

IFRS in Brief

November 2004, **Issue 7**

This issue of *IFRS in Brief* covers the October 2004 meeting of the International Accounting Standards Board (IASB). This meeting was divided into a session of the IASB and a joint session with the U.S. Financial Accounting Standards Board (FASB). The key issues discussed during these meetings are summarised below.

IASB meeting

Business combinations – phase II

As it works to finalise its exposure draft, the IASB considered the following issues:

- the fair value hierarchy; and
- combinations by contract alone without obtaining an ownership interest.

Fair value hierarchy

The Board reaffirmed its decision to incorporate the definition of fair value from the FASB's *Fair Value Measurements* exposure draft into the IASB's exposure draft on purchase method procedures.

In addition, the Board agreed to include in its exposure draft the FASB's requirement on usage of multiple valuation techniques, additional guidance on "willing", "knowledgeable" and "unrelated" parties and the definition of an active market. This guidance would

apply only in accounting for business combinations.

The Board also considered specific measurement guidance included in the FASB's exposure draft with a view to converging the IFRS and U.S. GAAP requirements.

Combination by contract alone without obtaining an ownership interest

The Board agreed that IFRS 3 *Business Combinations* provides sufficient guidance on identification of the acquirer in combinations of mutual entities or by contract alone. The Board tentatively decided that such combinations should be within the scope of the Business Combinations – Phase II project and that the purchase method of accounting should be used with the total amount recognised by the acquirer being the fair value of the business acquired. Goodwill should be recognised and treated in the same manner as for other business combinations.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

The Board considered a draft of the exposure draft of amendments to IAS 37 and decided:

- to modify the existing guidance on future events, which requires incorporating expectations about

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changes that will impact the amount required to settle an obligation. The Board was concerned that the guidance in existing IAS 37 might conflict with its proposals for measuring stand-ready obligations; and

- to clarify that reimbursement rights may not be netted against provisions.

The Board discussed constructive obligations and whether IAS 37 should be aligned with the new guidance in its revenue recognition project, which defines a contract as a set of promises that a court will enforce. The Board decided that constructive obligations should not be limited to legal obligations but agreed that the new guidance and examples should emphasise that the class of extra-legal constructive obligations would be very narrow.

Short-term convergence – post-employment benefits

Multi-employer plans

The Board received an update on IFRIC's redeliberations of its draft interpretation D6 *Multi-employer Plans* and IFRIC's decision in October 2004 that it would not finalise D6 as exposed. The Board considered possible changes that it might make to IAS 19 *Employee Benefits* to deal with defined benefit multi-employer plans and tentatively decided that an asset or a liability should be recognised when:

- the entity uses defined contribution accounting for participation in a multi-employer plan because it could not get sufficient information for defined benefit accounting; and
- there is an agreement about how a surplus or funding of a deficit should be shared.

Entities would continue to be encouraged to try to apply defined benefit accounting to multi-employer plans if possible.

Group plans

As part of its redeliberations of the exposure draft on amendments to IAS 19, the Board agreed to require group defined benefit plans that share risks between individual group entities to be accounted for in the group entities' separate financial statements by measuring the plan based on assumptions applicable to the plan as a whole, and allocating the plan to individual group entities. Such an allocation should be made based on the current agreement or policy for charging the net defined benefit cost within the group. If there is no such agreement or policy then, for separate financial statements purposes, the individual group entity that is legally the sponsoring employer of the plan should account for the entire plan as a defined benefit plan and other entities should apply defined contribution accounting based on the amount charged to them.

The Board also decided to develop disclosures to illustrate the requirements of IAS 24 *Related Party Transactions* for participation in such plans.

Disclosures

The Board redeliberated its proposed changes to disclosure requirements and decided to retain most of the additional requirements proposed, including the information on plan assets by major asset class and sensitivity information about medical cost trends.

Short-term convergence – income taxes

The Board discussed the relationship of "backwards tracing" issues to other intra-period allocation issues and related IFRS / U.S. GAAP differences and asked the IASB staff to prepare a paper presenting additional analysis of these differences.

Financial reporting standards for small and medium-sized entities

The Board discussed a preliminary analysis of the comment letters on the discussion paper *Preliminary Views on Accounting Standards for Small and Medium-sized Entities*. The Board formed a subcommittee of Board members to work with the IASB staff to analyse the comments received.

Joint IASB and FASB meeting Conceptual framework

The IASB and FASB discussed a possible plan for a project to develop a common conceptual framework. The Boards agreed to add the joint project to their agendas. Their objective will be to develop a single shared document.

The Boards decided to use a phased approach to the project, initially focusing on convergence and improvement of the aspects dealing with objectives, qualitative characteristics, elements, recognition and measurement.

The Boards further tentatively decided to focus initially on the concepts applicable to the private sector and to consider the applicability to other sectors at a later stage.

Short-term convergence – income taxes

The Boards discussed the income tax consequences of temporary differences related to permanently reinvested unremitted earnings of foreign subsidiaries and joint ventures.

The Board tentatively decided to amend the situations in which IAS 12 *Income Taxes* permits an investor to not recognise deferred tax related to unremitted earnings of investees. To achieve convergence the IASB tentatively decided to amend the language of the IAS 12 so that it is similar to that in the comparable

U.S. standard, SFAS 109 *Accounting for Income Taxes*, and asked the IASB staff to consider possible improvements to the disclosures for unremitted earnings of foreign subsidiaries and joint ventures.

Revenue recognition

The Boards deliberated a group of issues related to measuring the fair value of performance obligations.

IASB Observer notes

The IASB Observer provides timely, detailed reporting of IASB meetings. Copies of the IASB Observer, a publication from European Research Associates Limited, can be obtained by contacting your local KPMG member firm.

If you would like further information on any of the matters discussed in this issue of *IFRS in Brief*, please contact KPMG International Financial Reporting Group or your local KPMG member firm.

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