



On the Horizon for IFRS

October 13, 2008

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Amendments to IFRS 5 proposed to revise definition of discontinued operations

On September 25, 2008, the IASB [announced](#) the issuance of an [Exposure Draft, Discontinued Operations](#), which would amend IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to revise the definition of discontinued operations and require additional disclosures with respect to components of an entity that have been disposed of or are classified as held for sale. The proposed amendments are a joint project with the FASB to develop a common definition of discontinued operations and require common disclosures. On September 25, 2008, the FASB issued similar proposals to FASB Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, in [proposed FASB Staff Position \(FSP\) FAS 144-d, Amending the Criteria for Reporting a Discontinued Operation](#).

Definition of a discontinued operation

The proposed definition of a *discontinued operation* refers to the definitions of an *operating segment* in IFRS 8, *Operating Segments*, and a *business* in IFRS 3 (as revised in 2008), *Business Combinations*.

Proposed definition of a discontinued operation

A *discontinued operation* is a component of an entity that is either

- An *operating segment* (as defined in IFRS 8) and either has been disposed of or is classified as held for sale, or
- A *business* (as defined in IFRS 3) that meets the criteria to be classified as held for sale on acquisition

An entity should determine whether the *component of an entity* (as defined in IFRS 5) meets the definition of an *operating segment* regardless of whether it is required to present segment information in accordance with IFRS 8.

Presentation of a discontinued operation

The amounts disclosed for an operating segment in accordance with IFRS 8 are those amounts that are reported to the chief operating decision maker. The IASB noted that the operating segment criterion is a classification criterion and not a measurement criterion. Accordingly, the Exposure Draft indicates that the amounts disclosed as discontinued operations should be measured using the IFRS used to determine the amounts presented in the statement of comprehensive income (or in the separate income statement), even if the segment information disclosures present different amounts. The IASB acknowledged that this requirement may require an entity to gather additional information related to the operating segment.

Disclosures for components of an entity that have been disposed of or are classified as held for sale

A *component of an entity* comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The Exposure Draft proposes additional disclosures for any component of an entity that has been disposed of or is classified as held for sale, whether or not the component meets the definition of a segment. The following information would be disclosed in the notes or in the statement of comprehensive income (or in the separate income statement) or statement of cash flows for the period in which a component of an entity has been either disposed of or classified as held for sale regardless of whether it is presented as a discontinued operation or within continuing operations:

- The profit or loss of the component, together with major income and expense items constituting that profit or loss, including impairments, interest, depreciation, and amortization
- Whether the profit or loss of the component is presented in continuing operations or in discontinued operations
- The profit or loss attributable to the owners of the parent, if the component of an entity includes a non-controlling interest
- The major classes of cash flows of the component (operating, investing, and financing)

The additional disclosure requirements do not apply to a business that meets the criteria to be classified as held for sale on acquisition.

The Exposure Draft proposes two new requirements to reconcile information in the notes to amounts presented in the financial statements:

- Major income and expense items from discontinued operations disclosed in the notes would be reconciled to post-tax profit or loss from discontinued operations
- Major classes of assets or liabilities classified as held for sale disclosed in the notes would be reconciled to total assets and total liabilities classified as held for sale

Effective date and transition

The effective date will be determined by the IASB at a later date. Earlier application would be permitted. On application, the amounts in the statement of comprehensive income (or in the separate income statement) would be reclassified on the basis of the revised definition of a *discontinued operation* for all periods presented. However, disclosures for periods prior to the effective date would be based on the requirements in effect for those periods. The revised disclosure requirements would not apply to the earlier periods.

Comment period

The comment period for both the IASB and FASB Exposure Drafts ends on January 23, 2009.

Amendments to IFRS 1 proposed to provide additional exemptions for first-time adopters

On September 25, 2008, the IASB [announced](#) the issuance of an [Exposure Draft](#), *Additional Exemptions for First-time Adopters*, which proposes amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Included are three additional optional exemptions to the principle that an entity's opening IFRS statement of financial position comply with each IFRS for oil and gas assets, assets subject to rate regulation, and existing lease contracts.

Deemed cost exemption for oil and gas assets

For entities using full cost accounting for assets used in the exploration, evaluation, development, or production of oil and gas, the unit of account will almost always be larger than the unit of account acceptable under IFRS. The Exposure Draft proposes that entities that use full cost accounting under its previous GAAP may elect to

- Measure exploration and evaluation assets at the amount determined under the entity's previous GAAP
- Measure assets in the development or production phase under the entity's previous GAAP. This amount would be allocated to the underlying assets pro rata using reserve volumes or reserve values as of that date.

The deemed cost for exploration and evaluation assets would be tested for impairment in accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources*. The deemed cost for development and production phase assets would be tested for impairment in accordance with IAS 36, *Impairment of Assets*.

If an entity elects to use carrying amount as the deemed cost, it must disclose that fact and the basis on which it allocated carrying amounts to the underlying assets.

Deemed cost exemption for operations subject to rate regulation

The Exposure Draft proposes that entities subject to rate regulation may elect to use the carrying amount of property, plant and equipment held, or previously held, as the deemed cost of the item at the date of transition to IFRS if both retrospective restatement and using fair value as deemed cost are *impracticable* (as defined in IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The election is applied on an item by item basis. The

entity would test each item for impairment in accordance with IAS 36, *Impairment of Assets*.

Reassessment exemption for existing lease contracts

On adoption of IFRS, an entity would apply IFRIC 4, *Determining whether an Arrangement contains a Lease*, to contracts existing at the start of the earliest period for which comparative information is presented on the basis of facts and circumstances existing at that time. However, the entity may have already made the same determination at a different date under different GAAP with identical provisions. The Exposure Draft proposes that a first-time adopter would not be required to reassess the same determination made under previous GAAP at a different date.

Effective date

The effective date of the Exposure Draft will be for annual periods beginning on or after a date to be determined. Earlier application would be permitted.

Comment period

The comment period ends January 23, 2009.

IASB announces next steps in response to the credit crisis

On October 2, 2008, the IASB held a special meeting to discuss issues relating to the credit crisis. See the [IASB agenda papers](#) for more information on the specific issues discussed. On October 3, 2008, as a result of this meeting, the IASB [announced](#) the current status of [its response to the credit crisis](#) and its next steps. The IASB recognizes the need to clarify IFRS to address new market developments and its response is primarily focused on the recommendations of the Financial Stability Forum (FSF), which had the support of the Group of Seven (G-7) Finance Ministers.

The IASB is closely monitoring developments in the U.S. and other jurisdictions to avoid unnecessary inconsistencies in accounting treatments under IFRS and U.S. GAAP. The IASB has committed to undertake the following:

- Ensure consistency of fair value measurement guidance between IFRS and U.S. GAAP (see summary that follows on fair value accounting). The IASB expects to issue an exposure draft in October 2008 that proposes enhancements to disclosure with respect to fair value measurement and liquidity risks.
- Develop a common approach with the FASB related to the possible impact of the U.S. Emergency Economic Stabilization Act of 2008 and other similar programs internationally on the valuation of assets and liabilities
- Assess immediately any inconsistencies between IAS 39, *Financial Instruments: Recognition and Measurement*, and U.S. GAAP regarding reclassification of financial instruments from trading to held to maturity and whether to eliminate any differences
- Participate in any study of the quality of existing fair value information provided to investors and any impact of financial reporting on the credit crisis

IASC Foundation Trustees announce their support of IASB's accelerated response to the credit crisis

On October 9, 2008, the [Trustees of the IASC Foundation announced](#) their unanimous support for the IASB's approach announced on October 3, 2008 (see related article above) in response to the credit crisis. The IASB

intends to seek appropriate language to eliminate any differences in how IFRS and U.S. GAAP address the reclassification of financial instruments.

The Trustees indicated that they support the IASB's expected completion of this work by the end of next week and, as the IASB's oversight body, agreed that the IASB can suspend its normal due process on this accelerated project. In addition the Trustees will permit any decision that the IASB makes on the reclassification of financial instruments to be effective for the third quarter of 2008.

The Trustees support the IASB's plans and its announced intention to work on an accelerated basis with the FASB to ensure that their guidance is equivalent and therefore has the same effect across borders. The objective would be to create a level playing field for those companies applying IFRS and those using U.S. GAAP. This position would be in line with and supportive of the [joint statement by the European G8 Members](#) and the [ECOFIN Council's immediate responses to the financial turmoil](#).

In addition, the Trustees emphasized that they do not and would not take positions on the specific technical content of IFRS, thereby reaffirming their commitment to preserving the independence of the IASB's standard-setting process.

IASB staff position on SEC and FASB staff clarifications on fair value accounting

On October 2, 2008, the IASB issued a [press release](#) on the [SEC Office of the Chief Accountant and FASB Staff Clarifications on Fair Value](#). The clarification document is not an amendment of FASB Statement 157, *Fair Value Measurements*; however it provides additional guidance for determining fair value

in inactive markets. The IASB staff has reviewed the clarification document by the SEC and the FASB staff and considers it consistent with IAS 39, *Financial Instruments: Recognition and Measurement*.

SEC issues Final Rules related to foreign private issuers

The SEC has issued the following Final Rules, which are related to foreign private issuers:

Foreign issuer reporting enhancements

On September 23, 2008, the SEC issued its [Final Rule](#), *Foreign Issuer Reporting Enhancements*, which is effective December 6, 2008.

Guidance and revisions to exemptions for cross-border business combination transactions

On September 19, 2008, the SEC issued its [Final Rule and Interpretation](#), *Commission Guidance and Revisions to the Cross-Border Tender Offer, Exchange Offer, Rights Offerings, and Business Combination Rules and Beneficial Ownership Reporting Rules for Certain Foreign Institutions*, which is effective December 8, 2008.

Amendments to registration exemption rule for certain foreign private issuers

On September 5, 2008, the SEC issued its [Final Rule](#), *Exemption from Registration under Section 12(g) of the Securities Exchange Act of 1934 for Foreign Private Issuers*, which is effective October 10, 2008.

Additional information on the Final Rules is provided in [NDS 2008-29](#), "SEC proposes Roadmap for mandatory use of IFRS by U.S. issuers by 2014: Approves three other rule proposals related to foreign private issuer matters."

IASC Foundation issues A Guide through International Financial Reporting Standards

The IASC Foundation recently issued, *A Guide through International Financial Reporting Standards* (the Guide), which includes the complete and up-to-date consolidated text of IFRS with extensive cross-references and other annotations. It covers all IFRSs and IASs, IFRIC and SIC Interpretations, and IASB-issued supporting documents – illustrative examples, implementation guidance, bases for conclusions, and dissenting opinions – approved by the IASB as of July 1, 2008. Other annotations to IFRS in the Guide include IFRIC agenda decisions and clarifications. The Guide is a companion reference book to the official main 2008 International Financial Reporting Standards Bound Volume, which is described below in the [Appendix – IFRS reference materials](#).

The 2008 Guide may be purchased through the [IASB website](#).

AICPA announces inaugural issue of IFRS Report

On October 2, 2008, the AICPA announced the inaugural issue of [IFRS Report](#), which is a new monthly e-newsletter. The IFRS Report is a summary of the most important business and professional news relating to the worldwide movement toward globally accepted accounting standards. There is no charge to subscribe to the IFRS Report; however you must [sign-up to receive it](#).