

9 September 2009

Status: Final

Effective date:

Periods commencing on/after 1 January 2009, 1 July 2009 or 1 January 2010

Accounting impact:

May be significant



International Financial Reporting Bulletin

Improvements to International Financial Reporting Standards

Background

The International Accounting Standards Board (IASB) issued a second set of improvements to International Financial Reporting Standards (IFRSs) in April. The improvements result from proposals published in October 2007, August 2008 and January 2009 and take various forms, including the clarification of the requirements of IFRS and the elimination of inconsistencies between Standards. The IASB has indicated that “the objective of the annual improvements project is to provide a streamlined process for dealing efficiently with a collection of miscellaneous, non-urgent but necessary minor amendments to IFRSs”.

The standards amended are IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38 and IAS 39, together with IFRIC 9 and IFRIC 16. The amendments have not yet been endorsed by the EU.

Action required

While many of the amendments are minor, it is possible that some – especially those affecting the classification of leases - may have a substantial effect on the financial statements of some companies. Consequently the effect of the amendments, which are effective for accounting periods commencing on/after 1 January 2009, 1 July 2009 or 1 January 2010 (see Appendix for more details), should be analysed carefully by those entities adopting, or intending to adopt, IFRS.

Where the transitional provisions require a different treatment to the usual retrospective application this has been stated in this document.

Amendments

IFRS 2 *Share based payments*

Issue: *Scope of IFRS 2 and revised IFRS 3*

Current requirements / Amendments

Following the revised definition of a business combination in IFRS 3 it has been clarified that the contributions of a business in exchange for shares on the formation of a joint venture, and combinations under common control, are not within the scope of IFRS 2.

By amending a paragraph the board clarified the existing requirements.

Effective date: 1 July 2009

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Issue: *Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations*

Current requirements / Amendments

The scope of IFRS 5 has been clarified to make it clear that only the disclosures specified in IFRS 5 are applicable to non-current assets (or disposal groups) classified as held for sale, and to discontinued operations. The disclosures in other IFRSs do not apply unless those other IFRSs require:

- specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale, or discontinued operations; or
- disclosures about the measurement of assets and liabilities that are included within a disposal group, where those assets and liabilities are not themselves within the scope of the measurement requirements of IFRS 5 and the additional disclosures required by those other IFRSs have not already been made elsewhere in the financial statements.

Furthermore, additional disclosures about non-current assets (or disposal groups) classified as held for sale may be necessary to comply with the general requirements of IAS 1, in particular paragraphs 15 and 125 of that standard.

By adding an additional paragraph the board clarified that disclosure requirements of standards other than IFRS 5 which do not specifically include such assets and operations are not mandatory.

Effective date: 1 January 2010

IFRS 8 Operating Segments

Issue: Disclosure of information about segment assets

Current requirements

A measure of total assets needs to be reported for each reportable segment.

Amendments

A measure of total assets for a reportable segment only needs to be reported if such an amount is regularly provided to the chief operating decision maker.

This amendment was made to eliminate inconsistency between IFRS 8 and long-standing interpretations published in the US for the application of SFAS 131.

Effective date: 1 January 2010

IAS 1 Presentation of Financial Statements

Issue: Current/non-current classification of convertible instruments

Current requirements

The liability component of a convertible instrument that the entity could be required to settle in shares at any time should be classified as current since the conversion of a liability into equity is a form of settlement. This classification would be required even if the entity would not be required to settle unconverted instruments with cash or other assets for more than twelve months after the reporting period.

Amendments

Terms of a liability that could at the option of the counterparty result in its settlement by the issue of equity instruments do not affect its classification as current or non-current.

The board concluded that classifying the liability on the basis of the requirements to transfer cash or other assets rather than on settlement (regardless of the method of settlement) better reflects the liquidity and solvency position of an entity.

Effective date: 1 January 2010

IAS 7 Statement of Cash Flows

Issue: Classification of expenditures on unrecognised assets

Current requirements

IAS 7 does not explicitly state how expenditures incurred with the objective of generating future cash flows should be presented when those expenditures are not recognised as assets in accordance with IFRSs.

Amendments

Only an expenditure that results in a recognised asset in the statement of financial position (balance sheet) can be classified as a cash flow from investing activity.

Since there was some diversity in practice in regard to the classification of expenditures which do not result in the recognition of an asset, the board added an explicit requirement.

Effective date: 1 January 2010

IAS 17 Leases

Issue: Classification of leases of land and buildings

Current requirements

A lease of land with an indefinite useful life is normally classified as an operating lease, unless title is expected to pass at the end of the lease term, or the significant risks and rewards at the end of the lease term are attributable to the lessee.

Amendments

The classification of the land and building elements as finance or operating should still be made separately for each element and should follow the general lease classification guidance. However in evaluating the land element whether or not it has an indefinite useful life remains an important consideration.

Current guidance could lead to inconsistencies with general lease classification. Where title of the land is not expected to pass by the end of the lease term but the lease transfers significant risks and rewards to the lessee, the amendment is likely to produce a different classification of the land element.

Transitional provisions: Unexpired leases that include a land element need to be reassessed on the basis of information available at the inception of those leases. Leases newly classified as finance lease are recognised retrospectively. If, however, the information necessary to apply amendments retrospectively is not available, recognition and measurement (at fair value) of any assets and liabilities will be based on the facts and circumstances prevailing at the date the amendments are adopted. Any difference between those fair values (leased assets compared to lease liabilities) is recognised in retained earnings.

Effective date: 1 January 2010

IAS 18 Revenue **Issue: *Determining whether an entity is acting as a principal or as an agent***

Current requirements

Appendix to IAS 18 does not contain any specific guidance in regard to whether an entity is acting as a principal or as an agent.

Amendments

An example has been added to the non-mandatory guidance in the Appendix, which sets out features that indicate whether an entity is acting as a principal or agent.

Effective date: None – amendment to non-mandatory guidance

IAS 36 Impairment of assets **Issue: *Unit of accounting for goodwill impairment test***

Current requirements

In regard to the allocation of goodwill to cash-generating units, IAS 36 does not specify whether the largest level of cash-generating unit to which goodwill may be allocated is before or after aggregation of operating segments.

Amendments

Each cash-generating unit or group of units to which goodwill is allocated shall not be larger than an operating segment before aggregation (i.e. as defined in IFRS 8 paragraph 5).

This amendment resolves divergent views regarding the largest unit permitted by IAS 36 for impairment testing of goodwill.

Effective date: 1 January 2010

IAS 38 Intangible assets **Issue: *Additional consequential amendments arising from revised IFRS 3 / Measuring the fair value of an intangible asset acquired in a business combination***

Current requirements / Amendments

IAS 38 contains additional guidance in regard to how the fair value of an intangible asset acquired in a business combination should be measured.

IFRS 3 (as revised in 2008) incorporates the presumption that if an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exist to measure the fair value of the asset reliably. The board amended the wording of IAS 38 to clarify this presumption and, in addition, clarified the description of valuation techniques commonly used to measure intangible assets at fair value when assets are not traded in an active market.

Transitional provisions: Like IFRS 3 (as revised in 2008), this amendment should be applied prospectively.

Effective date: 1 July 2009

**IAS 39 Financial Instruments:
Recognition and Measurement**

Issue: Treating loan prepayment penalties as closely related embedded derivatives

Current requirements / Amendments

IAS 39 AG30(g) contains guidance on whether call, put or prepayment options embedded in a host contract are closely related or not. An apparent inconsistency was noted in relation to prepayment options and so additional guidance has been added in regard to prepayment options noting that they are not closely related to the host contract unless the exercise price reimburses the lender for an amount up to the approximate present value of the lost interest for the remaining term of the host contract.

The amendment of paragraph AG30(g) removes an apparent inconsistency in the guidance in IAS 39 with respect to embedded prepayment options.

Effective date: 1 January 2010

Issue: Scope exemption for business combination contracts

Current requirements

Contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date are excluded from the scope of IAS 39.

Amendments

The exclusion is limited to forward contracts that will result in a business combination at a future acquisition date.

The objective of this amendment was to resolve diversity in practice regarding the application of the scope exemption in paragraph 2(g) of IAS 39.

Effective date: 1 January 2010

Issue: Cash flow hedge accounting – timing of reclassification from equity to profit and loss

Current requirements

Gains or losses on the hedging instrument should be reclassified from equity to profit or loss during the period that the financial asset acquired or financial liability assumed affects profit or loss.

Amendments

Gains or losses on the hedging instrument should be reclassified from equity to profit or loss during the period that the hedged forecast cash flows affect profit or loss

The amendment resolves diversity where the designated cash flow exposure being hedged differs from the financial instrument arising from the forecast cash flows.

Effective date: 1 January 2010

Issue: Cash flow hedge accounting – hedging using internal contracts

Current requirements

Current requirements include references to the designation of hedging instruments at the segment level.

Amendments

References to the designation of hedging instruments at the segment level have been removed.

Paragraph 80 of IAS 39 refers to the need for hedging instruments to involve a party external to the reporting entity. In doing so, it uses a segment as an example of a reporting entity. IFRS 8 Operating Segments requires disclosure of information that is reported to the chief operating decision maker even if this is on a non-IFRS basis. Therefore, the two IFRSs appear to conflict. Consequently, the Board removed the reference to segments from paragraph 80.

Effective date: 1 January 2009

**IFRIC 9 Reassessment of
Embedded Derivatives**

Issue: Scope of IFRIC 9 and revised IFRS 3

Current requirements

The revised definition of business combinations in IFRS 3 (2008), causes the accounting for the formation of a joint venture by the venturer to be within the scope of IFRIC 9. The same issue might arise with transactions under common control, depending on which level of the group reporting entity is assessing the combination.

Amendments

The scope paragraph in IFRIC 9 is amended to clarify that the IFRIC does not apply to embedded derivatives in contracts acquired in a combination between entities or businesses under common control, or on the formation of a joint venture by the venturer.

The board did not intend to change existing practice in regard to the scope of IFRIC 9 when revising IFRS 3 and has therefore clarified requirements.

Transitional provisions: This amendment should be applied prospectively.

Effective date: 1 July 2009

**IFRIC 16 Hedges of a Net
Investment in a Foreign Operation**

**Issue: Amendment to the restriction on the entity that can hold
hedging instruments**

Current requirements

Paragraph 14 of IFRIC 16 excludes instruments held by the foreign operation, whose net investment is being hedged, from being designated as hedging instruments.

Amendments

This restriction has been removed.

This restriction has been removed since without hedge accounting, part of the foreign exchange difference arising from the hedging instrument would be included in consolidated profit or loss.

Effective date: 1 July 2009

Appendix Effective dates

Standard	Subject of amendment	Effective for annual periods beginning
IFRS 2 Share-based Payment	Scope of IFRS 2 and revised IFRS 3	1 July 2009
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations	1 January 2010
IFRS 8 Operating Segments	Disclosure of information about segment assets	1 January 2010
IAS 1 Presentation of Financial Statements	Current/non-current classification of convertible instruments	1 January 2010
IAS 7 Statement of Cash Flows	Classification of expenditures on unrecognised assets	1 January 2010
IAS 17 Leases	Classification of leases of land and buildings	1 January 2010
IAS 18 Revenue	Determining whether an entity is acting as a principal or as an agent	None – amendment to non-mandatory guidance
IAS 36 Impairment of Assets	Unit of accounting for goodwill impairment test	1 January 2010
IAS 38 Intangible Assets	Additional consequential amendments arising from revised IFRS 3 Measuring the fair value of an intangible asset acquired in a business combination	1 July 2009
IAS 39 Financial Instruments: Recognition and Measurement	Treating loan prepayment penalties as closely related embedded derivatives Scope exemption for business combination contracts Cash flow hedge accounting - timing of reclassification from equity to profit and loss Cash flow hedge accounting - hedging using internal contracts	1 January 2010 1 January 2010 1 January 2010 1 January 2009
IFRIC 9 Reassessment of Embedded Derivatives	Scope of IFRIC 9 and revised IFRS 3	1 July 2009
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	Amendment to the restriction on the entity the entity that can hold hedging instruments	1 July 2009



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