

IFRS in Brief

December 2007, **Issue 41**

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

In addition, at its November 2007 meeting the IASB:

- discussed recent International Financial Reporting Interpretations Committee (IFRIC) activities
- discussed the effective date of the revised IFRS 3 *Business Combinations* and amended IAS 27 *Consolidated and Separate Financial Statements*
- received an update on the November 2007 round-table discussions on the ED of *Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*.

Summary

At its November 2007 meeting the IASB continued discussing the:

- revenue recognition project
- insurance project
- amendments to IAS 24 *Related Party Disclosures* proposed in the Exposure Draft (ED) of *State-controlled Entities and the Definition of a Related Party*
- proposed amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
- financial statement presentation project
- project on consolidation, including Special Purpose Entities (SPEs)
- fair value measurements project
- conceptual framework project.

Revenue Recognition

As part of the revenue recognition project the Board discussed the asset and liability approach to revenue recognition. Under this approach, revenue would be recognised based on changes in contract assets and liabilities, as opposed to the performance of obligations. The asset and liability approach is a common underlying approach to the fair value / measurement model (the fair value of performance obligations would be measured at the current exit price) and the customer consideration / allocation model (performance obligations would be measured using an allocation of the customer consideration), both of which are being considered by the Board under the revenue recognition project.

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

The Board also discussed the concept of “current exit price” under the fair value / measurement model. Current exit price would be the price that a market participant would pay (or require to be paid) in order to acquire the remaining contract assets and liabilities.

The Board plans to discuss the customer consideration / allocation model in more detail at a later meeting.

Insurance

The Board discussed accounting by policyholders for their rights under insurance contracts and tentatively decided that the issue of “policyholder accounting” would be addressed in an ED (without an initial discussion paper).

The Board discussed, but did not conclude on, whether there should be symmetry in the accounting for insurance contracts by the insurer and the policyholder.

Related Party Disclosures

The Board continued discussing the proposed amendments to IAS 24 contained in the ED of *State-controlled Entities and the Definition of a Related Party* based on the comment letters received.

The Board tentatively decided that the following items in the ED would remain unchanged:

- the definition of “state”
- the definition of “close family members of an individual”
- the term “significant voting power”
- the disclosure example in paragraph 20(j) for commitments with related parties.

In addition the Board tentatively decided that:

- the exemption in paragraph 17A(b) of the ED would be amended to clarify that it would only apply to *state-controlled entities* and also that

two entities significantly influenced by the same state would not be assumed related parties

- the guidance in paragraph 14 of IAS 24 which states “the identification of related party relationships is in addition to the disclosure requirements in IAS 27, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*” would be retained
- a definition of “individual financial statements” would be included in IAS 27 so that it refers to financial statements that are neither consolidated nor separate
- the sponsoring employer would be included as a related party of a post-employment benefit plan
- clarification would be made so that references to an associate would include subsidiaries of the associate
- the exemption for state-controlled entities would not be allowed when there is influence by a common state
- the categories for disclosure included in paragraph 18 of IAS 24 would not be changed
- paragraph 34 of IFRS 8 *Operating Segments* would be amended to provide the same relief as that for state-controlled entities in IAS 24, whereby entities would not be considered a single customer by virtue of control by the same state.

With regard to the timing of adoption of the standard the Board tentatively decided that:

- the effective date of the standard would be for periods beginning on or after 1 July 2009, with early adoption permitted
- comparative disclosures would be required.

The Board also tentatively decided not to include in the scope of this project:

- guidance on the disclosure of key management personnel compensation

- business combinations between state-controlled entities.

Share-based Payment

The Board discussed the proposed amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* and acknowledged that there are other IFRS 2 issues that also need to be addressed. However, the Board tentatively decided that:

- the proposed amendment to IFRS 2 should be finalised and issued in the first quarter of 2008
- a research group should be established to consider unresolved IFRS 2 issues, convergence with SFAS 123(R) and ways to simplify or improve IFRS 2.

Financial Statement Presentation

The Board continued discussing the forthcoming discussion paper on Phase B of the financial statement presentation project regarding the presentation and display of information in the financial statements. Specifically the Board discussed:

- the statement of cash flows
- the reconciliation of the statement of cash flows to the statement of comprehensive income (reconciliation schedule)
- totals and subtotals in the financial statements.

With regard to the statement of cash flows, the Board tentatively decided that the forthcoming discussion paper would:

- explain the Board’s preference for preparing the statement of cash flows using the direct method
- explain a cost-effective way of collecting the information required for the direct method
- request feedback on the costs and benefits of the direct and indirect methods of preparing the statement of cash flows.

With regard to the reconciliation schedule, the Board tentatively decided that reconciling items should, at a minimum, be disaggregated into the following four columns:

- cash flows not affecting income
- accruals and systematic allocations
- recurring valuation changes
- remeasurements other than recurring valuation changes.

With regard to totals and subtotals that would be required in the financial statements, the Board tentatively decided that:

- operating assets should be separated from operating liabilities in the statement of financial position
- short-term items should be separated from long-term items in the statement of financial position
- in the statement of comprehensive income, a subtotal for comprehensive income would be required
- in each of the financial statements, each category and section should be totalled.

Consolidation, Including SPEs

The staff provided an educational session to the Board on the forthcoming discussion paper on consolidation. The staff focused on a consolidation model that consolidates only those assets and liabilities that are controlled by an entity, as opposed to one that consolidates all of the assets and liabilities of an entity that is being consolidated. No decisions were made in respect of this topic.

Fair Value Measurements

In anticipation of its review of the fair value measurements currently required

or permitted by all standards as part of the fair value measurements project, the Board discussed the preliminary definitions of "current exit price" and "current entry price" for both assets and liabilities.

The Board tentatively decided that for orderly transactions between market participants at the measurement date:

- current entry price would be the price paid to buy an asset or received to incur a liability
- current exit price would be the price received to sell an asset or paid to transfer or settle a liability.

With regard to liabilities the Board also tentatively decided that:

- if the liability is transferred, it is assumed to exist beyond the measurement date
- if the liability is settled, it is assumed to be extinguished at the measurement date.

Conceptual Framework

The Board discussed Phase C *Measurement* of the conceptual framework project and noted that some definitions of measurement basis candidates needed to be refined. The Board intends to discuss the future plan for Phase C at a later Board meeting.

IFRIC Update

The Board received an update on the November 2007 IFRIC meeting.

Based on this update the Board may consider clarifying the IAS 39 *Financial Instruments: Recognition and Measurement* scope exception for contracts between acquirers and

vendors that result in future business combinations as part of its annual improvements project.

Effective Date of Revised IFRS 3 and Amended IAS 27

The Board decided that the effective date of the revised IFRS 3 and the amended IAS 27 would be changed to 1 July 2009. Early adoption would be permitted for periods beginning on or after 30 June 2007 providing that IFRS 3 and IAS 27 are adopted at the same time.

Financial Instruments Puttable at Fair Value

The Board received an update on the November 2007 round-table discussions on the ED of *Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*. The Board plans to discuss the issues raised in the round-table discussions at its December meeting.

IASB Observer Notes

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