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IASB releases omnibus Exposure Draft of annual improvements

On 11 October 2007, the International Accounting Standards Board (IASB) published for public comment an omnibus Exposure Draft (ED) of Proposed Improvements to International Financial Reporting Standards. The improvements proposed in the ED are expected to be effective from 1 January 2009. The IASB has requested comments on or before 11 January 2008.

These are the first proposals under the IASB's annual improvements process which is intended to deal with non-urgent, minor amendments to Standards. These amendments focus on areas of inconsistency in Standards or where clarification of wording is required. The ED includes 41 separate amendments which impact 25 different Standards. A summary of all of the proposals is set out in the following pages.

Ken Wild, Deloitte's global IFRS leader says:

The IASB's attempt to streamline standard-setting for non-urgent, minor amendments to Standards via the annual improvements process is to be applauded and encouraged. Many of the amendments proposed by the IASB will clarify accounting requirements and remove areas of inconsistency in practice.

However, I believe that some of the IASB's proposals in the ED go beyond the agreed scope for the improvements process. Potentially contentious issues include:

- the proposal to require entities that make reference to IFRSs in their basis of preparation (but not unreserved compliance with IFRSs) to describe how their financial statements would have been different if prepared in full compliance with IFRSs. The logic underlying the proposal is fuzzy – as pointed out by the dissenting Board Members, an entity that already does not comply with IFRSs will hardly feel bound by this requirement;
- the proposed deletion of guidance in IAS 17 regarding the classification of leases of land and buildings, which adds to the potential for confusion as to what the IASB now intends; and
- the principle proposed regarding expenditure on advertising and promotional materials (expense when the entity has access to the goods or has received the services). Applying that principle across the board (e.g. for items such as catalogues) would appear to be at odds with the basic definition of an asset - as pointed out by the dissenting Board Member.

None of these issues is clear-cut – and it may be that the Board has got them right. But they all go beyond the agreed scope of the annual improvements process and, in my opinion, they merit more thorough consideration than they may receive among 41 proposals.

Detail of amendments

The following table provides a summary of each of the amendments proposed in the ED.

Standard	Topic	Proposed amendment
IFRS 1	Restructuring of IFRS 1	The main change proposed in the restructure is to move certain transitional provisions relating to specific Standards from the main body of IFRS 1 **First-time Adoption of International Financial Reporting Standards** to Appendices. The restructure will not alter the technical content of IFRS 1.
IFRS 5	Plan to sell a controlling interest in a subsidiary	Clarification that assets and liabilities of a subsidiary should be classified as held for sale if the parent is committed to a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale.
IFRS 7	Presentation of finance costs	Resolution of the potential conflict between IAS 1 **Presentation of Financial Statements** (revised 2007) and IFRS 7 **Financial Instruments: Disclosures** by amending the Implementation Guidance accompanying IFRS 7. Reaffirmation that presentation of net finance costs in the statement of comprehensive income is not permitted unless the finance cost and finance revenue amounts included in the net total are disclosed.
IAS 1 (revised 2007)	Statement of compliance with IFRSs	Amendment to prescribe additional disclosure requirements for entities that refer to IFRSs in describing the basis on which their financial statements are prepared but that are not able to make an explicit and unreserved statement of compliance with IFRSs. The proposed disclosures would require information about how an entity's financial statements would have been different if prepared in full compliance with IFRSs.
	Current/non-current classification of convertible instruments	Clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the ED would permit the liability component of a convertible instrument to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required to settle in shares at any time.
	Current/non-current classification of derivatives	Amendment to examples in paragraphs 68 and 71 of IAS 1 (revised 2007) to clarify that financial instruments that are classified as held for trading in accordance with IAS 39 are not always **required** to be presented as current assets/current liabilities.
IAS 8	Status of implementation guidance	Amendment to clarify that application of the Implementation Guidance issued with IFRSs is not mandatory.
IAS 10	Dividends declared after the end of the reporting period	Clarification of the explanation as to why a dividend declared after the reporting period does not result in the recognition of a liability.
IAS 16	Recoverable amount	Replacement of the term 'net selling price' with 'fair value less cost to sell' in the definition of recoverable amount for consistency with the terminology used in IFRS 5 **Non-current Assets Held for Sale and Discontinued Operations** and IAS 36 **Impairment of Assets**.
IAS 16/IAS 7	Sale of assets held for rental	Amendment to address presentation issues arising from assets held for rental to others that are routinely sold in the course of an entity's ordinary activities. Entities would be required to transfer such assets to inventories at their carrying amount when they cease to be rented and are held for sale. The proceeds from the sale of such assets would be recognised as revenue in accordance with IAS 18 **Revenue**. Cash payments to manufacture or acquire such assets and cash receipts from rental and sale of such assets would be included within operating activities.

Standard	Topic	Proposed amendment
IAS 17	Classification of leases of land and buildings	Deletion of guidance on classification of leases of land to eliminate a perceived inconsistency with the general guidance on lease classification.
	Contingent rents	Contingent rent relating to an operating lease to be recognised as incurred (rather than on a straight-line basis as is currently required by IAS 17) to achieve consistency in the treatment of contingent rent for finance and operating leases.
IAS 18	Costs of originating a loan	Removal of inconsistency between IAS 39 and the guidance in IAS 18 relating to the definition of costs incurred in originating a financial asset that should be deferred and recognised as an adjustment to the effective interest rate. IAS 18 is amended to refer to transaction costs as defined in IAS 39.
IAS 19	Curtailments and negative past service cost	Clarification that when a plan amendment reduces the benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost. In addition, a reference to materiality is deleted in paragraph 111 of the Standard.
	Plan administration costs	Amendment of the definition of return on plan assets to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation.
	Replacement of term 'fall due'	Amendment of the definition of short-term employee benefits and other long-term employee benefits to replace the term 'fall due' with the notion of 'employee entitlement', as the timing of the employee's entitlement to a benefit is a critical factor in classifying the benefit.
	Guidance on contingent liabilities	Removal of the reference to 'recognition' in relation to contingent liabilities as it is inconsistent with IAS 37 which states that an entity shall not recognise a contingent liability.
IAS 20	Consistency of terminology with other IFRSs	Amendments to conform terminology used in IAS 20 to the equivalent defined or more widely-used terms.
	Government loans with a below-market rate of interest	Amendment to require that the benefit of a loan received from a government with a below-market rate of interest should be quantified by the imputation of interest in accordance with IAS 39.
IAS 23	Components of borrowing costs	Paragraphs 6(a)-(c) of IAS 23 **Borrowing Costs** are to be replaced with a reference to interest expense calculated in accordance with the effective interest method as defined in IAS 39 to improve consistency between IFRSs. The reference to 'ancillary costs' is also deleted as there is no definition of this term in IFRSs.
IAS 27	Measurement of subsidiary held for sale in separate financial statements	Amendment to require investments in subsidiaries that are accounted for in accordance with IAS 39 in the parent's separate financial statements to continue to be accounted for on that basis when classified as held for sale (or included in a disposal group that is classified as held for sale).
IAS 28/IFRS 7/IAS 32	Required disclosures when investments in associates are accounted for at fair value through profit or loss	Clarification of disclosures required in respect of investments in associates accounted for at fair value in accordance with IAS 39.
IAS 28	Impairment of investments in associates	Clarification that an investment in an associate is treated as a single asset for impairment testing. Therefore, an impairment loss recorded by an investor after applying the equity method is not allocated against any goodwill included in the equity-accounted investment balance. Such an impairment charge should be reversed in a subsequent period to the extent that the recoverable amount of the associate increases.
IAS 29	Consistency of terminology with other IFRSs	Amendment to conform terminology used in IAS 29 **Financial Reporting in Hyperinflationary Economies** to reflect the equivalent defined or more widely-used terms.

Standard	Topic	Proposed amendment
IAS 31	Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss	Clarification of disclosures required in respect of interests in jointly controlled entities accounted for at fair value in accordance with IAS 39.
IAS 34	Earnings per share disclosures in interim financial reports	Clarification that the presentation of basic and diluted earnings per share is required in interim financial reports only when the entity is within the scope of IAS 33 **Earnings per Share**.
IAS 36	Disclosure of estimates used to determine recoverable amount	Amendment to expand the disclosures when discounted cash flows are used to estimate fair value less costs to sell.
IAS 38	Advertising and promotional activities	The amendments clarify the circumstances in which an entity can recognise a prepayment asset for advertising or promotional expenditure. Recognition of an asset would be permitted up to the point at which the entity has access to the goods purchased or up to the point of receipt of services.
	Unit of production method of amortisation	Removal of wording perceived as prohibiting the use of the unit of production method if it results in a lower amount of accumulated amortisation than under the straight-line method. Proposal to make clear that entities may use the unit of production method in these circumstances when the resultant amortisation charge reflects the expected pattern of consumption of the expected future economic benefits embodied in an intangible asset.
IAS 39	Definition of a derivative	Amendment to the definition of a derivative in IAS 39 to scope in contracts linked to non-financial variables that are specific to a party to the contract.
	Reclassifying instruments into and out of the classification of at fair value through profit or loss	IAS 39 prohibits the reclassification of financial instruments into or out of the fair value through profit or loss (FVTPL) category after initial recognition. Proposed amendments clarify that when a derivative that was previously designated as a hedge no longer qualifies as such, or when a derivative becomes a designated and effective hedging instrument, these circumstances are not considered to be reclassifications into or out of FVTPL for the purpose of the prohibition.
	Designating and documenting hedges at the segment level	Removal of references to the designation of hedging instruments at the segment level.
	Applicable effective interest rate on cessation of fair value hedge accounting	Clarification that the revised effective interest rate calculated on cessation of fair value hedge accounting in accordance with paragraph 92 of the Standard should be used for the re-measurement of the hedged item when paragraph AG8 of the Standard is applicable.
	Treating loan prepayment penalties as closely related embedded derivatives	Clarification that prepayment options, the exercise price of which compensate the lender for loss of interest by reducing the economic loss from reinvestment risk, are closely related to the host debt contract.
IAS 40	Property under construction or development for future use as investment property	Amendment to bring property under construction or development for future use as an investment property within the scope of IAS 40. Such property currently falls within the scope of IAS 16.
	Consistency of terminology with IAS 8	Amendment to the requirements relating to measurement after recognition to ensure consistency with the text of IAS 8.
	Investment property held under lease	Clarification as to how an investment property under lease should be recorded. Previous wording was considered misleading.
IAS 41	Point-of-sale costs	Replacement of the terms 'point-of-sale costs' and 'estimated point-of-sale costs' in IAS 41 **Agriculture** with 'costs to sell' to ensure consistency with IFRS 5 and IAS 36.

Standard	Topic	Proposed amendment
	Discount rate for fair value calculations	Currently, IAS 41 requires that the discount rate used to determine fair value should be a pre-tax rate. The proposed amendment requires a current market-determined rate to be used, but permits this to be a pre-tax or post-tax rate according to the valuation methodology used to determine fair value.
	Additional biological transformation	Removal of prohibition on taking 'additional biological transformation' into consideration when calculating the fair value of biological assets using discounted cash flows.
	Examples of agricultural produce and products	Removal of 'logs' as an example of agricultural produce (and replacement by 'felled trees'), since logs have been processed.

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