



On the Horizon for IFRS

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IASB issues April 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 April 2008 [IASB Update](#) which summarizes the Board's meeting in London on April 15-18, 2008 and the IASB's joint meeting with the FASB in London on April 21-22, 2008. Highlights of the meetings are discussed below.

IASB meeting

Board discusses 2008 annual improvements project amendment

The Board discussed a 2008 annual improvements project amendment which had been referred by the IFRIC as a result of likely diversity in practice. At their January 2008 meeting, IFRIC requested that the IASB clarify paragraph 2(g) of IAS 39, *Financial Instruments: Recognition and Measurement*, which includes a scope exception for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree

at a future date. IFRIC had originally been asked whether the scope exception applies only to forward (binding) contracts to acquire shares that constitute a controlling interest in another entity or if it applies more widely to option contracts.

The IASB tentatively decided to amend IAS 39 paragraph 2(g) to clarify that the scope exception applies only to forward (binding) contracts to buy or sell an acquiree that are entered into before the acquisition date (i.e. before the date the acquirer obtains control of the acquiree). The exception should not be applied by analogy to investments in associates and other similar transactions.

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

IASB staff conducts educational session on IFRS for small and medium-sized entities

The IASB staff conducted an educational session on the findings of the field testing program with respect to the February 2007 exposure draft of a proposed *IFRS for Small and Medium sized Entities* (SMEs). The staff presented an overview of the demographics of the entities field testing the exposure draft and the main concerns raised during the field test. In general, the type of problems encountered by field test entities were not attributable to size or industry but to the nature and extent of differences between local GAAP and the exposure draft.

The demographics of the field testing sample included 116 entities from 20 countries. The field test entities were asked to

- Provide background information about their business and reporting requirements and to submit their most recent annual financial statements under their existing accounting framework

- Restate those financial statements in accordance with the exposure draft (without presenting comparative prior year information)
- Respond to a series of questions designed to identify specific problems encountered in applying the exposure draft

The Board discussed the following concerns identified by the field test entities:

- *Annual remeasurements*: The requirement to perform annual remeasurements of fair values for financial assets and liabilities and residual values for property, plant and equipment was a concern since market prices or active markets were not always available.
- *Disclosures*: With respect to the nature, volume and complexity of disclosures, some of the disclosures were costly to prepare and required the disclosure of sensitive information
- *Reference to full IFRSs*: The exposure draft does not include all relevant IFRS requirements for SMEs and instead uses cross-references to the full IFRSs. Some of the field test entities indicated that all relevant IFRS requirements for SMEs should be included in the document and the cross-references should be removed. Only a few test entities indicated that they referred back to the full IFRSs.

The staff noted that some field test entities appeared to have misunderstood the requirements in the exposure draft for determining which financial instruments should be measured at fair value, thereby increasing the extent of instruments measured at fair value beyond that intended by Board.

No decisions were reached by the Board. The staff will make recommendations at a future IASB meeting for any revisions to the exposure draft resulting from the comment letters and the field test results.

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

Board continues discussions on hedge accounting exposure draft

In September 2007, the Board issued the exposure draft, *Exposures Qualifying for Hedge Accounting*, which proposes amendments to IAS 39, *Financial Instruments: Recognition and Measurement*. At its meeting in March 2008, the IASB discussed an analysis of the comment letters received. At the April 2008 meeting, the IASB tentatively decided that at this time any amendments to IAS 39 would address only the following situations:

- Designation of a purchased option in its entirety as a hedging instrument of an item that contains no optionality, in such a way that no ineffectiveness results
- Hedging of inflation risk in particular situations

The comment letters received confirmed that diversity exists in the accounting for these situations in current practice. The IASB will discuss possible amendments to IAS 39 at a future meeting.

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

IASB discusses draft of revenue recognition proposals

The IASB discussed three draft chapters for the forthcoming discussion paper on revenue recognition:

- Chapter 2: Accounting for contracts with customers
- Chapter 3: Performance obligations
- Chapter 4: Satisfaction of performance obligations

These chapters include the core recognition issues with respect to the proposed contract-based revenue recognition model, addressing the following:

- Reasons why the IASB and the FASB propose to base their revenue recognition model on the assets or liabilities arising from rights and obligations in contracts with customers (i.e., contract assets and contract liabilities)
- Recognition of contract assets or liabilities
- Identification of performance obligations included in contract assets or liabilities
- Determination of when those performance obligations have been satisfied

The [draft chapters](#) are included in the April 2008 meeting agenda materials available on the IASB website. The IASB was not asked to make any decisions; however issues requiring further discussion or clarification were highlighted in the draft chapters. The IASB staff intends to present a complete draft of the discussion paper in May 2008.

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

Amendments to IAS 37 discussed

In order to align IFRS requirements more closely with FASB Statement 146, *Accounting for Costs Associated with Exit or Disposal Activities*, the exposure draft Proposed Amendments to *IAS 37, Provisions Contingent Liabilities and Contingent Assets* and *IAS 19, Employee Benefits*, was issued in June 2005 as part of the IASB's short-term convergence project with the FASB. At the April 2008 meeting, the Board discussed measurement guidance, restructuring costs and onerous contracts.

Measurement guidance

The Board discussed draft wording with respect to the measurement of liabilities and tentatively decided that the measurement requirements would be included in the body of the standard, with application guidance included in an appendix. The Board raised a number of issues for further consideration by the staff.

Restructuring costs

Comments received from most respondents supported the proposed amendments for restructuring costs. However, the Board discussed comments from some respondents on whether a public announcement of a decision to restructure a business creates a constructive obligation since management has little if any discretion to reverse the decision, from a commercial viewpoint. The Board reaffirmed its previous conclusion that such commercial pressures are not obligations to the restructuring parties, and tentatively decided not to revise the draft proposal.

The Board also tentatively decided to add a requirement to disclose the details of restructuring activities. The disclosures would include a description of the restructuring, the segment affected, any impairment charges recognized, and the nature, timing and total amount of associated costs.

Onerous contracts

Comments received from most respondents supported the proposed amendments for onerous contracts. However, the Board discussed comments from some respondents that, for an onerous operating lease, the liability should be measured net of sublease rentals only if the entity intends to sublease the property. The Board reaffirmed its previous conclusion that the liability would

be measured net of sublease rentals that could reasonably be obtained, irrespective of the entity's intentions.

In addition, a tentative decision was made by the Board to make minor revisions to the proposals to:

- Avoid any inference that a decline in the market price of products or services necessarily makes a contract for their purchase onerous
- Clarify what is meant by the term *actions* in the requirements for contracts that become onerous because of the entity's own actions

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

IASB discusses cost of an investment in a subsidiary, jointly controlled entity or associate

In December 2007, the Board issued the exposure draft, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, which proposes amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards* and IAS 27, *Consolidated and Separate Financial Statements*. At the April 2008 meeting, the staff made a presentation of an analysis of the comment letters received.

The following proposals were discussed and affirmed by the Board:

- An entity may use a deemed cost (either fair value or the previous GAAP carrying amount) at the date of transition to IFRSs in its separate financial statements to account for investments in subsidiaries, jointly controlled entities, or associates
- Deletion of the definition of the *cost method* from IAS 27

- In its separate financial statements, an entity is required to present dividends from investments in subsidiaries, jointly controlled entities, and associates as income
- In a reorganization where a new parent issues equity instruments in exchange for the equity instruments of the previous parent, the new parent would measure the cost of its investment in the previous parent at the carrying amount of the equity instruments of the previous parent in the separate financial statements of the previous parent at the date of the reorganization.

As a result of comments received, the Board agreed that the receipt of a dividend from a subsidiary, jointly controlled entity, or associate may be an indicator of impairment. The exposure draft had required an impairment test upon receipt of a dividend.

The Board made a decision that the amendments would be applied prospectively; however entities would have the option to apply the requirements related to the formation of a new parent retrospectively. The effective date for the amendments will be January 1, 2009 with earlier application permitted.

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

Proposed amendments to IFRS 5 discussed

The IASB discussed proposed amendments to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, relating to measurement and discontinued operations:

Measurement

The IASB and the FASB, in their joint project on business combinations, previously made a decision that non-current assets held for sale (including those that do not relate to business combinations) would be measured at fair value

instead of fair value less costs to sell. In order for constituents to comment on this issue, IFRS 3, *Business Combinations* (as revised in 2008) and FASB Statement 141, *Business Combinations* (as revised in 2007), included a temporary exception to the measurement principle of fair value for non-current assets held for sale until IFRS 5 and Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* are amended. At the April 2008 meeting, the IASB discussed the measurement issue and decided not to amend IFRS 5 and to retain the exception in IFRS 3 (revised 2008).

Discontinued operations

The IASB and the FASB, in their joint project on financial statement presentation, previously made a decision to develop a common definition of discontinued operations based on operating segments and to require common disclosures with respect to the disposal of an entity's components. At the April 2008 meeting, the IASB made the following tentative decisions and asked the staff to prepare a pre-ballot draft of an exposure draft to amend IFRS 5:

- To define discontinued operations as “a component of an entity that has been (or will be) disposed of and meets the definition of an operating segment under IFRS 8, *Operating Segments*.” The amounts presented in the statement of comprehensive income and related note disclosures would be based on applicable IFRSs instead of the amounts provided to the chief operating decision maker.
- To require disclosure of the following items for all components of an entity that have been (or will be) disposed of, with the exception of subsidiaries acquired and held exclusively with a view to resale:

- Major classes of revenues and expenses, including impairments, interest, depreciation and amortization
- Major classes of cash flows (operating, investing and financing)
- Major classes of assets and liabilities
- Nature of the activities disposed of and use of the proceeds from those activities
- To base the amounts disclosed on applicable IFRSs
- To allow early application of the proposed amendments and apply the proposed amendments prospectively (from a date to be determined), subject to the following:
 - Amounts in the statement of comprehensive income would be restated using the revised definition of discontinued operations for all periods presented.
 - If an entity reclassifies the amounts presented in prior periods, the reclassification and the amounts reclassified would be disclosed.
- To allow for a comment period of 120 days

See the following IASB project summaries for more information on these projects:

- [Business Combinations](#)
- [Financial Statement Presentation](#)

IASB staff provides update on consolidation project

The staff provided an update to the Board on the status of the consolidation project, including the new working definition of control and the proposed

disclosure framework. The Board decided that the next due process document should be an exposure draft instead of a discussion paper since the project is focusing on improving the current requirements. The Board accepted the staff's recommendation to present the model as a complete package to the Board and the staff expects to complete the draft exposure document during the third quarter of 2008.

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

Fair value measurement issues discussed

Representatives from the International Valuation Standards Committee met with the IASB to discuss valuation issues related to fair value measurement. No decisions were made by the Board. The following issues were discussed:

Differentiating between *prices* and *values*

Potential differences between entry prices and exit prices

The *highest and best use* concept

The characteristics of a market

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

Board discusses comment letters on joint arrangements

In September 2007, the Board issued the exposure draft, *ED 9 Joint Arrangements*, which would replace IAS 31, *Interests in Joint Ventures*. The staff presented an analysis of the comment letters. The Board discussed the main issues raised and reaffirmed the principles in the exposure draft. The Board acknowledged that many respondents' interpretation and assessment of the implications of the proposed model differed from those of the Board and that this difference would need to be addressed. The Board requested that

the staff consult with additional users and also contact some of the respondents in order to understand their concerns.

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

Future Board meeting

The next IASB meeting is May 20-23, 2008.

Joint IASB/FASB meeting

IASB and FASB discuss the Memorandum of Understanding

A Memorandum of Understanding (MOU) was issued by the IASB and the FASB (the Boards) in February 2006. The MOU described a joint work plan to expedite global convergence in accounting standards and established a series of milestones to be reached by 2008. Since most of the milestones have now been reached or will be reached during 2008, the chairmen of the Boards had previously agreed that the timeline contained within the existing MOU should be updated through at least 2011.

The chairmen asked a team of representatives from the IASB and the FASB to prepare a draft paper for discussion at the April 2008 joint meeting. See [IASB/FASB Agenda Paper 3](#) which outlines the staffs' recommendations for an updated timeline. At the April 2008 joint meeting, the Boards discussed this draft paper and accepted the broad principles that were recommended by the staff. The Boards asked the IASB and FASB staff to develop a detailed work plan for consideration at the IASB's meeting in June with the intention of issuing the updated work plan after that meeting.

European revenue recognition paper discussed

In July 2007, the European Financial Reporting Advisory Group (EFRAG), the Deutsche Rechnungslegungs Standards Committee (DRSC) and the Conseil National de la Comptabilité issued a [Discussion Paper](#), *Revenue Recognition—A*

European Contribution, which has as one of its' objectives to develop European views to be considered by the IASB and FASB in their joint project on revenue recognition. At the joint IASB/FASB meeting in April 2008, representatives of the EFRAG and DRSC presented an [overview of the discussion paper](#). No decisions were made by the IASB and the FASB.

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

Conceptual framework project – perspectives of financial reporting discussed

At the IASB and FASB meetings in February 2008, each Board discussed the entity and proprietary perspectives of financial reporting and asked the staff to prepare a paper summarizing the implications of the Boards' previous decision to adopt the entity perspective. This issue arose during work on phase A (the objective of financial reporting) and phase D (the reporting entity). At the April 2008 joint meeting, the Boards continued to discuss the implications of adopting the entity perspective and discussed the paper prepared by the staff.

The Boards confirmed that the *entity perspective* means that the entity itself is the subject matter of financial reporting and the objective would be to provide financial information about the entity's business to the entity's capital providers. Whereas under the *proprietary perspective*, the proprietor is the subject matter of financial reporting and the reporting entity does not have substance of its own separately from its proprietors or owners and the objective would be to provide financial information about the proprietor's business to the proprietor.

The Boards noted that their initial deliberations in other phases of the conceptual framework project have not been completed and accordingly, implications of the perspective decision for future phases will be analysed

during the deliberations of the other phases. However, the Boards believe that it is not necessary to address these implications before finalizing and issuing the exposure draft for phase A. Both the phase A exposure draft and the phase D discussion paper will include an explanation of the decisions reached and any implications not yet deliberated in the bases for conclusions.

In addition, the Boards discussed an issue that was raised during the Board's comment process on the draft discussion paper on the reporting entity (phase D). The Boards tentatively agreed that:

- Consolidated financial statements should always be presented by a parent entity.
- Parent-only financial statements would not be precluded conceptually if they are included in the same financial report as the consolidated financial statements.

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

IASB and FASB response to the credit crisis

The IASB, in response to the current credit crisis, is reviewing areas where it believes there could be improvements in IFRS financial reporting. These areas are:

- Fair value measurement
- Financial instruments
- Consolidation and derecognition
- Disclosures about off-balance sheet items
- Disclosures about fair value measurements

Prior to the credit crisis, the IASB had completed a significant amount of work on the fair value measurement, consolidations and derecognition projects. The

exposure draft, that the consolidations project staff is currently developing, is expected to include revisions to IFRS 7, *Financial Instruments: Disclosures*, with respect to disclosures about off-balance sheet items and fair value measurements.

The FASB, in response to the current credit crisis, has been discussing a project to eliminate the concept of a qualifying special purpose entity in Statement 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities -a replacement of FASB Statement No. 125* and to amend Interpretation 46R, *Consolidation of Variable Interest Entities (revised December 2003)—an interpretation of ARB No. 51*, to place more emphasis on qualitative, and therefore less reliance on quantitative, factors in assessing control. The project would also review disclosure requirements related to securitizations and off-balance sheet activities.

In addition, both the IASB and the FASB agreed that they would work together to align their disclosure requirements and assess whether the IASB's consolidation project could become a joint project.

Corporate Reporting Users' Forum makes a presentation

The Corporate Reporting Users' Forum (CRUF) was founded in 2005 with the objective of influencing the future development of IFRSs and U.S. GAAP. The representatives of CRUF presented their observations on the Boards' joint agenda, noting suggestions for priorities and topics that should be addressed by the Boards. No decisions were made by the Boards.

Future joint Board meeting

The next joint IASB/FASB meeting is October 20-22, 2008.

AICPA issues proposal to include IFRS on the Uniform CPA Examination

On May 6, 2008, the AICPA Board of Examiners issued a [press release](#) announcing the issuance of an [exposure draft](#), *Proposed Content and Skill Specifications for the Uniform CPA Examination*, which contains a proposal to include IFRS for the first time on the CPA examination. The Financial Accounting and Reporting section of the exam currently includes questions on knowledge and understanding of U.S. GAAP for business enterprises, not-for-profit organizations, and governmental entities. The AICPA Board of Examiners noted that due to the growing acceptance and use of IFRS in the global financial reporting community, and in light of the SEC's recent statements, IFRS could become a body of generally accepted accounting principles in the U.S in the near future.

The comment period on the exposure draft ends July 31, 2008.

What's new in the IFRS practice

Publications

GTI IFRS Top 20 Tracker

GTI issued a new publication entitled *IFRS Top 20 Tracker* (the Tracker). The Tracker takes management through twenty important disclosure and accounting issues which have been identified as causing problems in practice when preparing financial statements under IFRS. These twenty issues have been identified based on the experience of member firms within GTI in assisting companies apply or move to IFRS. The Tracker has been developed both for sharing within member firms and for external distribution to clients and contacts. The document is available on the [firm's public website](#).

IFRS reference materials

Comparison between U.S. GAAP and IFRS

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

GTI IFRS News

GTI IFRS News, a new quarterly update, offers a high level summary of the more significant developments in IFRS along with insights into topical issues and comments and views from the GTI IFRS Team. *IFRS News* has been developed both for sharing within member firms and for external distribution to clients and contacts. The publication is available on the [firm's public website](#).

GTI IFRS 5 Guide

GTI issued a publication entitled *Non-current Assets Held For Sale and Discontinued Operations – Challenges in Applying IFRS 5* (the IFRS 5 Guide). The IFRS 5 Guide explains key implementation issues and common approaches to practical application and also includes several examples illustrating disclosure and presentation requirements. The IFRS 5 Guide has been developed both for sharing within member firms and for external distribution to clients and contacts. The document is available on the [firm's public website](#).

IASB projects, meetings, and effective dates

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

International Financial Reporting Standards 2008 Bound Volume

The IASB issued its *International Financial Reporting Standards (IFRSs) 2008* Bound Volume. The 2008 edition includes the latest version of IFRSs,

IASs, and IFRIC and SIC Interpretations as approved for issue by the IASB at January 1, 2008. The 2008 bound volume may be purchased through the [IASB website](#).

Revised reference guide by the IASB and IASC Foundation

The IASB and the IASC Foundation issued a [revised reference guide](#), *IASB and the IASC Foundation: Who we are and what we do*.