

IASBriefing

This issue of *IASBriefing* covers the IASB's June and July 2003 meetings. It also includes an attachment detailing the key points of the IASB's first new standard, *First-time Adoption of International Financial Reporting Standards* (IFRS 1). An executive summary of IFRS 1 is provided below.

The Board also issued two new exposure drafts in late July: *Disposals of Non-current Assets and Presentation of Discontinued Operations* (ED4) and *Insurance Contracts* (ED5). Executive summaries of both exposure drafts are provided below. A more detailed overview of both exposure drafts will be provided in a special issue of the *IASBriefing* later this month.

New feature! Attachment Two summarises the current status of the IASB's project plan.

Executive summary of IFRS 1

The objective of IFRS 1 is to provide comprehensive guidance for entities applying IFRS for the first time. This issue has become increasingly important given the number of listed entities that will adopt IFRS for the first time from 2005.

IFRS 1 allows eight specific exemptions from the requirement of full retrospective application of all standards upon adoption of IFRS; these exemptions are discussed in the detailed attachment to this *IASBriefing*. IFRS 1 applies to those financial statements that include an explicit and unreserved statement of compliance with IFRS for the first time. This means that entities that complied previously with only some of the standards, or previously only reconciled their financial statements prepared under local GAAP to IFRS, are required to apply this standard. The standard becomes effective for IFRS financial statements covering periods beginning on or after 1 January 2004. Earlier application is encouraged.

The principal changes from the proposals in ED1 are the relaxation of the conditions to use the exemptions and improvements in flexibility, including removal of the requirement to prove undue cost and effort as a condition for using an exemption from full retrospective application.

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Issue 12

KPMG's bi-monthly update on International Financial Reporting Standards (IFRS)

Disposals of Non-current Assets and Presentation of Discontinued Operations (ED4)

The objective of ED4 is to achieve convergence with US GAAP in the area of assets held for sale and discontinued operations. The relevant US standard also addresses the impairment of long-lived assets to be held and used. ED4 notes that there are extensive differences in this area that could not be dealt with in this short-term project.

ED4 proposes the introduction of the classification 'held for sale' for non-current assets that an entity intends to dispose of. These assets would not be depreciated and would be measured at the lower of (a) carrying amount and (b) fair value less costs to sell. Also, ED4 proposes removal of the exemption from consolidation set out in IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* for subsidiaries acquired and held exclusively with a view to resale.

Currently IAS 35 *Discontinuing Operations* applies only to discontinuing a separate major line of business or geographical area of operations. ED4 proposes a lower threshold for recognition, and the timing of the classification as a discontinued operation is proposed to change to the date when the entity has disposed of the operation, or when the operation meets the criteria to be classified as held for sale. Also, the results of discontinued operations would be presented separately on the face of the income statement.

The proposal would require the IFRS to be applied for periods beginning on or after 1 January 2005, with earlier application encouraged, once the final standard is issued. The comment period closes **24 October 2003**. Upon the release of the final standard, ED4 will replace IAS 35.

Insurance contracts phase I (ED5)

On 31 July 2005, the IASB released its long-anticipated proposals on insurance contracts. This is the first in the two phases of its insurance project. ED5 addresses disclosure requirements, the definition of insurance contracts and how to distinguish them from financial contracts. With a few notable exceptions, ED5 does not address the accounting for insurance contracts, and therefore entities issuing insurance contracts will, during phase I, largely be permitted to account for insurance contracts under their existing accounting policies. However, many contracts currently accounted for as insurance will contain one or more 'financial' components that will need to be separated and accounted for under IAS 39.

ED5 also proposes significant changes to the accounting for reinsurance and the elimination of catastrophe and equalisation provisions, which the Board believes do not meet the definition of liabilities under the Framework. The comment period closes **31 October 2003** and the final standard will be effective for financial reporting periods beginning on or after 1 January 2005.

Financial instruments

The Board continued its discussions of its proposed amendments to IAS 32 *Financial Instruments: Disclosure and Presentation* and

IAS 39 *Financial Instruments: Recognition and Measurement*.

Key events include:

- change in transition provisions for first-time adopters; and
- limited re-exposure of IAS 39 hedging proposals.

Financial instruments: timetable and transition

The Board reviewed the timetable for the publication of the exposure draft (ED) in respect of macro hedging, and publication of revised IAS 39. The ED in respect of macro hedging is to be published in September 2003 with a 60-day comment period. In view of this very tight timetable, the ED will be published on the IASB's Web site in August 2003.

The IASB is aiming to publish the amended IAS 32 and IAS 39 in December 2003, prior to finalisation of the macro hedging proposals. Another revised IAS 39, including all amendments arising from the ED published in June 2002 as well as the macro hedging ED, will be published by the end of March 2004. This timing would allow both IAS 32 and IAS 39 to be endorsed by the European Union for first-time adoption in 2005.

For entities applying IFRS for the first time in 2005, it is proposed that IAS 39 will be effective from 1 January 2005, with earlier adoption permitted. Comparative financial statements will not need to be restated to reflect the requirements of IAS 39. As an exception to this general rule, there will be a requirement to restate all derecognition transactions entered into during the (2004) comparative period if these do not comply with the requirements of the standard. In a change from IFRS 1, financial assets and liabilities derecognised under previous GAAP prior to 1 January 2004 will *not* need to be recognised subsequently, other than where they qualify for recognition as a result of a later transaction or event. IAS 32 is to be applied as required by IFRS 1, that is, from the start of the earliest comparative period included in the first IFRS financial statements.

For entities already applying IFRS, it is proposed that the revised IAS 39 will apply for accounting periods commencing on or after 1 January 2005, with early adoption being permitted. Financial assets and liabilities derecognised under the original IAS 39 will not need to be revisited provided that the related transaction was entered into before 1 January 2004. The revised IAS 32 will be applied retrospectively.

Financial instruments: portfolio (macro) hedging of interest rate risk

The Board discussed its decision to issue an ED permitting an entity to use fair value hedge accounting for a portfolio hedge of interest rate risk. It decided to treat the hedge as a percentage of the net position. Any change in the underlying net position therefore would give rise to ineffectiveness. Also, the Board agreed that both demand and time deposits may be included in a fair value hedge. If these deposits are included in the hedged item, they must be included based on their earliest repayment date. Further, it confirmed that the recognised value of a financial liability that the holder can redeem on demand is not less than the amount payable on demand.

Financial instruments: other proposed improvements

The Board continued its discussions following the March 2003 round-tables and reached the following tentative decisions:

- *Cash instrument hedging*: The Board voted against allowing the designation of a financial instrument other than a derivative as a hedging instrument to hedge risks other than foreign currency risk.
- *Designation of a derivative*: The Board re-confirmed that a derivative could not be designated as a hedging instrument for only a portion of its term.
- *Effective interest rate calculations*: The Board agreed that a cumulative adjustment should be made when entities experience a change in their effective interest rate calculations for groups of financial assets. This treatment is similar to the requirements under US GAAP.
- *Fair value measurement*: The Board agreed that the staff should clarify the guidance on how to measure fair value for inclusion in the next ED, including a prohibition on using valuation techniques when an active market exists.
- *Fair value disclosures*: The Board agreed that they would attempt to provide additional guidance surrounding the required sensitivity analysis disclosures when fair values were not supported by market observations.
- *Financial guarantees*: The Board agreed that financial guarantees initially should be recorded at fair value and then subsequently measured at the higher of the initial measurement and the value obtained by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- *Hedging interest rate risk and held-to-maturity financial assets*: The Board re-confirmed that hedge accounting could not be used for interest rate risk on held-to-maturity financial assets.
- *Initial measurement of financial instruments*: The Board re-confirmed that the IAS 39 measurement principles would be retained and clarified that their objective was to initially measure financial instruments at fair value.
- *Loan commitments*: The Board tentatively agreed to account for loan commitments under IAS 39 for initial recognition and under IAS 37 for subsequent measurement.
- *Prospective effectiveness test*: The Board agreed that it would amend the wording in the standard covering the requirement for a hedge to be expected to be 'highly effective' throughout its existence to conform that wording with US GAAP. This might in practice be interpreted to mean an acceptable range of 80 per cent to 125 per cent, in the same way as US GAAP often is interpreted.

- *Purchased loans*: The Board decided that generally purchased loans could be accounted for in the same manner as originated loans.
- *Transaction costs*: The Board agreed that the existing guidance for transaction costs should be retained without change.
- *Changes in credit risk and the fair value of own debt*: The Board discussed its tentative decision that changes in the credit risk of a liability should be reflected in its fair value. The Board also considered whether additional disclosures should be required.

Business combinations phase I

The Board reviewed the timetable for considering comments it received on the business combinations phase I proposals published in ED3. A final standard is scheduled for February 2004 and the outputs will be a new IFRS to replace IAS 22 *Business Combinations* and amendments to IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*.

During its July 2003 meeting, a critical decision was made to abandon the two-step impairment test for goodwill. The two-step method involved a screening mechanism whereby potential impairments were identified when the carrying amount of the cash-generating unit exceeded its recoverable amount. The second step of the test then measured the impairment loss. Now the current method under IAS 36 *Impairment of Assets* will be retained. This decision will reduce the amount of convergence with US GAAP that would have been achieved in the original proposals.

In its discussions the Board reached several other tentative decisions, including:

- *Impairment*: The Board confirmed its position that goodwill was an asset and that an impairment model provided better information than annual amortisation charges. Impairment testing would be required annually and reversals of impairment charges would be prohibited.
- *Provisions for terminating or reducing the activities of the acquiree*: The Board confirmed that a restructuring provision would be recognised as part of the cost of a combination only when the acquiree has, at the acquisition date, an existing liability for restructuring that would be recognised in accordance with IAS 37.
- *Contingent liabilities*: The Board affirmed its view that the contingent liabilities of the acquiree should be recognised at the time of acquisition and measured at fair value thereafter.
- *Negative goodwill*: The Board affirmed its view that if the fair value of the business acquired exceeded the consideration paid, the acquirer first should reassess the identification and measurement of the acquiree's assets and liabilities. If excess consideration remains, the amount should be taken directly to the income statement as a gain.

Share-based payments (ED2)

The Board continued its discussion of the comments received on ED2 and reached the following tentative decisions:

- *Income taxes:* The Board confirmed its proposal that all tax effects of share-based payment transactions be charged to the income statement.
- *Cash-settled transactions:* The Board decided to retain the use of a fair value measurement model for these transactions, diverging from the intrinsic value approach in the US.
- *Repricings, other modifications and cancellations:* The Board agreed to adopt the US approach on cancellations, but to retain the approach proposed in ED2 to replacement options granted after cancellation.

Convergence

The IASB continued work on its convergence project, a joint effort with the US Financial Accounting Standards Board (FASB) to eliminate IFRS/US GAAP differences. The IASB is aiming for at least one ED in the third quarter of 2003 to move this project forward. It reached the following tentative decisions in June and July 2003:

IAS 12 *Income Taxes*

- *Goodwill:* The Board agreed that entities should not provide for deferred tax on the difference between the reported amount of positive goodwill and its tax base. The IASB's amended standard will explain what is meant by tax base to avoid differences with the US requirements.
- *Inter-company transfers of assets:* The Board decided it would not converge with US GAAP in this area. They agreed that the change of tax bases realised on inter-company transfers of assets should be reflected in an entity's deferred tax provision.
- *Undistributed earnings of a subsidiary:* The Board decided that an entity should provide deferred taxes for future taxation payable on the undistributed earnings of a subsidiary. US GAAP exempts foreign subsidiaries from provision for deferred taxes, whereas current IFRS exempts both foreign and domestic subsidiaries.

Consolidation and special purpose entities (SPEs)

As part of the short-term convergence project, the IASB decided to propose removing the current exemption from consolidation in IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* when a subsidiary is acquired with the intention of disposal in the short-term. Instead these items would be included in the balance sheet as assets held for sale and liabilities held for disposal. See 'Disposals of Non-current Assets and Presentation of Discontinued Operations (ED4)' for further discussion.

Improvements project

The Board discussed the classification of liabilities and decided that they would revert to the principle of the position at the

balance sheet date. In other words, a liability would be shown as long-term if the borrower had breached its covenants during the year only if the breach was resolved by the balance sheet date or the entity had a grace period of not less than 12 months.

Latest IFRIC developments

The International Financial Reporting Interpretations Committee (IFRIC), the IASB's interpretative body, met in July 2003. Proposed Interpretations expected to be issued as EDs shortly include:

- *Changes in decommissioning, restoration and similar liabilities:* The IFRIC tentatively agreed to publish an ED that discusses the treatment of changes in capitalised costs to dismantle and remove an asset and/or restore a site. The proposed Interpretation would require retrospective application.
- *Rights of use:* The IFRIC has completed its discussions on this topic and asked the staff to finalise a draft for its September 2003 meeting. The Interpretation considers when an agreement for rights of use should be treated as a lease (and potentially a finance lease) versus a service agreement treated as an executory contract.
- *IAS 19 Employee Benefits: Plans that would be defined contribution plans, but for the existence of a minimum return guarantee:* the IFRIC tentatively agreed that defined benefit accounting should be applied to such plans. A revised draft will be distributed in September 2003.

Implementing IFRS: Count down to 2005 – From Planning to Implementation

KPMG's IAS Advisory Services is pleased to announce that its annual conference co-sponsored by the IASB will be held on 13-14 October 2003 at the Hilton Hotel in Brussels. The programme offers an opportunity to hear directly from the leaders of the IFRS revolution and gain insight into key implementation and conversion challenges. **For more information on the conference please use the following link to our Web site at www.kpmg.co.uk/ifrsconference.**

IASB Observer notes

KPMG has arranged to make available copies of the IASB Observer, a publication of European Research Associates Limited, to our clients and contacts. The IASB Observer provides timely, detailed reporting of IASB meetings. Please talk to your KPMG contact to arrange to receive this service.

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

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Supplementary Attachment One

First-time Adoption of IFRS

This supplement summarises the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Overview

The objective of this standard is to provide comprehensive guidance for first-time adopters of IFRS. This issue has become increasingly important given the number of listed companies in the European Union and elsewhere that will adopt IFRS from 2005.

Summary

IFRS 1 applies to those financial statements that include an explicit and unreserved statement of compliance with IFRS for the first time. Entities that previously complied with only some of the standards, or reconciled their financial statements prepared under local GAAP to IFRS, must apply this standard.

IFRS 1 requires an entity to prepare an IFRS opening balance sheet for the beginning of the earliest period of comparative information presented. IAS 1 requires at least one year of comparative information. For calendar year end entities applying IFRS from 1 January 2005, this requires an opening balance sheet no later than 1 January 2004.

To prepare an IFRS opening balance sheet, IFRS 1 generally requires:

- all assets and liabilities not satisfying IFRS recognition criteria to be removed;
- all assets and liabilities satisfying IFRS recognition criteria but not recognised under prior (national) GAAP to be brought on balance sheet; and
- remeasuring all recognised items according to IFRS.

However, IFRS 1 provides some exemptions to simplify preparation of the opening balance sheet, where recognition and/or remeasurement may not be required. See 'Exemptions offered in IFRS 1' below for details.

The standard also prohibits retrospective application of IFRS in some areas, particularly where retrospective application would require judgements by management about past conditions after the outcome of a particular transaction already is known.

Generally, estimates used under an entity's previous GAAP would not be changed unless there is clear evidence that those estimates were in error.

IFRS 1 requires the opening balance sheet to be drawn up in accordance with the latest version of IASB standards at the reporting date. For example, if a standard or amendment becomes effective after the opening balance sheet date, but before the entity's latest balance sheet date, the entity would apply the latest standard to its *opening* balances.

Adjustments are charged to opening retained earnings, with the exception of some adjustments to intangible assets.

Transitional requirements

The standard becomes effective for initial IFRS financial statements covering periods beginning on or after **1 January 2004**. Earlier application is encouraged. If first-time adoption is reported initially in interim financial statements in the year of change, additional disclosures are required.

Exemptions offered in IFRS 1

IFRS 1 permits up to eight explicit exemptions from the requirement of full retrospective application:

- **IAS 1 Presentation of Financial Statements:** Entities are allowed to present additional comparative information prepared under previous GAAP, provided it is marked "not prepared under IFRS" and certain disclosures are made. However, at least one year of comparative data must be presented on an IFRS basis.
- **IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets and IAS 40 Investment Property:** Fair value at the opening balance sheet date may be used as deemed cost instead of reconstructing the cost of an item of property, plant and equipment (or investment property carried at cost). Revaluations carried out in the past are acceptable as deemed cost either if they are broadly comparable to fair value, cost or depreciable cost under IFRS, or if the revaluation was driven by a specific event such as a privatisation or initial public offering. The option to use previous revaluations as deemed cost also is available for intangibles for which there is an active market.
- **IAS 19 Employee Benefits:** Cumulative actuarial gains and losses at the opening balance sheet date for a defined benefit plan may be recognised in full instead of re-computing the corridor since the inception of the plan. This exemption, if elected, shall be applied to all plans. This exemption does not preclude the use of the corridor *from* the opening balance sheet date.
- **IAS 21 The Effects of Changes in Foreign Exchange Rates:** The requirement to identify the cumulative translation differences for a foreign operation as a separate component of equity is optional. If the exemption is used, it must be applied to all foreign operations and the unrecognised cumulative translation differences may not be recycled upon subsequent disposal.

However, cumulative translation differences recognised subsequent to the opening balance sheet would be recycled.

- **IAS 22 Business Combinations:** An entity has an option to not apply IAS 22 retrospectively to classify business combinations that took place prior to the opening balance sheet date as either acquisitions or unitings of interests. However, restatement of some earlier combinations is permitted, but if one earlier business combination is restated, all those occurring after that date must be restated. For example, if an entity elects to restate a business combination that occurred on 30 June 2002, it must restate all business combinations that occurred on or after 30 June 2002.

The carrying amount of acquired assets and liabilities determined under previous GAAP would be deemed the cost under IFRS at the date of acquisition. Assets and liabilities not recognised under previous GAAP but requiring recognition under IFRS are measured on the basis that would be required if the acquiree were a first-time adopter at the same time as the acquirer. All goodwill must be tested for impairment at the opening balance sheet date.

- **IAS 32 Financial Instruments: Disclosure and Presentation:** Settled compound financial instruments need not be separated into a liability and equity component.
- **IAS 39 Financial Instruments: Recognition and Measurement:** The transitional requirements under IAS 39 for hedge accounting should be followed where a hedge was designated under previous GAAP prior to the opening balance sheet date. Adjustments would be made at the opening balance sheet date to recognise all derivatives at fair value and to apply IAS 39 hedge accounting criteria. Hedge accounting is applied prospectively only from the date that the requirements in IAS 39 are met. No reconsideration is permitted of any derecognition of financial assets and liabilities derecognised prior to 1 January 2001, other than where the transaction involved a special purpose entity or where derivatives or certain other interests were retained. In these cases retrospective analysis is required.

Note: the planned revisions to IAS 39 may amend this exemption to limit further the requirement to restate for hedge accounting.

- **Group Reporting:** If a subsidiary adopts IFRS before the group does, the consolidated group financial statements must include the subsidiary's IFRS carrying amounts for assets and liabilities, except for consolidation and acquisition adjustments. If the group adopts IFRS first, the subsidiary can measure its assets and liabilities in its separate IFRS financial statements at either the carrying amounts that would be included in the parent's consolidated financial statements, or the carrying amounts based on the subsidiary's date of transition to IFRS. If the carrying amounts used are those that were included in the parent's consolidated financial statements then these amounts would be based on the parent's date of transition, excluding the effects of the business combination and consolidation adjustments.

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Supplementary Attachment Two: IASB's project plan

This supplement summarises the IASB's current project plan.

Project description	Overview	Timing/Status
Business combinations phase I	The proposals would eliminate the uniting-of-interests method of accounting for business combinations; amortisation of goodwill and some other intangibles would cease and negative goodwill would be recognised immediately in the income statement. Contingent liabilities acquired would be recognised and measured at fair value. An objective of the project is convergence with current US GAAP.	EDs were issued in November 2002. The comment period closed in April 2003 and a final standard is expected to be issued in February 2004.
Business combinations phase II	This is a joint project with the US 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, and to account for acquired contingent assets as well as contingent liabilities at fair value. It also would include significant revisions to the accounting for minority interests, which would be treated as part of group equity.	EDs are scheduled for release in the fourth quarter of 2003, to be followed by a 90-day comment period.
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.	The project is in its early stages. No date has been set for completion of an ED.
Convergence project	This is a joint project with the US FASB whose objective is to reduce the differences between IFRS and US GAAP. This project plans changes to a number of IFRS including income taxes, pensions and discontinuing operations. One of the most significant expected changes is in the area of pension accounting, which would eliminate the deferral of actuarial gains and losses by eliminating the current option of using a "corridor".	<i>Disposals of Non-current Assets and Presentation of Discontinued Operations</i> (ED4) is the first of several EDs scheduled for the third quarter of 2003.

Project description	Overview	Timing/Status
Extractive industries	The objective of this project is to develop a standard for extractive industries, with common standards for both the mining and petroleum industries and separate guidance to address industry-specific issues as appropriate.	An issues paper was published in November 2000 by the International Accounting Standards Committee (IASC). The IASB has moved this project off its main agenda to a research agenda. The Australian standard setter (AASB) is working on very limited proposals for an ED addressing exploration costs. This ED will be considered by the IASB in the third quarter of 2003. The AASB also will propose a scope for a broader follow-up project for after 2005.
Financial instruments: amendments to IAS 32 and 39	The IASB proposed amendments to IAS 32 <i>Financial Instruments: Disclosure and Presentation</i> and IAS 39 <i>Financial Instruments: Recognition and Measurement</i> to propose a new test (continuing involvement) for derecognition, additional guidance on derivatives on an entity's own shares, and numerous other changes. These changes have been controversial and criticised by some for not making it easier to get hedge accounting. In response, the IASB invited the public to discuss its proposed amendments at round-table sessions held in March 2003. Recently the Board agreed to propose new changes to permit a limited use of macro-hedging for interest rate risk. A detailed overview of these discussions can be found in IASB <i>Briefing</i> Issue 10, March 2003.	A new ED including macro hedging is to be published in September 2003 with a 60-day comment period. The IASB is aiming to publish the improved IAS 32 and IAS 39 (exclusive of the new macro hedging proposals) in December 2003. The revised IAS 39, including all amendments arising from the ED published in June 2002 and the macro hedging ED, will be published by the end of March 2004.
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 other standards, and to revise and enhance existing disclosure requirements to mirror current IFRS and business practices regarding financial risk management. It also will replace IAS 30 <i>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</i> .	An ED is scheduled for mid-2004 and a final standard in 2005.
Improvements to existing IFRS	The IASB has issued draft recommendations to revise twelve IASC standards to improve the quality and consistency of financial reporting by drawing upon best practices and removing available options within IFRS.	EDs were published in May 2002. The comment period closed in September 2002 and revised IFRS are expected to be published in the fourth quarter 2003.
Insurance contracts phase I	Phase I is designed as an interim step to facilitate adoption of IFRS by insurers in 2005. The project establishes a definition of an insurance contract and addresses various recognition, measurement and disclosure issues. A detailed overview of the project can be found in attachment 2 of the IASB <i>Briefing</i> Issue 10, March 2003.	ED5 was published on 31 July 2003, with the comment period closing on 31 October 2003. A final IFRS is scheduled for the first quarter of 2004.

Project description	Overview	Timing/Status
Insurance contracts phase II	This project seeks to develop a standard based on the 1999 Issues Paper. Any resulting standard would replace Insurance contracts phase I. The project contemplates an asset and liability model that requires identification and measurement of individual assets and liabilities arising from insurance contracts at fair value.	The project is in its early stages. No date has been set for completion of an ED.
Revenue recognition: concepts of revenue, liabilities and equity	This is a joint project with the US FASB to develop a comprehensive set of principles for revenue recognition to eliminate inconsistencies in practice.	The project is in its early stages with an ED scheduled for sometime after the first quarter of 2004.
Reporting performance	The project is aiming to develop a single statement of comprehensive income. The focus is on separating initial recognition from remeasurement rather than seeking to define 'core earnings' or net income. In addition to replacing the traditional income statement, changes to the statement of equity, the cash flow statement and possibly the balance sheet also are expected.	An ED is scheduled for release in the fourth quarter of 2003. However, field tests performed during the first half of 2003 identified a number of concerns that may delay this project.
Share-based payments	The proposals would require fair value accounting at grant date for all share-based payments, including employee stock options.	ED2 was issued in November 2002. The comment period closed in March 2003, and a final standard is scheduled to be issued in the first quarter of 2004.

Mark your calendars ...

3rd Quarter 2003	4th Quarter 2003	1st Quarter 2004	2nd Quarter 2004 and beyond
<ul style="list-style-type: none"> ■ Convergence project – ED ■ Financial instruments: amendments to IAS 39 – ED 	<ul style="list-style-type: none"> ■ Business combinations phase II – ED ■ Financial instruments: amendments to IAS 32 – final standard ■ Improvements to existing IFRS – final standard ■ Reporting performance – ED ■ ED4 comment period closes on 24 October 2003 ■ ED5 comment period closes on 31 October 2003 	<ul style="list-style-type: none"> ■ Business combinations phase I – final standard ■ Disposals of Non-current Assets and Presentation of Discontinued Operations – final standard ■ Insurance contracts phase I – final standard ■ Share-based payments – final standard 	<ul style="list-style-type: none"> ■ Consolidation and special purpose entities (SPEs) – ED ■ Extractive industries – ED ■ Financial risk and other amendments to financial instruments disclosures – ED ■ Insurance contracts phase II – ED ■ Revenue recognition: concepts of revenue, liabilities and equity – ED

Note that all standards required to be applied to financial periods **beginning on or after 1 January 2005** will be issued by the IASB before **31 March 2004**.

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

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