

# IFRS in Brief

April 2006, **Issue 23**

This issue of *IFRS in Brief* covers the March 2006 meeting of the International Accounting Standards Board (IASB), and the IASB's recent statement of best practice on its working relationships with other standard setters.

## IASB Meeting

At this meeting the Board:

- made several decisions about the direction of the joint short-term convergence project with the U.S. Financial Accounting Standards Board (FASB) on performance reporting
- made final decisions in relation to its exposure draft (ED) on financial instruments puttable at fair value
- confirmed a number of the proposals that were included in the ED of phase II of the business combinations project
- discussed phase II of the insurance project
- discussed the ED of an IFRS for small and medium-sized entities (SMEs)
- discussed the definition of an "entity" in the conceptual framework project
- made a number of decisions in relation to the ED of *Proposed*

*Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets*

- discussed a number of other projects, agreed to add an IFRS first-time adoption issue to its agenda, and noted that a project timetable will be placed on the IASB's Web site.

## Performance Reporting

At this meeting the Board discussed several issues related to the joint short-term convergence project with the U.S. FASB on performance reporting. The Board:

- confirmed that all financial statements will be included in the scope of the project
- agreed to change the name of the project to "financial statement presentation"
- agreed that totals and subtotals will be covered by the project; however, management discussion and analysis, pro forma measures, segment reporting requirements, ratios and forecasts, and financial statements for specific industries, generally will not be part of the project
- decided to address condensed financial statements at a later stage
- discussed the following principles of the project and voted in favour of their general substance, but agreed that further work on their articulation is required: financial information

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should be comparative and consistent, and give a cohesive view of the entity; financial information should be useful in assessing an entity's liquidity; "value-creating" activities should be separated from "capital" activities; financial information should assist users in understanding measurement methods and their precision, and changes in carrying amounts; and information should be grouped together if it is sensitive to similar economic conditions

- agreed that informal meetings with the Joint International Group<sup>1</sup> should accompany the project.

A discussion paper is expected in the first quarter of 2007.

#### Financial Instruments Puttable at Fair Value

In finalising its exposure draft on financial instruments puttable at fair value, at this meeting the Board:

- agreed to clarify that generally fair value cannot be approximated using book values
- agreed to clarify that a conversion right on a puttable share would be a liability
- decided not to include an effective date in the ED, but will encourage early adoption
- tentatively decided to propose retrospective application, except for first-time adopters of IFRSs where the liability already has been extinguished at the date of transition.

#### Business Combinations Phase II

Continuing its discussions in respect of phase II of the business combinations project and the comments received on the ED, at this meeting the Board:

- agreed with the underlying definitions, assertions, principles and presumptions of the proposals in the business combinations project

- confirmed the use of the full goodwill method, whereby 100 percent of the acquiree's goodwill is recognised regardless of the percentage interest acquired
- confirmed that in obtaining or losing control over an acquiree, any non-controlling interest held or retained should be remeasured to fair value, with any resulting gain or loss being recognised in profit or loss
- discussed the possible reasons leading to a bargain purchase, and confirmed that a gain in such cases should be recognised only after deducting the goodwill that would have originated from that business combination
- confirmed that an overpayment should not be recognised as an expense at the acquisition date, but rather should form part of goodwill
- confirmed that changes in controlling interests should be treated as equity transactions, with no gain or loss being recognised in profit or loss.

#### Insurance Phase II

Continuing its discussions in respect of phase II of the insurance project, at this meeting the Board:

- agreed that policyholder participation rights should not be treated as a compound instrument with a debt and equity component, and that dividends to participating policyholders should be recognised as an expense
- reviewed draft guidance on estimating cash flows and made several suggestions to the staff
- discussed embedded derivatives, discount rates, and the recognition and derecognition of insurance contracts, with further discussions to follow.

#### Standard for SMEs

The Board continued its discussions of an accounting standard for SMEs,

and at this meeting the staff noted the following:

- The percentage of completion method for construction contracts has been retained in the ED.
- Only the expense model for borrowing costs will be included in the ED.
- The ED will focus on cash-settled share-based payments.
- Defined benefit plans will not be included in the ED.

The Board tentatively confirmed its intention to include options in respect of accounting policy choices in the ED.

The staff plans to circulate to Board members the sections of the ED dealing with income taxes and financial instruments, and a pre-ballot draft of the ED is expected to be ready in May.

#### Conceptual Framework – the Entity

At this meeting the Board:

- agreed that the definition of "entity" should not be limited to legal entities, but could not be a group of assets and liabilities
- agreed that a parent entity can be a reporting entity in its own right for the purpose of preparing separate financial statements; only a slim majority of Board members was in favour of this approach and further discussions are planned.

#### Proposed Amendments to IAS 37

As part of its review of responses to the ED on IAS 37, at this meeting the Board:

- agreed to clarify that liabilities arising from the deferral of revenue, including those within the scope of IAS 18 *Revenue*, are excluded from the scope of IAS 37
- agreed not to define "provision"
- decided that the scope of IAS 37 would be all liabilities other than

<sup>1</sup> An advisory group established jointly by the IASB and FASB.

liabilities that are within the scope of other IFRSs

- agreed that the measurement of reimbursement rights should be included in the final standard.

The staff noted that the measurement aspects of IAS 37, which some constituents thought had been changed significantly by the ED, would be discussed at a later Board meeting.

### Other Projects

Also at this meeting:

- The Board agreed to add to its agenda the determination of the cost of a subsidiary upon the adoption of IFRSs.
- The Board agreed that qualifying assets measured initially at fair value, in particular biological assets under IAS 41 *Agriculture*, should be excluded from the scope of IAS 23 *Borrowing Costs* within the short-term convergence project on borrowing costs.
- The Board decided to suspend work on its long-term project on joint ventures pending the outcome of the short-term project, which aims to require jointly controlled entities to be equity accounted.
- The Board discussed the staff's proposal to add a project on lease accounting (possibly jointly with the FASB) to its agenda. The Board agreed that educational sessions on this topic are necessary and that discussions with interested users are required before a final decision can be made. The issue will be discussed by the Standards Advisory Council in June.
- The Board reviewed two methods of recognising revenue that were first

considered at its February 2006 meeting: the extinguishment-based method (EBM) and the performance-based method (PBM). The Board asked the staff to work on a combination of the two methods for discussion at the joint meeting of the IASB and the FASB in April.

- The Board agreed to coordinate the application date for revised IAS 27 with revised IFRS 3 (1 January 2009) as long as the business combinations project is not deferred as a result. An educational session on the consolidations project will be held at the joint meeting of the IASB and the FASB in April.
- The Board received an update on current projects of the International Financial Reporting Interpretations Committee (IFRIC).
- The Board received an updated technical plan and discussed various project deadlines. A project timetable is to be placed on the IASB's Web site, and will be updated quarterly.

### Working Relationships with Standard Setters

On 6 April 2006 the IASB published a statement of best practice between the IASB and other accounting standard setters. The statement outlines the respective responsibilities of the IASB and other standard setters in order to promote the development and application of, and convergence with, IFRSs, taking into account the needs of SMEs and emerging markets.

The responsibilities of the IASB include:

- allowing other standard setters time to place documents issued by the

IASB in the local context and to formulate proper responses

- taking into account the need for other standard setters to process documents locally, including time for translation and compliance with local legislation, in setting effective dates
- allowing other standard setters the opportunity of participating in research and project teams
- ensuring that its activities are reported widely and updated regularly.

The responsibilities of other standard setters include:

- submitting their own views on consultative documents, rather than simply summarising the views of constituents
- communicating with one another on areas of common interest
- communicating conceptual disagreements to the IASB as early as possible in the development of a standard
- striving for full adoption of IFRSs.

### 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.

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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