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IFRS Briefing Sheet

IASB's project plan

Issue 6

A supplement to KPMG's publication *IFRS in Brief*. The following is a summary of the International Accounting Standards Board's (IASB's) current projects.

Project description	Overview	Timing / Status
Business combinations phase I: scope of IFRS 3	IFRS 3 was published in March 2004 as part of the first phase of the IASB's project on business combinations. It replaces IAS 22 *Business Combinations* and requires all business combinations to be accounted for using the purchase method. In April 2004, the IASB issued an exposure draft (ED) proposing to apply the purchase method to business combinations involving two or more mutual entities or business combinations by contract alone without the obtaining of an ownership interest. The proposals were intended to be an interim solution. A summary of the proposals can be found in KPMG International's *IFRS Briefing Sheet: Proposed amendments to IFRS 3, IAS 19, IAS 39, and IFRIC D6* (May 2004). At its September 2004 meeting, the Board decided not to proceed with the proposals, but rather to retain the scope exclusion in IFRS 3 for such transactions, pending completion of the joint project with the U.S. Financial Accounting Standards Board (FASB) on purchase method procedures.	An ED was issued in April 2004 with the comment period closing on 31 July 2004. The Board decided not to proceed with the proposals in the ED. The scope exclusion in IFRS 3 will be retained.
Business combinations phase II: application of the purchase method	This is a joint project with the 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 per cent 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. The Board has extended its discussions to consider whether the project should apply to business combinations involving two or more mutual entities or by contract alone without the obtaining of an ownership interest. The Board also is considering what fair value guidance from the FASB's fair value measurements project should be included in the forthcoming ED (see *IFRS in Brief* – July 2004 and *IFRS in Brief* – October 2004).	An ED is scheduled for release in the fourth quarter of 2004 and a final standard is expected late in 2005.

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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. No decisions have been made to date. The issue will be further discussed at the Boards' joint meeting in October 2004.	The timing of this project is yet to be decided.
Consolidation and special purpose entities (SPEs)	The objective of this project is to reconfirm the basis on which an entity should be consolidated, including SPEs. Ultimately, the IASB intends to issue a new consolidation standard, replacing IAS 27 *Consolidated and Separate Financial Statements* and SIC–12 *Consolidation – Special Purpose Entities.* In May 2004, the discussion was expanded to address fiduciaries and the assessment of control in the fund management industry.	The project is in its early stages. The IASB plans to issue a document pertaining to the project late in 2005, the format of which is yet to be decided.
Convergence: government grants (withdrawal of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*)	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 *Agriculture*. 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 government grant are met.	An ED is expected in the fourth quarter of 2004, with a final standard expected late in 2005.
Employee benefits	In December 2003, the Board added a fast track short-term project on employee benefits accounting. In April 2004, an ED was issued that proposed allowing entities to recognise immediately all actuarial gains and losses directly in equity and to expand the multi-employer impracticability exemption in respect of defined benefit plans to separate financial statements of certain entities participating in a group plan. A summary of these proposals can be found in KPMG International's *IFRS Briefing Sheet: Proposed amendments to IFRS 3, IAS 19, IAS 39, and IFRIC D6* (May 2004). At its September 2004 meeting, the IASB tentatively decided to proceed with the option proposed in the ED regarding recognition of actuarial gains and losses. However, it decided that the approach proposed for group plans was too complex and that group entities should be required to apply defined benefit accounting to group plans, if it was possible to make a reasonable allocation of the plan. 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 FASB and / or other national standard setters.	An ED for the fast track project was issued in April 2004. The comment period closed on 31 July 2004 and a final standard is expected in the fourth quarter of 2004. No timetable has been set for the longer-term project.

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Exploration and evaluation activities	ED 6 *Exploration for and Evaluation of Mineral Resources* was issued in January 2004. The proposals were for 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 detailed overview of the proposals can be found in IASB*riefing* Issue 16, February 2004. ED 6 originally proposed a special cash-generating unit approach to testing for impairment. At its September 2004 meeting, the Board tentatively decided to require the allocation of exploration and evaluation assets to an appropriate level and the testing for impairment at this level. The level used should be no higher than a segment.	ED 6 was issued on 15 January 2004 and a final standard is scheduled to be issued in the fourth quarter of 2004.
Financial instruments: fair value option	Regulators expressed concerns about the potential misuse of the 'fair value option' included in amended IAS 39 *Financial Instruments: Recognition and Measurement*. 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. The Board discussed this issue in February 2004 and issued an ED in April 2004 to restrict 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 International's *IFRS Briefing Sheet: Proposed amendments to IFRS 3, IAS 19, IAS 39, and IFRIC D6* (May 2004). An analysis of the comment letters received 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. To this end the Board tentatively decided to hold a public meeting. The timing of this meeting has not yet been decided.	An ED was published in April 2004; it is unclear when and how the Board will move forward.
Financial risk and other amendments to financial instruments disclosures	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 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and certain financial risk disclosures in IAS 32 *Financial Instruments: Disclosure and Presentation*. ED 7 *Financial Instruments: Disclosures* 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 International's *IFRS Briefing Sheet – Issue 4: Publication of ED 7*.	An ED was published in July 2004, with the comment period closing on 22 October 2004. A final standard is planned for late in 2005.

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Financial instruments and insurance contracts: financial guarantee contracts and credit insurance	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 contracts 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 was finalised without addressing the accounting for these contracts. An ED of proposed amendments to IAS 39 and IFRS 4: *Financial Guarantee Contracts and Credit Insurance* was published in July 2004. A summary of these proposals can be found in KPMG International's *IFRS Briefing Sheet – Issue 5: Publication of 3 EDs of proposed limited amendments to IAS 39.*	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.
Financial instruments: cash flow hedge accounting of forecast intragroup transactions	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. This is not allowed under the revised IAS 39. 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 consolidated profit or loss (i.e., it is denominated in a currency other than the group's presentation currency). An ED of proposed amendments to IAS 39: *Transition and Initial Recognition of Financial Assets and Financial Liabilities* was published in July 2004. A summary of these proposals can be found in KPMG International's *IFRS Briefing Sheet – Issue 5: Publication of 3 EDs of proposed limited amendments to IAS 39.*	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.
Financial instruments: transition and initial recognition of financial assets and financial liabilities	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.	An ED was published in July 2004 and the comment period closed on 8 October 2004. A final standard is expected in the last quarter of 2004.

Project description	Overview	Timing / Status
Financial instruments: transition and initial recognition of financial assets and financial liabilities (continued)	An ED of proposed amendments to IAS 39: *Transition and Initial Recognition of Financial Assets and Financial Liabilities* was published in July 2004. A summary of these proposals can be found in KPMG International's *IFRS Briefing Sheet – Issue 5: Publication of 3 EDs of proposed limited amendments to IAS 39.*	
Financial instruments: instruments puttable at fair value	In June 2004 the Board began discussing the classification as liabilities or equity of financial instruments puttable at fair value. IAS 32 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 profit or loss. This causes a strong performing entity to reflect a net liability position, which increases as that entity's performance improves. The Board concluded that this issue should be added to its longer term project on liabilities and equity. However, the Board tentatively decided, as a short-term solution to amend IAS 32, providing an exception whereby such instruments would be classified as equity.	An ED proposing a short-term solution is expected late in 2005.
Insurance contracts phase II	This project seeks to develop further some of the issues identified in the 1999 Issues Paper *Insurance*. Any resulting standard would replace IFRS 4 *Insurance Contracts*. 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. The IASB has appointed an advisory committee for this project and is beginning its consideration of these issues.	The timetable for this project is yet to be determined by the Board. The Board intends to issue a document pertaining to this project late in 2005, the format of which is yet to be decided.
Joint ventures	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 *Joint Venture* of accounting for interests in jointly controlled entities using either the equity method or proportionate consolidation. 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. Having taken responsibility for the longer-term research project, the Australian Accounting Standards Board (AASB) published a survey during August 2004.	The timing of this project is yet to be decided.

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Reporting performance	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.	The Board conducted a sunset review of the original project in October 2003. As a result the Board plans to issue a preliminary views paper (Discussion Paper) as its next step in late 2005.
Revenue recognition: concepts of revenue, liabilities and equity	This is a joint project with the 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.
Short-term convergence of IFRS and U.S. GAAP: amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	This is a short-term convergence project to modify the requirements for recognition of restructuring provisions to mirror the U.S. requirements (SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities*). 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 *Employee Benefits*.	An ED is planned for the fourth quarter of 2004 to be issued in conjunction with the ED resulting from phase II of the business combinations project. A final standard is expected late in 2005.
Short-term convergence of IFRS and U.S. GAAP: amendment to IAS 12 *Income Taxes*	Both IAS 12 and the equivalent U.S. standard SFAS 109 *Accounting for Income Taxes* 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 exemption from initial recognition and not providing for unremitted earnings of subsidiaries.	An ED is expected in the fourth quarter of 2004, with a final standard expected late in 2005.
Small and medium-sized entities	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.	The Board published a Discussion Paper in June 2004, the comment period for which closed on 24 September 2004. An ED is expected late in 2005.

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Mark your calendars ...

Fourth Quarter 2004	First Quarter 2005	Later 2005
• IAS 39 Financial instruments: transition and initial recognition of financial assets and financial liabilities – **Final standard** • Exploration for and evaluation of mineral resources – **Final standard** • Other convergence projects: IAS 19 – **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** • Short-term convergence of IFRS and U.S. GAAP – joint project with the FASB: IAS 12 – **Exposure draft** • Other convergence projects: Amendment of IAS 20 – **Exposure draft** • Financial instruments: disclosures – **comments due 22 October 2004**	• IAS 39 Financial instruments: cash flow hedge accounting of forecast intragroup transactions – **Final standard** • IAS 39 and IFRS 4 Financial instruments and insurance contracts: financial guarantee contracts and credit insurance – **Final standard**	• Financial instruments: disclosures – **Final standard** • Business combinations phase II: application of the purchase method – **Final standard** • Short-term convergence of IFRS and U.S. GAAP – joint project with the FASB: IAS 37 – **Final standard** • Short-term convergence of IFRS and U.S .GAAP – joint project with the FASB: IAS 12 – **Final standard** • Other convergence projects: Amendment of IAS 20 – **Final standard** • IAS 32 Financial instruments: instrument puttable at fair value – **Exposure draft** • Accounting standards for SMEs – **Exposure draft** • Reporting comprehensive income – **Discussion paper** • Revenue and related liabilities – **Discussion paper** • Insurance contracts phase II – **publication to be decided upon** • Consolidation (including special purpose entities) – **publication to be decided upon**

The timing of the consolidation and SPEs, insurance contracts phase II, joint venture projects and conceptual framework is yet to be determined by the Board.

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

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