



On the Horizon for IFRS

July 8, 2008

IASB issues May 2008 meeting highlights

Board discusses annual improvements process
Proposed IFRS for private entities redeliberated
Board completes discussions on amendments to IFRS 1
IASB reaches tentative conclusions on earnings per share
Board continues discussions on hedge accounting exposure draft
IASB discusses revenue recognition measurement proposals
Board discusses comments received on liabilities exposure draft
IASB announces plans to form fair value measurement expert advisory panel
IASB and FASB discuss joint project on emissions trading schemes
Update on IFRIC activities
Future Board meetings

IASB and FASB seek comments on conceptual framework documents

IFRS reference materials

IASB
AICPA

IASB issues May 2008 meeting highlights

All decisions reached at IASB 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 May 2008 [IASB Update](#), which summarizes the Board's meeting in London on May 20-23, 2008. Highlights of the meeting are discussed below.

Board discusses annual improvements process

IAS 38, Intangible Assets

The staff presented an analysis of and recommendations for two remaining issues arising from the comments received on the October 2007 exposure draft, *Improvements to International Financial Reporting Standards*. At its meeting in February 2008, the Board decided to reconsider these issues.

Valuation guidance

A literal reading of paragraph 41 of IAS 38 could lead entities to measure the fair value of intangible assets inappropriately and could be misinterpreted in practice. The Board tentatively decided:

- To amend paragraphs 40 and 41 of IAS 38 to clarify the description of the valuation techniques commonly used to measure fair value for intangible assets that are not traded in an active market
- To apply the amendments prospectively because a retrospective application might require remeasurement of past transactions

The Board asked the staff to draft amendments to paragraphs 40 and 41 of IAS 38.

Consequential amendments from IFRS 3 (as revised in 2008)

The Board tentatively decided to make consequential amendments to paragraphs 36 and 37 of IAS 38 to reflect its decision that if an intangible asset acquired in a business combination is identifiable, sufficient information exists to measure reliably the fair value of the asset. The proposed effective date of the amendments is July 1, 2009, which is consistent with the revised IFRS 3. The Board asked the staff to draft amendments to paragraphs 36 and 37 of IAS 38.

Scope and process for future improvements to IFRS

The staff presented a paper recommending changes to the scope and process for future improvements to IFRS.

Scope of the annual improvements project

The Board made the following decisions:

- The definition of *minor amendments* should not determine the project's scope
- Unless the changes relate to unusually significant or broad issues, the Board will continue to use a single exposure draft for annual improvements

- Whether to publish an amendment as a stand-alone document or with a group of others requires judgment

Process for future improvements

In order to improve efficiency and ease the consultation process, the IASB decided to adopt the revisions that the staff proposed to the process for issuing future improvements with respect to the following five main areas:

- *Communication content on the project's webpage:* The word *minor* will be eliminated; language will be added that whether an issue is addressed as stand-alone or with others does not affect due process; and approved post-ballot drafts will be posted right away.
- *Structure and content of agenda papers for future proposals:* Changes include addressing why an amendment is needed now; how it affects other standards including transition; and other items to be included in a draft appendix.
- *Timing of balloting and drafting of individual proposals:* Once approved, drafts will be posted and comments accepted prior to publication in the annual improvements exposure draft.
- *Format of future exposure drafts:* Necessary but non-substantive changes will be compiled in Part II; all the amendments will have one invitation to comment with three standard questions; and additional questions may be asked for a specific amendment.
- *Timing of future project cycles:* An exposure draft issued in August will have a 90 day comment period, and final amendments published by April 1 of the following year will have an effective date the following January 1.

The June 2008 meeting will be the last meeting at which the Board will discuss and approve any new proposals for inclusion in the next annual improvements exposure draft.

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

Proposed IFRS for private entities redeliberated

In February 2007, the IASB issued an exposure draft, *IFRS for Small and Medium-sized Entities*. The staff had conducted educational sessions (at the March and April IASB meetings). The Small and Medium-sized Entities (SMEs) Working Group met in April 2008 and provided the IASB with a summary of the working group's views and recommendations. At its May 2008 meeting, the IASB commenced redeliberations of general matters (those not related to a particular section of the exposure draft) and discussed issues relating to Sections 1– 3 of the exposure draft. A summary of those discussions follows:

General issues not relating to specific sections in the exposure draft

- *Title of the proposed standard:* The title of the proposed standard should be changed to *IFRS for Private Entities*, with private entities defined in a manner similar to the exposure draft's definition of SMEs.
- *Fully stand-alone:* The proposed standard should be fully stand-alone, with no cross-references to full IFRS. A stand-alone document would be more understandable and easier to use.
- *Options in an appendix:* All accounting policy options in full IFRS should be available to private entities with the body of the proposed standard including the simpler options and a separate appendix containing the more complex options. If an entity chooses only the simpler options, it would not have to refer to the appendix.

- *Topics included:* The proposed standard should directly address the following topics, which the exposure draft addressed by cross-reference to the related full IFRS: lessor accounting for finance leases, share-based payment, fair value of agricultural assets, and hyperinflation.
- *Topics not included:* The proposed standard would not address the following topics: segment information, earnings per share and interim reporting. An entity choosing to present this information would be required to describe its basis of preparation.
- *Small listed entities:* The scope of the proposed standard should not include small listed entities.
- *Entities that receive funds in a fiduciary capacity:* Entities whose primary business is holding funds in a fiduciary capacity are publicly accountable, which puts them outside the scope of the proposed standard. Entities that hold funds in a fiduciary capacity as a sideline to their principal business, for example, a utility company or travel agency that takes deposits, should be included in the scope of the proposed standard if they otherwise qualify.
- *Restatements:* An *undue cost or effort* principle should not be added to the proposed standard wherever a restatement is required because the exemption for *impracticability* is sufficient.
- *Fair value measurement:* The staff proposed that for current remeasurements the requirement should use simple language to describe the basis for measurement, rather than using the generic term *fair value*. The staff will present a proposal for each required measurement at a future Board meeting.
- *Structure of the proposed standard:* Calls for an overall restructuring of the standard were rejected.

- *Post-implementation assessment:* The Board decided that an assessment of implementation problems should not be undertaken until two years of financial statements for a broad range of entities using the proposed standard are available.

Issues relating to Sections 1–3

- *Subsidiary of an IFRS entity:* If the subsidiary of an entity using IFRS uses the recognition and measurement principles contained in the full IFRS, the Board decided that the subsidiary must provide the disclosures required by full IFRS, not only the disclosures required by the proposed standard.
- *Objective and qualitative characteristics:* Section 2 of the exposure draft, which describes the objective of financial statements of SMEs and the qualitative characteristics of information in such financial statements, only partially reflects the IASB's recently issued Framework exposure draft. Whether the final IFRS for private entities should reflect the proposed Framework will be decided at a future Board meeting.
- *Concepts and pervasive principles:* Some respondents to the exposure draft indicated that they would like the concepts and pervasive principles in Section 2 to be rewritten in a more prescriptive rather than descriptive way. However, the Board members expressed the view that the concepts and broad principles (1) should not be significantly different from those in full IFRS and (2) should not try to resolve issues that the Board is currently considering in other projects. The Board asked the staff to review Section 2 with those caveats in mind.
- *Objectives:* The Board decided that determination of taxable and distributable income should not be added to the objectives of financial statements of private entities.
- *Financial statement presentation:* The Board decided that:

- The proposed standard should not prescribe financial statement formats, titles, subtotals, minimum line items, sequencing, and note disclosures in more detail than in the exposure draft.
- The proposed standard should include the requirements of IAS 1, *Presentation of Financial Statements* (as revised in 2007), including presenting a statement of comprehensive income. Also, the final standard would use the new IAS 1 financial statement titles, although use of the new titles would not be required.

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

Board completes discussions on amendments to IFRS 1

As a follow up to the March 2008 Board meeting, where the staff of the Canadian Accounting Standards Board (AcSB) presented several proposed amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards*, in order to address challenges that jurisdictions and entities are likely to face in adopting IFRS in the next few years, the Board tentatively decided to propose the following amendments to IFRS 1:

- The Board decided to add guidance in IFRS 1 that a first-time adopter is not required to make the IFRS 1 assessment if it had performed an identical assessment under previous GAAP at a date before the date of transition (e.g., whether an arrangement contains a lease). If a first-time adopter elects not to reassess its previous accounting, it would continue to use the assessment made in accordance with previous GAAP.
- The Board decided to add guidance in IFRS 1 that would prohibit the determination of fair values as of dates before the date of transition to IFRS, unless the information needed to determine those fair values was available when IFRS would have required them to be determined. If the

fair value information was not available, an entity would use its previous GAAP carrying amount.

- The Board decided to permit oil and gas entities using full cost accounting to measure exploration, evaluation, development and production assets on transition to IFRS by allocating the amount recognized under the entity's previous GAAP. Such entities must disclose the basis for that allocation and test the allocated amounts for impairment at the date of transition to IFRS.
- The Board decided to add an exemption for property, plant and equipment of a rate-regulated entity if it is impracticable (as defined in IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*) to identify amounts capitalized under previous GAAP that do not qualify for capitalization under IFRS. The rate-regulated entity would be permitted to use the carrying amount of all such items at the date of transition to IFRS as their deemed cost, subject to an impairment test at that date.

The Board asked the AcSB staff to prepare a pre-ballot exposure draft of the proposed amendments including a provision for a 120-day comment period.

IASB reaches tentative conclusions on earnings per share

Amendments to IAS 33, *Earnings per Share*, have been considered by the IASB as a result of its efforts to maintain convergence with FASB Statement 128, *Earnings per Share*. The IASB reviewed a pre-ballot draft of an exposure draft proposing amendments to IAS 33 and reached the following tentative conclusions:

- *Scope of IAS 33*: In February 2008 the IASB amended IAS 32, *Financial Instruments: Presentation*, which classifies certain puttable financial instruments and obligations as equity. The proposed exposure draft will indicate that this classification should also apply for IAS 33. In addition, it should be

noted that the proposed exposure draft will not include any guidance on the treatment for earnings per share (EPS) of a financial liability that is subsequently reclassified to equity.

- *EPS calculation for options, warrants, and their equivalents*: The proposed exposure draft will clarify that the method described in paragraphs 45 – 47 of IAS 33 should apply to a forward contract to sell an entity's own shares. This method is referred to as the treasury stock method in U.S. GAAP.
- *EPS calculation for gross physically settled forward contracts to buy an entity's own shares*: When share-based payment awards give rise to a tax deduction that exceeds the related cumulative remuneration expense, IAS 12, *Income Taxes*, indicates that an entity should recognize the resulting current or deferred tax directly in equity. The proposed exposure draft will clarify that, in calculating EPS, an entity should include this tax benefit in the proceeds from the assumed exercise of dilutive share-based payment awards.
- *Mandatorily redeemable ordinary shares*: The guidance, discussed above, for gross physically settled forward contracts to buy an entity's own shares should also apply to mandatorily redeemable ordinary shares.
- *EPS calculation for contracts that may be settled in ordinary shares or cash*: The Board affirmed the proposed guidance for the EPS calculation of gross physically settled forward contracts to buy an entity's own shares by specifying that those ordinary shares should be treated as repurchased. Under IAS 32 those forward purchase contracts give rise to a liability measured at the present value of the redemption amount.

If dividends on ordinary shares subject to a forward purchase contract are not remitted back to the entity, the Board believes the liability meets the

definition of a participating instrument in IAS 33, so the method described in paragraphs A13 and A14 of IAS 33 would apply (described in U.S. GAAP as the two-class method). If the dividends are remitted back to the entity, the liability does not meet the definition of a participating instrument. During the final drafting stage, the staff will consider how the guidance would apply to forward purchase contracts and written put options where the settlement price is different from fair value.

- *Transition guidance:* Early application of the proposed amendments should not be permitted

The 2007 amendments to IAS 1, *Presentation of Financial Statements*, include the concept of comprehensive income, which raises the issue of whether a per-share measure for comprehensive income should be provided. At its May 2008 meeting, the Board decided that any proposed amendments to IAS 33 for comprehensive income were outside the scope of the short-term convergence project.

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 April 2008, 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 a way that no ineffectiveness results
- Hedging of inflation risk in particular situations

At the May 2008 meeting, the Board reached tentative decisions to confirm the proposals for the two situations discussed above. In addition, the Board tentatively decided on an effective date of January 1, 2009 with retrospective application of the amendments. The staff plans to prepare a ballot draft of the amendments.

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

IASB discusses revenue recognition measurement proposals

The IASB discussed the following fundamental issues in a draft chapter on revenue recognition measurement to be included in a discussion paper. The chapter considers:

- Measurement of performance obligations at contract inception
- Whether those measurements should be subsequently remeasured

The following two measurement approaches were discussed:

- *Customer consideration approach:* Initially the performance obligations are measured by allocating a proportion of the contract price to each individual obligation and then remeasured only if deemed onerous
- *Current exit price approach:* Performance obligations are measured at exit price both initially and subsequently.

The Board made the following tentative decisions:

- A preliminary view should be expressed in favor of the customer consideration approach
- In certain cases, performance obligations would need to be remeasured other than when deemed onerous. The required cases will be discussed further at a future meeting.

The IASB briefly discussed whether, in certain cases, a contract asset could be recognized at inception and decided to discuss it further at a future meeting.

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

Board discusses comments received on liabilities exposure draft

In June 2005, the Board issued an exposure draft, which proposes amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and IAS 19, *Employee Benefits*. At the May 2008 meeting, the Board discussed the comments received on the proposals for termination benefits and made the following tentative decisions:

- *Definition of voluntary termination benefits:* The term *short period* refers to the period between the offer for voluntary termination and the actual termination of the employment (as opposed to the period between the offer and employee acceptance). Since the definition of voluntary termination benefits refers to a short period, voluntary termination benefits do not relate to future services.
- *Recognition of voluntary termination benefits:* If an entity cannot withdraw an offer for voluntary termination benefits (e.g., where local regulation prohibits doing so), the entity should recognize a liability in the same way as for involuntary termination benefits.
- *Recognition of involuntary termination benefits that relate to future services:* Before an obligation exists for involuntary termination benefits, an entity must communicate to employees whether they are in the class of employees whose employment will be terminated.

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

IASB announces plans to form fair value measurement expert advisory panel

The Financial Stability Forum (FSF), in its [Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience](#), recommended that the IASB create an [expert advisory panel](#) in order to enhance its guidance on valuing financial instruments when markets are no longer active. The objective of the expert advisory panel will be to assist the Board in:

- Reviewing best practices in the area of valuation techniques
- Formulating sound practice guidance on valuation methods for financial instruments and related disclosures

The expert advisory panel will consist of preparers and users of financial statements, regulators, and auditors. The panel will make recommendations to the Board as to the type and extent of fair value measurement guidance that is necessary and how the guidance should be issued.

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

IASB and FASB discuss joint project on emissions trading schemes

At the May 2008 meeting, the IASB and the FASB discussed the scope of the joint project on emissions trading schemes, which had been activated in December 2007. Presently, there is no authoritative guidance in either IFRS or U.S. GAAP that addresses these identified accounting issues. The staff proposed the following definition:

An emissions trading scheme is an arrangement designed to improve the environment, in which participating entities may be required to remit to an administrator a quantity of tradable rights that is linked to their direct or indirect effects on the environment.

The Boards tentatively decided that the project should address the following:

- The accounting for all tradable emissions rights and obligations arising under emissions trading schemes
- The accounting for activities that an entity undertakes in contemplation of receiving tradable rights in future periods, e.g., certified emissions reductions (CERs)

The staff was told to not be constrained by existing IFRS when addressing the accounting issues; however, the Framework would still be relevant.

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

Update on IFRIC activities

See the June 6, 2008 [On the Horizon for IFRS](#) for a summary of the highlights of the May 2008 IFRIC meeting.

Future Board meetings

The Board held a subsequent meeting on June 16-20, 2008. The next Board meeting is July 21-25, 2008.

IASB and FASB seek comments on conceptual framework documents

In their project to develop an improved and converged conceptual framework for financial reporting, both the IASB and the FASB have issued the following two documents for public comment:

- An [Exposure Draft](#) of the first two chapters of the framework entitled *An improved Conceptual Framework for Financial Reporting – Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*

- A [Discussion Paper](#) on the reporting entity concept and related issues entitled *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity*

The objective of the conceptual framework project is to develop a coherent system of concepts that provides a sound foundation for developing future accounting standards.

Chapter 1 of the exposure draft, “The Objective of Financial Reporting,” states that “the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers.” Financial reports should therefore provide information about entities’ economic resources, claims to those resources, and the transactions and other events and circumstances that change those resources and claims.

Chapter 2, “Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information,” separates the qualitative characteristics that useful financial information should possess into two categories: fundamental characteristics, which are relevance and faithful representation, and enhancing characteristics, which consist of comparability, verifiability, timeliness, and understandability. Chapter 2 describes the qualities of each characteristic and how it contributes to the usefulness of reported information. The chapter also describes two pervasive constraints on providing useful financial information—materiality and cost.

The Discussion Paper on the reporting entity concept was issued because the Boards have agreed that financial reports should be presented from the perspective of the reporting entity, rather than from the perspective of an entity’s owners or others with an interest in the entity. The document

analyzes how a reporting-entity perspective affects important aspects of financial reporting and includes the Boards' preliminary views on the following issues:

- A reporting entity should be defined as a “circumscribed area of business activity of interest to present and potential equity investors, lenders, and other capital providers.”
- The primary basis for determining the composition of a group reporting entity should be based on control.
- Consolidated financial statements should be presented from the perspective of the group reporting entity, but that does not preclude the inclusion of information needed by a particular group of capital providers.
- Parent-only financial statements should not be precluded, provided they are included in the same financial report as the consolidated financial statements.

Public comment is encouraged on both documents. The comment periods end September 29, 2008.

IFRS reference materials

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*.

AICPA

AICPA launches a new IFRS website

The AICPA recently launched a new IFRS website at www.ifrs.com. The website includes informational videos, explanatory material about IFRS, training programs, and links to various resources. Included on the new website are the following documents:

- [International Financial Reporting Standards \(IFRS\) - An AICPA Background](#)
- [IFRS Questions and Answers](#)
- [IFRS Primer for Audit Committees](#)