

IFRS Briefing Sheet

IASB's project plan

Issue 7

This publication provides a summary of the status of the current projects of the International Accounting Standards Board (IASB). It reflects all significant decisions of the IASB that we have noted up to and including those taken at its December 2004 meeting.

The following project summaries set out a description of each project and the major areas of existing IFRSs that may be affected by the project. IASB documents related to project are identified and the latest estimates of the timing to completion noted.

Current exposure drafts

The International Financial Reporting Interpretation Committee (IFRIC) has published the following documents that currently have open exposure periods:

- IFRIC D10 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* – comments due by 11 February 2005; and
- IFRIC D11 *Changes in Contributions to Employee Share Purchase Plans* – comments due by 1 March 2005.

A supplement to KPMG's publication IFRS in Brief

There are currently no IASB Discussion Papers or Exposure Drafts with open comment periods.

Latest IASB Meeting

Topics discussed by the IASB at its most recent meeting in December 2004 included:

- Business combinations – phase II;
- Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – Measuring Termination Benefits;
- Revenue recognition;
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* – Transition and Initial Recognition of Financial Assets and Financial Liabilities;
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* – Fair Value Option;
- ED 7 *Financial Instruments: Disclosures*; and
- Small and medium-sized entities.

A summary of the main decisions taken at the December 2004 meeting of the IASB can be found in *IFRS in Brief*, issue 9, January 2005.

Decisions of the IASB are not final until a new or an amended standard has been issued.

Project description	Overview	Timing / Status
Business combinations: amendments to IFRS 3 <i>Business Combinations</i>	The IASB proposed to apply the purchase method to business combinations involving two or more mutual entities or business combinations by contract alone without obtaining an ownership interest.	An exposure draft (ED) was issued in April 2004. Subsequently the Board decided not to proceed with the proposals in the ED. The scope exclusion in IFRS 3 will be retained and combinations involving mutual entities and combinations by contract alone will be dealt with in Business combinations phase II.
Business combinations phase II: application of the purchase method	<p>This is a joint project with the U.S. Financial Accounting Standards Board (FASB) that addresses issues dealing with the application of the purchase method of accounting for business combinations. It would require entities to adopt the full goodwill method when acquiring less than 100 percent of an entity. It also would include significant revisions to the accounting for changes in minority interests, which would be treated as transactions within equity.</p> <p>At its October 2004 meeting the Board decided that the project also should apply to business combinations involving two or more mutual entities or by contract alone without obtaining an ownership interest.</p> <p>The Board will include parts of the fair value guidance from the FASB's <i>Fair Value Measurements</i> exposure draft in its forthcoming ED.</p>	An ED is scheduled for release in the first quarter of 2005.
Conceptual framework	At a joint meeting in April 2004, the IASB and FASB agreed to a joint project for the development of a common conceptual framework.	The timing of this project is yet to be decided.
Consolidation and special purpose entities (SPEs)	<p>The objective of this project is to reconfirm the basis on which an entity should be consolidated, including an SPE. Ultimately, the IASB intends to issue a new consolidation standard, replacing IAS 27 <i>Consolidated and Separate Financial Statements</i> and SIC-12 <i>Consolidation – Special Purpose Entities</i>. In May 2004, the discussion was expanded to address fiduciaries and the assessment of control in the fund management industry.</p> <p>In November 2004, the Board tentatively decided to incorporate the guidance on the concept of control developed so far into IAS 27 by amending the standard as an interim step before issuing a new IFRS on consolidation.</p>	An ED is planned for late 2005.

Project description	Overview	Timing / Status
<p>Convergence: government grants (withdrawal of IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>)</p>	<p>In 2003, the IASB concluded that IAS 20 should be withdrawn and replaced with a new standard. In February 2004, the Board tentatively decided to amend IAS 20 by adopting the accounting model for government grants contained in IAS 41 <i>Agriculture</i>.</p> <p>This would result in an unconditional grant being recognised as income when the grant becomes receivable and a conditional grant being recognised as income when the conditions attaching to the grant are met.</p>	<p>An ED is expected in the first quarter of 2005.</p>
<p>Employee benefits</p>	<p>In December 2003, the Board added a fast track short-term project on employee benefits accounting. The revisions allow entities to recognise immediately all actuarial gains and losses directly in equity and modify the multi-employer exemption in respect of defined benefit plans in the separate financial statements of certain entities participating in a group plan.</p> <p>The final amendments were published in December 2004. A summary of the amendments can be found in KPMG's <i>IFRS Briefing Sheet – issue 12: Publication of Amendments to IAS 19 Employee Benefits</i>.</p> <p>The IASB staff also is developing a plan for a long-term comprehensive project to look more fundamentally at accounting for employee benefits, possibly as a joint project with the U.S. FASB and / or other national standard setters.</p>	<p>A final standard for the fast track project was issued in December 2004. Adoption is mandatory for financial years beginning on or after 1 January 2006 with earlier adoption encouraged.</p> <p>No timetable has been set for the longer-term project.</p>
<p>Exploration and evaluation activities</p>	<p>A final standard IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i> was issued in December 2004. This standard is an 'interim standard' on extractive industries, permitting entities to retain the accounting policies applied to their most recent annual financial statements for the recognition and measurement of exploration and evaluation assets until the IASB completes a longer-term comprehensive extractive industries project. A summary of this standard can be found in KPMG's <i>IFRS Briefing Sheet – issue 14: Publication of IFRS 6 Exploration for and Evaluation of Mineral Resources</i>.</p>	<p>The final standard was issued in December 2004 and is mandatory for financial years beginning on or after 1 January 2006 with early adoption encouraged.</p>
<p>Financial instruments: cash flow hedge accounting of forecast intragroup transactions</p>	<p>Under IAS 39 entities can obtain hedge accounting only for transactions that involve a party external to the entity. IGC 137-14, an interpretation of the previous version of IAS 39, allowed a forecast intragroup transaction to be designated as the hedged item in a foreign currency cash flow hedge in consolidated financial statements. The December 2003 revisions to IAS 39 removed this approach.</p>	<p>An ED was published in July 2004 and the comment period closed on 8 October 2004. A final standard is expected in the first quarter of 2005.</p>

Project description	Overview	Timing / Status
<p>Financial instruments: cash flow hedge accounting of forecast intragroup transactions (continued)</p>	<p>The Board decided to amend IAS 39 to allow an entity in its consolidated financial statements to designate as the hedged item a highly probable forecast external transaction that is denominated in the functional currency of the entity entering into the transaction, provided that the transaction gives rise to an exposure that has an effect on the consolidated income statement (i.e., it is denominated in a currency other than the group's presentation currency).</p> <p>A summary of these proposals can be found in KPMG's <i>IFRS Briefing Sheet – issue 5: Publication of 3 EDs of Proposed Limited Amendments to IAS 39</i>.</p>	
<p>Financial instruments: instruments puttable at fair value</p>	<p>In June 2004, the Board began discussing the classification as liabilities or equity of financial instruments puttable at fair value. IAS 32 <i>Financial Instruments: Disclosure and Presentation</i> requires these instruments to be classified as liabilities, and IAS 39 requires that they be measured at fair value with changes in fair value recognised in the income statement. This causes an entity with an increase in its fair value to reflect a net liability position, which increases as that entity's fair value improves.</p> <p>The Board concluded that this issue should be added to its longer-term project on liabilities and equity. However, the Board tentatively decided to pursue a short-term amendment of IAS 32 to consider an exception whereby such instruments would be classified as equity.</p>	<p>An ED is expected in the middle of 2005.</p>
<p>Financial instruments: the fair value option</p>	<p>Regulators expressed concerns about the potential misuse of the 'fair value option' included in amended IAS 39 <i>Financial Instruments: Recognition and Measurement</i> (December 2003). The fair value option allows entities to make an irrevocable designation on initial recognition of any financial asset or financial liability to measure that asset or liability at fair value with changes in fair value recognised in profit or loss.</p> <p>In April 2004, the Board proposed restricting the extent to which companies can designate a financial asset or financial liability as measured at fair value through profit or loss. A summary of these proposals is in KPMG's <i>IFRS Briefing Sheet: Proposed Amendments to IFRS 3, IAS 19, IAS 39, and IFRIC D6</i>.</p> <p>The comment letters received by the IASB indicated a very low level of support for the proposals in the ED. The Board noted that reverting to IAS 39 as revised in March 2004 would not address the concerns of regulators. It tentatively decided that alternative courses of action would have to be considered. The Board decided to hold one or more public meetings in order to get a better understanding of the concerns and views of the constituents in early 2005.</p>	<p>An ED was published in April 2004 and a final standard is scheduled for the first quarter of 2005.</p>

Project description	Overview	Timing / Status
<p>Financial instruments: transition and initial recognition of financial assets and financial liabilities</p>	<p>After the revised IAS 39 was issued in December 2003, IASB constituents expressed concerns that retrospective application of the 'day 1' gain or loss recognition requirements would be difficult and expensive, and require subjective assumptions about what was observable upon initial recognition of financial assets and liabilities in the past. Also, confusion arose over how any gain or loss not recognised on 'day 1' should be recognised subsequently. Accordingly, the Board decided to amend the transitional provisions of IAS 39 and clarify the subsequent measurement of financial assets and liabilities for which there is not an active market.</p> <p>An amendment to IAS 39 to address this issue was published in December 2004. A summary can be found in KPMG's <i>IFRS Briefing Sheet – issue 15: Publication of Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Transition and Initial Recognition of Financial Assets and Financial Liabilities</i>.</p>	<p>A final standard was published in December 2004.</p>
<p>Financial instruments and insurance contracts: financial guarantee contracts and credit insurance</p>	<p>The December 2003 revisions to IAS 39 included measurement guidance for financial guarantee contracts that meet the definition of insurance contracts. IFRS 4 included such financial guarantee within its scope. Consequently, the measurement guidance provided in IAS 39 was removed. The Board decided that the measurement described in the December 2003 version of IAS 39 should be required for financial guarantee contracts that meet the definition of insurance contracts. The Board concluded that this decision required re-exposure and IFRS 4 <i>Insurance Contracts</i> was finalised without addressing the accounting for these contracts. A summary of these proposals can be found in KPMG's <i>IFRS Briefing Sheet – issue 5: Publication of 3 EDs of Proposed Limited Amendments to IAS 39</i>.</p>	<p>An ED was published in July 2004 and the comment period closed on 8 October 2004. A final standard is expected in the second quarter of 2005.</p>
<p>Financial risk and other amendments to financial instruments disclosures</p>	<p>This project covers all entities that have financial instruments. Its objective is to eliminate redundancies with disclosure requirements of other standards, and to revise and enhance existing disclosure requirements to mirror current IFRSs and business practices regarding financial risk management. It also will replace IAS 30 <i>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</i> and certain financial risk disclosures in IAS 32 <i>Financial Instruments: Disclosure and Presentation</i>.</p> <p>ED 7 <i>Financial Instruments: Disclosures</i> was issued in July 2004. The proposed changes are planned for annual periods beginning on or after 1 January 2007. Earlier adoption would be encouraged. A summary of the proposals can be found in KPMG's <i>IFRS Briefing Sheet – issue 4: Publication of ED 7</i>.</p> <p>At its December 2004 meeting the Board began its consideration of comment letters received on ED 7.</p>	<p>An ED was published in July 2004, and the comment period closed on 22 October 2004. A final standard is planned for late in 2005.</p>

Project description	Overview	Timing / Status
Insurance contracts phase II	<p>This project seeks to develop further some of the issues identified in the 1999 Issues Paper <i>Insurance</i>. Any resulting standard would replace IFRS 4 <i>Insurance Contracts</i>. One possibility contemplated is an asset and liability model that requires identification and measurement at fair value of individual assets and liabilities arising from insurance contracts.</p> <p>The IASB has appointed an advisory committee for this project and is beginning its consideration of these issues.</p>	The timetable for this project is yet to be announced by the Board.
Joint ventures	<p>This project comprises both a short-term convergence project and a longer-term research project aimed at determining the most appropriate method of accounting for interests in jointly controlled entities. The short-term project aims to achieve convergence by eliminating the option in IAS 31 <i>Interests in Joint Ventures</i> of accounting for interests in jointly controlled entities using either the equity method or proportionate consolidation.</p> <p>In July 2004, the Board indicated that the progression of the short-term project would be difficult without having first completed the research project. To date, the Board has not concluded on whether to proceed with the short-term project.</p>	The timing of this project is yet to be decided.
Reporting performance	<p>The project seeks to address when items are recognised directly in equity and when they are included in determining net profit or loss. The Board's initial plan to develop a single statement of comprehensive income has been revisited. Currently the Board is considering a two-part project. Part one would focus on views surrounding (i) a statement of comprehensive income with a subtotal for net income, (ii) required primary statements, (iii) number of years of comparative data, and (iv) requiring the use of the direct method when reporting cash flows.</p>	<p>The Board plans to issue a preliminary views paper (Discussion Paper) as its next step in late 2005.</p> <p>An advisory group has been formed and will meet in January 2005.</p>
Revenue recognition: concepts of revenue, liabilities and equity	This is a joint project with the U.S. FASB to develop a comprehensive set of principles for revenue recognition to eliminate inconsistencies in practice.	The project is in its early stages with a Discussion Paper scheduled for late 2005.

Project description	Overview	Timing / Status
<p>Short-term convergence of IFRS and U.S. GAAP: amendments to IAS 12 <i>Income Taxes</i></p>	<p>Both IAS 12 and the equivalent U.S. standard SFAS 109 <i>Accounting for Income Taxes</i> are based on the balance sheet liability approach when accounting for deferred taxes. However, differences arise because both standards have exceptions to their basic principles. The objective of this project is not to reconsider the underlying approach, but rather to eliminate exceptions to the basic principles. Possible areas for changes include the exemption from initial recognition and not providing for unremitted earnings of subsidiaries.</p>	<p>An ED is expected in the middle of 2005.</p>
<p>Short-term convergence of IFRS and U.S. GAAP: amendments to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i></p>	<p>This is a short-term convergence project to modify the requirements for recognition of restructuring provisions to adopt the U.S. requirements (SFAS 146 <i>Accounting for Costs Associated with Exit or Disposal Activities</i>). Generally, the proposals would require recognition of restructuring provisions at a later date than is current practice under IFRSs. This project also will propose changes to accounting for contingent assets and contingent liabilities as a result of phase II of the business combinations project. The proposed IAS 37 amendments require consequential amendments to the termination benefits requirements in IAS 19 <i>Employee Benefits</i>.</p>	<p>An ED is planned for the first quarter of 2005, to be issued in conjunction with the ED resulting from phase II of the business combinations project.</p>
<p>Small and medium-sized entities</p>	<p>The Board is developing accounting standards appropriate for small and medium-sized entities (SMEs). The proposals are expected to be based on the basic principles of IFRSs, but with modifications to simplify reporting whilst meeting the needs of users of SMEs' financial statements. Disclosure and presentation requirements are likely to be modified; however, the Board has indicated that recognition and measurement principles are unlikely to change unless those changes can be justified by users' needs and cost / benefit analysis.</p> <p>A summary of the Board's preliminary views set out in its discussion paper issued in July 2004 can be found in KPMG's <i>IFRS Briefing Sheet – issue 3: Publication of Discussion Paper on SMEs, IFRIC D3, IFRIC D8 and IFRIC D9</i>.</p> <p>In December 2004, the Board confirmed that it will pursue this project and is working to develop an ED.</p>	<p>The Board published a discussion paper in June 2004, the comment period for which closed on 24 September 2004. An ED is expected in the second half of 2005.</p>

Mark your calendars ...

First Quarter 2005	Later 2005
<ul style="list-style-type: none"> • IAS 39 Financial instruments: cash flow hedge accounting of forecast intragroup transactions – Final standard • IAS 39 Financial instruments: fair value option – Final standard • Business combinations phase II: application of the purchase method – Exposure draft • Short-term convergence of IFRS and U.S. GAAP – joint project with the FASB: IAS 37 – Exposure draft • Other convergence projects: Amendment of IAS 20 – Exposure draft • IFRIC D10 <i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i> – comment period closes 11 February 2005 • IFRIC D11 <i>Changes in Contributions to Employee Share Purchase Plans</i> – comment period closes 1 March 2005 	<ul style="list-style-type: none"> • Financial instruments: disclosures – Final standard • IAS 39 and IFRS 4 Financial instruments and insurance contracts: financial guarantee contracts and credit insurance – Final standard • IAS 32 Financial instruments: instrument puttable at fair value – Exposure draft • Accounting standards for SMEs – Exposure draft • Reporting performance – Discussion paper • Revenue and related liabilities – Discussion paper • Insurance contracts phase II – publication to be decided upon • Consolidation (including special purpose entities) – Exposure draft • Short-term convergence of IFRS and U.S. GAAP – joint project with the FASB: IAS 12 – Exposure draft

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of our member firms' offices.

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