

# IFRS Briefing Sheet

Exposure Draft of *Proposed Improvements to International Financial Reporting Standards*

October 2007, **Issue 77**

This IFRS Briefing Sheet summarises the proposed amendments to the International Financial Reporting Standards (IFRSs) contained in the exposure draft (ED) of *Proposed Improvements to International Financial Reporting Standards* (Annual Improvement Standard) published by the International Accounting Standards Board (IASB) on 11 October 2007.

The ED is the result of the IASB's first annual improvements project, which has included the IASB accumulating throughout the year what it believes will be non-urgent, minor improvements to IFRSs. The ED provides these proposed improvements on a collective basis. The final Annual Improvement Standard is expected to be published in April 2008 and will be effective for annual periods beginning on or after 1 January 2009. Early adoption would be permitted provided that all of the annual improvements contained in the final Annual Improvement Standard and IAS 1 *Presentation of Financial Statements* (as revised in 2007) are applied in the same period.

The IASB has invited comments on this ED by 11 January 2008.

The following is a summary of the proposed amendments to IFRSs contained in the ED:

## **IFRS 1 *First-time Adoption of International Financial Reporting Standards***

### • Restructuring of IFRS 1

The ED proposes moving the exceptions and exemptions contained in the main body of IFRS 1 to an appendix and removing IFRS 1 transitional provisions that are no longer considered relevant. The objective of the proposed amendments is to improve the IFRS 1 structure without amending its substance.

## **IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***

### • Plan to sell the controlling interest in a subsidiary

The ED proposes specifying in IFRS 5 that if an entity will lose control of a subsidiary as part of a sale plan, then it would classify such subsidiary's assets and liabilities as held for sale.

## **IFRS 7 *Financial Instruments: Disclosures***

### • Presentation of finance costs

The ED proposes removing implementation guidance contained currently in IFRS 7 indicating that total interest income and expense

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could be presented in the statement of comprehensive income as a component of net finance costs. Such presentation is prohibited by IAS 1 *Presentation of Financial Statements* unless the finance revenue and costs included in net finance costs are disclosed.

### IAS 1

- **Statement of compliance with IFRSs**

The ED proposes additional IAS 1 disclosure requirements for entities that refer to IFRSs in describing the basis on which their financial statements are prepared, but that are not able to make an explicit and unreserved statement of compliance with IFRSs. Such an entity would disclose how its financial statements would have differed if prepared in full compliance with IFRSs.

- **Current / non-current classification of convertible instruments**

The ED proposes to amend IAS 1 so that the potential conversion of a liability into equity does not affect the classification of such 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.

- **Current / non-current classification of derivatives**

The ED proposes removing the potential implication currently in IAS 1 that financial liabilities that are classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* must be presented as current liabilities.

### IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

- **Status of implementation guidance**

The ED proposes amending IAS 8 to clarify that the implementation guidance, including the illustrative examples and disclosures, is not mandatory.

### IAS 10 Events after the Reporting Period

- **Dividends declared after the end of the reporting period**

The ED proposes clarifying in IAS 10 that the reason why dividends declared after the reporting date are not recognised as a liability is because no present obligation exists at the reporting date.

### IAS 16 Property, Plant and Equipment

- **Recoverable amount**

The ED proposes replacing in the IAS 16 definition of a recoverable amount the term “net selling price” with the term “fair value less costs to sell”, in order to achieve consistency with IFRS 5 and IAS 36 *Impairment of Assets*.

- **Sale of assets held for rental**

The ED proposes to amend IAS 16 for presentation issues that arise from assets that are rented and then subsequently sold on a routine basis. The proposed amendment would result in such assets being transferred to inventories at their carrying amount when they cease to be rented and are held for sale. The proceeds from the sale of such assets would be recognised as revenue in accordance with IAS 18 *Revenue*.

This proposed amendment would result in a consequential amendment to IAS 7 *Statement of Cash Flows*.

### IAS 17 Leases

- **Classification of leases of land and buildings**

The ED proposes addressing in IAS 17 a perceived inconsistency between the specific guidance on leases of land and buildings and the general lease guidance. The proposed amendment would remove guidance in relation to leases of land that duplicates general guidance applying to all leases.

- **Contingent rents**

The ED proposes amending IAS 17 to require contingent rents relating

to operating leases be recognised as incurred. The objective of the proposed amendment is to align the treatment of contingent rents for operating leases with such treatment for finance leases.

### IAS 18

- **Costs of originating a loan**

The ED proposes aligning IAS 18 guidance on transaction costs related to originating a financial asset with the definition of transaction costs as included in IAS 39.

### IAS 19 Employee Benefits

- **Curtailments and negative past service cost**

The ED proposes clarifying in IAS 19 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. The ED also proposes to remove an IAS 19 reference to materiality.

- **Plan administration costs**

The ED proposes revising the IAS 19 definition of return on plan assets to exclude from administration costs any costs that have been reflected in the measurement of the defined benefit obligation.

- **Replacement of term “fall due”**

The ED proposes replacing in IAS 19 the term “fall due” in the definition of short-term employee benefits with the term “employee becomes entitled” and replacing the term “do not fall due” in the definition of other long-term employee benefits with the term “employee does not become entitled”. The objective of the proposed amendment is to address the period during which the employee becomes entitled to such benefits in these definitions.

- **Guidance on contingent liabilities**

The ED proposes removing the IAS 19 reference to the recognition of contingent liabilities in order to achieve consistency with IAS 37

*Provisions, Contingent Liabilities and Contingent Assets*, which states that contingent liabilities should not be recognised.

### **IAS 20 Accounting for Government Grants and Disclosure of Government Assistance**

- **Consistency of terminology with other IFRSs**

The ED proposes conforming IAS 20 terminology to the equivalent defined or more widely used terms in other IFRSs. For example, the proposed amendment replaces “taxable income” with “taxable profit or tax loss” and “recognised in income” with “recognised in profit or loss”.

This proposed amendment would result in consequential amendments to IAS 41 *Agriculture*.

- **Government loans with a below-market rate of interest**

The ED proposes to amend IAS 20 to clarify that the benefit of a loan with a below-market rate of interest received from a government should be quantified by imputing interest in accordance with IAS 39.

### **IAS 23 Borrowing Costs (Revised)**

- **Components of borrowing costs**  
The ED proposes aligning IAS 23 with IAS 39 by referring to the use of the effective interest rate, as described in IAS 39, as a component of borrowing costs.

### **IAS 27 Consolidated and Separate Financial Statements**

- **Measurement of subsidiary held for sale in separate financial statements**

The ED proposes aligning IAS 27 with IFRS 5 by clarifying that a parent entity that accounts for an investment in a subsidiary in accordance with IAS 39 (in its separate financial statements) and subsequently classifies the

investment as held for sale (or held in a disposal group classified as held for sale) would continue to account for the investment in accordance with IAS 39.

### **IAS 28 Investments in Associates**

- **Required disclosures when investments in associates are accounted for at fair value through profit or loss**

The ED proposes clarifying the IAS 28 disclosures required by an investor that accounts for its investment in an associate at fair value through profit or loss in accordance with IAS 39.

This proposed amendment would result in consequential amendments to IFRS 7 and IAS 32 *Financial Instruments: Presentation*.

- **Impairment of investments in associates**

The ED proposes amending IAS 28 to clarify when it is appropriate to reverse an impairment charge against an investment in an associate.

### **IAS 29 Financial Reporting in Hyperinflationary Economies**

- **Consistency of terminology with other IFRSs**

The ED proposes amending the IAS 29 description of “historical cost financial statements” and conforming IAS 29 terminology to the equivalent defined or more widely used terms in other IFRSs. For example, the proposed amendment replaces “net income” with “profit or loss”.

### **IAS 31 Interests in Joint Ventures**

- **Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss**

The ED proposes clarifying the IAS 31 disclosures required by a venturer in a jointly controlled entity that accounts for its interest in the

jointly controlled entity at fair value through profit or loss in accordance with IAS 39.

This proposed amendment would result in consequential amendments to IFRS 7 and IAS 32.

### **IAS 34 Interim Financial Reporting**

- **Earnings per share disclosures in interim financial reports**

The ED proposes aligning IAS 34 with IAS 33 *Earnings per Share* by requiring only entities within the scope of IAS 33 to disclose basic and diluted earnings per share in interim financial statements.

### **IAS 36 Impairment of Assets**

- **Disclosure of estimates used to determine recoverable amount**

The ED proposes to amend IAS 36 to align the disclosure requirements for when the unit’s (or group of unit’s) recoverable amount is based on fair value less costs to sell with those required for when the recoverable amount is based on value in use.

### **IAS 38 Intangible Assets**

- **Advertising and promotional activities**

The ED proposes clarifying in IAS 38 that expenditure on advertising and promotional activities is recognised as an expense at the time that the benefit of the goods or services becomes available to the entity. A prepayment asset in relation to the advertising and promotional activities would be recognised only for payments made in advance of the entity having access to the goods or receiving the services.

- **Unit of production method of amortisation**

The ED proposes amendments to IAS 38 to avoid giving the impression that the unit 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

- **Definition of a derivative**

The ED proposes removing the exclusion of contracts that are linked to non-financial variables from the IAS 39 definition of a derivative.

- **Reclassification of financial instruments into or out of the classification of at fair value through profit or loss**

The ED proposes to amend IAS 39 to address when specific financial instruments start or cease to be accounted for at fair value through profit or loss.

- **Designating and documenting hedges at the segment level**

To eliminate a conflict between IAS 39 and IFRS 8 *Operating Segments*, the ED proposes removing the IAS 39 references to the need to designate hedging instruments at the segment level.

- **Applicable effective interest rate on cessation of fair value hedge accounting**

The ED proposes amending the effective interest rate application guidance in IAS 39 to incorporate the use of a revised effective interest rate calculation, when applicable, for situations when a fair value hedge is remeasured.

- **Treating loan prepayment penalties as closely related embedded derivatives**

The ED proposes to remove from IAS 39 the suggestion that a prepayment option in a host debt

contract is not closely related unless the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument.

## IAS 40 Investment Property

- **Property under construction or development for future use as investment property**

The ED proposes including property under construction or development for future use in the IAS 40 definition of investment property. The proposed amendment results in such property being within the scope of IAS 40.

This proposed amendment also results in a consequential amendment to IAS 16.

- **Consistency of terminology with IAS 8**

The ED proposes aligning IAS 40 terminology with respect to voluntary changes in accounting policies with such terminology included in IAS 8.

- **Investment property held under lease**

The ED proposes amending IAS 40 to clarify how an investment property under lease should be recognised.

## IAS 41

- **Point-of-sale costs**

The ED proposes aligning IAS 41 terminology with IFRS 5 and IAS 36 by replacing the term "point-of-sale costs" with the term "costs to sell".

The proposed amendment would result in consequential amendments to IFRS 5, IAS 2 *Inventories* and IAS 36.

- **Discount rate for fair value calculations**

The ED proposes to amend IAS 41 to remove the requirement to use a pre-tax market determined discount rate to determine fair value. The proposed amendment requires a current market-determined rate to be used but permits this to be a pre-tax or post-tax rate according to the valuation methodology used to determine fair value.

- **Additional biological transformation**

The ED proposes to remove the inability to consider "additional biological transformation" in IAS 41 when calculating fair value using discounted cash flows.

- **Minor wording improvements: examples of agricultural produce and products**

The ED proposes revising the IAS 41 examples of agricultural produce and products that are the result of processing after harvest and making terminology changes to clarify the treatment of government grants related to biological assets.

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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