

IFRS Briefing Sheet

Improvements to International Financial Reporting Standards 2009

April 2009, **Issue 134**

This IFRS Briefing Sheet summarises the International Accounting Standards Board's (IASB or Board) *Improvements to International Financial Reporting Standards 2009 (Improvements to IFRSs 2009)*, which was published on 16 April 2009.

The *Improvements to IFRSs 2009* comprise 15 amendments to 12 standards.

The Board decided that two of the proposals contained in the related 2008 exposure draft (ED) would not be included in the *Improvements to IFRSs 2009*, but will instead be dealt with at a later date.

The Board decided to include three amendments from the 2007 ED *Proposed Improvements to International Financial Reporting Standards* in the *Improvements to IFRSs 2009*.

The Board also included the amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* proposed in the ED *Post-implementation Revisions to IFRIC Interpretations – Proposed amendments to IFRIC 9 and IFRIC 16* in the *Improvements to IFRSs 2009*.

KPMG's update on International Financial Reporting Standards (IFRSs)

AUDIT ■ TAX ■ ADVISORY

Background and Scope

The *Improvements to IFRSs 2009* is the result of the IASB's second annual improvements project (AIP). This project involves the IASB accumulating throughout the year what it believes are non-urgent but necessary improvements to IFRSs and then processing these amendments collectively. The IASB repeats the AIP process annually. As part of this process an ED of proposed non-urgent but necessary improvements is published in the third or fourth quarter of each year, with a comment period of 90 days. The final improvements generally are published in the second quarter of the following year. Effective dates, early application and transitional requirements are dealt with on a standard-by-standard basis.

The *Improvements to IFRSs 2009* contains 15 amendments. The related ED of *Proposed Improvements to International Financial Reporting Standards* that was issued in August 2008 (2008 ED) contained 12 proposals.

The Board decided that two of the proposals contained in the 2008 ED would not be included in the *Improvements to IFRSs 2009*, but would instead be dealt with at a later date, although the Board did not specify the manner in which those two items would be addressed, or the timing thereof.

The Board decided to add five amendments that had not been included in the 2008 ED. The five additional amendments include three matters deferred from the previous AIP cycle, along with the amendments to IFRIC 9 and IFRIC 16 included in the ED *Post-implementation Revisions to IFRIC Interpretations – Proposed amendments to IFRIC 9 and IFRIC 16*. Amendments that were not included in the 2008 ED are marked with an asterisk (*) in the table below, which provides a summary of the amendments.

Items not Included in the Annual Improvements 2009

Proposals contained in the 2008 ED that were not brought forward to the *Improvements to IFRSs 2009* comprise:

- *Application of the fair value option* – The 2008 ED proposed that the fair value option within IAS 39 should apply only to financial instruments with embedded derivatives within the scope of IAS 39.
- *Bifurcation of an embedded foreign currency derivative* – The 2008 ED

proposed to state that embedded foreign currency derivatives in contracts denominated in foreign currencies that have characteristics of a functional currency are likely to be integral to the contractual arrangement; accordingly, such embedded foreign currency derivatives would be considered closely related to the host contract and would be prohibited from being accounted for separately.

Summary of the Amendments

Subject of Amendment	Amendment	Effective Date
IFRS 2 <i>Share-based Payment</i> – Scope of IFRS 2 and revised IFRS 3 <i>Business Combinations</i>	IFRS 2 is amended to state that business combinations as defined in IFRS 3 (2008) are outside the scope of IFRS 2, notwithstanding that they may be outside the scope of IFRS 3. Therefore business combinations amongst entities under common control and the contribution of a business upon the formation of a joint venture will not be accounted for under IFRS 2.	Effective for annual periods beginning on or after 1 July 2009. Early application is permitted; it is required if IFRS 3 (2008) is adopted early.
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> – Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations	IFRS 5 is amended to state that the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in that standard. The disclosure requirements of other IFRSs are applicable to those assets (or disposal groups) only if they specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or they relate to items not within the measurement scope of IFRS 5.	The amendments are to be applied prospectively for annual periods beginning on or after 1 January 2010. Earlier application is permitted.
IFRS 8 <i>Operating Segments</i> – Disclosure of information about segment assets	IFRS 8 is amended to state that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker. A related Basis for Conclusion paragraph also has been deleted with new guidance added.	Effective for annual periods beginning on or after 1 January 2010. Earlier application is permitted.

Subject of Amendment	Amendment	Effective Date
IAS 1 <i>Presentation of Financial Statements</i> – Current / non-current classification of convertible instruments*	IAS 1 is amended to state that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments.	Effective for annual periods beginning on or after 1 January 2010. Earlier application is permitted.
IAS 7 <i>Statement of Cash Flows</i> – Classification of expenditures on unrecognised assets	IAS 7 is amended to state explicitly that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities.	Effective for annual periods beginning on or after 1 January 2010. Earlier application is permitted.
IAS 17 <i>Leases</i> – Classification of leases of land and buildings*	<p>IAS 17 is amended to delete guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee.</p> <p>Under the amendments, a land lease with a lease term of several decades or longer may be classified as a finance lease, even if at the end of the lease term title will not pass to the lessee, because in such arrangements substantially all risks and rewards are transferred to the lessee and the present value of the residual value of the leased asset is considered negligible.</p> <p>The Board also states that when a lease includes both land and buildings elements, an entity should determine the classification of each element based on paragraphs 7-13 of IAS 17, taking account of the fact that land normally has an indefinite economic life.</p>	Effective for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If as a result of the amendments a lease is reclassified as a finance lease, then that reclassification should be effected retrospectively. If, however, information necessary to apply the amendments retrospectively is not available, then classification is determined based on the facts and circumstances as at the adoption date of the amendments, and the asset and liability related to a land lease are recognised at their respective fair values, with any difference between those values being recognised in retained earnings.
IAS 18 <i>Revenue</i> – Determining whether an entity is acting as a principal or as an agent	The appendix accompanying IAS 18 is amended to include additional guidance on determining whether an entity is acting as a principal or as an agent in a transaction. The guidance is provided in the form of indicators.	No effective date is given since the appendix is not an integral part of the standard.

Subject of Amendment	Amendment	Effective Date
IAS 36 <i>Impairments of Assets</i> – Unit of accounting for goodwill impairment test	IAS 36 is amended to state that the largest unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria of IFRS 8.	The amendments are to be applied prospectively for annual periods beginning on or after 1 January 2010. Earlier application is permitted.
IAS 38 <i>Intangible Assets</i> – Additional consequential amendments arising from revised IFRS 3	Guidance in IAS 38 on accounting for intangible assets acquired in a business combination is amended as a consequence of guidance contained in IFRS 3 (2008). The amendments indicate that an intangible asset that is separable only together with a related contract, identifiable asset or liability is recognised separately from goodwill together with the related item. In addition, the amendments state that complementary intangible assets with similar useful lives may be recognised as a single asset.	The amendments are to be applied prospectively for annual periods beginning on or after 1 July 2009. Early application is required to conform to the adoption date of IFRS 3 (2008) if that standard is adopted early.
IAS 38 – Measuring the fair value of an intangible asset acquired in a business combination	The amendments clarify the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination for which no active market exists.	The amendments are to be applied prospectively for annual periods beginning on or after 1 July 2009. Earlier application is permitted.
IAS 39 <i>Financial Instruments: Recognition and Measurement</i> – Treating loan prepayment penalties as closely related embedded derivatives*	The amendments provide additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated. If an exercise price of an embedded prepayment option reimburses the lender for an amount not exceeding the approximate present value of the lost interest for the remaining term of the host contract, then the economic characteristics and risks of the prepayment option embedded in a host debt or host insurance contract are closely related to the host contract and the embedded derivative is not separated from the host contract.	The amendments are to be applied prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010. Earlier application is permitted.

Subject of Amendment	Amendment	Effective Date
IAS 39 – Scope exemption for business combination contracts	The amendments state that the scope exemption in IAS 39 paragraph 2(g) is restricted to forward contracts, i.e., not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date. In addition, the term of the forward should not be longer than a period normally necessary to finalise the transaction.	The amendments are to be applied prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010. Earlier application is permitted.
IAS 39 – Cash flow hedge accounting	The amendments state that the gains or losses on a hedged instrument should be reclassified from equity to profit or loss during the period that the hedged forecast cash flows impact profit or loss.	The amendments are to be applied prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010. Earlier application is permitted.
IFRIC 9 <i>Reassessment of Embedded Derivatives</i> – Scope of IFRIC 9 and revised IFRS 3*	The scope of IFRIC 9 is amended so that embedded derivatives in contracts acquired in business combinations as defined in IFRS 3 (2008), joint venture formations and common control transactions remain outside the scope of IFRIC 9.	The amendments are to be applied prospectively for annual periods beginning on or after 1 July 2009. Early application is required to conform to the adoption date of IFRS 3 (2008) if that standard is adopted early.
IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i> – Amendment to the restriction on the entity that can hold hedging instruments*	The restriction that prevented the hedging instrument from being held by the foreign operation that itself is being hedged is removed from IFRIC 16. Hence, as long as the criteria for hedge accounting in IAS 39 are met, a group would be able to designate in its consolidated financial statements a hedge of the net investment in a foreign operation using a hedging instrument held by that foreign operation itself.	Effective for annual periods beginning on or after 1 July 2009. Earlier application is permitted.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

KPMG International Financial Reporting Group is part of KPMG IFRG Limited.

KPMG International is a Swiss cooperative. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2009 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Publication name: *IFRS Briefing Sheet*

Publication number: Issue 134

Publication date: April 2009