



On the Horizon for IFRS

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IASB issues June 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 June 2008 [IASB Update](#) which summarizes the Board's meeting in London on June 17-20, 2008. Highlights of the meeting are discussed below.

IASB discusses proposed amendments to IFRS 5 definition of discontinued operations

The IASB had reviewed a pre-ballot draft of the Exposure Draft to amend IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and had raised two issues:

- Whether the IFRS 5 definition of discontinued operations should be revised to include subsidiaries that meet the criteria to be classified as held for sale on acquisition

- Whether such subsidiaries should be exempt from certain disclosures for discontinued operations and business combinations

The IASB made the following decisions:

- To require similar disclosure exemptions for business combinations if disclosure exemptions were provided for discontinued operations for subsidiaries that qualify as held for sale on acquisition
- To remain silent on whether the proposed disclosures could be aggregated
- Not to require use of proceeds disclosure

At its meeting on May 14, 2008, the FASB had arrived at an alternative approach. The IASB asked the staff to present an analysis of that approach at a future meeting.

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

Board discusses proposed issues for the 2008 annual improvements process

The Board discussed three proposed issues for inclusion in the 2008 annual improvements process.

IAS 7, Statement of Cash Flows – classification of certain expenditures

Previously, the IFRIC had recommended that IAS 7 should be amended to clarify that expenditures that result in a *recognized* asset should be classified as cash flows from investing activities. Currently there is diversity in practice in the classification of cash flows that do not necessarily result in a recognized asset (for example, exploration and evaluation expenditures, advertising and promotional expenditures, staff training, and research and development expenditures.) Some entities classify those expenditures as cash flows from operating activities, while others classify them as cash flows from investing activities

The Board made a tentative decision to amend IAS 7 as the IFRIC had recommended.

IAS 36, Impairment of Assets – unit of accounting for goodwill impairment
IFRS 8, *Operating Segments*, revised paragraph 80 of IAS 36, *Impairment of Assets*, to require that goodwill arising from a business combination should be allocated to a cash-generating unit or group of cash-generating units that are expected to benefit from the synergies of the business combination. However, the group of cash-generating units cannot be larger than an IFRS 8 operating segment. As they adopt IFRS 8 entities have been reconsidering whether any goodwill needs to be allocated to different cash-generating units on the basis of the new IFRS 8 segment definition.

The Board made a tentative decision to amend IAS 36.80(b) to clarify that the largest unit permitted for the goodwill impairment test is the lowest level of operating segment as defined in IFRS 8.5, before the aggregation permitted by IFRS 8.12.

IFRS 2, Share-based Payment – clarification of scope for formation of a joint venture and common control transactions

The Board considered whether to clarify the scope of IFRS 2 with respect to common control transactions and the formation of a joint venture. Common control transactions and joint ventures are currently excluded from the scope of IFRS 2 because they meet the definition of a business combination in the current IFRS 3, *Business Combinations*. A business combination is defined as “The bringing together of separate entities or businesses into one reporting entity.”

The definition of a business combination has changed in the 2008 revision to IFRS 3. It now says, in part, “A transaction or other event in which an acquirer obtains control of one or more businesses.” This change raises the

issue of whether the formation of a joint venture and common control transactions will continue to be excluded from IFRS 2 once IFRS 3 (revised 2008) becomes effective on July 1, 2009.

The Board made a tentative decision to amend IFRS 2 in order to clarify that the formation of a joint venture and common control transactions are excluded from the scope of IFRS 2.

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

IASB considers determination of a liability with respect to statutes, laws, and regulations

As part of its joint conceptual framework project with the FASB, the IASB discussed two issues:

- When statutes, laws, and regulations give rise to a liability
- Dealing with uncertainty about the existence of a liability
- In analyzing liabilities, it is useful to consider what obligations might exist. There are *unconditional obligations*, which require performance to occur now or over time. There are *conditional obligations*, which require performance to occur only if an uncertain future event occurs. There are *stand ready obligations*, which are unconditional obligations that have an associated conditional obligation.

Statutes, laws, and regulations

The IASB noted that although an entity may be subject to the requirements in statutes, laws, and regulations, a government or other party cannot enforce those requirements until the entity actually violates the statute, law, or regulation or if an event occurs that triggers the requirements. Three examples were discussed by the IASB: an environmental obligation, a statutory warranty, and a speeding ticket.

The IASB tentatively decided that

- An entity *does not have* a present unconditional obligation
 - To comply with a statute that is not yet effective
 - For expected future actions or intentions
 - To transfer economic resources merely because it has to comply with the law since an obligating event must also have occurred
- An entity *has* a present unconditional obligation
 - At the reporting date when the entity violates a requirement or another obligating event has occurred
 - That has an associated conditional obligation (a stand ready obligation)
- When a statute requires an entity to provide risk protection, which results in an implicit contractual obligation between the two parties
- When an entity separately agrees to bear another's risk that arises from being subject to a statute

Dealing with uncertainties

Definition of uncertainties

- Uncertainties result from situations where evidence is lacking or facts are unclear. The IASB discussed whether to include the guidance on uncertainties in the definition, in the guidance accompanying the definition, or in the criteria for recognition. The IASB made a tentative decision to deal with uncertainties in the guidance accompanying the definition.

- The IASB tentatively decided that the definition should be applied by judging whether a liability exists on the basis of the facts and circumstances at the end of the reporting period. When it is judged that a liability exists, uncertainty about the amount of the liability would be considered in measuring the liability. The IASB also tentatively decided that this judgmental approach could be applied neutrally when ascertaining the existence of any element of the financial reports in which there are uncertainties. Additional guidance should be developed on how these judgments can be made in a comparable manner at a standards level.

Definition of a liability

The IASB discussed additional situations to evaluate the working definition of a liability and directed the staff to consider revising the definition as follows:

- An economic obligation must be unconditional
- An economic obligation is something that is capable of resulting in provision of an economic resource

The IASB noted that the staff has a basis to begin drafting the discussion paper for aspects on elements and recognition. The FASB also discussed the working definition of a liability and reached similar conclusions at its meeting on June 25, 2008.

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

Education session conducted on extractive activities research project

The Board conducted an education session on the extractive activities research project and considered the project team's analysis on the initial recognition of minerals and oil and gas reserves and resources. The building blocks that are

relevant to the initial asset recognition are basic approach, asset definition and recognition, and unit of account.

Basic approach

The research project used the Framework's asset definition and recognition criteria as well as the current thinking regarding assets in the conceptual framework project. Currently it is common for entities to capitalize costs or recognize them as expense according to the different phases of upstream extractive activities (such as exploration and evaluation, development and production.)

Asset definition and recognition

Considering that an asset is an economic resource as it relates to minerals or oil and gas, the project team identified three types of assets. The Board agreed with the following:

- *Legal rights, such as exploration rights or mineral rights:* A legal rights asset should be recognized when the rights are acquired.
- *Information (or knowledge):* The information obtained from exploration and evaluation activities generates a better understanding of the economic resource that underlies the legal rights asset and is therefore an enhancement of that asset, rather than a separate asset.
- *The minerals or oil and gas deposit:* The asset associated with a minerals or oil and gas deposit is the right to extract the minerals or oil and gas contained in the deposit.

These assets can be viewed as forming a continuum representing the maturing of upstream extractive activities from early stage prospecting and exploration activities through to the extraction of minerals or oil and gas from the ground. Which asset or assets should be recognized would depend on where the extractive activities operation is along the continuum.

Unit of account

The Board agreed with the project team's view on limiting the geographical size of the unit of account, as follows:

- *Exploration activities:* The unit of account would be defined according to the exploration rights held and, as more exploration and evaluation takes place, the size of the unit of account would contract to cover only the specific area(s) where detailed exploration and evaluation is taking place.
- *Development and extraction phases:* The unit of account would be no greater than a contiguous area, or areas, for which the legal rights are held and which is managed separately and would generate largely independent cash flows.

The Board discussed infrastructure and equipment assets associated with a developed property and noted that the components approach in IAS 16, *Property, Plant and Equipment*, may be useful in considering which assets should be recognized separately from the legal rights.

Next steps and discussion paper

The project team will present an analysis of disclosure issues, together with an outline of the proposed discussion paper, at a future Board meeting. The discussion paper is expected to be issued by the end of 2008.

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

Board clarifies scope of fair value measurement project

The Board clarified the scope of the fair value measurement project and reaffirmed the following preliminary views as described in the Discussion Paper:

- *Attributes (characteristics) specific to an asset or liability (Issue 5):* Consider attributes specific to the asset or liability that a market participant would also consider when pricing the asset or liability. In addition, when location

is a specific attribute, the price in the principal (or most advantageous) market should be adjusted for costs that would be incurred to transport the asset or liability from its current location to the principal (or most advantageous) market.

- *Whether transaction costs are separate from fair value (Issue 5):* Since transaction costs are an attribute of the transaction rather than an attribute of the asset or liability, the transaction costs should be considered separately from fair value, which is consistent with current IFRS.
- *The fair value hierarchy (Issue 8):* Current IFRS do not have a consistent hierarchy that applies to all fair value measurements, so a single hierarchy similar to the one used in FASB Statement 157, *Fair Value Measurements*, should be used to reduce complexity and increase comparability.

The Board will discuss the remaining topics in the Discussion Paper before issuing an exposure draft.

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

Financial statement presentation proposals discussed

The IASB confirmed the recommendation made at the joint April 2008 meeting with the FASB that the financial statement presentation project should not seek to change existing standards relating to which items are recognized outside of profit or loss. Accordingly, this decision would result in the retention of existing requirements both on the presentation of other comprehensive income (OCI) items in a statement of comprehensive income and on the recycling mechanism (amounts reclassified from OCI to profit or loss.)

The IASB decided that the discussion paper should not address

- Further changes to the statement of changes in equity
- Disclosures related to capital management and to measurement uncertainty
- Earnings per share (or any other per share measures)
- Offsetting or disclosures about the measurement bases of assets and liabilities
- Additional segment disclosures

The IASB decided that the proposed discussion paper will contain the following preliminary views:

- *Statement of comprehensive income*: Present a single statement of comprehensive income, with OCI items separately presented as described in paragraph 81 of IAS 1, *Presentation of Financial Statements* (revised in 2007). Indicate within that section (parenthetically or otherwise) the OCI item category (operating, investing or financing).
- *Income taxes*: Allocate income taxes among continuing operations, discontinued operations, items of other comprehensive income, and items charged or credited directly to equity. Guidance on intraperiod tax allocation will be included in the forthcoming exposure draft on the revision of IAS 12, *Income Taxes*.
- *Income tax assets, liabilities, and cash flows*: Present income tax related items in a separate section in the statements of financial position and cash flows. The exposure draft on IAS 12 will include the income tax reconciliation disclosures the IASB addressed in March 2008.

The IASB made the following decisions, which modify its previously expressed views:

- The schedule reconciling the statement of cash flows to the statement of comprehensive income should not include equity transactions. In addition, changes in assets and liabilities not attributable to remeasurements should be included in a single column and not further disaggregated.
- An entity should apply the disaggregation objective (information should be disaggregated if the additional information will be useful to users of financial statements when they assess future cash flows) to determine how much information is presented in the discontinued operations section (i.e., no specific requirements for discontinued operations presentation).
- The discussion paper should ask for respondents' views on allocation and non-allocation alternatives for the effects of basket transactions, rather than express a preference.

The IASB also made a decision to require the display of foreign currency transaction gains and losses, including components of the net remeasurement gains and losses from translating into the functional currency, in the same section and category as the assets or liabilities that gave rise to those gains or losses.

The IASB clarified its views on the definition of the operating and investing categories and on the disaggregation of information by function and nature in the statement of comprehensive income.

A discussion paper is expected to be issued in September 2008 with a six-month comment period.

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

Education session conducted on hedge accounting project

On June 6, 2008, the FASB issued an exposure draft, *Accounting for Hedging Activities – an amendment of FASB Statement No. 133*. At the June 2008 IASB meeting, the FASB staff conducted an educational session which presented the objectives of the hedge accounting project and the major changes proposed in the exposure draft. No decisions were made by the IASB.

Board finalizes amendments to hedge accounting: qualifying exposures

In September 2007, the Board issued the exposure draft, *Exposures Qualifying for Hedge Accounting*. At its April 2008 meeting, the Board tentatively decided that any amendments to IAS 39, *Financial Instruments: Recognition and Measurement*, should address only two situations:

- The 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
- The hedging of inflation risk in particular situations

At the June 2008 meeting, the IASB confirmed its decision that the amendments should be applied retrospectively and tentatively decided that they should be effective for annual periods beginning on or after July 1, 2009. The staff will prepare a ballot draft of the amendment.

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

Board ratifies two IFRIC Interpretations

The Director of Implementation Activities presented two IFRIC Interpretations for approval by the Board: D21, *Real Estate Sales*, and D22, *Hedges of a Net Investment in a Foreign Operation*. The IASB had received requests to require the

IFRIC to re-expose D21 for public comment. At its May 2008 meeting, the IFRIC concluded that re-exposure of D21 was not warranted for the following reasons:

- The revisions more clearly articulated the interaction of IAS 11, *Construction Contracts* and IAS 18, *Revenue*, and did not introduce a new model of revenue recognition.
- Application of D21 and the final Interpretation would produce essentially the same results.

The IASB agreed with the IFRIC's conclusions and decided not to require re-exposure. The IASB approved both Interpretations for issuance.

IASB continues redeliberations of proposed IFRS for private entities

The Board continued its redeliberation of the proposals in the exposure draft of a proposed *IFRS for Private Entities* (formerly the IFRS for Small and Medium-sized Entities), discussed the following issues and reached tentative decisions relating to Sections 4-12.

Presentation of financial statements

At its May 2008 meeting, the Board had decided that the proposed IFRS should incorporate the requirements of IAS 1, *Presentation of Financial Statements* (as revised in 2007). The Board made the following tentative decisions at its June 2008 meeting:

- *Statement of financial position:* The statement should be presented based upon liquidity if such information is reliable and more relevant than a current/non-current presentation. The proposed criteria for classifying assets and liabilities as current would be retained.
- *Required analysis of expenses:* The analysis may be presented either by nature or function of expense.

- *Combined statement of comprehensive income and retained earnings:* The combined statement would be permitted to be presented in place of the statement of comprehensive income and the statement of changes in equity if the only changes to equity arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy. A separate statement of changes in equity would be required if an entity has other equity transactions with owners.
- *Statement of cash flows:* The statement is required and either the direct or indirect method for reporting operating cash flows may be used.

Consolidated financial statements

Consolidated financial statements should be required for all private entities that are also parent entities. A temporary control exemption from consolidation was not added but that decision may be revisited when the Board discusses discontinued operations.

Combined financial statements

The description of combined financial statements should be retained with additional guidance added.

Separate financial statements

Separate company financial statements should not be required. However, if an entity prepares separate statements, it should choose between an accounting policy of cost or fair value through profit or loss for each different category of investment (for example, different policies could be adopted for associates and for subsidiaries).

Accounting policy hierarchy

The accounting policy hierarchy included in Section 10, “Accounting Policies, Estimates and Errors,” is appropriate in principle; however it should be revised to clarify that management may, but is not required to consider the

requirements and guidance in the full IFRS. In addition, the hierarchy should not include reference to recent pronouncements of other standard-setting bodies, other accounting literature, or accepted industry practice.

Financial instruments

The Board made the following decisions with respect to Section 11, “Financial Assets and Financial Liabilities.”

Issues that should be revised

- Section 11 should be reorganized to make it easier to identify which instruments are within its scope, and to make it easier to apply by private entities that have very simple financial instruments.
- Examples should be provided to clarify that the cost model would be appropriate for the majority of financial instruments held by private entities. The examples should reflect the types of financial instruments that a private entity is likely to have, with clear guidance for the accounting required both at acquisition or when issued, and subsequently.
- The guidance on fair value proposed in Appendix B should be simplified and combined with the fair value measurement principles in paragraphs 11.14 – 11.16.
- The guidance on measuring hedge effectiveness should be moved from the proposed IFRS to the training materials being developed by the IASC Foundation education team.
- Paragraph 11.22(b) should be amended to state that an impairment loss for an equity instrument that is carried at cost because its fair value cannot be measured reliably should be the difference between the

asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the entity would receive for the asset if it were sold.

- Paragraph 11.9(b) should be rewritten to clarify that interest rate swaps must be measured at fair value through profit or loss.

Issues that should not be revised

- The proposed requirements for hedging documentation should be retained.
- Section 11 should not be rewritten so that cost or amortized cost is the default since the Board would have been required to include definitions and other explicit requirements for derivatives and embedded derivatives to ensure that they are measured at fair value.

Issues that should be added

- Guidance should be added to clarify which types of risks are eligible for hedge accounting.
- Guidance should be added on accounting for factoring transactions.

Issues that should not be included or permitted

- The *available for sale* category for financial assets should not be added.
- The straight-line amortization of premiums and discounts should not be allowed as an elective accounting policy alternative to the effective interest rate (EIR) method. However, an example illustrating EIR should be added as guidance.
- The *shortcut method* for hedge accounting should not be permitted.

- Debt instruments should not be allowed to be hedging instruments. The Board asked the staff to recommend at a future meeting whether to permit purchased options as hedging instruments.
- The option to follow IAS 32, *Financial Instruments: Presentation*; IAS 39, *Financial Instruments: Reorganization and Measurement*; and IFRS 7, *Financial Instruments – Disclosures* in their entirety instead of following Section 11 should be deleted. However, the Board will revisit this tentative decision at a future meeting after Section 11 has been revised.

The staff will present a rewritten draft of Section 11 for consideration at a future Board meeting.

Inventories

The Board did not agree with simplifying any of the principles proposed for accounting for inventories. In addition, the Board rejected LIFO as an inventory costing method.

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

Board discusses report of expert advisory panel on valuing financial instruments

The Board reviewed a report on the initial meeting of the expert advisory panel on valuing financial instruments in markets that are no longer active. The panel identified the following valuation and disclosure issues encountered in practice:

- Those relating to measurement:
 - Selection of a valuation technique
 - Calibration of valuation models
 - Use of third-party price quotes

- Adjustments to valuation models
- Meaning of *observable* and *significant* inputs
- Distinguishing between active and inactive markets
- Forced transactions and distressed sales
- Measurement of changes in own credit risk
- Those relating to fair value disclosures:
 - Disclosures using the fair value hierarchy
 - Disclosures of valuation techniques, inputs, sensitivities and ranges

A working group plans to discuss specific practice issues and present their findings to the panel members at a future meeting. The initial focus will be on measurement issues with later discussions addressing disclosures. A summary of the discussions will be presented to the IASB in a future public meeting.

Technical Plan

The IASB Technical Plan includes the expected timetable over the next three years for projects on the IASB's active agenda and research agenda. At its June 2008 meeting, the IASB reviewed its Technical Plan and issued a [revised projected timetable](#) as of June 30, 2008.

Future Board meetings

The Board held a subsequent meeting on July 21-25, 2008. The next Board meeting is September 15-19, 2008.

IASB amends IAS 39 for eligible hedged items

On July 31, 2008, the IASB [announced](#) the issuance of *Eligible Hedged Items*, which is an amendment to IAS 39, *Financial Instruments: Recognition and Measurement* (the Amendment). The Amendment clarifies the application of

some of IAS 39's requirements on designation of a risk or a portion of cash flows for hedge accounting purposes. The issues addressed are:

- Designation of one-sided risks
- Designation of portions of cash flows of a financial instrument, with reference to inflation components
- Hedge effectiveness when hedging a one-sided risk with a purchased option
- The Amendment must be applied retrospectively for annual periods commencing on or after July 1, 2009. Early adoption is permitted.
- An *IFRS Update* that will summarize the Amendment in more detail will be issued in the near future.

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 and IASs, as well as 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 Backgrounder*](#)
- [*IFRS Questions and Answers*](#)
- [*IFRS Primer for Audit Committees*](#)