Deloitte.

May 2008 – Special edition

Audit

IAS Plus.

Published for our clients and staff throughout the world

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Improvements to International Financial Reporting Standards 2008

On 22 May 2008, the International Accounting Standards Board (IASB) issued its latest Standard, titled **Improvements to International Financial Reporting Standards 2008.** This is the first Standard published under the IASB's annual improvements process which is intended to deal with non-urgent, minor amendments to Standards. The Standard includes 35 amendments, and is split into two parts:

- Part I – amendments that result in accounting changes for presentation, recognition or measurement purposes (summarised in Table 1 below); and

- Part II – amendments that are terminology or editorial changes only, which the Board expects to have no or minimal effect on accounting (summarised in Table 2 below).

Changes from the Exposure Draft

The Exposure Draft which preceded this Standard (released in October 2007) proposed 42 amendments. Of these:

- 20 were agreed without further deliberation by the Board (but with some minor editorial changes and/or changes to transitional provisions);
- 15 were agreed following further deliberation by the Board (see relevant sections of Tables 1 and 2 for details of changes made following those redeliberations);
- the proposed restructuring of IFRS 1 **First-time Adoption of International Financial Reporting Standards** was removed from the improvements package and will be released as a stand-alone Standard; and
- the remaining six (listed in Table 3 below) were not carried through to this Standard because the necessary staff work and Board discussion could not be completed on time. The IASB has yet to announce whether these amendments will form part of its next improvements project (for which an Exposure Draft is expected in October 2008), or be re-exposed as a separate Exposure Draft, or be abandoned.

Amendments likely to significantly change current practice

The tables on the following pages set out all of the amendments made to Standards. Many are matters of detail and, even as regards those in Part I of the Standard identified by the IASB as resulting in accounting changes, may not have a significant impact in practice.

There are, however, a number of points that are likely to have a significant impact on financial statements in relevant circumstances. The amendments made have clarified the required accounting treatment, where previously practice had varied. Principal among these are the new or revised requirements regarding:

- classification as held for sale of the assets and liabilities of a subsidiary where the parent is committed to a plan to sell its controlling interest but intends to retain a non-controlling interest (IFRS 5 – see page 2);

- the reclassification to inventories of property, plant and equipment previously held for rental when the assets cease to be rented and are held for sale, and the recognition of the proceeds of disposal of such assets as revenue (IAS 16 – see page 3);
- the recognition of a government grant arising from government loans at below-market interest (IAS 20 – see page 3);
- recognition of advertising and promotional expenditure as an asset is not permitted beyond the point at which the entity has the right to access the goods purchased or, in the case of services, the point at which the services are received (IAS 38 – see page 5); and
- the classification of property under construction for investment purposes as investment property under IAS 40, resulting in its being measured at fair value if that is the entity's general accounting policy for investment property and the fair value of the property under construction can be measured reliably (IAS 40 – see page 5).

Effective date and transition

The Exposure Draft proposed that all of the amendments would be effective for annual periods beginning on or after 1 January 2009, with early adoption permitted only if all of the proposed amendments (together with IAS **1 Presentation of Financial Statements** (revised 2007)) were adopted from the same date. Nearly all of the comment letters on the Exposure Draft objected to this 'all-or-nothing' approach, and the Board has taken those objections into consideration. In the final Standard, the effective date and transitional provisions of each of the amendments are dealt with separately although, in some cases, early adoption of the amendments to a particular Standard is only permitted if the amendments to another Standard are adopted at the same time (see specific Standards for details).

Most of the improvements are effective for annual periods beginning on or after 1 January 2009, with earlier adoption permitted, and they are to be applied retrospectively.

The exceptions to the general rule of retrospective application from 1 January 2009 are:

- the amendments to IFRS 5 **Non-current Assets Held for Sale and Discontinued Operations** are effective for annual periods beginning on or after 1 July 2009. Although early application is permitted, entities are not permitted to apply these amendments before 1 July 2009 unless they also apply IAS 27 (as amended in 2008) from the same date. The amendments are generally to be applied prospectively from the date the entity first applied IFRS 5, but subject to the transitional provisions of IAS 27(2008);
- the amendments to IAS 27 are **required** to be applied prospectively from the date the entity first applied IFRS 5;
- the following amendments are **permitted** to be applied prospectively from 1 January 2009 (or date of earlier application):
  - IAS 28 **Investments in Associates** (both as regards disclosure and impairment); and
  - IAS 31 **Interests in Joint Ventures** (disclosure); and
- the following amendments are **required** to be applied prospectively from 1 January 2009 (or date of earlier application):
  - IAS 19 **Employee Benefits:** amendments regarding curtailments and past service cost apply only to changes in benefits that occur on or after 1 January 2009;
  - IAS 20 **Government Grants and Disclosure of Government Assistance:** amendments apply to government loans at below-market rates of interest received in periods beginning on or after 1 January 2009;
  - IAS 40 **Investment Property:** entities are only permitted to apply the amendments to investment property under construction before 1 January 2009 if the fair values of investment properties under construction were determined at those earlier dates; and
  - IAS 41 **Agriculture** (amendments re discount rate and additional biological transformation only).

Table 1: Amendments that will result in accounting changes for presentation, recognition or measurement purposes (Part I of Standard)

Standard	Subject of amendment	Detail	Changes from Exposure Draft
IFRS 5	Plan to sell the controlling interest in a subsidiary	Clarification that assets and liabilities of a subsidiary should be classified as held for sale if the parent is committed to a plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale.	Clarification of disclosure requirements in such circumstances (new paragraph 36A). Clarification that the general held-for-sale criteria must be met. Effective date aligned with IAS 27(2008) (i.e. from 1 July 2009).
IAS 1	Current/non-current classification of derivatives	Amendments to paragraphs 68 and 71 of IAS 1(2007) to clarify that financial instruments classified as held for trading in accordance with IAS 39 are not always required to be presented as current assets/liabilities.	Wording changed to show more clearly how the similar terms used in IAS 1 and IAS 39 relate to each other. Expanded explanation added to the Basis for Conclusions.
IAS 16	Recoverable amount	Replacement of the term 'net selling price' with 'fair value less cost to sell' in the definition of recoverable amount, for consistency with the wording used in IFRS 5 and IAS 36.	None.

Standard	Subject of amendment	Detail	Changes from Exposure Draft
IAS 16/ IAS 7	Sale of assets held for rental	Entities that routinely sell items of property, plant and equipment that they have previously held for rental to others should transfer such assets to inventories at their carrying amount when they cease to be rented and are held for sale. The proceeds from the sale of such assets should be recognised as revenue in accordance with IAS 18. Cash payments to manufacture or acquire such assets and cash receipts from rental and sale of such assets are to be included within operating activities.	Clarification that IFRS 5 does not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.
IAS 19	Curtailments and negative past service cost	Clarification that: • when a plan amendment reduces benefits, the effect of the reduction for future service is a curtailment and the effect of any reduction for past service is a negative past service cost; • negative past service cost arises when a change in the benefits attributable to past service results in a reduction in the present value of the defined benefit obligation; and • a curtailment may arise from a reduction in the extent to which future salary increases are linked to the benefits payable for past service. In addition, references to materiality have been replaced with 'significant' in paragraph 111 of the Standard.	Second and third bullets were added (not dealt with in Exposure Draft). Also agreed that the amendments should apply only to changes in benefits that occur on or after 1 January 2009 (or date of earlier application).
IAS 19	Plan administration costs	Amendment of the definition of 'return on plan assets' to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the actuarial assumptions used to measure the defined benefit obligation.	None.
IAS 19	Replacement of term 'fall due'	Amendment of the definitions of 'short-term employee benefits' and 'other long-term employee benefits' to refer to when the benefits are 'due to be settled', rather than when they 'fall due'.	The final Standard refers to when employee benefits are 'due to be settled' whereas the Exposure Draft referred to when the employee becomes entitled to the benefits.
IAS 19	Guidance on contingent liabilities	Removal of the reference to 'recognition' in relation to contingent liabilities as it was inconsistent with IAS 37, which states that an entity should not recognise a contingent liability.	None.
IAS 20	Government loans with a below-market rate of interest	Amendment to require that the benefit of such loans be accounted for as a government grant – measured as the difference between the initial carrying amount of the loan determined in accordance with IAS 39 and the proceeds received.	The appropriate measurement of the government grant has been clarified. Also agreed that the amendments should apply prospectively to loans received in periods beginning on or after 1 January 2009 (or the date of earlier application).

Standard	Subject of amendment	Detail	Changes from Exposure Draft
IAS 23	Components of borrowing costs	Description of specific components replaced with a reference to the guidance in IAS 39 on effective interest rate.	None.
IAS 27	Measurement in separate financial statements of investments in subsidiaries, jointly controlled entities and associates held for sale	Amendment to require that investments in subsidiaries, jointly controlled entities and associates accounted for in accordance with IAS 39 in the parent's separate financial statements should continue to be measured in accordance with IAS 39 when classified as held for sale (or included in a disposal group classified as held for sale).	Transitional provisions were changed to require the application of the amendments prospectively from the date the entity first applied IFRS 5.
IAS 28/IAS 32/ IFRS 7	Required disclosures when investments in associates are accounted for at fair value through profit or loss	Clarification of disclosures required for investments in associates accounted for at fair value in accordance with IAS 39 (i.e. only certain of IAS 28's disclosures are required in addition to those required by IFRS 7).	Transitional provisions changed to permit prospective application. Expanded explanation added to the Basis of Conclusions.
IAS 28	Impairment of investments in associates	Clarification that an investment in an associate is treated as a single asset for impairment testing. Therefore, an impairment loss recorded by an investor after applying the equity method is not allocated against any goodwill included in the equity-accounted investment balance. Such an impairment loss should be reversed in a subsequent period to the extent that the recoverable amount of the associate increases.	Transitional provisions changed to permit prospective application. Expanded explanation added to the Basis of Conclusions.
IAS 29	Description of historical cost financial statements	Amendment to reflect the fact that in historical cost financial statements, some assets and liabilities may be measured at current values (e.g. property, plant and equipment measured at fair value).	None.
IAS 31/IAS 32/ IFRS 7	Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss	Clarification of disclosures required for interests in jointly controlled entities accounted for at fair value in accordance with IAS 39 (i.e. only certain of IAS 31's disclosures are required in addition to those required by IFRS 7).	Transitional provisions changed to permit prospective application. Expanded explanation added to the Basis of Conclusions.
IAS 36	Disclosure of estimates used to determine recoverable amount of cash-generating units containing goodwill or intangible assets with indefinite useful lives	Amendment to extend the disclosures required when discounted cash flows are used to estimate fair value less costs to sell, to include: • the period over which management has projected cash flows; • the growth rate used to extrapolate cash flow projections; and • the discount rate(s) applied to the cash flow projections.	The final Standard includes fewer disclosure requirements.

Standard	Subject of amendment	Detail	Changes from Exposure Draft
IAS 38	Advertising and promotional activities	The amendments clarify the circumstances in which an entity can recognise a prepayment asset for advertising or promotional expenditure. Recognition of an asset would be permitted up to the point at which the entity has the right to access the goods purchased or up to the point of receipt of services. Mail order catalogues specifically identified as a form of advertising and promotional activities.	The IASB has subtly changed the final amendment for the supply of goods to require the recognition of an expense when the entity has 'the right to access' those goods rather than when it has 'access to' the goods – focussing on the entity's rights rather than physical access. Expanded guidance has been added regarding when an entity has the right to access goods, and when services are received. The specific identification of mail order catalogues as a form of advertising and promotional activities has also been introduced in the finalisation of the Standard. Expanded explanation added to the Basis of Conclusions.
IAS 38	Unit of production method of amortisation	Removal of wording perceived as prohibiting the use of the unit of production method if it results in a lower amount of accumulated amortisation than under the straight-line method. Entities may use the unit of production method when the resulting amortisation charge reflects the expected pattern of consumption of the expected future economic benefits embodied in an intangible asset.	The Basis of Conclusions has been amended to make clear that the amendment not only applies to service concession arrangements but to all intangible assets.
IAS 39	Reclassifying instruments into and out of the classification of at fair value through profit or loss	IAS 39 prohibits the classification of financial instruments into or out of the fair value through profit or loss (FVTPL) category after initial recognition. Amendments set out a number of changes in circumstances that are not considered to be reclassifications for this purpose.	The final amendment also clarifies that financial assets of an insurer that are reclassified on adoption of IFRS 4 are not reclassifications for this purpose.
IAS 39	Designating and documenting hedges at the segment level	Removal of references to the designation of hedging instruments at the segment level.	None.
IAS 39	Applicable effective interest rate on cessation of fair value hedge accounting	Clarification that the revised effective interest rate calculated on cessation of fair value hedge accounting in accordance with paragraph 92 of the Standard should be used for the re-measurement of the hedged item when paragraph AG8 of the Standard is applicable.	None.
IAS 40/IAS 16	Property under construction or development for future use as investment property	Amendment to bring property under construction or development for future use as an investment property within the scope of IAS 40. Such property previously fell within the scope of IAS 16.	Additional guidance added for circumstances where the fair value of property under construction cannot be measured reliably. Transitional provisions changed to require the application of the amendments prospectively and earlier application permitted only where fair values had been established at the date proposed for early application.

Standard	Subject of amendment	Detail	Changes from Exposure Draft
IAS 41	Discount rate for fair value calculations	Previously, IAS 41 required that the discount rate used to determine fair value should be a pre-tax rate. The amendment requires a current market-determined rate to be used, but permits this to be a pre-tax or post-tax rate according to the valuation methodology used to determine fair value.	Transitional provisions were changed to require the application of the amendments prospectively.
IAS 41	Additional biological transformation	Removal of prohibition on taking 'additional biological transformation' into consideration when calculating the fair value of biological assets using discounted cash flows. In addition, the definition of 'agricultural activity' has been amended to include the harvest of biological assets.	The proposed change to the definition of 'biological transformation' has been abandoned. Instead, the definition of 'agricultural activity' has been amended to include the harvest of biological assets. Transitional provisions changed to require the application of the amendments prospectively.

Table 2: Amendments expected to have no or minimal effect on accounting (Part II of Standard)

Standard	Subject of amendment	Detail	Changes from Exposure Draft
IFRS 7	Presentation of finance costs	Resolution of the potential conflict between IAS 1 and IFRS 7 by amending the Implementation Guidance accompanying IFRS 7 to clarify that interest income is not a component of finance costs.	None.
IAS 8	Status of implementation guidance	Amendment to clarify that application of the guidance issued with IFRSs that is not an integral part of the Standard is not mandatory in selecting and applying accounting policies.	The final amendment has been modified to take into consideration the varying authority of the different types of guidance in IFRSs.
IAS 10	Dividends declared after the end of the reporting period	Clarification of the explanation as to why a dividend declared after the reporting period does not result in the recognition of a liability.	None.
IAS 18	Costs of originating a loan	Removal of inconsistency between IAS 39 and the guidance in IAS 18 relating to the definition of costs incurred in originating a financial asset that should be deferred and recognised as an adjustment to the effective interest rate. IAS 18 is amended to refer to transaction costs as defined in IAS 39.	Similar change made to guidance in IAS 18 in relation to commitment fees received by the entity to originate a loan when the loan commitment is outside of the scope of IAS 39.
IAS 20	Consistency of terminology with other IFRSs	Amendments to conform terminology used in IAS 20 to the equivalent defined or more widely-used terms.	None.
IAS 29	Consistency of terminology with other IFRSs	Amendment to conform terminology used in IAS 29 to reflect the equivalent defined or more widely-used terms.	None.
IAS 34	Earnings per share disclosures in interim financial reports	Amendment to clarify that the presentation of basic and diluted earnings per share in interim financial reports is required only when the entity is within the scope of IAS 33.	None.

Standard	Subject of amendment	Detail	Changes from Exposure Draft
IAS 40	Consistency of terminology with IAS 8	Amendment to text to ensure consistency with the requirements of IAS 8.	None.
IAS 40	Investment property held under lease	Clarification as to how an investment property held under lease should be measured where the fair value model is applied.	None.
IAS 41	Examples of agricultural produce and products	Removal of 'logs' as an example of agricultural produce (and replacement by 'felled trees'), because logs are considered to be products that are the result of processing after harvest.	None.
IAS 41	Point-of-sale costs	Replacement of the terms 'point-of-sale costs' and 'estimated point-of-sale costs' in IAS 41 with 'costs to sell' to ensure consistency with IFRS 5, IAS 2 and IAS 36.	None.

Table 3: Amendments proposed in October 2007 Exposure Draft but excluded from the final Improvements to International Financial Reporting Standards 2008

Standard	Subject of proposed amendment	Detail of proposed amendment (now 'on hold')
IAS 1	Statement of compliance with IFRSs	Proposal for additional disclosure requirements for entities that refer to IFRSs in describing the basis on which their financial statements are prepared but that are not able to make an explicit and unreserved statement of compliance with IFRSs. The proposed disclosures would have required information about how an entity's financial statements would have been different if prepared in full compliance with IFRSs.
IAS 1	Current/non-current classification of convertible instruments	Proposed 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 proposals would have permitted the liability component of a convertible instrument to be classified as non-current (provided that the entity had 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 have been required to settle in shares at any time.
IAS 17	Classification of leases of land and buildings	Proposed deletion of guidance on classification of leases of land that would have eliminated a perceived inconsistency with the general guidance on lease classification.
IAS 17	Contingent rents	Proposal that contingent rent relating to an operating lease should be recognised as incurred (rather than on a straight-line basis as is currently required) to achieve consistency in the treatment of contingent rent for finance and operating leases.
IAS 39	Definition of a derivative	Proposed amendment to the definition of a derivative in IAS 39 to scope in contracts linked to non-financial variables that are specific to a party to the contract.
IAS 39	Treating loan prepayment penalties as closely related embedded derivatives	Proposed 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.

Designed and produced by The Creative Studio at Deloitte, London.

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