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IAS Plus Update.

Improvements to IFRSs 2009

On 16 April 2009, the International Accounting Standards Board (IASB) issued *Improvements to IFRSs 2009* – incorporating amendments to 12 International Financial Reporting Standards (IFRSs). This is the second collection of amendments issued under the annual improvements process, which is designed to make necessary, but non-urgent, amendments to IFRSs.

The table on the following pages sets out all of the amendments made to Standards and Interpretations. Effective dates vary – see the table for details.

Changes from the exposure draft

As regards technical content, the final amendments do not differ significantly from those proposed in the exposure draft preceding the Standard. Six amendments have been added to the package – four originally exposed as part of the 2007/08 improvements project, and two (amendments to IFRICs 9 and 16) separately exposed in January 2009.

Two amendments proposed in the exposure draft (proposed amendments to IAS 39 regarding application of the fair value option and bifurcation of an embedded foreign currency derivative) have been postponed pending further analysis.

Amendments likely to significantly change current practice

Most of the improvements deal with matters of detail and are not expected to have a significant impact in practice. There are, however, a number that could result in significant changes in accounting in relevant circumstances.

- **Classification of leases of land** Prior to amendment, IAS 17 *Leases* generally required a lease of land with an indefinite useful life to be classified as an operating lease. This was inconsistent with the general principles of the Standard, and the relevant guidance has been removed due to concerns that it could lead to accounting that did not reflect the substance of arrangements. Following the amendment, leases of land are classified as either 'finance' or 'operating' using the general principles of IAS 17. The amendment is particularly significant for jurisdictions where property rights are obtained under long-term leases and the substance of those leases differs little from buying a property. Entities will need to reassess existing leases – specific transitional provisions apply (see Standard for details).

- **Current/non-current classification of liabilities that may be settled by the issue of equity instruments** The definition of a current liability in IAS 1 *Presentation of Financial Statements* has been amended. Under the previous definition, if the counterparty could require settlement in the form of equity instruments at any time, a liability would be classified as current – even if the entity could not be required to settle in cash or other assets within twelve months. Under the revised definition, the liability is classified based on requirements to transfer cash or other assets, and the effect of conversion options is ignored.

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IFRS global office
Global IFRS leader
Ken Wild
kwild@deloitte.co.uk

IFRS centres of excellence

Americas

New York
Robert Uhl
iasplusamericas@deloitte.com

Montreal
Robert Lefrancois
iasplus@deloitte.ca

Asia-Pacific

Hong Kong
Stephen Taylor
iasplus@deloitte.com.hk

Melbourne
Bruce Porter
iasplus@deloitte.com.au

Europe-Africa

Johannesburg
Graeme Berry
iasplus@deloitte.co.za

Copenhagen
Jan Peter Larsen
dk_iasplus@deloitte.dk

London
Veronica Poole
iasplus@deloitte.co.uk

Paris
Laurence Rivat
iasplus@deloitte.fr

Detail of amendments

Standard	Topic	Amendment	Effective date and transition
IFRS 2	Scope of IFRS 2 and revised IFRS 3	Amendment to confirm that, in addition to business combinations as defined by IFRS 3(2008) *Business Combinations*, contributions of a business on formation of a joint venture and common control transactions are excluded from the scope of IFRS 2 *Share-based Payment*.	Effective for annual periods beginning on or after 1 July 2009. Linked to application of IFRS 3(2008).
IFRS 5	Disclosures required in respect 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 in respect of 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; or • the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of IFRS 5's measurement requirements and the information is not disclosed elsewhere in the financial statements.	Effective for annual periods beginning on or after 1 January 2010. To be applied prospectively. Earlier application permitted.
IFRS 8	Disclosure of information about segment assets	Minor textual amendment to the Standard, and amendment to the Basis for Conclusions, to clarify that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision maker.	Effective for annual periods beginning on or after 1 January 2010. Earlier application permitted.
IAS 1	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 amendment permits a liability 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 by the counterparty to settle in shares at any time. This amendment was originally proposed as part of the 2007/08 improvements project.	Effective for annual periods beginning on or after 1 January 2010. Earlier application permitted.
IAS 7	Classification of expenditures on unrecognised assets	Amendment to require that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities.	Effective for annual periods beginning on or after 1 January 2010. Earlier application permitted.
IAS 17	Classification of leases of land and buildings	Deletion of specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating using the general principles of IAS 17. This amendment was originally proposed as part of the 2007/08 improvements project.	Effective for annual periods beginning on or after 1 January 2010. Earlier application permitted. To be applied retrospectively to existing leases if the necessary information is available at the inception of the lease. Otherwise land leases should be reassessed on the date of adoption of the amendment.
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* regarding the determination as to whether an entity is acting as a principal or an agent.	Not applicable, as the appendix is not part of the Standard.
IAS 36	Unit of accounting for goodwill impairment test	Amendment to clarify that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS 8 *Operating Segments* (i.e. before the aggregation of segments with similar economic characteristics permitted by IFRS 8.12).	Effective for annual periods beginning on or after 1 January 2010. To be applied prospectively. Earlier application permitted.
IAS 38	Additional consequential amendments arising from IFRS 3(2008)	Amendments to paragraphs 36 and 37 of IAS 38 *Intangible Assets* to clarify the requirements under IFRS 3(2008) regarding accounting for intangible assets acquired in a business combination.	Effective for annual periods beginning on or after 1 July 2009. To be applied prospectively. Linked to application of IFRS 3(2008).
	Measuring the fair value of an intangible asset acquired in a business combination	Amendments to paragraphs 40 and 41 of IAS 38 to clarify the description 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.	Effective for annual periods beginning on or after 1 January 2010. To be applied prospectively. Earlier application permitted.

Detail of amendments (continued)

Standard	Topic	Amendment	Effective date and transition
IAS 39	Treating loan prepayment penalties as closely related derivatives	Clarification that prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, should be considered closely related to the host debt contract. This amendment was originally proposed as part of the 2007/08 improvements project.	Effective for annual periods beginning on or after 1 January 2010. Earlier application permitted.
	Scope exemption for business combination contracts	Amendments to the scope exemption in paragraph 2(g) of IAS 39 *Financial Instruments: Recognition and Measurement* to clarify that: • it only applies to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at a future date; • the term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and • the exemption should not be applied to option contracts (whether or not currently exercisable) that on exercise will result in control of an entity, nor by analogy to investments in associates and similar transactions.	Effective for annual periods beginning on or after 1 January 2010. To be applied prospectively to all unexpired contracts. Earlier application permitted.
	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 amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss.	Effective for annual periods beginning on or after 1 January 2010. To be applied prospectively to all unexpired contracts. Earlier application permitted.
	Hedging using internal contracts	Amendment to clarify that entities should no longer use hedge accounting for transactions between segments in their separate financial statements. This amendment was originally made as part of the 2007/08 improvements project – but the Board has taken the opportunity to make further textual amendments in this regard in paragraph 80 of the Standard.	Effective for annual periods beginning on or after 1 January 2009. Earlier application permitted.
IFRIC 9	Scope of IFRIC 9 and revised IFRS 3	Amendment to confirm that, in addition to business combinations as defined by IFRS 3(2008), derivatives acquired in the formation of a joint venture and in common control transactions are outside the scope of IFRIC 9. These amendments (together with amendments to IFRIC 16) were exposed separately in January 2009.	Effective for annual periods beginning on or after 1 July 2009. To be applied prospectively. Linked to application of IFRS 3(2008).
IFRIC 16	Amendment to the restriction on the entity that can hold hedging instruments	Amendment to clarify that hedging instruments may be held by any entity or entities within the group. This includes a foreign operation that itself is being hedged. These amendments (together with amendments to IFRIC 9) were exposed separately in January 2009.	Effective for annual periods beginning on or after 1 July 2009. Earlier application permitted.

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Deloitte
Touche
Tohmatsu