KPMG

IFRS in Brief

February 2006, **Issue 21**

This issue of *IFRS In Brief* covers the January 2006 meeting of the International Accounting Standards Board (IASB).

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

Summary

At this meeting the Board:

- discussed comments received in response to its proposals made as a result of phase II of its business combinations project
- decided that a proposed amendment to IAS 23 *Borrowing Costs* requiring the capitalisation of qualifying borrowing costs would allow for prospective, retrospective or partially retrospective application for both first-time adopters and existing users of IFRS
- discussed several issues related to a planned exposure draft (ED) of proposed amendments to IAS 1 *Presentation of Financial Statements*, as part of segment A of the performance reporting project
- decided to propose extending application of the treasury stock method of calculating diluted earnings per share (EPS) to all convertible instruments
- received an update on the January 2006 meeting of the International Financial Reporting Interpretations Committee (IFRIC).

Business Combinations

At this meeting the Board discussed comments received in response to the EDs of *Proposed Amendments to IFRS 3 Business Combinations* and *Proposed Amendments to IAS 27 Consolidated and Separate Financial Statements*.

The Board agreed on the approach it will take in its future deliberations, but no specific decisions were made at this meeting.

The Board agreed to deliberate issues by aligning them with the fundamental principles identified in the ED of amendments to IFRS 3. The Board noted that responses did not seem to express any points of view that had not been considered in preparing the EDs. The Board also noted that there was significant opposition among respondents to the equity classification of non-controlling interests.

The Board also discussed project timing, noting that deliberations will take about a year and that the final standards probably will be issued in mid-2007.

Borrowing Costs

In previous meetings the Board decided to eliminate the option of expensing borrowing costs associated with the acquisition, construction or production of

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qualifying assets, which currently is allowed under IAS 23.

In this meeting the Board decided to propose that the revised requirements for mandatory capitalisation be applied prospectively to those qualifying assets that meet the criteria for the capitalisation of borrowing costs after the effective date of the amendment. However, entities would be allowed to apply the requirements retrospectively to assets that meet the capitalisation criteria after any date before the effective date. Transitional requirements would be the same for first-time adopters and existing users of IFRSs.

The Board expects to issue an ED in the first quarter of 2006.

Performance Reporting: Segment A

At this meeting the Board continued discussing its proposed amendments to IAS 1 in respect of performance reporting. The Board:

- confirmed its previous decision to propose the presentation of a statement of financial position as at the beginning of the comparative period, but decided not to propose amending current interim reporting requirements for condensed financial statements
- decided to propose amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* to require a reconciliation of recognised income and expense reported under IFRSs to the equivalent measure reported under previous GAAP, instead of a reconciliation of profit or loss
- decided to amend the titles of IAS 7 and IAS 10 to *Statement of Cash Flows* and *Events after the End of the Reporting Date* respectively
- decided that total dividends to equity holders and the related amount per share should be disclosed in the statement of changes in equity or in the notes, but not in the statement of recognised income and expense.

Earnings per Share

At this meeting the Board reaffirmed its previous decision 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 proposals of the U.S. Financial Accounting Standards Board (FASB) in its ED on earnings per share.

The Board also decided to propose that the "treasury stock method" be applied in 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 FASB proposals.

Other

The Board also:

- discussed the organisation and content of a draft ED of accounting standards for small and medium-sized entities; a thorough discussion of the draft is planned for the Board's February 2006 meeting
- reviewed issues discussed at the January 2006 meeting of the financial instruments working group, including the derecognition rules of IAS 39 *Financial Instruments: Recognition and Measurement* and the concept of the reference market in the FASB's definition of fair value[1]
- reviewed issues discussed at the January 2006 meeting of the insurance working group relating to the accounting models for non-life insurance contracts
- reviewed issues discussed at IFRIC's January 2006 meeting, and approved for issue the final proposed Interpretation *Reassessment of Embedded Derivatives*.

1 The working draft of the FASB's standard *Fair Value Measurement* 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"*. In its December 2005 meeting the Board tentatively decided to adopt the definition proposed by the FASB.

IASB Observer Notes

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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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Publication name: *IFRS in Brief*

Publication number: Issue 21

Publication date: February 2006