



# On the Horizon for IFRS

September 22, 2008

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## IASB issues Update on response to the credit crisis

On September 16, 2008, the IASB announced the issuance of an [Update](#), which addresses the IASB projects affected by the credit crisis. These projects are already included on the IASB's active agenda; however they have been given a priority.

- Fair value measurement
- Recognition and measurement
- Consolidation
- Derecognition by securitization or similar techniques
- Financial instrument disclosures
- Replacement for IAS 39, *Financial Instruments: Recognition and Measurement*
- Global convergence of accounting standards

## IASB issues Draft Document on fair value of financial instruments in markets that are no longer active

On September 16, 2008, the IASB announced the issuance of a [Draft Document](#), *IASB Expert Advisory Panel: Measuring and disclosing the fair value of financial instruments in markets that are no longer active*, which summarizes the discussions of an expert advisory panel and provides information and proposed guidance with respect to the measurement and disclosure of financial instruments in markets that are no longer active.

The comment period ends on October 3, 2008. The expert advisory panel plans to hold a meeting in October 2008 to discuss the comments received on the Draft Document. A final document is expected to be issued shortly thereafter.

## IASB issues proposed amendments for its 2008 annual improvements project

### Introduction

On August 7, 2008, the IASB [announced](#) the issuance of an [exposure draft](#), *Improvements to IFRSs*. The exposure draft proposes amendments to eight IFRS with respect to the IASB's 2008 annual improvements project. The IASB's annual improvements process includes non-urgent amendments to IFRS that were recommended by the IFRIC, in addition to proposals by the staff or practitioners. The proposed amendments focus on inconsistent areas in IFRS or where clarification of wording is required. The IASB issues an omnibus exposure draft during the third quarter of each year, with a final document issued the following second quarter.

### Illustrative table – standard affected and subject of the proposed amendment

Standard affected	Subject of the proposed amendment
IFRS 2, Share-based Payment	Scope of IFRS 2 and revised IFRS 3 – to confirm that the contribution of a business on the formation of a joint venture and common control transactions are not within the scope of IFRS 2
IFRS 5, Non-current Assets Held for Sale and Discontinued Operations	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations – to clarify that IFRS 5 includes all of the disclosure requirements with respect to those assets or operations. Disclosure requirements in other IFRS apply only when there is specific reference to non-current assets (or disposal groups) classified as held for sale or discontinued operations. However, additional disclosures about such assets (or disposal groups) may be necessary to comply with the general requirements of IAS 1
IFRS 8, Operating Segments	Disclosure of information about segment assets – to amend IFRS 8.BC35 to clarify that omitting disclosure of segment assets would be in accordance with IFRS 8 when information about segment assets is not provided to the chief operating decision maker. This view would also conform to long-standing interpretations of FASB Statement 131.
IAS 7, Statement of Cash Flows	Classification of expenditures on unrecognized assets – to amend IAS 7 to state explicitly that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities
IAS 18, Revenue	Determining whether an entity is acting as principal or as an agent – to amend the guidance in the Appendix of IAS 18 to address the issue of determining whether an entity is acting as a principal or as an agent. That determination, which depends on the facts and circumstances and requires judgment, is based on whether the entity has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services.
IAS 36, Impairment of Assets	Unit of accounting for goodwill impairment test – to amend IAS 36 to state that the largest unit permitted is the operating segment level as defined in IFRS 8.5 before the aggregation permitted by IFRS 8.12

Standard affected	Subject of the proposed amendment
IAS 38, Intangible Assets	Additional consequential amendments arising from revised IFRS 3 – to clarify the language in paragraphs 36 and 37 of IAS 38 as a result of decisions reached in the revised IFRS 3 on the accounting for intangible assets acquired in a business combination. If an intangible asset is separable only in combination with another intangible asset, the acquirer may recognize both as a single asset.
	Measuring the fair value of an intangible asset acquired in a business combination – to clarify the description of valuation techniques commonly to measure the fair value of intangible assets acquired in a business combination that are not traded in an active market
IAS 39, Financial Instruments: Recognition and Measurement	Scope exemption for business combination contracts – to clarify that the scope exemption in IAS 39.2(g) applies only to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date
	Application of the fair value option – to clarify that the fair option in IAS 39.11A applies only to financial instruments with embedded derivatives that are within the scope of IAS 39
	Cash flow hedge accounting – to amend IAS 39.97 and .100 to clarify that the gains or losses on the hedged instrument should be reclassified from equity to profit or loss during the period that the hedged forecast cash flows affect profit or loss
	Bifurcation of an embedded foreign currency derivative – to clarify that contracts denominated in foreign currencies that have one or more of the characteristics of a functional currency (as stated in IAS 21) are likely to be integral to the contractual arrangement and therefore are closely related to the host contract and prohibited from being accounted for separately

2009 (which is the effective date for the revised IFRS 3 and IAS 27, *Consolidated and Separate Financial Statements*). If an entity applies the revised IFRS for an earlier period, the proposed amendments would also be applied for the earlier period.

### Comment period

The comment period for the exposure draft ends November 7, 2008.

## IASB proposes amendments to simplify and achieve convergence for earnings per share

### Introduction

On August 7, 2008, the IASB [announced](#) the issuance of an [exposure draft](#), *Simplifying Earnings per Share: Proposed amendments to IAS 33*, as part of its joint project with the FASB to simplify the guidance for the denominator in the basic and diluted earnings per share calculation. The FASB has also recently issued an [exposure draft](#) to amend Statement 128, *Earnings per Share*, which is similar to the IASB exposure draft, with limited exceptions (see “Convergence of IFRS and U.S. GAAP” below).

### Basic earnings per share

The IASB exposure draft proposes the following revisions to the calculation of basic earnings per share.

#### Establishing a principle to determine which instruments should be included in the basic earnings per share calculation

The exposure draft proposes that the weighted average number of ordinary shares used in the denominator of the earnings per share calculation should only include those instruments that give (or are deemed to give) the holder the right to share currently in profit or loss of the period with ordinary equity holders. Ordinary shares that are currently issuable for little or no

### Effective date

The majority of the proposed amendments would be effective for annual periods beginning on or after January 1, 2010, with early adoption permitted. The proposed effective date for the proposed amendments resulting from the revised IFRS 3, *Business Combinations* is for annual periods on or after July 1,

cash or other consideration are deemed to give the holder the right to share currently in profit or loss of the period. Ordinary shares are currently issuable if the holder has the current ability to become an ordinary equity holder. Participating instruments also give the holder the right to share in profit or loss of the period.

*A participating instrument is defined in the exposure draft as “an instrument that gives its holder the right to participate in dividends with ordinary shares according to a predetermined formula.” (paragraph 6)*

#### **Clarifying the treatment of contracts to repurchase an entity's own shares for cash or other financial assets**

The exposure draft proposes that an entity should treat contracts to repurchase its own shares for cash or other financial assets (e.g., gross physically settled written put options and forward purchase contracts) as if the entity had already repurchased the shares. The entity should exclude those shares from the earnings per share denominator. To calculate earnings per share, an entity allocates dividends on those shares to the financial liability relating to the present value of the redemption amount of the contract. The liability would be deemed to be a participating instrument unless the holders of the underlying shares are required to remit any dividends back to the entity.

#### **Clarifying the treatment of mandatorily redeemable ordinary shares**

The exposure draft proposes that the principles for contracts to repurchase an entity's own shares for cash or other financial assets also apply to mandatorily redeemable ordinary shares.

#### **Diluted earnings per share**

The IASB exposure draft proposes the following revisions to the calculation of diluted earnings per share.

##### **Clarifying the treatment of instruments that are measured at fair value through profit or loss**

The exposure draft proposes that the denominator of the diluted earnings per share calculation should not be increased for the number of ordinary shares that would result from the exercise or conversion of instruments (or the derivative components of compound instruments) that are measured at fair value through profit or loss. The changes in fair value of an instrument measured at fair value through profit or loss reflect the economic effect of the instrument on current equity holders for the period, so it is not necessary to increase the denominator for the increase in shares that would result from exercise or conversion. The same treatment would be followed for share-based payments recognized as a liability.

##### **Clarifying the treatment of options, warrants and their equivalents that are not measured at fair value through profit or loss**

The exposure draft proposes that for dilutive options, warrants and their equivalents that are not measured at fair value through profit or loss, the ordinary shares arising from the assumed exercise of those instruments should be calculated using the end-of-period market price. IAS 33 currently provides that an entity should calculate diluted earnings per share for options, warrants and their equivalents that are not measured at fair value through profit or loss by assuming the exercise of those instruments (if dilutive) using the average market price during the period. The exposure draft clarifies the definition of *options, warrants and their equivalents* to specify that “equivalents to options and warrants include forward contracts to sell an entity's own shares.”

#### Providing guidance for participating instruments and two-class ordinary shares

For participating instruments and two-class ordinary shares, the exposure draft proposes that the application guidance should include a test to determine whether a convertible financial instrument would have a more dilutive effect. The participating instruments and two-class ordinary shares are included in the calculation both assuming exercise or conversion and assuming no exercise or conversion. The reporting entity would use the more dilutive treatment for calculating diluted earnings per share.

#### Disclosures

The IASB did not propose any additional disclosures to those already required by IAS 33.

#### Effective date

The IASB will determine the effective date when the final amendments to IAS 33 are approved. Early application will not be permitted. For comparability, the IASB has proposed retrospective application.

#### Comment period

The comment period for the IASB exposure draft ends December 5, 2008.

#### Convergence of IFRS and U.S. GAAP

The proposals in the IASB and FASB exposure drafts focus on achieving convergence in the method for calculating the denominator of the earnings per share calculation. However, the IASB and the FASB both acknowledge that currently there are still differences in the underlying accounting for certain instruments that could result in differences in the calculated EPS denominator under U.S. GAAP and IFRS. Those instruments include, but are not limited to

- Forward purchase contracts that provide for the option of gross physical or net-share or net-cash settlement
- Written put options
- Convertible debt instruments that may be settled in cash upon conversion

The IASB and the FASB are participating in a joint project on liabilities and equity that would eliminate those accounting differences.

The Boards also acknowledge that there will remain differences in the accounting result for the numerator, but addressing that issue is outside the scope of this project.