

IFRS in Brief

January 2007, **Issue 31**

This issue of *IFRS in Brief* covers the December 2006 meeting of the International Accounting Standards Board (IASB).

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

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- continued discussing the guidance on hedged portions under IAS 39 *Financial Instruments: Recognition and Measurement* and the recognition and measurement of items within the scope of its planned financial instruments consultation document
- discussed comments received in response to the ED of *Proposed Amendments to IAS 1 Presentation of Financial Statements*
- continued discussing the financial statements presentation project
- continued re-deliberating proposals in the ED of *Proposed Amendments to IFRS 3 Business Combinations*.

Summary

At this meeting the Board:

- discussed comments received in response to the proposed International Financial Reporting Interpretations Committee (IFRIC) *Due Process Handbook*
- continued deliberating the consolidation of managed funds and investment companies
- decided that it would issue amendments to IAS 23 *Borrowing Costs* as exposed
- continued discussing the reporting entity phase of the conceptual framework project
- discussed three issues for its annual improvements exposure draft (ED)

IFRIC Due Process Handbook

The Board discussed comment letters received in response to the proposed IFRIC *Due Process Handbook*, which was published in May 2006. The Board was asked to provide its views regarding the role of the Agenda Committee and the publication of agenda decisions, which the IFRIC Chairman will report to the Trustees. The Board expressed the following views:

- The function of the Agenda Committee should be absorbed by the IFRIC in order to meet concerns about transparency.
- The IFRIC should continue to publish its reasons for rejections.

- The criteria for not taking items onto the agenda may need to be expanded in order to avoid overuse of “the standard is clear” as a reason for rejection.

Consolidations

The Board continued deliberating the consolidation of managed funds and investment companies. The discussion was held in relation to the forthcoming Discussion Paper that will outline proposals to replace IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. The Board tentatively agreed to:

- include a question regarding possible criteria to determine when control is achieved when a fund manager has a dual role – power over another entity as a fiduciary, and as a direct investor
- include investment companies (such as private equity entities and venture capital organisations) in the scope of the project.

Borrowing Costs

The Board continued discussing comments received in response to the ED of *Proposed Amendments to IAS 23 Borrowing Costs*.

The Board agreed to exclude from the scope of IAS 23 inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis, consistent with the U.S. standard SFAS 34 *Capitalization of Interest Cost*. Otherwise, the Board agreed to publish the IAS 23 amendments as exposed.

Conceptual Framework

The Board continued discussing the reporting entity phase of the conceptual framework project, and agreed to:

- explore further different views on the relationship between

the parent entity and the group entity, and whether they are one and the same entity or two different entities in both legal and economic terms; once this issue is resolved the Board will compare its decisions with those expressed in the consolidations project for consistency

- include a discussion of the parent company approach in the discussion paper.

Annual Improvements

As part of its forthcoming annual improvements ED the Board:

- decided to amend IAS 1 *Presentation of Financial Statements* to require disclosure of any differences between IFRSs and the basis of preparation when the financial statements are “based on” IFRSs
- decided to amend IAS 41 *Agriculture* to refer to “costs to sell” rather than “point-of-sale costs”, for consistency with other IFRSs
- tentatively decided to amend IAS 38 *Intangible Assets* to delete the following sentence from paragraph 98: “There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight-line method.”

Financial Instruments

The Board continued discussing the guidance on hedged portions under IAS 39, and decided that the standard should be amended to specify:

- the risks that qualify for designation as a hedged risk
- what “portions” of a financial instrument are eligible for designation as a hedged item, other than those allowed explicitly by IAS 39 already.

The Board also continued discussing the recognition and measurement of items within the scope of its planned consultation document on financial instruments, which will include the preliminary views of both the IASB and the U.S. Financial Accounting Standards Board (FASB), and made the following tentative decisions:

- The holder of a loan that can be repaid early should not report part of the value as a non-financial asset.
- The value of contracts such as credit card contracts should not be divided into a financial liability and a non-financial asset; no decision was made on whether such contracts will be within the scope of the consultation document.
- Bank deposit agreements will not be included in the scope of the consultation document, but will be discussed.
- Recognised liabilities with a demand feature should be measured by discounting the expected cash flows, including incremental costs, using the market discount rate for similar borrowings.

The Board also held an educational session on interest margin hedging presented by the European Banking Federation.

IAS 1 Presentation of Financial Statements

The Board discussed comments received in response to the ED of *Proposed Amendments to IAS 1 Presentation of Financial Statements* and:

- reaffirmed the non-mandatory titles for the financial statements proposed in the ED, but tentatively decided to change “statement of recognised income and expense” to “statement of comprehensive income”
- tentatively decided to require a statement of financial position at the start of the comparative reporting

period only when it contains a reclassification or restatement

- reaffirmed that owner and non-owner changes in equity should be segregated, and asked the staff to clarify the term “owner” and to change references to “equity holder” to “owner”
- reaffirmed the proposal in the ED to allow the presentation of non-owner changes in equity in either one or two statements, with a preference for a single statement
- reaffirmed its proposal to present restatements as an adjustment to the opening balance of equity in the statement of changes in equity
- reaffirmed its proposal to require the disclosure of reclassification adjustments relating to each component of other recognised income and expense, either on the face of the statement or in the notes
- tentatively decided that the disclosure of income tax relating to each component of other recognised income and expense should be allowed on a gross or net basis on the face of the statement
- reaffirmed that basic and diluted earnings per share should be the only per share measures permitted on the face of the statement of comprehensive income
- asked staff to clarify the definition of “general purpose” financial statements.

Financial Statement Presentation

The Board continued discussing the financial statements presentation project and:

- considered alternatives for presenting other recognised income

and expense items, but did not reach any conclusions

- expressed a preference for the direct method of presenting all categories in the statement of cash flows, with an additional reconciliation of operating income to cash flows from operating activities
- expressed a preference for the disclosure of all significant non-cash activities during a period
- made the following tentative decisions in respect of financial institutions:
 - the criteria for classifying items as financing, operating or investing should not be different for financial institutions
 - cash and cash equivalents should be classified in a single category, but would not be required to be classified as financing
 - the Board’s tentative decisions regarding financial statement information being presented on a gross basis without providing specific disaggregation guidance also should apply to financial institutions.

Business Combinations

The Board continued re-deliberating proposals in the ED of *Proposed Amendments to IFRS 3 Business Combinations* and:

- tentatively affirmed that combinations between mutual entities (including co-operatives) should be within the scope of the revised standard
- tentatively reaffirmed that business combinations effected by contract alone, or in the absence of a transaction involving the acquirer,

should be included in the scope of the revised standard

- tentatively agreed the principle that a non-controlling interest in a business combination should be measured initially at fair value, but that the standard should allow for an exception; the staff was asked to analyse the consequences of permitting an exception.

Other

The Board also:

- agreed that the proposed hierarchy for determining an appropriate accounting policy in the ED of an *IFRS for Small and Medium-sized Entities* (SMEs) should not include a mandatory requirement to consider full IFRSs in the absence of specific guidance in the IFRS for SMEs
- discussed the accounting for cash balance and similar benefit plans under IAS 19 *Employee Benefits*, including the approach proposed in IFRIC D9 *Employee Benefits with a Promised Return on Contributions or Notional Contributions*, but reached no conclusion
- discussed an updated technical plan and project timetables, which will be available on the IASB’s Web site.

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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