



On the Horizon for IFRS

May 29, 2008

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IASB completes its first annual improvements project

On May 22, 2008, the IASB [announced](#) the issuance of *Improvements to IFRSs* (the 2008 Improvements), which makes minor amendments to a number of IFRS and completes the IASB's first round of annual improvements.

Background to the 2008 Improvements

The annual improvements process has been developed to address non-urgent, but necessary, minor amendments to IFRS. This process deals with issues raised by the IFRIC, practitioners, or the staff and focuses on clarification of wording and resolution of inconsistencies within IFRS.

The process involves the IASB discussing and deciding on proposed improvements to IFRS as they arise throughout the year. Rather than making a series of piecemeal changes, the improvements project streamlines the improvement process by publishing annual changes in a single document.

In the third or fourth quarter each year, an omnibus exposure draft of the collected proposals will be published for public comment, with a comment period of 90 days. The IASB has as its goal to issue the amendments in final form in the second quarter of the following year, with an effective date of annual periods beginning on or after January 1 of the year after issuance.

Structure of the 2008 Improvements

Part I of the 2008 Improvements includes amendments that result in accounting changes for presentation, recognition, or measurement purposes.

Part II includes those amendments that are terminology or editorial changes only, which the IASB expects to have minimal effect on accounting.

IFRS affected

The following table sets out the IFRS that are affected by the amendments, the issue addressed, and a brief description of the change. Refer to the 2008 Improvements for more details.

Part I of the 2008 Improvements – amendments that result in accounting changes for presentation, recognition, or measurement purposes

Standard affected	Issue	Summary of change
IAS 1, <i>Presentation of Financial Statements</i>	Current/non-current classification	Amendment to examples in paragraphs 68 and 71 of IAS 1 (revised 2007) to clarify that financial instruments classified as held for trading in accordance with IAS 39 are not necessarily required to be presented as current assets/current liabilities. Instead IAS 1's normal classification principles should be applied.

Standard affected	Issue	Summary of change
IFRS 5, <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Plan to sell the controlling interest in a subsidiary	Clarification that all the assets and liabilities of a subsidiary should be classified as held for sale if the entity is committed to a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale.

Standard affected	Issue	Summary of change
IAS 16, <i>Property, Plant and Equipment</i>	Recoverable amount	The term <i>net selling price</i> has been replaced with <i>fair value less cost to sell</i> in the definition of recoverable amount so as to achieve consistency with the terminology used in IFRS 5.
	Sale of assets held for rental	Amendment to clarify that an entity which, in the course of ordinary activities, sells property, plant and equipment that was held for rental to others transfers the PP&E assets to inventories at carrying amount when they cease to be rented and are classified as held for sale. The proceeds from sale are to be recognized as revenue in accordance with IAS 18. IFRS 5 does not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.

Standard affected	Issue	Summary of change
IAS 19, <i>Employee Benefits</i>	Curtailments and negative past service cost	Clarification that a curtailment arises from a reduction in the extent to which future salary increases are linked to the benefits payable for past service. Clarification that negative past service cost arises when benefits are changed as a result of a plan amendment so that the present value of the defined benefit obligation decreases.
	Plan administration costs	Change to definition of return on plan assets to require the deduction of plan administration costs only to the extent not included in actuarial assumptions used to measure defined benefit obligation.
	Replacement of term <i>fall due</i>	Amendment of the definition of short-term employee benefits and other long-term employee benefits to replace the term <i>fall due wholly</i> with the term <i>due to be settled</i> . This may affect classification and require some benefit plans to be split between short- and long-term.

Standard affected	Issue	Summary of change
	Guidance on contingent liabilities	Removal of the reference to <i>recognition</i> in relation to contingent liabilities arising from multiemployer plans, in order to be consistent with IAS 37 (which prohibits recognition of a contingent liability).
IAS 20, <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	Government loans with a below-market rate of interest	Amendment to require that the benefit of a government loan with a below-market rate of interest be treated as a government grant. The benefit is measured as the difference between the proceeds received and the initial carrying value of the loan determined in accordance with IAS 39.
IAS 23, <i>Borrowing Costs</i>	Components of borrowing costs	Paragraphs 6(a)-(c) of IAS 23 have been replaced with an explicit requirement to determine interest expense using IAS 39's effective interest rate method.

Standard affected	Issue	Summary of change
IAS 27, <i>Consolidated and Separate Financial Statements</i>	Measurement of subsidiary held for sale in separate financial statements	Amendment requiring that when an entity prepares separate financial statements and accounts for investments in subsidiaries, jointly controlled entities and associates in accordance with IAS 39 (rather than at cost), such investments continue to be measured using IAS 39 even if classified as held for sale in accordance with IFRS 5. Investments measured at cost will continue to be re-measured in accordance with IFRS 5 when classified as held for sale.
IAS 28, <i>Investments in Associates</i>	Required disclosures when investments in associates are accounted for at fair value through profit or loss	Clarification of disclosures for investments in associates accounted for at fair value in accordance with IAS 39.

Standard affected	Issue	Summary of change
	Impairment of investment in associate	Clarification that an investment in an associate is treated as a single asset for impairment testing. The amendment explains that an impairment loss recognized is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investment in the associate. Any reversal of such an impairment loss should be recognized to the extent that the recoverable amount of the investment subsequently increases.
IAS 29, <i>Financial Reporting in Hyperinflationary Economies</i>	Description of measurement basis in financial statements	Clarification that a number of assets and liabilities may or must be measured on the basis of a current value rather than historical value.
IAS 31, <i>Interests in Joint Ventures</i>	Required disclosures when interests in jointly controlled entities are accounted for at fair value	Clarification of disclosures for interests in jointly controlled entities accounted for at fair value in accordance with IAS 39.

Standard affected	Issue	Summary of change
IAS 36, <i>Impairment of Assets</i>	Disclosure of estimates used to determine recoverable amount	Amendment requiring additional disclosures when fair value less costs to sell is determined using discounted cash flows.
IAS 38, <i>Intangible Assets</i>	Advertising and promotional activities	Amendments to clarify when an entity can recognize a prepayment asset, including for advertising or promotional expenditures. In the case of supply of goods, the entity can recognize expenditures as an asset when it makes payment before it has a right to access the goods. For services, an asset may be recognized when payment is made before services are received. Some entities will need to expense costs for promotional catalogues and similar items sooner.
	Units of production method of amortization	Removal of prohibition of amortization methods that result in lower amortization than the straight line method.

Standard affected	Issue	Summary of change
IAS 39, <i>Financial Instruments: Recognition and Measurement</i>	Reclassification of derivatives into or out of the classification of at fair value through profit or loss	IAS 39 prohibits reclassification of financial instruments into or out of fair value through profit or loss after initial recognition. The amendments clarify that derivatives which cease to qualify as hedging instruments, derivatives newly designated as a hedging instrument, and financial assets that are reclassified when an insurance company changes its accounting policies in accordance with IFRS 4.45 do not represent reclassifications for purposes of IAS 39.
	Designating and documenting hedges at the segment level	References to the designation of hedging instruments at the segmental reporting level have been removed.

Standard affected	Issue	Summary of change
	Applicable effective interest rate (EIR) on cessation of fair value hedge accounting	IAS 39.AG8 has been amended to clarify that the revised EIR (calculated in accordance with IAS 39.92 on cessation of fair value hedge accounting) should be applied when cash flows estimates change for instruments that were previously designated as hedged items.
IAS 40, <i>Investment Property</i>	Investment property under construction or development	IAS 40.8 has been amended to bring property that is being constructed or developed for future use as an investment property within the scope of IAS 40 (the IAS 40 fair value model may therefore be applied). Previously IAS 16 applied to such property until completion.

Standard affected	Issue	Summary of change
IAS 41, <i>Agriculture</i>	Discount rate for fair value calculations	Removal of the reference to a pre-tax discount rate.
	Additional biological transformation	Removal of the prohibition on taking increases in value from additional biological transformation into consideration when calculating the fair value of biological assets using estimated cash flows.

Standard affected	Subject of amendment
IAS 20, <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	Consistency of terminology with other IFRS
IAS 29, <i>Financial Reporting in Hyperinflationary Economies</i>	Consistency of terminology with other IFRS
IAS 34, <i>Interim Financial Reporting</i>	Clarifies which entities must provide earnings per share disclosures in interim financial reports
IAS 40, <i>Investment Property</i>	Consistency of terminology with IAS 8
	Investment property held under lease
IAS 41, <i>Agriculture</i>	Corrected example of biological assets, produce and products
	Replacement of point-of-sale costs with costs to sell

Part II of the 2008 Improvements – amendments that are terminology or editorial changes only with minimal expected effect on accounting

Standard affected	Subject of amendment
IFRS 7, <i>Financial Instruments: Disclosures</i>	Presentation of interest income as finance costs
IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Status of implementation of integral and nonintegral guidance in IFRS
IAS 10, <i>Events after the Reporting Period</i>	Dividends declared after the end of the reporting period
IAS 18, <i>Revenue</i>	Transaction costs of originating a loan

Effective date

The effective date for each amendment is included in the IFRS affected. In most (but not all) cases the amendments apply for annual periods beginning on or after January 1, 2009, with early adoption permitted.

IASB issues amendments to IFRS 1 and IAS 27 for cost of an investment in a subsidiary, jointly controlled entity, or associate

On May 22, 2008, the IASB [announced](#) the issuance of a document entitled *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, which

includes amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards* and IAS 27, *Consolidated and Separate Financial Statements* (the Amendments).

The Amendments affect only the separate financial statements of a parent entity or investor and include the following main changes:

- Introduction of a *deemed cost* exemption into IFRS 1 for first-time adopters of IFRS when measuring the cost of an investment in a subsidiary, jointly controlled entity, or associate
- Removal of IAS 27's requirement to deduct pre-acquisition dividends from the cost of an investment in a subsidiary, jointly controlled entity, or associate in profit or loss in the separate financial statements of the investor entity
- New requirements on accounting for the formation of a new parent

A brief discussion of each of these changes follows.

Deemed cost exemption

The Amendments allow an entity that is a first-time adopter of IFRS to use a *deemed cost* when measuring an investment in a subsidiary, jointly controlled entity, or associate. This deemed cost can be determined using either fair value in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* at the entity's date of transition to IFRS or a previous GAAP carrying amount at that date.

An entity is able to choose whether to use the deemed cost exemption on an item-by-item basis for each investment in a subsidiary, jointly controlled entity, or associate.

Pre-acquisition dividends in the separate financial statements of the investor entity

The Amendments delete the definition of the *cost method* in IAS 27.

Dividends received out of the investee's pre-acquisition profits will no longer be deducted from cost in the parent or investor's separate financial statements. That requirement had given rise to practical problems in determining whether dividends relate to pre- or post-acquisition profits. Instead, dividends receivable will be recorded as income.

Dividends may also give rise to impairment of the investment. IAS 36, *Impairment of Assets* has been amended to include the following as specific indicators that the investment may be impaired:

- The carrying amount of an investment in a subsidiary, jointly controlled entity, or associate in the separate financial statements of the investor entity exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill.
- A dividend receivable or received exceeds the total comprehensive income of the subsidiary, jointly controlled entity, or associate in the period the dividend is declared.

Formation of a new parent

The Amendments introduce new guidance on accounting when a parent reorganizes the structure of its group by establishing a new entity as its parent and the interests of shareholders are not affected. In such a situation, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganization.

Effective date

The Amendments are effective for annual periods beginning on or after January 1, 2009 with early adoption permitted. Specific transition provisions for the amendments to IFRS 1 and IAS 27 and conforming amendments to IAS 18, *Revenue* and IAS 36 are specified in:

- Paragraph 47K of IFRS 1
- Paragraphs 45B and 45C of IAS 27
- Paragraph 38 of IAS 18
- Paragraph 140D of IAS 36

AICPA

AICPA Council votes to recognize the IASB as a designated standard setter

On May 18, 2008, the AICPA issued a [press release](#) announcing that the governing Council of the AICPA voted to amend Appendix A of AICPA Rule 202, “Compliance with Standards” and Rule 203, “Accounting Principles” to designate the IASB as an accounting body for purposes of establishing IFRS. This amendment will provide AICPA members the option to use IFRS as an alternative to U.S. GAAP.

Appendix A to Rules 202 and 203 of the AICPA’s Code of Ethics includes the standard setters designated by the governing Council. Rule 202 states that a member performing professional services must comply with the standards promulgated by the designated bodies. Rule 203 states that a member must not say that financial statements are in accordance with generally accepted accounting principles unless they follow the standards promulgated by a standard setter included in Appendix A.

The AICPA’s Auditing Standards Board and the Accounting and Review Services Committee must now propose revised language for audit, review and compilation reports when reporting on financial statements prepared in accordance with IFRS.

AICPA launches a new IFRS website

On May 19, 2008, the AICPA issued a [press release](#) announcing a new IFRS website at www.IFRS.com. The website includes informational videos, explanatory material about IFRS, training programs, and links to useful resources.

Included on the new website is a recently issued [background document](#) on IFRS entitled, *International Financial Reporting Standards (IFRS) – An AICPA Background*, which includes the following sections:

- Get Ready for IFRS
- Worldwide Momentum
- SEC Leadership in International Effort
- AICPA Participation
- Two Sides of the Story
- GAAP and IFRS, Still Differences
- What CPAs Need To Know
- Appendix – Timeline for IFRS Acceptance in the U.S.

Also included on the new website is an IFRS [frequently asked questions document](#).

Committee of European Securities Regulators

CESR issues extracts of IFRS enforcement decisions

On May 20, 2008, the Committee of European Securities Regulators (CESR) issued its third set of [extracts](#) of IFRS enforcement decisions. CESR periodically publishes the extracts to provide additional IFRS resources to entities. The topics included are:

- Consolidation of subsidiary
- Step acquisition
- Consolidation of special purpose entities
- Application of the pooling of interest method in a business combination under common control
- Identification of the acquirer in a business combination
- Partial reimbursement and modifications of the term of the contract of a borrowing
- Impairment of an investment
- Disclosure of the effect of discontinued operations
- Definition of key management personnel
- Internally generated intangible assets
- Allocation of the costs of an acquisition
- Scope of IAS 11
- Barter transaction
- Half-yearly financial statements

Publications

GTI publications

IFRS 3 guide on identifying and valuing intangibles in a business combination

IFRS Alert 2008-10 announced the issuance of a new GTI publication entitled *Intangible Assets in a Business Combination – Identifying and valuing intangibles under IFRS 3* (the Intangible Assets Guide). The revised version of IFRS 3, *Business Combinations*, issued by the IASB in January 2008, has drawn renewed attention to a complex and developing area of financial reporting – the recognition and measurement of intangible assets. Acquirers in business combinations can expect reported amounts of intangible assets and goodwill to be closely scrutinized by investors, analysts and regulators. The Intangible Assets Guide includes practical guidance on the detection of intangible assets in a business combination and explains how they may be valued. An overview of IFRS 3 summarizes the main aspects of accounting for business combinations and includes some practical points to consider.

The publication is available on the [Grant Thornton IFRS Resource Center](#).

IFRS reference materials

GTUS publications

Comparison between U.S. GAAP and IFRS

The GTUS [comparison document](#) highlights the major areas of similarity and differences between U.S. GAAP and IFRS and is available on the [Grant Thornton IFRS Resource Center](#).

GTI publications

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.

The publication is available on the [Grant Thornton IFRS Resource Center](#).

IFRS 5 guide on non-current assets held for sale and discontinued operations

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 publication is available on the [Grant Thornton IFRS Resource Center](#).

IFRS Top 20 Tracker

GTI issued a 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 that apply or move to IFRS.

The publication is available on the [Grant Thornton IFRS Resource Center](#).

External GTUS website

The [Grant Thornton IFRS Resource Center](#) includes various sections on IFRS.

IASB

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*.