



Project	IFRS for Private Entities
Topic	Sweep issues arising on final drafting

Project status

1. At the March 2009 meeting the Board completed its tentative decisions on all substantive issues arising in redeliberation of the Exposure Draft (ED). Since that meeting, staff have been redrafting the ED to reflect those decision. In doing so, several small issues have arisen on which the staff requests a Board decision. This agenda paper identifies those issues.

Consolidation disclosures

2. Section 9 *Consolidated and Separate Financial Statements* of the ED did not require any disclosures regarding consolidation comparable to those in IAS 27 *Consolidated and Separate Financial Statements* (paragraph 40 of IAS 27(2003) and paragraph 41 of IAS 27(2008)).
3. Staff proposes to add the following disclosures to Section 9:
 - 9.23 The following disclosures shall be made in consolidated financial statements:
 - (a) The fact that the statements are consolidated statements.
 - (b) The basis for concluding that control exists when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power.
 - (c) Any difference in the reporting date of the financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statement.

This paper has been prepared by the technical staff of the IASB for the purposes of discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper and do not purport to represent the views of any individual members of the Board or the IASB.

Decisions made by the Board are reported in IASB *Update*.

Official pronouncements of the IASB are published only after the Board has completed its full due process, including appropriate public consultation and formal voting procedures.

- (d) The nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans.

Question – consolidation disclosures

Does the Board agree with the staff recommendation to add to Section 9 the consolidation disclosures set out above?

Option to use full IFRSs for financial instruments

4. The ED proposed an option to use full IFRSs instead of Section 11 *Financial Assets and Financial Liabilities* as follows:
- 11.1 An entity shall choose to apply either:
- (a) the provisions of this section, or
 - (b) IAS 39 *Financial Instruments: Recognition and Measurement* in full to account for all of its financial instruments. An entity that chooses to apply IAS 39 shall make the disclosures required by IFRS 7 *Financial Instruments: Disclosures*.
5. Thus, the ‘fallback’ under the ED was to IAS 39 and IFRS 7.
6. In January 2009, the Board tentatively decided (as reported in *Update*):
- “An NPAE could apply either Section 11 of the IFRS for NPAEs or all requirements of full IFRSs – the three financial instrument standards (IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*), and related interpretations. The option to use full IFRSs will be available by cross-reference. This will be the only cross-reference to full IFRSs.”
7. Thus, a private entity choosing the ‘fallback’ option would follow IAS 32 for financial instruments presentation, rather than what is now Section 22 *Equity* (previously ED Section 21 *Equity*).
8. The table below compares the content of IAS 32 and Section 22:

IASB Staff paper

	Topic	In IAS 32	In Section 22 of revised draft of IFRS for Private Entities
a	Classification of an instrument as liability or equity [includes the 2008 amendments to IAS 32 for puttable instruments and obligations arising on liquidation]	Yes	Yes [this topic now reflects the 2008 amendments to IAS 32 for puttable instruments and obligations arising on liquidation]
b	Compound financial instruments	Yes	Yes
c	Original issue of shares or other equity instruments	No	Yes
d	Sale of options, rights, and warrants	No	Yes
e	Capitalisation or bonus issues of shares and share splits	No	Yes
f	Treasury shares	Yes	Yes
g	Interest, dividends, losses and gains	Yes	Distributions to equity holders and transaction costs in Section 22. Other issues addressed elsewhere.
h	Offsetting a financial asset and a financial liability	Yes	Addressed elsewhere
i	Non-controlling interest and transactions in shares of a consolidated subsidiary	Addressed elsewhere	Yes

9. For the following reasons, staff believe that the option to follow full IFRS requirements for financial instruments in lieu of Sections 11 *Basic Financial Instruments* and 12 *Other Financial Instruments Issues* (these two sections were previously combined as one section, ED Section 11) should be as proposed in the ED, namely IAS 39 plus the disclosures in IFRS 7, for the following reasons:

- (a) All of the topics addressed in IAS 32 are also addressed in Section 22 or elsewhere in the *IFRS for Private Entities*.
- (b) The topics in Section 22 that are not addressed in IAS 32 (lines c, d, and e in the table above) are relevant and useful guidance for private entities.
- (c) The presentation of the IAS 32 issues in Section 22 includes a comprehensive example of an issuer's accounting for convertible debt that is not in IAS 32.

10. Consequently, staff recommend that the alternative to Sections 11 and 12 should be as proposed in the ED, namely IAS 39 plus the disclosures in IFRS 7.

Question – Alternative to Sections 11 and 12

Does the Board agree with the staff recommendation that the alternative to Sections 11 and 12 should be as proposed in the ED, namely IAS 39 plus the disclosures in IFRS 7?

Measuring provisions

11. Section 21 *Provisions and Contingencies* in the revised draft standard (previously ED Section 20) includes the following paragraph:
- 21.7 An entity shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date.
- (a) When the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities.
 - (b) When the provision arises from a single obligation, the individual most likely outcome may be the best estimate of the amount required to settle the obligation. However, even in such a case, the entity considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount.
12. This paragraph is essentially identical to IAS 37.40 and also identical to what was in the ED. To illustrate the measurement in (b) above, the following example has been added to the appendix of guidance on implementing Section 21:

Example 10 Best estimate of a single obligation

21A.10 A customer has sued Entity X, seeking damages. Entity X disputes any obligation. The entity's lawyers advise that there is a 40 per cent likelihood that the entity will not be found liable and a 60 per cent

likelihood that the entity will be found liable for damages of CU 1 million.

Present obligation as a result of a past obligating event—On the basis of the evidence available, there is a present obligation.

An outflow of resources embodying economic benefits in settlement—Probable.

Measurement—The outcome will either be nil or CU 1 million, with CU 1 million as the individual most likely outcome.

Conclusion—A provision is recognised for CU 1 million.

13. The conclusion in this example is supported in technical publications of three large accounting firms as an example of applying IAS 37.40. Staff acknowledge, however, that IAS 37.40 may also allow other measurements such as an expected value measurement. Staff recognise that this is an issue in the Board's current project to amend IAS 37. Section 21 of the *IFRS for Private Entities* is based on the existing IAS 37. Staff believe that the *IFRS for Private Entities* should provide clear guidance on the measurement of provisions.

Question – Include this example of measurement of a provision

Does the Board agree with the staff that Example 10 *Best estimate of a single obligation* should be added to the appendix of Section 21 *Provisions and Contingencies*?

Pre-ballot draft

14. Staff expect to send a pre-ballot draft of the *IFRS for Private Entities* to the Board for comment by Friday 17 April 2009.