



On the Horizon for IFRS

March 10, 2008

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IASB issues discussion paper on liabilities and equity

On February 28, 2008, the IASB issued a [press release](#) announcing the issuance of a [Discussion Paper](#), *Financial Instruments with Characteristics of Equity*. The Discussion Paper consists of two parts – an Invitation to Comment and, in a separate document, the FASB’s November 2007 Preliminary Views, *Financial Instruments with Characteristics of Equity*. The Invitation to Comment includes questions for respondents in addition to those included in the FASB Preliminary Views.

The FASB document describes three approaches for distinguishing equity instruments from non-equity instruments – basic ownership, reassess expected outcomes, and ownership-settlement. The following are some of the possible implications of the three approaches for instruments classified under IAS 32, *Financial Instruments: Presentation*:

- Under the basic ownership approach, significantly fewer instruments would be classified as equity

- Under the reassess expected outcomes approach, more instruments, and components of instruments, would be classified as equity
- Under the ownership-settlement approach, most instruments would be classified about the same (but more instruments would be separated into components)

The FASB document includes all three approaches for comment although the FASB preliminary view is that the basic ownership approach is the appropriate approach for classifying instruments as equity. The IASB has not deliberated any of these three approaches, or any other approaches, for distinguishing equity instruments from non-equity instruments.

The Discussion Paper is the first stage of the IASB's modified joint project with the FASB to improve and simplify the requirements in IAS 32. The responses to the Invitation to Comment will be used by the IASB in determining whether this project should be added to the IASB's active agenda. See the [IASB project summary](#) for more information on this project.

The comment period ends on September 5, 2008.

IASB issues February 2008 meeting highlights

All decisions reached at IASB Board meetings are tentative and may be changed or modified at future meetings. Board decisions become final only after completion of a formal ballot to issue a Standard or Interpretation or to publish an Exposure Draft.

The International Accounting Standards Board has issued the February 2008 [IASB Update](#), which summarizes the Board's meeting in London on February 19-21, 2008. Highlights of the meeting are discussed below.

Board discusses preliminary analysis of comments received on annual improvements exposure draft

The Board discussed the project plan for redeliberations and a preliminary analysis of comments received on the exposure draft of proposed improvements to IFRSs. The Board approved the project plan and a timetable for publication in May 2008.

The Board reaffirmed the following proposed amendments without redeliberation:

- IAS 10: Dividends declared after the end of the reporting period
- IAS 16: Recoverable amount
- IAS 18: Cost of originating a loan
- IAS 19: Plan administration costs
- IAS 19: Guidance on contingent liabilities
- IAS 20: Consistency of terminology with other IFRSs
- IAS 29: Consistency of terminology with other IFRSs
- IAS 34: Earnings per share disclosure in interim financial reports
- IAS 39: Definition of a financial instrument classified as held for trading
- IAS 39: Reclassification into or out of the fair value through profit or loss category
- IAS 39: Designating and documenting hedges at the segment level
- IAS 39: Applicable effective interest rate on cessation of fair value hedge accounting
- IAS 40: Consistency of terminology with IAS 8
- IAS 40: Investment property held under a lease

- IAS 41: Discount rate for fair value calculations
- IAS 41: Examples of agricultural produce and products

The Board decided to exclude the following proposals from its current redeliberations since they will be considered at a future date as part of the 2008 improvements project or as separate activities:

- Restructuring of IFRS 1 (to be issued as a separate document)
- IAS 1: Statement of compliance with IFRSs
- IAS 1: Current/non-current classification of convertible instruments
- IAS 17: Classification of leases of land and buildings
- IAS 17: Contingent rent
- IAS 39: Definition of derivatives
- IAS 39: Treating loan prepayment penalties as closely related embedded derivatives

The Board redeliberated the following proposals and tentatively decided to issue final amendments, subject to additional drafting changes. (There are 10 proposals still remaining to be reviewed by the Board at the March 2008 meeting.)

- IFRS 5: Plan to sell the controlling interest in a subsidiary
- IAS 16: Sale of assets held for rental
- IAS 19: Curtailments and negative past service cost
- IAS 19: Replacement of term *fall due*
- IAS 28: Required disclosures when investments in associates or interests in jointly controlled entities are accounted for at fair value through profit and loss

- IAS 28: Impairment of investment in associate
- IAS 38: Advertising and promotional activities
- IAS 40: Treatment of investment property under construction

See the [IASB project summary](#) for more information on this project.

Board discusses IAS 19 on employee benefits

The Board decided that contribution-based promises would be measured using a fair value measure that assumes that the terms of the benefits promised would not change. This measure therefore would include credit risk but exclude the possibility that the entity might reduce benefits for past service.

See the [IASB project summary](#) for more information on this project.

Conceptual framework discussed

At the February 2008 meeting, the IASB discussed the following three issues during the review of a pre-ballot draft of the Exposure Draft on the objectives of financial reporting and qualitative characteristics of financial information:

- The Board affirmed that general purpose financial reporting is directed at the reporting by an entity to its capital providers rather than reporting from the perspective of a particular class of capital providers. However, the Board noted that some constituents have not been given a sufficient opportunity to debate the merits of the so-called proprietary perspective. The staff will prepare an analysis of the implications of selecting the entity perspective to be presented to the Board at a later date.

- The Board decided to use the term *free from material error* since the use of the term *accuracy* may have translation difficulties in some languages and also may not clearly convey the Board's intention.
- The Board affirmed that comparability is an enhancing characteristic and provided suggestions for stressing the importance of comparability.

See the [IASB project summary](#) for more information on this project.

Board discusses two issues with respect to amendments to IAS 37

In June 2005, the IASB issued an *Exposure Draft of Proposed Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets and IAS 19, Employee Benefits*. At the February 2008 meeting, the Board discussed two issues with respect to comments received on the Exposure Draft.

- *Measurement of liabilities:* The Board tentatively decided to clarify the requirement that an entity should measure a liability at the amount the entity would rationally pay to settle the present obligation or to transfer it to a third party on the balance sheet date in the following manner:
 - Clarify that *settle* means paying the counterparty at the balance sheet date
 - Clarify that the amount that an entity would rationally pay is the lower of the amount to settle the obligation or to transfer the obligation to a third party

As a market does not exist for most liabilities within the scope of IAS 37, often entities will have to estimate the amount that a third party would demand to take over an obligation. At the February 2008 meeting, the Board tentatively decided to emphasize that those calculations

- Would assume the third party has the same information as the entity about the obligation
- Would be based on the entity's own estimates of the future cash flows required to discharge the obligation (unless there is evidence that a third party's cash flows would be different)

The Board tentatively decided not to give further guidance in IAS 37 about the risks that should be taken into account when applying a risk adjustment to the expected cash flows.

- *Probability recognition criterion:* The Board heard arguments to retain the criterion that it must be probable that an outflow of economic benefits will be required in order to recognize a liability under IAS 37. The Board rejected those arguments, deciding instead to confirm the original decision to remove the requirement.

See the [IASB project summary](#) for more information on this project.

Staff makes presentation on discussion paper on insurance contracts

The staff presented an overview of responses to the May 2007 Discussion Paper, *Preliminary Views on Insurance Contracts*. The Board discussed two specific issues without reaching any decisions:

- Is the objective to account for insurance contracts as a whole, or to account for the separate rights and obligations that the contracts create?
- Should the measurement of insurance liabilities incorporate the notion of settlement with the policyholder over the life of the contract?

The IASB's Insurance Working Group plans to meet on April 1-2, 2008. That meeting is open to the public but requires pre-registration on the IASB website.

See the [IASB project summary](#) for more information on this project.

Future Board meeting

The next Board meeting is March 10-14, 2008.

IFRS reference materials

IASB projects, meetings, and effective dates

See the [IASB website](#) for information on projects, meetings, and effective dates.

Comparison between U.S. GAAP and IFRS

This [comparison document](#) highlights the major areas of similarity and differences between U.S. GAAP and IFRS.