

IFRS in Brief

October 2007, **Issue 39**

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

In addition, at its September 2007 meeting the Board:

- considered topics for its annual improvements ED
- discussed recent International Financial Reporting Interpretations Committee (IFRIC) activities
- received an update on the formation of the U.S. Financial Accounting Standards Board (FASB) Valuation Resource Group
- reviewed the technical plan.

Conceptual Framework

The Board discussed two phases of the conceptual framework project:

- Reporting entity (phase D)
 - the Board agreed with redrafts made by the staff as a result of comments received on the pre-ballot draft of the discussion paper, subject to some clarification. The proposed redrafts include revising the description of a reporting entity as a “circumscribed area of business activity of interest to present and potential investors and creditors.” The Board also confirmed that the next step in this phase is the publication of the discussion paper.
- Objective and qualitative characteristics of financial reporting (phase A) – the Board tentatively decided that the objective of general purpose

Summary

At its September 2007 meeting the Board continued discussing:

- the conceptual framework project
- the earnings per share project
- the responses to the Exposure Draft (ED) of *Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*
- the post-employment benefits project
- IAS 24 *Related Party Disclosures*
- the ED of a proposed *International Financial Reporting Standard for Small and Medium-sized Entities*
- the ED of proposed *Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Cost of an Investment in a Subsidiary*.

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

external financial reporting is “to provide financial information about the reporting entity that is useful to current and potential investors and creditors and others in making decisions in their capacity as capital providers”.

With regard to the ED on *The Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information* the Board also tentatively decided that the ED would focus on:

- the reporting entity – from the perspective of reporting the entity’s assets, liabilities, and changes in them
- the primary user group – from the perspective of those who have or potentially have a claim on an entity’s assets, i.e., present and potential investors and creditors.

The Board instructed the staff to draft an ED for phase A incorporating these tentative decisions.

Earnings per Share

The Board discussed the earnings per share project and tentatively decided with respect to the calculation of earnings per share (EPS):

- that shares that are subject to a repurchase should be considered as a separate class of ordinary shares and EPS should be calculated using the two-class method
- not to align the IFRS and U.S. GAAP calculation of EPS for forward purchase contracts with a choice of gross physical or net settlement, gross physically settled written put options and written put options with a choice of gross physical or net settlement due to IFRS and U.S. GAAP differences in the underlying accounting for these items.

Financial Instruments Puttable at Fair Value

The Board continued discussing responses to the ED of *Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*.

The Board considered a revised approach to identifying whether puttable financial instruments should be classified as equity. The revised approach assesses whether the class of puttable instruments is classified as equity (as the residual interest in the entity) versus the approach in the ED which assesses whether *individual* puttable instruments are classified as equity.

The Board tentatively decided to amend the ED so that a puttable instrument’s right to a pro rata share of the net assets of an entity before or at liquidation is neither limited nor guaranteed. This amendment:

- requires that the total cash flows over the life of the puttable instruments be based on earnings or changes in net assets of the entity
- ensures that no other contract represents the residual interest in the entity.

The Board instructed the staff to incorporate this revised approach in the proposed amendment and plans to discuss this approach at a public roundtable in November.

The Board redeliberated and tentatively decided that the proposed amendment would:

- not address the accounting for mandatory dividends
- not classify as equity: derivatives on puttable instruments, and instruments containing an obligation that arises on the liquidation of an entity
- include puttable instruments that are mandatorily redeemable on death or retirement

- have an effective date of 1 January 2009, with early adoption permitted.

Post-employment Benefits

The Board discussed the definitions of benefit promises and tentatively decided that:

- the defined return category would include defined contribution promises, however the accounting for such promises would not change
- defined benefit promises would be the residual category of benefit promises
- the accounting for post-retirement medical plans would be included in phase II of the project.

The Board discussed the measurement of defined return promises noting that while a fair value measure would be appropriate for some defined return promises, the discussion paper would not provide this view and the definition of fair value would be addressed in the fair value measurement project.

Related Party Disclosures

The Board discussed but did not conclude on issues that arose in comment letters on the proposed amendments to IAS 24 – *State-controlled Entities and the Definition of a Related Party*. The Board decided that it will redeliberate the proposed amendments at the October meeting. The Board also approved the staff’s preliminary project plan.

Small and Medium-sized Entities

The Board extended the deadline for comment on the proposed IFRS for small and medium-sized entities and for submitting field test results to 30 November 2007. Because the deadline extensions are primarily to give more time to entities that are participating in the field trials, the Board strongly encouraged others to adhere to the original comment deadline of 1 October 2007.

IFRS 1 Amendments

The Board redeliberated the ED of proposed *Amendments to IFRS 1 – Cost of an Investment in a Subsidiary* and tentatively decided to:

- extend the deemed cost exemption to the initial measurement of investments in associates and interests in joint ventures in the separate financial statements of a parent
- amend IAS 27 *Consolidated and Separate Financial Statements* by:
 - removing the cost method definition
 - requiring that parents receiving dividends from subsidiaries: recognise such dividends as income, and assess the investment in the subsidiary for impairment.

The Board also asked the staff to consult with comment letter respondents on the use of the net assets measure as the amount that the parent incorporates in its consolidated financial statements (rather than the amounts recognised in the separate or individual financial statements of the subsidiary).

As a result of the above, the Board decided to re-expose the proposed changes to the ED.

Annual Improvements

As part of its forthcoming annual improvements ED the Board considered three sweep issues and tentatively decided to propose amending:

- the previously proposed improvement to IAS 39 *Financial Instruments: Recognition and Measurement* to clarify that classifying non-derivative financial instruments as held for trading can only be done upon initial recognition
- the previously proposed improvement to IAS 19 *Employee Benefits* to focus on the timing of the entitlement to the employee benefit by replacing the term “fall due” with the term “to which the employee becomes wholly entitled”
- IAS 41 *Agriculture* for minor wording changes to clarify the treatment of government grants related to biological assets.

IFRIC Update

The Board received an update on the IFRIC activities, which included asking the Board to consider as part of its annual improvements process or other projects amending:

- IAS 18 *Revenue* – for the need for additional guidance on identifying agency relationships

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – for the need to clarify the interaction between the disclosure requirements of IFRS 5 and other standards.

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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