

# IFRS in Brief

January 2008, **Issue 42**

This issue of IFRS in Brief covers the December 2007 meeting of the International Accounting Standards Board (IASB).

## Summary

At its December 2007 meeting the IASB continued discussing the:

- fair value measurements project
- revenue recognition project
- proposals in the Exposure Draft (ED) of *Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*
- conceptual framework project
- post-employment benefits project
- November 2007 round-table discussions on the ED of *Financial Instruments Puttable at Fair Value and Obligations arising on Liquidation*

- derecognition of assets and liabilities.

In addition, at its December 2007 meeting the IASB:

- discussed topics for the next annual improvements ED
- discussed a proposal by the International Financial Reporting Interpretations Committee (IFRIC) to amend IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- discussed the liabilities and equity joint project led by the U.S. Financial Accounting Standards Board (FASB)
- discussed possible agenda proposals
- discussed consequential amendments to the *Preface* to International Financial Reporting Standards (IFRSs)
- reviewed the technical plan.

## Fair Value Measurements

The Board discussed how the concept of “market participant view”, as included in the U.S. standard SFAS 157 *Fair Value Measurements*, compares with the concept of “knowledgeable, willing parties in an arm’s length transaction”, as included in IFRSs, with respect to its fair value measurements project.

A conclusion was deferred pending further discussion of other interrelated topics.

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

## Revenue Recognition

As part of the revenue recognition project the Board continued discussing the asset and liability approach to revenue recognition with respect to the fair value / measurement model (also referred to as the “contract-based model”). This approach would recognise revenue based on changes in contract assets and liabilities, as opposed to the performance of obligations. Current exit price would be used to measure contract assets and liabilities.

The Board discussed certain presentation issues arising in respect of profit or loss being based on measuring contract assets and liabilities at current exit price and whether the model should be broadened to include a larger set of assets and liabilities, and not only those occurring from a respective contract. No decisions were made in respect of this topic.

## Provisions

The Board continued redeliberating proposals in the ED of *Proposed Amendments to IAS 37 and IAS 19*, specifically in respect of measurement requirements. The Board tentatively agreed to explain, in the Basis for Conclusions of the revised standard, how the new measurement requirements correlate with the previous requirements.

The Board also indicated that it plans to discuss further the issue of measurement basis and whether there is a difference between the amount to settle an obligation and the amount to transfer an obligation to a third party, and if this represents an accounting “choice”.

## Conceptual Framework

The Board discussed two main areas with respect to the conceptual framework project:

- the interaction between the new and existing frameworks

- the definition of a liability.

With regard to the interaction between the new and existing frameworks, the Board decided that it would be helpful to carry forward the definition of “reliability” into the new framework and indicate the paragraphs of the existing framework that have been superseded.

With regard to the definition of a liability the Board, after discussing different approaches, noted its intentions to continue to focus on a converged and improved definition. The Board tentatively decided that in order to converge the definition of a liability the IASB and FASB should focus on defining a liability as an economic obligation.

In addition, the Board tentatively decided that in order to improve the definition of a liability, the definition should:

- not include an assessment of likelihood
- focus on the present, rather than past transactions or other events.

Lastly, the Board tentatively decided that the involvement of a separate party and the ability to force an entity to take a certain action should be key characteristics of an enforceable obligation.

## Post-employment Benefits

As part of its review of the draft discussion paper on phase I of the post-employment benefits project the Board considered various sweep issues and tentatively decided:

- that the following items would be considered contribution-based promises:
  - promises with a contribution element and fixed return (guarantee)
  - promises of a known regular fixed amount after retirement

- defined contribution plans
- to add further discussion on the disaggregation of and presentation for contribution-based promises
- that there should be no expected return on plan assets
- to provide more discussion on the imputed interest income approach in considering alternative defined benefit promise presentation approaches.

The Board also indicated its intention to publish the discussion paper in early 2008.

## Financial Instruments Puttable at Fair Value

The Board discussed the staff draft of proposed amendments to the ED of *Financial Instruments Puttable at Fair Value and Obligations arising on Liquidation* to address concerns raised at round-table discussions held in November 2007. The Board requested that the staff prepare a ballot draft of the proposed amendments and post the near-final draft of the proposed amendments on the IASB Web site.

## Derecognition of Assets and Liabilities

The staff presented to the Board possible situations in which financial assets were expected to settle financial liabilities resulting in such arrangements being presented collectively (i.e., linked presentation) in the financial statements.

This was an educational session and no technical decisions were made in respect of this topic.

## Annual Improvements

As part of its second annual improvements ED, expected to be published in October 2008, the Board considered four proposed improvements to amend:

- IFRS 8 *Operating Segments* to eliminate a reference to consistency

with U.S. Generally Accepted Accounting Principles related to why segment profit or loss and segment assets should be disclosed, even if those measures are not reviewed by the chief operating decision maker, which was included in the Basis for Conclusions.

- IAS 39 *Financial Instruments: Recognition and Measurement* to clarify that contracts that contain embedded derivatives that are not within the scope of IAS 39, are not eligible for the fair value option under IAS 39.
- IAS 39 to clarify that embedded foreign currency derivatives are expected to be essential to a contractual arrangement if the foreign currency has one or more of the attributes of a functional currency as set out in IAS 21 *The Effects of Changes in Foreign Exchange Rates*.
- IAS 39 to specify that gains or losses on hedging instruments in a cash flow hedge of a forecasted transaction should be reclassified to profit or loss from equity in the period (or periods) that the hedged cash flows affect profit or loss.

## IFRS 5

The Board considered a proposal from the IFRIC to expand the scope of IFRS 5 to include non-current assets held for distribution to owners. Currently non-current assets held for distribution to owners are not specifically stated to be within the scope of IFRS 5. The Board agreed with the IFRIC's proposed amendments to IFRS 5 and directed the staff to include questions on this topic in the Invitation to Comment to the draft Interpretation of *Distribution of Non-cash Assets to Owners*.

## Liabilities and Equity Project

As part of the liabilities and equity joint project led by the FASB, the Board determined that an IASB discussion paper on liabilities and equity should include an IASB Invitation to Comment and also include the related FASB document. The Board intends to issue the discussion paper in early 2008.

## Agenda Proposals

The Board reviewed four agenda proposals as follows:

- Emission trading schemes – The Board decided to add an emissions trading schemes project to its active agenda. The Board plans to specifically focus the project on issues arising from the accounting for emissions trading schemes. The FASB also has added an emissions allowances project to its agenda.
- Common control transactions – The Board decided to add a project on common control transactions to its active agenda. The Board plans to focus the project on business combinations and demergers involving entities or businesses under common control and the acquirer's accounting treatment in its consolidated and separate financial statements.
- Management commentary – The Board decided to add a project on management commentary to its active agenda. The Board plans to provide as a result of this project non-mandatory guidance and suggested approaches to management commentary.
- Intangible assets – The Board noted that accounting for intangible assets is an important issue for constituents; however, given the limited resources of the

Board, the Board decided not to add a project on intangible assets to its active agenda.

## Preface to IFRSs

The Board approved an amendment to the *Preface* to IFRSs to address the increase of the IFRIC members from 12 to 14.

## Technical Plan

The Board discussed its updated technical plan and project timetables, which are available on the IASB Web site.

## 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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