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IASB releases omnibus Exposure Draft of annual improvements for 2008

On 7 August 2008, the International Accounting Standards Board (IASB) published for public comment an omnibus Exposure Draft (ED) of **Improvements to IFRSs (Proposed amendments to International Financial Reporting Standards)**. The IASB has requested comments by 7 November 2008.

This is the second set of proposals under the IASB's annual improvements process which is intended to deal with non-urgent but necessary amendments to Standards. The proposed amendments focus on areas of inconsistency in Standards or where clarification of wording is required.

The ED includes 12 separate amendments which impact 8 different Standards. A summary of all of the proposals is set out in the table below.

Ken Wild, Deloitte's global IFRS leader says:

"The IASB's approach of dealing with non-urgent but necessary amendments to IFRSs in a streamlined process is to be supported – especially in the light of the IASB's challenging work plan. In doing so this year, the Board has responded to concerns raised previously on what is subsumed under the annual improvements process' umbrella. There are fewer proposed amendments in comparison to the 2007 batch of annual improvements – something all constituents will be pleased to see.

Some of the proposals are more contentious than others. I believe that the additional guidance on determining agency relationships will cause a stir amongst constituents. Also, the clarifications on foreign currency embedded derivatives seem to go beyond a mere clarification. I expect that some of the proposals will again be postponed, be issued as separate exposure drafts or be abandoned."

Detail of amendments

The following table (see overleaf) provides a summary of each of the amendments proposed in the ED. Unless otherwise specified, the proposed amendments are effective for annual periods beginning on or after 1 January 2010. The proposed amendments to IAS 36, IAS 38 and IAS 39 are to be applied prospectively.

Standard	Topic	Proposed amendment
IFRS 2	Scope of IFRS 2 and revised IFRS 3	Amendment to confirm that, in addition to business combinations as defined by IFRS 3 (revised 2008) Business Combinations , contributions of a business on formation of a joint venture and common control transactions are not within the scope of IFRS 2 Share-based Payment . The proposed effective date is 1 July 2009.
IFRS 5	Disclosure of non-current assets (or disposal groups) classified as held for sale or discontinued operations	Amendment to clarify that IFRS 5 Non-current Assets Held for Sale and Discontinued Operations specifies the disclosures required for non-current assets (or disposal groups) classified as held for sale or discontinued operations. Consequently, disclosures in other IFRSs do not apply to such assets (or disposal groups) unless those IFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.
IFRS 8	Disclosure of information about segment assets	Amendment to the Basis for Conclusions only to clarify the Board's view on the disclosure of segment assets. The measure for total segment assets required to be disclosed by IFRS 8.23 would be nil when such information is not provided to the chief operating decision maker. The amendment makes clear that non-disclosure of segment assets would be in accordance with IFRS 8 in such cases. The purpose of the amendment is to avoid unintended differences from long-standing interpretations published in the US for the application of SFAS 131.
IAS 7	Classification of expenditures on unrecognised assets	Amendment to require that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activities.
IAS 18	Determining whether an entity is acting as a principal or as an agent	Additional guidance added to the appendix to IAS 18 Revenue on determining whether an entity is acting as a principal or an agent.
IAS 36	Unit of accounting for goodwill impairment test	Amendment to clarify that the largest unit permitted by IAS 36 Impairment of Assets is the operating segment as defined by paragraph 5 of IFRS 8 Operating Segments before the aggregation permitted by IFRS 8.12.
IAS 38	Additional consequential amendments arising from revised IFRS 3	Amendment to paragraphs 36 and 37 of IAS 38 Intangible Assets clarifying the effect of the decisions in IFRS 3 (revised 2008) on the accounting for intangible assets acquired in a business combination. The proposed effective date is 1 July 2009.
	Measuring the fair value of an intangible asset acquired in a business combination	Amendment to clarify the description in IAS 38.40 and .41 of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.
IAS 39	Scope exemption of business combination contracts	Amendment to clarify that the scope exemption in paragraph 2(g) of IAS 39 Financial Instruments: Recognition and Measurement only applies to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date and that IAS 39.2(g) should not be applied by analogy to investments in associates and similar transactions.
	Application of the fair value option	Amendment to clarify that the fair value option provided in IAS 39.11A applies only to hybrid financial instruments containing embedded derivatives where the host contract is a financial instrument.
	Cash flow hedge accounting	Amendment to clarify when to recognise gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The proposed amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period the hedged forecast cash flow affects profit or loss.
	Bifurcation of an embedded foreign currency derivative	Amendment to clarify the meaning of 'economic environment' in the context of determining whether a currency is commonly used in contracts to buy or sell non-financial items and therefore is closely related to the host contract. IAS 39.AG33(d)(iii) would be amended to refer to the characteristics of a functional currency in IAS 21 The Effects of Changes in Foreign Exchange Rates to decide whether a currency is likely to be integral to the contractual arrangement.

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Designed and produced by The Creative Studio at Deloitte, London. 26083