

IAS Briefing

I s s u e 4

M a r c h 2002

This issue of IAS Briefing covers key decisions from the IASB's January and February meetings as well as the first meeting of the reconstituted Standing Interpretations Committee in February. It also provides an update on the European IAS Regulation, which is moving towards finalisation.

EU Regulation on IAS

On 12 March 2002, the European Parliament endorsed the draft Regulation that will require all EU companies listed on a regulated market to prepare their consolidated financial statements in accordance with IAS from 2005, with certain exceptions as previously reported (see IAS Briefing 3, January 2002). Finalisation requires approval by the EU Council of Ministers, which is expected by May 2002.

Expected exposure drafts

The IASB is expected to publish four exposure drafts in the next few months:

- Improvements to IAS 32 and 39 (financial instrument recognition, measurement and classification).
- Improvements to other IAS (focusing on the elimination of options and convergence).
- Business combinations (including proposals to eliminate uniting of interests accounting, and cease amortising goodwill and certain other intangibles).
- First-time application of IFRS (addressing the transition from national standards to IFRS, an issue of particular interest to listed EU companies).

The Board's discussions to date on these four projects have been summarised in previous issues of IAS Briefing. New decisions reached during the Board's discussions in January and February are summarised below. Key features of each exposure draft (ED) will be reported in IAS Briefing as the EDs are issued.

The improvements EDs are expected to be published in May. The first-time application and the business combinations EDs are expected to be published a month or two later.

Financial instruments improvements

The latest proposals include:

- changing the transition provisions so that the derecognition principles are applied retrospectively;
- incorporating the proposals of SIC-D34 Instruments or Rights Redeemable by the Holder, which would require classification of some redeemable equity (e.g. mutual fund shares) as liabilities; and
- clarifying how to do portfolio assessments of loan impairments.

Other improvements

The Board agreed a number of revisions and clarifications, including the following:

- IAS 16 Property, Plant and Equipment - to require (a) use of a components approach to depreciation for all items and (b) that exchanges of property, plant and equipment be measured at fair value, except when the fair value cannot be determined reliably;
- IAS 17 Leases - to split a lease of land and buildings into two elements with the expectation that the land element generally would be classified as an operating lease; and
- IAS 40 Investment Properties - to allow properties held under operating leases to be treated as investment properties if the fair value option is used. Meanwhile the Board decided not to remove the option of accounting for investment properties at cost.

Also, in relation to IAS 23 Borrowing Costs, the IASB decided not to propose eliminating the choice between capitalising and expensing borrowing costs.

Business combinations

As the Board wraps up its discussions it has:

- agreed to stay with SIC-28's "exchange date" approach for valuing shares issued; and
- clarified that it will require annual impairment tests of goodwill and other intangibles not subject to amortisation. However, it plans to require disclosure of key assumptions for computing the recoverable amount of an asset rather than requiring comparison of subsequent cash flows to projections made as part of impairment tests.

First-time application of IFRS

An earlier proposal to measure an asset or liability at fair value, if determining a cost-based measure would involve undue cost and effort, was narrowed down to property, plant and equipment and investment properties accounted for at cost.

New exposure draft: IAS 19 Employee Benefits

The IASB has published its first exposure draft, a limited amendment to fix a problem with the asset limitation cap in IAS 19.

The IASB has proposed a change to fix a counter-intuitive result that arises from the interaction of the option to defer the recognition of actuarial gains and losses ("corridor method") and the limitation of the recognisable asset.

Without the proposed amendment IAS 19 can lead to gains being recognised solely as a result of actuarial losses. The amendment will address this effect, but does not change the general approach of allowing the deferral of actuarial gains and losses. However, the IASB used the press release announcing this ED also to signal its intention to revisit the corridor in the near future.

The ED can be obtained from the IASB's web site, www.iasb.org.uk

The SIC is reactivated

The IASB's reconstituted interpretive committee (SIC, now renamed IFRIC) met on 26-27 February, where it:

- agreed changes to a revised draft of SIC-32 Intangible Assets - Web Site Costs; and
- identified a number of potential issues for its agenda.

IFRIC (International Financial Reporting Interpretations Committee) has an expanded mandate, which includes providing interpretations for areas outside the scope of existing standards and developing proposals for Board projects and considerations. Some of these items may result in proposals to modify the Framework and/or existing standards, which then can be taken up by the Board.

SIC-32 Intangible Assets - Web Site Costs

In December 2001 the Board rejected a final draft of SIC-32 because the SIC's proposed interpretation regarding initial graphic design costs differed from those of the national interpretive bodies who

had addressed this issue. As requested, the new IFRIC debated this point and agreed a different approach that would capitalise or expense these costs based on the treatment of the web site as a whole. The Board is expected to consider this revised text at its March meeting.

KPMG/IASB conference on IAS

KPMG's IAS Advisory Services is pleased to announce that its annual one-and-a-half day conference on IAS co-sponsored by the IASB will be held in Amsterdam on 5-6 June 2002. The programme will look at IAS adoption in the context of the changing face of Europe's capital markets. For more information see www.kpmg.co.uk

If you would like further information any of the matters discussed in this IAS Briefing, please talk to your usual contact at KPMG or call any of our offices.
