

IFRS Briefing Sheet

IASB's Projects Overview

September 2006, **Issue 55**

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 July 2006 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
<p>Borrowing costs (convergence with U.S. GAAP)</p>	<p>This is a joint short-term convergence project with the U.S. Financial Accounting Standards Board (FASB) to remove the main differences between IAS 23 <i>Borrowing Costs</i> and U.S. SFAS 34 <i>Capitalization of Interest Cost</i>.</p> <p>In 2006 the Board published an exposure draft of <i>Proposed Amendments to IAS 23</i> proposing to eliminate the option available currently in IAS 23 to expense borrowing costs associated with the acquisition, construction or production of a "qualifying" asset.</p> <p>A summary of this ED can be found in IFRS Briefing Sheet – <i>Issue 50: Exposure Draft of Proposed Amendments to IAS 23 Borrowing Costs</i>.</p>	<p>An exposure draft (ED) was published in May 2006.</p> <p>The comment period closes on 29 September 2006.</p> <p>A final standard is expected in the first half of 2007.</p>
<p>Business combinations phase II: application of the purchase method (convergence with U.S. GAAP)</p>	<p>This is a joint project with the FASB that addresses the application of the purchase method of accounting for business combinations.</p> <p>In 2005 the Board published an ED of <i>Proposed Amendments to IFRS 3 Business Combinations</i> and related EDs on minority interests and provisions (see below).</p> <p>Under the proposals, the total amount to be recognised by the acquirer would be the full fair value of the business over which it obtains control even if the combination is achieved in stages or if the acquirer owns less than 100 percent of the equity interest of the acquiree at the date of acquisition. Consequently, if the acquirer owns less than 100 percent of the equity interests in the acquiree, then goodwill attributable to the non-controlling (minority) interest would be recognised.</p> <p>A summary of this ED can be found in IFRS Briefing Sheet – <i>Issue 29: Publication of the Exposure Draft of Proposed Amendments to IFRS 3 Business Combinations</i>.</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>
<p>Conceptual framework (convergence with U.S. GAAP)</p>	<p>This is a joint project with the FASB aimed at developing a common conceptual framework. 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> <ul style="list-style-type: none"> • phase A: Objectives and qualitative characteristics • phase B: Elements, recognition and measurement attributes • phase C: Measurement • phase D: Reporting entity • phase E: Presentation and disclosure • phase F: Purpose and status • phase G: Application to not-for-profit entities • phase H: Finalisation. 	<p>A discussion paper on phase A was issued in July 2006.</p> <p>The comment period closes on 3 November 2006.</p> <p>Discussion papers on phases B and D are expected in the first half of 2007.</p>

Project description	Overview	Timing / Status
<p>Conceptual framework (convergence with U.S. GAAP) (continued)</p>	<p>In 2006, as the result of phase A of the project, the Board published a 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 discusses the objectives and qualitative characteristics of general purpose financial reporting for business entities in the private sector.</p> <p>A summary of this discussion paper can be found in IFRS Briefing Sheet – <i>Issue 52 – Discussion Paper on Objectives and Qualitative Characteristics of Financial Reporting</i>.</p> <p>The Boards have started deliberating issues in phases B and D, including working definitions of asset and liability, the reporting entity concept, and the concept of control. The Boards also agreed on a plan for deliberating phase C and decided that it would consist of three milestones, each of which would include public consultations and a consultation document (discussion paper or ED).</p>	
<p>Consolidation and minority interests – amendments to IAS 27 <i>Consolidated and Separate Financial Statements</i> (convergence with U.S. GAAP)</p>	<p>As part of the business combinations phase II project, the Board published an ED of <i>Proposed Amendments to IAS 27 Consolidated and Separate Financial Statements</i>.</p> <p>The proposed changes would affect how non-controlling (minority) interests are accounted for. Under the proposals, losses would be allocated to non-controlling interests, with any guarantees or other support being accounted for separately; the recognition of gains or losses in profit or loss on changes in non-controlling interests that do not involve a change in control would be precluded; and the remeasurement of any remaining non-controlling interest in a former subsidiary to fair value upon the loss of control would be required.</p> <p>A summary of this ED can be found in <i>IFRS Briefing Sheet – Issue 30: Publication of Exposure Draft of Proposed Amendments to IAS 27 Consolidated and Separate Financial Statements</i>.</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>
<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 <i>Consolidated and Separate Financial Statements</i> and SIC-12 <i>Consolidation – Special Purpose Entities</i>.</p> <p>The Board has tentatively decided that control would be defined as “the ability to direct the strategic financing and operating policies of an entity so as to access benefits flowing from the entity and increase, maintain or protect the amount of those benefits”.</p>	<p>An ED is expected in the first half of 2007.</p>

Project description	Overview	Timing / Status
<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 <i>First-time Adoption of IFRSs</i></p>	<p>The objective of this project is to consider a potential first-time adoption exemption to restating the cost of an investment in a subsidiary in the separate financial statements of a parent in accordance with IAS 27 <i>Consolidated and Separate Financial Statements</i> when doing so would be impracticable.</p>	<p>An ED is expected in the third quarter of 2006.</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 ED on earnings per share.</p> <p>The IASB decided 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 FASB proposals in its ED on earnings per share.</p> <p>The Board also decided to propose that the "treasury stock method" be applied when calculating the dilutive effect of all convertible instruments rather than being limited to options, warrants and their equivalents; this proposal would create divergence from U.S. GAAP.</p>	<p>An ED is expected in the third quarter of 2006.</p>
<p>Emission trading schemes and government grants (convergence with U.S. GAAP)</p>	<p>The goal of this project is to amend IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>.</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>	<p>An ED is expected in the second half of 2007.</p>
<p>Employee benefits, including pensions (convergence with U.S. GAAP)</p>	<p>The objective of this project is to reconsider accounting for employee benefits required by IAS 19 <i>Employee Benefits</i>. The first phase of the project will focus on short-term revisions that would result in significant improvements. The second phase will consider all remaining issues.</p>	<p>To be determined, but an interim revised standard is expected in 2010.</p>
<p>Fair value measurements</p>	<p>This project is focused on developing comprehensive guidance on how entities should measure fair value when fair value measurement is required by a standard.</p> <p>The Board decided to publish the FASB's draft standard <i>Fair Value Measurements</i> as an ED, identifying any areas of disagreement between the IASB and the FASB.</p>	<p>A discussion paper is expected in the fourth quarter of 2006.</p>

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Financial instruments puttable at fair value	<p>In 2006 the Board published an ED of <i>Proposed Amendments to IAS 32 Financial Instruments: Presentation</i> and IAS 1 <i>Presentation of Financial Statements – Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation</i>.</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"> • those that are puttable at the fair value of a <i>pro rata</i> share of the net assets of an entity • those that require an entity to deliver a <i>pro rata</i> share of its net assets upon liquidation. 	<p>An ED was issued in June 2006.</p> <p>The comment period closes on 23 October 2006.</p> <p>A final standard is expected in the first half of 2007.</p>
Financial statement presentation (formerly performance reporting; convergence with U.S. GAAP)	<p>This project is a joint project with the FASB. The objective of the project is to enhance the usefulness of information presented in the primary financial statements. The project consists of three phases.</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>. The main change proposed by the ED is 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 a statement of profit or loss plus a statement detailing other recognised income and expense. 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>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. The Board has made the following tentative decisions on the overall format for the presentation of the primary financial statements:</p> <ul style="list-style-type: none"> • The primary financial statements would use consistent categories to classify assets and liabilities and changes therein; business and financing categories would represent primary sections in each of the financial statements. • The financing category would include liabilities for which IFRSs require the separate calculation of financing income or expense; entities would be allowed an accounting policy choice to classify certain liabilities meeting the definition of financing in the business category if specified criteria are met. 	<p>An ED on phase A was published in March 2006.</p> <p>The comment period closed on 17 July 2006.</p> <p>The final amendments resulting from phase A are expected to be published in the first half of 2007.</p> <p>A discussion paper on phase B is expected in the first half of 2007.</p>

Project description	Overview	Timing / Status
<p>Financial statement presentation (formerly performance reporting; convergence with U.S. GAAP) (continued)</p>	<ul style="list-style-type: none"> The business category would be split between treasury and operating sections, with all financial assets included in the treasury section; entities would be allowed an accounting policy choice to classify financial assets other than cash and cash equivalents as operating. The operating section in a balance sheet (renamed a statement of financial position) would be divided into operating working capital (which would include assets and liabilities expected to be realised or settled within the entity's operating cycle) and other operating assets and liabilities; this disaggregation would not be used for the statement of cash flows or the statement of recognised income and expense. <p>Phase C will focus on interim reporting.</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 project 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, exemptions from the initial recognition of deferred tax assets and liabilities, the 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 tentative decisions with respect to most convergence issues.</p>	<p>An ED is expected in the fourth quarter of 2006.</p>
<p>Insurance contracts phase II</p>	<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>The Board tentatively decided that insurance liabilities should be measured using a current value model. Measurement should be based on discounted expected future cash flows, and should include explicit risk and service (profit) margins. In determining the margin, current exit value (what the insurer would have to pay to transfer its obligations to another entity) would be preferred to the current entry value (what the policyholder would pay for an identical contract).</p>	<p>A discussion paper is expected in the fourth quarter of 2006.</p>

Project description	Overview	Timing / Status
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. 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 fourth quarter of 2006.</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 <i>Leases</i>.</p>	<p>A discussion paper is expected in 2008.</p>
<p>Liabilities – amendments to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> and IAS 19 <i>Employee Benefits</i> (partial convergence with U.S. GAAP)</p>	<p>The Board published an ED of <i>Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets</i> and <i>IAS 19 Employee Benefits</i> in 2005. 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.</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>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
Management commentary	<p>The IASB's Discussion Paper <i>Management Commentary</i> 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.</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>
Measurement objectives	<p>The IASB's Discussion Paper <i>Measurement Bases for Financial Accounting</i> analyses a number of possible bases of measurement for assets and liabilities on initial recognition.</p> <p>The Board will consider responses to the discussion paper when deliberating measurement issues as part of its conceptual framework project.</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>
Related parties – amendments to IAS 24 <i>Related Party Disclosures</i>	<p>The objective of this project is to amend IAS 24 <i>Related Party Disclosures</i> to clarify the requirements for state-controlled entities.</p>	<p>An ED is expected in the fourth quarter of 2006.</p>
Revenue recognition (convergence with U.S. GAAP)	<p>This is a joint project with the FASB to develop a comprehensive set of principles for revenue recognition. The Boards are exploring a model of revenue recognition that would recognise revenue proportionately as performance occurs, if the customer must accept performance to date. Customer acceptance would be deemed to occur only when it gives the entity an unconditional right to receive payment for its performance to date.</p>	<p>A discussion paper is expected in the second half of 2007.</p>

Project description	Overview	Timing / Status
<p>Share-based payment – amendments to IFRS 2 <i>Share-based Payment</i></p>	<p>An ED of <i>Proposed Amendments to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations</i> proposes that:</p> <ul style="list-style-type: none"> • vesting conditions be limited to service and performance conditions • cancellations by parties other than the entity be accounted for in the same way as cancellations by the entity. <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>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 fourth quarter of 2006.</p>
<p>Segment reporting (convergence with U.S. GAAP)</p>	<p>This is a joint short-term convergence project with the FASB to align IAS 14 <i>Segment Reporting</i> with the comparable U.S. standard SFAS 131 <i>Disclosure about Segments of an Enterprise and Related Information</i>.</p> <p>The IASB issued ED 8 <i>Operating Segments</i> proposing adoption of the U.S. management approach to the identification of segments and reporting of segment information.</p> <p>This ED proposes segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Such components (operating segments) would be identified on the basis of internal reports that the entity's chief operating decision maker reviews regularly in allocating resources to segments and in assessing their performance.</p> <p>A summary of this ED can be found in <i>IFRS Briefing Sheet – Issue 44: Exposure Draft 8 Operating Segments</i>.</p>	<p>An ED was issued in January 2006.</p> <p>The comment period closed on 19 May 2006.</p> <p>A final standard is expected in the fourth quarter of 2006.</p>
<p>Small and medium-sized entities (SMEs)</p>	<p>The Board is developing accounting standards appropriate for SMEs, which would comprise entities that are not fiduciary organisations, and that have not issued and are not in the process of issuing publicly traded financial instruments.</p> <p>The proposals are expected to be based on the basic principles of IFRSs, but with modifications to simplify disclosure and presentation, as well as selected recognition and measurement requirements.</p> <p>In accounting for transactions that are not addressed specifically by the <i>IFRS for SMEs</i>, SMEs would first consider analogous principles in the standard before considering the full text of IFRSs.</p> <p>The Board published a discussion paper in 2004. A summary of the discussion paper can be found in <i>IFRS Briefing Sheet – Issue 3: Publication of Discussion Paper on SMEs, IFRIC D7, IFRIC D8 and IFRIC D9</i>.</p>	<p>A discussion paper was published in June 2004.</p> <p>The comment period closed on 24 September 2004.</p> <p>A draft ED was published in August 2006.</p> <p>A final ED is expected in the fourth quarter of 2006.</p>

Forthcoming documents

Third quarter 2006	Fourth quarter 2006	First half 2007	Later
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 – exposure draft	Fair value measurements – discussion paper	Borrowing costs – final standard	Business combinations: phase II – final standard
Earnings per share – exposure draft	Income taxes: amendments to IAS 12 – exposure draft	Conceptual framework: phases B and D – discussion papers	Consolidation and minority interests: amendments to IAS 27 – final standard
	Insurance contracts phase II – discussion paper	Consolidation, including SPEs – exposure draft	Emission trading schemes and government grants – exposure draft
	Joint ventures – exposure draft	Financial instruments puttable at fair value – final standard	Leasing – discussion paper
	Related parties: amendments to IAS 24 – exposure draft	Financial statement presentation: phase A – final standard	Liabilities: amendments to IAS 37 and IAS 19 – final standard
	Amendments to IFRS 2 – final standard	Financial statement presentation: phase B – discussion paper	Revenue recognition – discussion paper
	Segment reporting – final standard		
	SMEs – exposure draft		

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