

IFRS in Brief

June 2007, **Issue 36**

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

- discussed recent International Financial Reporting Interpretations Committee (IFRIC) activities
- considered seven issues for its annual improvements ED
- discussed the lease accounting project
- continued redeliberating the proposed amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*.

Post-employment Benefits

The Board continued discussing its forthcoming discussion paper on phase I of the post-employment benefits project, and tentatively decided on the following definitions and measurement approaches for benefit promises:

- *Defined contributions* oblige the employer to pay specified contributions to a separate entity (a fund). The obligation expires when the contribution is paid.
- *Defined returns* (discussed previously as *cash balance and similar plans*) include a contribution requirement and a promised return on those contributions linked to a change in an asset or an index. An entity's liability in respect of a defined return would be measured as the sum of accumulated unpaid contributions (the contribution requirement), plus the fair value of the promised return, less the

Summary

At its May 2007 meeting the Board:

- discussed the post-employment benefits project
- discussed the financial statement presentation project
- discussed the conceptual framework project
- continued redeliberating proposals in the Exposure Draft (ED) of *Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*
- discussed the ED of *Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*

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excess of any plan assets over the contributions payable (the promised return component).

- All other benefit promises would be *defined benefit* promises. Liabilities for defined benefit promises would be measured in accordance with IAS 19.

The Board tentatively decided that guaranteed fixed return promises, as well as promises based on current salary terms or career average salary, should be defined returns. If, however, a promise has an additional salary-related component, then the promise should be a defined benefit promise.

Financial Statement Presentation

The Board discussed the following issues in respect of its financial statement presentation project, and tentatively decided:

- to revise the liquidity working principle in respect of presenting information about the liquidity of an entity's assets and liabilities; unless a presentation based on liquidity provides more relevant or reliable information, an entity should present short- and long-term categories in the statement of financial position
- to require that entities provide a maturity schedule for long-term contractual assets and liabilities
- to retain the existing IAS 1 *Presentation of Financial Statements* disclosure requirements in respect of capital management, as such requirements meet the capital adequacy aspect of the liquidity working principle
- to require that a significantly diversified entity should apply classification guidance (i.e., classified as business or financing depending on how its activities are managed) to its assets and liabilities at the reportable segment level, as defined in IFRS 8 *Operating Segments*.

Conceptual Framework

The Board continued discussing the reporting entity phase of its conceptual framework project, and tentatively decided:

- that for general purpose financial reporting, the composition of a group entity typically should comprise a parent and the entities under its control (i.e., the controlling entity model)
- that a broad control model be adopted for use in standards-level projects, as in some circumstances general purpose financial reports may be prepared for entities under common control (i.e., the common control model)
- that consolidated financial statements should be required in general purpose financial statements; however, the Board did not decide whether parent-only financial statements should be required.

Provisions

The Board continued redeliberating proposals in the ED of *Proposed Amendments to IAS 37 and IAS 19* in respect of the existence of a present obligation. The Board discussed scenarios that illustrated, and approaches that addressed, the uncertainty of the existence of a present obligation. The Board did not reach a consensus.

The Board tentatively reaffirmed its observation that a third party's unavoidable right to call upon an entity to act in a particular way creates a constructive obligation. The Board asked the staff to consider whether a constructive obligation is limited to those obligations that a court would enforce, or also includes those obligations that are enforceable by equivalent means. The Board instructed the staff to further explain the meaning of "by equivalent means".

Financial Instruments Puttable at Fair Value

The Board continued discussing responses to the ED *Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*. The Board tentatively decided to redraft the proposed amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 to emphasise that the instrument must:

- be both issued and puttable at fair value
- be in the most subordinated class of instrument
- participate fully in the entity's performance over the instrument's life.

In response to issues raised by respondents to the ED, the Board tentatively decided:

- that a general partner's guarantee does not affect the subordination of partnership interests
- that the requirement for all instruments in the most subordinated class to be puttable be retained
- that a minority interest in a subsidiary's puttable instrument should be presented as a liability in the consolidated financial statements
- that transition guidance should be provided to address situations in which it is difficult to identify whether instruments were issued at fair value.

IFRIC Update

The Board received an update on IFRIC activities, which included the IFRIC consensus on:

- interpretations resulting from D19 *IAS 19 – The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements* and D20 *Customer Loyalty Programmes*

- draft interpretations on IAS 18 *Revenue – Sales of Real Estate* and IAS 21 *The Effects of Changes in Foreign Exchange Rates – Hedging of a Net Investment in a Foreign Operation*.

Annual Improvements

As part of its forthcoming annual improvements ED the Board decided to propose amending:

- IAS 38 *Intangible Assets* to clarify that an entity should recognise an expense for advertising or promotional activities provided in exchange for goods or services when the benefit of the goods or services is received; only payments made in advance of the entity receiving the goods or services should be recognised as a prepayment
- IAS 29 *Financial Reporting in Hyperinflationary Economies* to achieve consistent terminology with equivalent terms in other standards
- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to achieve consistent terminology with equivalent terms in other standards
- IAS 28 *Investments in Associates* to clarify that an impairment in an investment in an associate should not be allocated against goodwill and may be reversed subsequently
- the disclosure requirements of IAS 32 and IAS 7 *Financial Instruments: Disclosure* in respect

of investments in associates and jointly controlled entities that are accounted for at fair value through profit or loss; the amendment would delete for such entities the general disclosure requirements of IAS 28 and IAS 31 *Interests in Joint Ventures*, but would retain some of the specific IAS 28 and IAS 31 disclosure requirements

- IAS 27 *Consolidated and Separate Financial Statements* to achieve consistency with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in the treatment of subsidiaries held for sale
- IAS 19 to clarify that a plan amendment that reduces benefits for future services is a *curtailment* and any reduction relating to past services is a *negative past service cost*, and to clarify the curtailment recognition criteria.

Leases

The Board discussed lease contracts that include an option to extend the term of the lease or to terminate the lease early, including whether a lease contract containing an option to extend a lease term is equivalent to a longer term lease containing an option to terminate the lease earlier. The Board considered whether the rights and obligations arising from such an option contained in a lease are assets and liabilities as defined in the conceptual framework. In addition, the Board considered a number of approaches to accounting for such leases. The Board did not make any decisions.

Share-based Payment

The Board discussed existing divergences between IFRS 2 and the U.S. standard SFAS 123(R) *Share-Based Payment* highlighted in the proposed amendment to IFRS 2 – *Vesting Conditions and Cancellations*. The Board acknowledged that grant dates could be different under IFRS 2 and SFAS 123(R), but noted that because the two standards have other more significant differences, any further discussions in respect of grant date determination would occur in a second phase on convergence.

The Board also discussed changes to the second pre-ballot draft, and instructed the staff to prepare a ballot draft reflecting these changes.

IASB Observer Notes

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