first approach, all estimates related to the seller's performance obligation would be made at the date of the sale and would not be revised unless IAS 37 would require a higher provision. • Under the second approach, the seller's performance obligation would be remeasured at each reporting date based on current estimates of future cash flows at that date. 	<p>A discussion paper is expected in the first half of 2008.</p>

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<p>Share-based payment: vesting conditions and cancellations – amendments to IFRS 2 <i>Share-based Payment</i></p>	<p>The objective of this project is to amend IFRS 2 to clarify the definition of vesting conditions and the treatment of all non-vesting conditions; and to provide guidance on the accounting treatment of cancellations by parties other than the entity.</p> <p>In 2006 the Board published an ED of <i>Proposed Amendments to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations</i>.</p> <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>As part of its redeliberations of the proposals in the ED, the Board has reaffirmed that the definition of vesting conditions in IFRS 2 will be amended to clarify that vesting conditions are limited to service conditions and performance conditions. Vesting conditions are “only those conditions that determine whether the entity receives the services that entitle the counterparty to the share-based payment”.</p> <p>The Board also has reaffirmed that the amended IFRS 2 would provide guidance on the accounting for conditions, other than vesting conditions, which determine whether the counterparty receives a share-based payment; these conditions are referred to as non-vesting conditions. This includes guidance on the accounting for a cancellation of a share-based payment by the counterparty.</p>	<p>An ED was issued in February 2006.</p> <p>The comment period closed on 2 June 2006.</p> <p>A final amendment is expected in the third quarter of 2007.</p>
<p>Small and medium-sized entities (SMEs)</p>	<p>The objective of this project is to develop an IFRS that would facilitate financial reporting by, and provide accounting standards suitable for, small and medium-sized entities (SMEs) that want to use international standards.</p> <p>In 2007 the Board published an ED of IFRS for SMEs (SMEs IFRS).</p> <p>The ED proposes a simplified and slimmed-down version of full IFRSs for SMEs as follows:</p> <ul style="list-style-type: none"> • Transactions that the Board considers less relevant to SMEs are omitted from the ED or are cross-referenced to full IFRSs in the event that such transactions occur (e.g., equity-settled share-based payments). • Simplifications have been proposed to the recognition and measurement requirements of full IFRSs in some areas (e.g., there are only two categories of financial assets). • In some areas in which full IFRSs include more than one accounting option, the proposals include the simpler option and cross-reference to full IFRSs for details on applying the more complex option (e.g., SMEs accounting for investment property using the fair value model would refer to IAS 40). 	<p>An ED was issued in February 2007.</p> <p>The comment period closes on 1 October 2007.</p> <p>A final standard is expected in the second half of 2008.</p>

Project description	Overview	Timing / Status (see Appendix II for further details)
<p>Small and medium-sized entities (SMEs) (continued)</p>	<p>The SMEs IFRS is intended to be a stand-alone document organised by topic rather than corresponding to the numbering of full IFRSs. It is intended that the SMEs IFRS will contain significantly less guidance than full IFRSs; therefore, even when the general principles in the proposals appear to be the same as full IFRSs, differences in application may result.</p> <p>The ED proposes that SMEs be defined as entities that publish general purpose financial statements for external users and that do not have public accountability. An entity would have public accountability if it files (or is in the process of filing) financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market, or if it holds assets in a fiduciary capacity for a broad group of outsiders (e.g., a bank or insurance company). There would be no quantitative thresholds in order to qualify as a SME.</p> <p>A summary of the exposure draft can be found in <i>IFRS Briefing Sheet – Issue 62: Exposure Draft of IFRS for Small and Medium-sized Entities</i>.</p>	

Appendix I: Annual improvements – Near-final drafts issued

Overview

The annual improvements process is the IASB's process for dealing with non-urgent, minor amendments to standards that will be processed collectively on an annual basis. Under this process an omnibus exposure draft (ED) will be issued for comment in October each year with a 90-day comment period, and a final omnibus standard will be issued on 1 April each year. The amendments will be effective from 1 January the following year.

As a part of its first annual improvements process, the IASB has issued near-final drafts of amendments to the following standards:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Restructuring. The Board has indicated its intention to propose amending IFRS 1 to improve its structure without amending its substance (i.e., a revised structure that is clearer and better designed to accommodate future changes).
- IFRS 7 *Financial Instruments: Disclosures* – Net finance costs. The Board has indicated its intention to propose amending IFRS 7 to resolve a potential conflict with IAS 1 *Presentation of Financial Statements* regarding the presentation of net finance costs.
- IFRS 7 and IAS 32 *Financial Instruments: Presentation* – Disclosures required when investments in associates and jointly controlled entities are accounted for at fair value through profit or loss. The Board has indicated its intention to propose amending IFRS 7 and IAS 32 to remove the general disclosure requirements of IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*, but to retain the specific disclosures relating to the nature and extent of any significant restrictions on transferring funds to the investor.
- IAS 1 – Reporting compliance with IFRSs. The Board has indicated its intention to propose amending IAS 1 to include disclosure requirements for entities that refer to IFRSs in describing the basis on which their financial statements are prepared, but are not able to make an explicit and unreserved statement of compliance with IFRSs. Such an entity would be required to make disclosures about how its financial statements would have differed if prepared in full compliance with IFRSs.
- IAS 1 – Classification of the liability component of a convertible instrument. The Board has indicated its intention to propose amending IAS 1 so that the conversion of a liability to equity does not affect the classification of a 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.
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* – Status of implementation guidance. The Board has indicated its intention to propose amending IAS 8 to clarify the status of implementation guidance.
- IAS 16 *Property, Plant and Equipment* – Recoverable amount. The Board has indicated its intention to propose amending IAS 16 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*.
- IAS 17 *Leases* – Contingent rents. The Board has indicated its intention to propose amending IAS 17 to require contingent rents relating to an operating lease be recognised as incurred.
- IAS 19 *Employee Benefits* – Contingent liabilities. The Board has indicated its intention to propose amending IAS 19 to remove the reference to the recognition of a contingent liability in order to achieve consistency with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which states that a contingent liability should not be recognised.
- IAS 19 – “Fall due”. The Board has indicated its intention to propose 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” in the description of compensated absences.
- IAS 19 – Curtailments and negative past service cost. The Board has indicated its intention to propose amending IAS 19 to clarify that when a plan amendment reduces benefits for future service, the reduction relating to the future service is a curtailment and any reduction relating to past service is negative past service cost.

- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
– Terminology improvements. The Board has indicated its intention to propose amending IAS 20 to conform terminology used in IAS 20 to the equivalent defined or more widely used terms.
- IAS 27 *Consolidated and Separate Financial Statements* and IFRS 5
– Subsidiary held for sale in separate financial statements. The Board has indicated its intention to propose amending IAS 27 to resolve a potential conflict with IFRS 5 by clarifying that an entity that accounts for investments in subsidiaries in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* continues to account for them as such when classified as held for sale.
- IAS 29 *Financial Reporting in Hyperinflationary Economies*
– Terminology improvements. The Board has indicated its intention to propose amending IAS 29 to update the description of historical cost financial statements and to conform terminology in IAS 29 to the equivalent defined or more widely used terms.
- IAS 38 *Intangible Assets*
– Advertising and promotional activities. The Board has indicated its intention to propose amending IAS 38 to clarify that expenditure in respect of advertising and promotional activities should be recognised as an expense when the benefit of the goods or services is available to the entity; a prepayment should be recognised only for payments made in advance of the receipt of the corresponding goods or services.
- IAS 38 – Unit of production amortisation. The Board has indicated its intention to propose amending IAS 38 to remove the following sentence from IAS 38.98: “There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight-line method”. The Board is proposing the deletion to avoid giving the impression that the units-of-production amortisation method is not allowed if it results in a lower amount of accumulated amortisation than under the straight-line method.
- IAS 39 – Contracts linked to non-financial variables. The Board has indicated its intention to propose amending IAS 39 to delete the exclusion of contracts that are linked to non-financial variables from the definition of a derivative.
- IAS 39 – Segment reporting. The Board has indicated its intention to propose amending IAS 39 to remove the references to the need to designate hedging instruments at the segment level to resolve a potential conflict with IFRS 8 *Operating Segments*.
- IAS 40 *Investment Property*
– Property under construction. The Board has indicated its intention to propose amending IAS 40 to include property under construction or development for future use as investment property within the scope of IAS 40.
- IAS 40 – Leased investment property. The Board has indicated its intention to propose amending IAS 40 to clarify the treatment of any lease liability in determining the carrying amount of an investment property held under a lease.
- IAS 41 *Agriculture* – Point-of-sale costs. The Board has indicated its intention to propose amending IAS 41 to replace “point-of-sale costs” with “costs to sell”.
- IAS 41 – Additional biological transformations. The Board has indicated its intention to propose amending IAS 41 to remove the prohibition on taking “additional biological transformation” into consideration when calculating fair value using discounted cash flows.

Appendix II: Forthcoming documents

Third quarter 2007	Fourth quarter 2007	First half 2008	Later
Business combinations: phase II – final standard	Annual improvements – exposure draft	Annual improvements – final standard	Conceptual framework: phase B – discussion paper
Conceptual framework: phase D – discussion paper	Conceptual framework: phase A – exposure draft	Consolidation, including SPEs – discussion paper	Earnings per share – final standard
Earnings per share – exposure draft	Cost of an investment in a subsidiary in the separate financial statements of a parent on first-time adoption of IFRSs – final standard	Leasing – discussion paper	Fair value measurement guidance – exposure draft
Fair value measurement guidance – round-table discussion	Financial statement presentation: phase B – discussion paper	Related parties disclosures – final standard	Income taxes – final standard
Financial instruments portions – exposure draft	Income taxes – exposure draft	Revenue recognition – discussion paper	Insurance contracts phase II – exposure draft
Financial instruments puttable at fair value – final standard	Post-employment benefits – discussion paper		Joint ventures – final standard
Financial statement presentation: phase A – final standard			Liabilities – final standard
Joint ventures – exposure draft			SMEs – final standard
Share-based payment – final standard			

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

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