

IFRS in Brief

February 2007, **Issue 32**

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

- discussed the pre-ballot draft of the ED of *Proposed Amendments to IAS 24 Related Party Disclosures*
- discussed the forthcoming discussion paper on insurance contracts
- continued discussing the financial statement presentation project
- continued discussing the forthcoming ED of *Proposed Amendments to IAS 12 Income Taxes*
- discussed recent IFRIC activities.

Business Combinations

The Board continued redeliberating proposals in the ED of *Proposed Amendments to IFRS 3*, and:

- in respect of income taxes:
 - tentatively affirmed that income tax assets and liabilities should be measured in accordance with IAS 12
 - reaffirmed that changes in deferred tax assets and liabilities of the acquirer as a result of a business combination should be accounted for separately under IAS 12
 - tentatively decided that goodwill should be adjusted for changes in acquired deferred tax benefits only within the normal measurement period of one year, thereby removing the one-year rebuttable assumption that had been proposed

Summary

At its January 2007 meeting the Board:

- continued redeliberating proposals in the Exposure Draft (ED) of *Proposed Amendments to IFRS 3 Business Combinations*
- discussed the consultation paper on financial instruments
- discussed comments received in the round-table discussions on the ED of *Proposed Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*
- continued redeliberating the proposed amendments to IFRS 2 *Share-based Payments* in respect of vesting conditions and cancellations

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- decided that tax uncertainties related to a business combination should be dealt with separately in the forthcoming ED of amendments to IAS 12
- tentatively decided that deferred tax assets and liabilities should be recognised in respect of acquired indefinite-lived intangible assets
- tentatively decided to retain the guidance in IFRS 3 in respect of contingencies, but with changes being made to reflect the Board's latest redeliberations as part of the project to amend IAS 37; the guidance will be revisited upon completion of the IAS 37 project
- tentatively decided that employment benefits within the scope of IAS 19 should be measured in accordance with that standard
- in respect of receivables:
 - tentatively affirmed that receivables should be recorded at fair value on a net basis, i.e., without a valuation allowance
 - asked the staff to investigate presentation and disclosure issues related to the past performance of acquired receivables
 - tentatively decided not to specify the unit of account on the initial measurement of acquired receivables
- tentatively decided that goodwill should not be remeasured for changes in the level of non-controlling (minority) interests
- asked the staff to explore further the implications of requiring or permitting the fair value of non-controlling interests upon initial recognition.

Financial Instruments

The Board continued discussing its planned consultation paper on financial instruments, which will include the preliminary views of the IASB and the U.S. Financial Accounting Standards Board (FASB), and tentatively decided:

- that the measurement of a liability should not be affected by a third party guarantee if the future obligation does not change
- that there should be no exemptions from applying the recognition and measurement proposals for hedged items either within the scope of the paper or for any forecast transactions
- to include a discussion on foreign exchange risks related to items outside the scope of the paper.

Provisions

The Board discussed comments received in the recent round-table discussions on the ED of *Proposed Amendments to IAS 37*, and decided that the following require further discussion:

- how to differentiate a liability from business risk
- how to deal with the notion of uncertainty in determining the existence of an obligation
- whether uncertainty can be reflected in measurement
- how to provide guidance in respect of expected value calculations
- how to deal with lawsuits
- what disclosures should be required for items that do not meet the definition of a liability.

Since the Board will focus on resolving the above issues, it does not expect to redeliberate other aspects of the project until 2008.

Share-based Payments

The Board continued redeliberating proposals in the ED of *Proposed Amendments to IFRS 2 – Vesting Conditions and Cancellations*, and tentatively decided to clarify:

- the accounting for the extinguishment of a liability when a share-based payment is cancelled
- the definition of vesting conditions

- that a condition is only a performance condition if it is associated with a service requirement; in this regard the Board asked the staff to research if this is consistent with the requirements of U.S. generally accepted accounting principles (GAAP).

The Board also requested the inclusion in the implementation guidance of a flowchart to facilitate the identification of service, performance and non-vesting conditions.

Related Party Disclosures

The Board discussed the pre-ballot draft of the ED of amendments to IAS 24, and decided:

- to expand the definition of related party so that a reporting entity will identify as a related party any entity in which a significant investor of the reporting entity is member of key management personnel
- that the disclosure exemption related to entities that are controlled or significantly influenced by the state should not apply if indicators of influence exist between the entities
- to shorten the comment period from 120 to 90 days.

Insurance Contracts

The Board discussed the forthcoming discussion paper on insurance contracts, and tentatively decided:

- that policyholder participation rights create a liability if a legal or constructive obligation exists to pay policyholder dividends
- that cash flows used in measuring universal life contracts should be discounted using rates that the insurer expects will actually apply, rather than the minimum contractual rate
- to use a "guaranteed insurability" test in the measurement of insurance liabilities.

Financial Statement Presentation

The Board continued discussing the financial statement presentation project, and tentatively decided that:

- information in the statement of comprehensive income should be presented by function, with presentation by nature being permitted only if a functional analysis is not relevant
- the discussion paper should include preliminary guidance on how the classification criteria should be applied by an entity with significantly different businesses
- only the sale of an operating segment as defined in IFRS 8 *Operating Segments* should be reported as a discontinued operation; but that disclosure should be required in respect of the sale of a component of an entity, as defined in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- the statement of changes in equity should reconcile the beginning and the ending balance of all components of equity except for accumulated other comprehensive income
- individual capital transactions should appear in only one line item in the statement of changes in equity
- transactions with owners should be excluded from the statement of comprehensive income
- equity items should have their own section in the statements of financial position and cash flows, separate from financing.

Income Taxes

The Board tentatively decided to explain in its forthcoming ED of *Proposed Amendments to IAS 12* that the tax base of an asset is based on the amount that an entity would be able to deduct if the asset were disposed of for its carrying amount.

The Board agreed to investigate further an appropriate accounting treatment for investment credits, as long as this can be achieved in a short period.

IFRIC Update

As part of its update on IFRIC activities, the Board was informed that the IFRIC had removed from its agenda the recognition of initial fees received, and whether they should be amortised over the period during which the customer receives the benefit. The IFRIC had been unable to agree on the principles underlying the issue after three consecutive meetings, and had concluded that it would be unable to produce timely guidance.

Other

The Board also:

- decided that the ED of an *IFRS for Small and Medium-sized Entities (SMEs)* should include the IAS 12 exemption of not recognising a deferred tax liability on the initial recognition of goodwill
- discussed comment letters received in response to the ED *Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*, but made no decisions

- discussed the process that will lead to issuing a discussion paper on liabilities and equity later in 2007, and how this interacts with the conceptual framework project
- decided to extend the comment period of the Discussion Paper *Fair Value Measurements* from 2 April to 4 May 2007
- discussed comments received in response to the Discussion Paper *Management Commentary*, which was published in October 2005, and asked staff to prepare a draft agenda proposal
- discussed a proposal for a joint project with the FASB on intangible assets; the Boards will consider an updated proposal in March and April 2007.

IASB Observer Notes

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Publication name: *IFRS in Brief*

Publication number: Issue 32

Publication date: February 2007