

## IASB Current Status Update

### Background

The International Accounting Standards Board (IASB) has an active programme of revision of existing accounting standards under the following categories:

- Projects in Memorandum of Understanding with the US Financial Accounting Standards Board (FASB)
- Conceptual Framework
- Other projects
- Amendments to existing standards.

The effective date of IFRS resulting from the current work plan will be no earlier than financial periods commencing 1 January 2009, with early adoption permitted in appropriate circumstances.

The Australian Accounting Standards Board adopts IFRS standards and interpretations as they are released.

### Memorandum of Understanding (MoU) with FASB

The MoU with the FASB has the following objectives

- (a) to make the IASB and financial reporting standards fully compatible as soon as is practicable
- (b) to co-ordinate the IASB and FASB future work programmes to ensure that once achieved, compatibility is maintained.'

A common set of high quality global standards remains the long-term strategic priority of both the FASB and the IASB.

In June 2007 the US Securities and Exchange Commission (SEC) proposed allowing non-US companies to file financial results according to International Financial Reporting Standards (IFRSs) as approved by the IASB

The change will permit non-US companies to access US capital markets without reconciliation with US generally accepted accounting principles (GAAP) by 2009.

A table of the milestones achieved to date is included in Appendix A.

### Conceptual Framework

The FASB and IASB are working towards a converged conceptual framework in an eight phase project.

Phase	Topic
A	Objectives and qualitative characteristics
B	Elements and recognition
C	Measurement
D	Reporting entity
E	Presentation and disclosure
F	Purpose and status
G	Application to not-for-profit entities
H	Remaining Issues, if any

A detailed work plan is included in the IASB timetable in Appendix C.

### Other Projects:

An example of what is happening under the heading of "Other Projects" is the recently issued revised **IAS 1 – "Financial Statement Presentation"**

The IASB issued a revised IAS1 - "*Presentation of Financial Statements on 6 September 2007. In accordance with its policy to comply fully with IFRS, the AASB adopted this revised standard and issued it as a revised AASB 101 on 3 October 2007.*

The revised standard is effective from 1 January 2009, but is available for early adoption for financial years commencing 1 January 2005.

The term 'comprehensive income' is a new term and covers those items of income and expense in a period that are not included in profit or loss. These items currently include changes in the fair value of available for sale financial assets and in financial instruments designated as cash flow hedges as well as gains and losses arising on the revaluation of property plant and equipment.

The revised standard affects the presentation of changes in equity and comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other AASB standards.

Some of the main changes are:

(A) Income and expenses must be presented:

- Either in one statement - A Statement of Comprehensive Income; or
- In two statements - A Statement of Comprehensive Income and an Income Statement.
- **Owner** changes in equity must be presented in a separate statement of changes in equity.
- Components of comprehensive income may not be presented in the statement of changes in equity as is currently permitted in AASB 101

(B) Presentation of an additional statement of financial position (balance sheet) as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively or makes a retrospective restatement (this would generally mean that three balance sheets are presented in these circumstances)

(C) Reference is made in the standard to

- "Statement of Financial Position" instead of "Balance sheet" and to
- "Statement of Cash flows" instead of "Cash flow Statement"

Whilst these terms are used in the standards they need not be used in the financial statements and an entity is permitted to use titles for these statements other than those used in the Standard

(D) Dividends recognised as distributions to owners and related amounts per share are to be presented in the statement of changes in equity or in the notes

(E) An entity must disclose income tax relating to each component of other comprehensive income

*AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101* contains the consequential amendments to other Australian Accounting Standards (including Interpretations) as a result of the publication of the revised AASB 101.

To better align with IFRS terminology, this amending standard also changes:

- General Purpose financial report to general purpose financial statements, and
- Financial report to financial statement

The AASB has taken the opportunity provided by this revision to make an Australian specific amendment to paragraph 13 of AASB 101. Paragraph 13 of the pre-revised standard stated that "The application of **Australian Accounting Standards** with additional disclosures when necessary is presumed to result in a financial report that **achieves fair presentation**". The revised standard has replaced the words "**Australian Accounting Standards**" with "**IFRS**". This amendment when read with the Corporations Act requirement for compliance with Australian Accounting Standards, simultaneously with ensuring fair presentation of the financial statements, infers that it is not possible to comply with Australian Accounting Standards and to not comply with IFRS in the preparation of financial statements under the Corporations Act. Therefore a statement of compliance with IFRS in the financial report of Corporations Act entities will be mandatory under the revised standards.

Financial reports issued after the issue of this standard, must disclose the existence of the revised standard and its impacts.

### Amendments to existing Standards – IASB Annual Improvements Project

Subsequent to its amendment to its annual improvements project process, the IASB has issued this month, the first omnibus exposure draft with amendments effective 1 January 2009.

The final amendment standard is expected to be issued in April 2008.

The Exposure Draft (ED) proposes more than 40 different amendments to IFRS. Highlights of some of the proposals included in the annual improvements ED are set out in Appendix B below.

## MILESTONES ACHIEVED APPENDIX A

To be examined by the FASB	Milestones Achieved under IASB	To be examined by the IASB	Milestones Achieved under IASB
<b>Fair value option</b>	Statement of Financial Accounting Standards (SFAS) 157, <i>Fair Value Measurement</i> issued. In response, the IASB issued a Discussion Paper which closed for comment during the first half of 2007. An Exposure Draft (ED) for the IFRS standard is expected to be issued by the IASB during the first half of 2008	<b>Borrowing costs</b>	Revised IAS23, <i>Borrowing Costs</i> , issued by IASB for periods beginning on or after 1 January 2009. The AASB in response has issued a revised AASB123 also for periods beginning on or after 1 January 2009 with early adoption permitted.
<b>Impairment (jointly with the IASB)</b>	Impairment, FASB and IASB staff are currently working on this convergence.	<b>Impairment (jointly with the FASB)</b>	FASB and IASB staff are currently working on this convergence.
<b>Income tax (jointly with the IASB)</b>	A joint Exposure Draft is expected to be published by the IASB and the FASB in the last quarter of 2007. A standard is planned to be finalised in 2008.	<b>Income tax (jointly with the FASB)</b>	A joint Exposure Draft is expected to be published by the IASB and the FASB in the last quarter of 2007. A standard is planned to be finalised in 2008.
<b>Investment properties**</b>		<b>Government grants</b>	An Exposure Draft is expected in the last quarter of 2007.
<b>Research and development</b>	<p>Research and development was partly addressed in the revised SFAS141R, <i>Business Combinations</i>. Further issues that relate to this agenda item have been included in the project agenda by the FASB.</p> <p>The IASB in response issued a revised ED IFRS 3, <i>Business Combinations</i> and revised ED IAS27, <i>Consolidated and Separate Financial Statements</i></p>	<b>Joint ventures</b>	The IASB issued the ED 9 for amendments to IAS31, <i>Joint Arrangements</i> on September 13, 2007. Comments close on 11 January 2008. The final standard is expected to be released in the second <i>half of 2008</i> . The AASB is yet to respond to this ED.
<b>Subsequent events</b>	Subsequent Events, an Exposure Draft is expected in the first quarter of 2008.	<b>Segment reporting</b>	IFRS 8, <i>Segment Reporting</i> , was issued by IASB for periods beginning on or after 1 January 2009. The AASB in response has issued an AASB 8 also for periods beginning on or after 1 January 2009 with early adoption permitted.
<b>FASB Note:</b>	** To be considered by the FASB as part of the fair value option project.	<b>IASB Note:</b>	Topics are part of or to be added to the IASB's short-term convergence project, which is already on the agenda.

## APPENDIX B

### AMENDMENTS TO EXISTING STANDARDS – IASB ANNUAL IMPROVEMENTS PROJECT

IFRS	IFRS Standard	Proposed Amendment
IFRS1	<i>First-time Adoption of International Financial Reporting Standards- Restructure of IFRS 1</i>	To make its intent and operation clearer. New appendices would be introduced collating exceptions and exemptions (business combinations, permanent exemptions and short-term exemptions).
IFRS 5	<i>Non-current Assets Held for Sale</i>	Clarification that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary
1AS 1	<i>Presentation of Financial Statements</i>	Amend the examples in paragraphs 59 and 62 to remove the potential implication that financial assets and financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented as current.  Clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current.
IAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Clarify the status of implementation guidance. The IASB has been advised that paragraph 7 could be misinterpreted as requiring the mandatory application of Implementation Guidance
IAS 16/7	<i>Property, Plant and Equipment / Cash Flow Statements</i>	Amendments for entities whose ordinary activities include renting and subsequently selling the same assets should recognise revenue from both renting and selling the assets on a gross basis, i.e. revenue and not a gain/loss on disposal
IAS 18	<i>Revenue</i>	Require the definition of transaction costs in IAS 39 to be applied to the accounting for financial asset origination fees.
IAS 17	<i>Leases</i>	Require contingent rent relating to an operating lease to be recognised as incurred. Amendment to address a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance.
IAS 34	<i>Interim Financial Reporting</i>	Amend paragraph 11 to require the presentation of basic and diluted earnings per share only when the entity is within the scope of IAS 33 <i>Earnings per Share</i>
IAS 38	<i>Intangible Assets</i>	IAS 38 requires expenditure on advertising or promotional activities, training activities and start-up activities, and on relocating or reorganising part or all of an entity, to be recognised as an expense as incurred. Divergent interpretations have developed about when such expenses are incurred. This proposed amendment clarifies the meaning of 'as incurred' in this context. It also makes clear that an entity may recognise a prepayment as an asset only until that entity has access to the goods or has received the services.  Removal of the last sentence of paragraph 98 because of concerns that the words 'rarely, if ever' in the paragraph (relating to the use of other than straight-line method of amortisation) are interpreted as 'never'

IFRS	IFRS Standard	Proposed Amendment
IAS 39	<i>Financial Instruments Recognition and Measurement</i>	<p>Removing from the definition of a derivative the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract.</p> <p>Other amendments relate to the reclassification of derivatives into or out of the classification of at fair value through profit or loss, designating and documenting hedges at the segment level, applicable effective interest rate on cessation of fair value hedge accounting and treating loan prepayment penalties as closely related embedded derivatives.</p>
IAS 40	<i>Investment Property</i>	<p>Include property under construction or development for future use as an investment property within the scope of IAS 40.</p>
IAS 41	<i>Agriculture</i>	<p>Replace the terms 'point-of-sale costs' and 'estimated point-of-sale costs' in IAS 41 with 'costs to sell'.</p> <p>Permit either a pre-tax or a post-tax discount rate to be used according to the valuation methodology used to determine fair value. Remove the perceived prohibitions on an entity taking into account the cash flows resulting from 'additional biological transformation' when estimating the fair value of a biological asset</p>

## APPENDIX C

### EXTRACT FROM THE IASB WEBSITE OF THE IASB WORK PLAN - PROJECTED TIMETABLE AS AT 30 JUNE 2007

The timetable shows the current best estimate of document publication dates. The effective date of amendments and new standards is usually 6-18 months after publication date. However, except for the items listed in the section 'Amendments to standards', the effective date of IFRSs resulting from the current work plan will be no earlier than financial periods beginning 1 January 2009. In appropriate circumstances, early adoption of new standards will be allowed.

		2007		2008	2008	Timing yet to be determined
	MoU milestone by 2008	Q3	Q4	H1	H2	

#### ACTIVE AGENDA

#### Projects in Memorandum of Understanding (MoU) with the FASB [Note 1]

##### Short-term convergence projects

Government grants [Note 2]	(IASB)	Determine whether major differences should be eliminated and substantially complete work					Pending work on Liabilities	
Joint ventures	(IASB)		ED			IFRS		
Impairment	(Joint)							Staff work in progress
Income tax	(Joint)			ED		IFRS		
Investment properties	(FASB)							
Research and development	(FASB)							
Subsequent events	(FASB)							

2007		2008	2008	
QE	Q4	H1	H2	

### Other convergence projects

Business combinations	Converged standards	IFRS			
Consolidations	Work towards converged standards			DP	ED, IFRS
Fair value measurement guidance	Converged guidance	RT			ED IFRS
Financial statement presentation [Note 3]					
Phase A		IFRS			
Phase B	One or more due process documents		DP		ED, IFRS
Revenue recognition				DP	ED, IFRS
Post-employment benefits (including pensions)	One or more due process documents		DP		ED, IFRS
Leases	Agenda decision			DP	ED, IFRS

### Conceptual Framework

Phase A: Objectives and qualitative characteristics		ED			
Phase B: Elements and recognition				DP	
Phase C: Measurement					DP
Phase D: Reporting entity		DP			
Phase E: Presentation and disclosure					DP
Phase F: Purpose and status					DP
Phase G: Application to not-for-profit entities					DP

	2007		2008	2008	
	QE	Q4	H1	H2	
Phase H: Remaining Issues [Note 4]					TBD

### Other projects

Small and medium-sized entities				IFRS	
Insurance contracts				ED	IFRS
Liabilities [Note 5]				IFRS	
Emission trading schemes [Note 2]					

### Amendments to standards

Annual improvements	ED		IFRS		
Financial instruments: puttable instruments (IAS 32)	IFRS				
Financial instruments: portions (IAS 39)	ED				IFRS
Earnings per share: treasury stock method (IAS 33)	ED			IFRS	
First-time adoption: cost of investment in subsidiary (IFRS 1)		IFRS			
Share-based payment: vesting conditions and cancellations (IFRS 2)	IFRS				
Related party disclosures (IAS 24)			IFRS		

### RESEARCH AGENDA

#### Projects yet to be added to the ACTIVE AGENDA but included in the MoU with the FASB (except as shown)

		MOU milestone by 2008			
Derecognition	Consider staff research		RR		
Financial instruments (replacement of existing standards)	One or more due process documents		DP		

		2007		2008	2008	
		QE	Q4	H1	H2	
Intangible assets	Consider staff research and make agenda decision		AD			
Liabilities and equity [Note 6]	One or more due process documents	DP				
Management commentary	Not in MoU					TBD
Extractive activities	Not in MoU			DP		

**Abbreviations used in the IASB Work Plan:**

**DP** Discussion Paper

**ED** Exposure Draft

**RT** Round-table discussion

**IFRS** International Financial Reporting Standard

**Notes:**

- The Memorandum of Understanding (MoU) sets out the milestones that the FASB and the IASB have agreed to achieve in order to demonstrate standard-setting convergence, which is one part of the process towards removal of the requirement imposed on foreign registrants with the SEC to reconcile their financial statements to US GAAP.
- Work on government grants and emission rights has been deferred pending the conclusion of work on other relevant projects.
- The Financial Statement Presentation project was formerly known as the Performance Reporting project.
- The IASB and the FASB will publish individual chapters as they complete each phase. Each board will evaluate the practical implications of doing so in the context of its own GAAP hierarchy.
- The Liabilities project is the amendments to IAS 37. It was formerly known as the Non-financial Liabilities project.
- Project is being conducted as a 'modified joint' project, i.e. the IASB expects to make a formal agenda decision and begin work when the FASB has completed work on an initial discussion document.

Should you require additional information, please contact

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