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International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

Board Meeting: **January 2009, London**

Project: **Annual Improvements 2009**

Subject: **Comment analysis – Minor issues (Agenda Paper 6C)**

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1 The purpose of this agenda paper is to discuss the proposed changes that were largely supported by the respondents with either no or very minor editorial comments. The table in Appendix A lists the ED proposals, comments made by respondents, and the staff's assessment of whether changes are needed. When no comments were received, the staff has indicated that in the table.

2 As all of the proposed changes included in this paper are considered minor and a majority of the respondents agreed with them, the table in Appendix B sets out the staff's recommendation for any revised wording the staff thinks is necessary. These recommendations are shown as mark-up from the ED proposals. If the Board approves these proposed revisions and agrees that they do not need re-exposure as contemplated by the *Due Process Handbook*, the staff will provide any necessary re-drafting of the amendments and the respective Basis of Conclusions in the ballot draft.

3 As discussed in Agenda Paper 6A, the staff does not intend to discuss these issues at the Board meeting unless otherwise requested by Board members.

APPENDIX A - Summary of Annual Improvements and analysis of Standards affected

Proposed amendment	Standard affected	Comments	Staff Assessment	Recommendation for revised wording
Scope of IFRS 2 and revised IFRS 3 The proposal was to update the scope of IFRS 2 based on the revisions to IFRS 3 (2008) to continue to exclude from its scope transactions between entities under common control and the formation of joint ventures.	**IFRS 2**	• Additional clarification requested in instances when an entity obtains significant influence or already has control and acquires noncontrolling interests. • Three commenters recommended the Board initiate or accelerate the project on Common Control Transactions.	• Disagree. IFRS 2.6 specifically excludes transactions to acquire goods or services under contracts within the scope of IAS 32 or IAS 39. Additionally, IAS 27.31 and IAS 28.11 specifically address these acquisitions. • Noted and forwarded to the Board for their information.	• Proposed amendment unchanged. • N/A
Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations The proposal was to amend IFRS 5 to clarify that IFRS 5 specifies the disclosures required	**IFRS 5**	• BC4 states that 'when a disposal group includes assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, disclosures about measurement of those assets and liabilities are normally provided in the other notes to the financial statements and do not need to be repeated'. Many respondents believed that BC4 seems to contradict	• Agree that a clarification is needed	• See Appendix B.1

Proposed amendment	**Standard affected**	**Comments**	**Staff Assessment**	**Recommendation for revised wording**
in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.		the intention in paragraph 5A that only the IFRS 5 disclosures are to be provided for these assets and liabilities. • The last sentence of paragraph 5A *'Additional disclosures about such assets (or disposal groups) may be necessary to comply with the general requirements of IAS 1'* would be more appropriately situated after paragraph 30 of IFRS 5 rather than part of the scope section. • The reference to IAS 1 would be clearer if it referred to specific paragraphs	• Disagree. We think it is better to address the issue in one place • Agree	• Proposed amendment unchanged • See Appendix B.1
Determining whether an entity is acting as a principal or as an agent The proposal was to amend the guidance accompanying IAS 18 to address the issue of determining whether an entity is acting as a	**IAS 18**	• Provide guidance that is fully converged with EITF 99-19 in order to avoid unnecessary divergence • Incorporate the guidance in IAS 18 itself (alternatively, add the principle in the Standard and the indicators in the Appendix)	• Agree • Disagree. The Board previously addressed this concern and decided to amend the Appendix and not the Standard.	• Provide additional indicators from EITF 99-19 (see Appendix B.2) • Proposed amendment unchanged

Proposed amendment	Standard affected	Comments	Staff Assessment	Recommendation for revised wording
principal or as an agent		• The current drafting implies that if the agreement has just one of the features, the entity is presumed to be acting as a principal. Delete 'individually or in combination' and indicate that all relevant facts and circumstances need to be considered • Clarify the transitional provisions	• Agree • Agree. If the new guidance is part of the Appendix to IAS 18, no transitional provisions are needed but a clarification in the BC may be helpful.	• See Appendix B.2 • See Appendix B.2
Unit of accounting for goodwill impairment The proposal was to amend IAS 36 to clarify that the largest unit permitted by IAS 36 is the operating segment level as defined in paragraph 5 of IFRS 8 *Operating Segments* before the aggregation permitted by paragraph	**IAS 36**	• A few respondents have suggested that the operating segment level in IAS 36. 80(b) should be after aggregation for the following reasons: • According to IFRS 8.12, a precondition for aggregation is that the segments have similar economic characteristics. If this is the case, the long-term financial performance and the resulting cash flows will be roughly identical, too.	• Do not agree with respondents as their rationale would contradict the Board's conclusions set out in current IAS 36. See below. • The Board has specifically concluded that aggregating segments that have similar characteristics could result in the disappearance of an impairment loss that management *knows* exists in a cash-generating unit. This is stated in IAS 36. BC150.	• Proposed amendment unchanged • Proposed amendment unchanged

Proposed amendment	Standard affected	Comments	Staff Assessment	Recommendation for revised wording
12 of IFRS 8.		• We believe that the level at which management monitors goodwill is not necessarily the same as the level at which the chief operating decision maker regularly reviews operating results. • When IFRS 8 replaced IAS 14, there was change in the level at which goodwill is tested for impairment. • Effective date should be aligned with IFRS 8 (i.e.1 January 2009).	• The Board has specifically confirmed that its intention was that there should be a link between the level at which goodwill is tested for impairment and the level of internal reporting that reflects the way an entity manages its operations. This is stated in IAS 36.BC140. • The Board clarified that there was no such change. This is stated in IAS 36.BC150A. • As the proposal is related to measurement, the proposal (ie 1 January 2010) would be more appropriate in light of practicability.	• Proposed amendment unchanged • Proposed amendment unchanged • Proposed amendment unchanged
Additional consequential amendments arising from revised IFRS 3 The Board proposes additional amendments to paragraphs 36 and 37 of IAS 38 to clarify the	**IAS 38**	• Need to clarify the “separable” principle, especially for non contractual customer relationships. • Need to clarify whether, when the intangible asset is linked to a tangible asset, a single asset may still be recognised as it is the case for two	• Contractual/non-contractual customer relationship is an issue already dealt with and discussed at December’s Board meeting. • Agreed	• Proposed amendment unchanged • See Appendix B.3

Proposed amendment	Standard affected	Comments	Staff Assessment	Recommendation for revised wording
effect of its decisions in IFRS 3 Business Combinations (as revised in 2008) on the accounting for intangible assets acquired in a business combination.		intangible assets. • Also need to assess the "similar-life" criterion when intangible and tangible assets are concerned. • Inconsistency between IFRS 3.B40 and proposed IAS 38.36. • "Together" in the first sentence should be replaced with "when directly associated".	• Agreed • Agreed (see above second bullet point) • Disagree. Current wording is clear.	• See Appendix B.3 • See Appendix B.3 • Proposed amendment unchanged
Measuring the fair value of an intangible asset acquired in a business combination The Board proposes to clarify the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in	**IAS 38**	• Concern is expressed as regards the word "hypothetical" in paragraph 41 as to its impact on the measurement reliability. • Discounting should be presented as a systematic valuation method rather than as one method of measurement among others. • The issue should be dealt with through the fair Value Measurement Project. • Amendments to paragraphs 36 and 37 on the one hand and to paragraphs 40	• Should be removed: "estimating" costs should be self-sufficient as it already conveys that hypothesis is being made. • Agreed • Noted. The IASB currently has a FV measurement project in progress. • Agreed. Effective date to be changed to 1 July 2009 for all	• See Appendix B.3 • See Appendix B.3 • Proposed amendment unchanged • See Appendix

Proposed amendment	Standard affected	Comments	Staff Assessment	Recommendation for revised wording
active markets.		and 41 on the other hand should have the same effective date.	proposed amendments to IAS 38.	B.3

Appendix B.1

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

All proposed changes are to the Exposure Draft of proposed *Improvements to IFRSs*, published in August 2008 (new text is underlined and deleted text is struck through).

Scope

5A This IFRS specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other IFRSs do not apply to such assets (or disposal groups) unless those IFRSs ~~specifically~~ require:

(a) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations~~.~~;

(b) disclosures about measurement of assets and liabilities within a disposal group that are not in the scope of the measurement requirement of IFRS 5 and that are not already provided in the other notes to the financial statements.

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

Effective date

44D Paragraph 5A was added by *Improvements to IFRSs* issued in [date]. An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2010. Earlier application is permitted.

(The basis for conclusions remains unchanged and has not been reproduced here)

Appendix B.2

Proposed amendment to Appendix of IAS 18 *Revenue*

All proposed changes are to the Exposure Draft of proposed *Improvements to IFRSs*, published in August 2008 (new text is underlined and deleted text is struck through).

Recognition and measurement

21 *Determining whether an entity is acting as a principal or as an agent (2008 amendment)*~~*~~

~~* In 2007 the IFRIC recommended that the Board include in this Appendix guidance on determining whether an entity is acting as a principal or as an agent in accordance with IAS 18. The IFRIC noted that this issue has widespread and practical relevance. The Board noted that paragraph 8 of IAS 18 specifies the accounting for amounts collected on behalf of a principal. However, the Board acknowledged that IAS 18 does not provide guidance on determining whether an entity is acting as a principal or as an agent. Example 21 was added by *Improvements to IFRSs* issued in [date]~~.

Paragraph 8 states that 'in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.' Determining whether an entity is acting as a principal or as an agent ~~depends on facts and circumstances and~~ requires judgment <u>and consideration of all relevant facts and circumstances</u>.

An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that~~, individually or in combination,~~ indicate that an entity is acting as a principal include:

(a) the entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by<u>:</u>

i. being responsible for the acceptability of the products or services ordered or purchased by the customer;

ii. <u>changing the product or performing part of the service;</u>

iii. <u>having discretion in supplier selection;</u>

iv. <u>being involved in the determination of the specifications of the goods or services.</u>

(b) the entity has inventory risk before or after the customer order, during shipping or on return;

(c) the entity has <u>latitude</u>~~discretion~~ in establishing prices, either directly or indirectly, for example by providing additional goods or services;

(d) the entity bears the customer's credit risk for the amount billed to the customer.

An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

Basis for Conclusions on proposed amendment to Appendix of IAS 18 *Revenue*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Determining whether an entity is acting as a principal or as an agent

BC1 In 2007 the International Financial Reporting Interpretations Committee (IFRIC) received a request for guidance on determining whether an entity is acting as a principal or as an agent in accordance with IAS 18. Noting that this issue has widespread and practical relevance, the IFRIC recommended that the Board include such guidance in the Appendix of IAS 18 as a part of its annual improvements project.

BC2 The Board noted that paragraph 8 of IAS 18 specifies the accounting for amounts collected on behalf of a principal. However, the Board acknowledged that IAS 18 does not provide guidance on how to determine whether an entity is acting as a principal or as an agent.

BC3 The Board concluded that an entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. The Board identified some features that~~, individually or in combination,~~ indicate that this criterion is met. The Board concluded that an entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services.

BC4 The Board noted that because the Appendix to IAS 18 does not form part of the Standard, transitional provisions are not needed. An entity may decide to change its accounting policies to comply with this guidance. In this case, the entity would apply this guidance retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Appendix B.3

Proposed amendment to IAS 38 *Intangible assets*

All proposed changes are to the Exposure Draft of proposed *Improvements to IFRSs*, published in August 2008 (new text is double underlined and deleted text is double struck through).

Recognition and measurement

Acquisition as part of a business combination

Measuring the fair value of an intangible asset acquired in a business combination

36 An intangible asset acquired in a business combination might be separable, but only together with a related contract, identifiable ~~tangible or intangible~~ asset, or liability. ~~For example, a magazine's publishing title might not be able to be sold separately from a related subscriber database, or a trademark for natural spring water might relate to a particular spring and could not be sold separately from the spring.~~ In such cases, the acquirer recognises the intangible ~~group of~~ asset~~s as a single asset~~ separately from goodwill together with the related item. ~~if the individual fair values of the assets in the group are not reliably measurable. If an intangible asset is separable only with another intangible asset, the acquirer may recognise the group of intangible assets as a single asset, even if they have different useful lives.~~

37 ~~Similarly, the terms 'brand' and 'brand name' are often used as synonyms for trademarks and other marks. However, the former are general marketing terms that are typically used to refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise.~~ The acquirer may recognise~~s~~ a group of complementary intangible assets as a single asset ~~a group of complementary intangible assets comprising a brand if the individual fair values of the complementary assets are not reliably measurable. If the individual fair values of the complementary assets are reliably measurable, an acquirer may recognise them as a single asset~~ provided the individual assets have similar useful lives. For example, the terms 'brand' and 'brand name' are often used as synonyms for trademarks and other marks. However, the former are general marketing terms that are typically used to refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise.

40 If no active market exists for an intangible asset, its fair value is the amount that the entity would have paid for the asset, at the acquisition date, in an arm's length transaction between knowledgeable and willing parties, on the basis of the best information available. In determining this amount, an entity considers the outcome of recent transactions for similar assets. For example, an entity may apply multiples reflecting current market transactions to factors

that drive the profitability of the asset (such as revenue ~~and~~, operating profit or earnings before interest, tax, depreciation and amortization).

41 Entities that are ~~regularly~~ involved in the purchase and sale of ~~unique~~ intangible assets may have developed techniques for estimating their fair values indirectly. These techniques may be used for initial measurement of an intangible asset acquired in a business combination if their objective is to estimate fair value and if they reflect current transactions and practices in the industry to which the asset belongs. These techniques include, for example ~~when appropriate~~:

(a) discounting estimated future net cash flows from the asset, or

(b) ~~applying multiples reflecting current market transactions to indicators that drive the profitability of the asset (such as revenue, market shares and operating profit) or to the royalty stream that could be obtained from licensing the intangible asset to~~estimating the ~~hypothetical~~ costs the entity avoids by owning the intangible asset and not needing:

(i) to license it from another party in an arm's length transaction (as in the 'relief from royalty' approach, using discounted net cash flows), or

(ii) to recreate or replace it (as in the cost approach).~~; or and~~

(b) ~~discounting estimated future net cash flows from the asset.~~

Transitional provisions and effective date

130C IFRS 3 (as revised in 2008) amended paragraphs 12, 33–35, 68, 69, 94 and 130, deleted paragraphs 38 and 129 and added paragraph 115A. *Improvements to IFRSs*, issued in [date], amended paragraphs 36 and 37. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 July 2009. Therefore, amounts recognised for intangible assets and goodwill in prior business combinations shall not be adjusted. If an entity applies IFRS 3 (revised 2008) for an earlier period, the amendments shall also be applied for that earlier period.

130E *Improvements to IFRSs*, issued in [date], amended paragraphs 40 and 41. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 ~~January 2010~~ July 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Basis for Conclusions on proposed amendments to IAS 38 *Intangible Assets*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Additional consequential amendments arising from revised IFRS 3

BC1 When the Board developed IFRS 3 *Business Combinations* (as revised in 2008), it decided that if an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure the fair value of the asset reliably. The Board made related amendments to IAS 38 to reflect that decision. However, the Board has identified additional amendments to paragraphs 36 and 37 of IAS 38 that are needed to reflect clearly its decisions on the accounting for intangible assets acquired in a business combination. Those amendments would be effective at the same time as IFRS 3.

Measuring the fair value of an intangible asset acquired in a business combination

BC2 The Board was made aware that paragraph 41 of IAS 38 could be misinterpreted in practice and could lead entities to measure fair value inappropriately. To address this, the Board decided to amend paragraphs 40 and 41 of IAS 38 to clarify the description of valuation techniques commonly used to measure intangible assets at fair value when assets are not traded in an active market. The Board also decided that the amendments should be applied prospectively because retrospective application might require some entities to remeasure fair values associated with previous transactions. The Board does not think this is appropriate because the remeasurement might involve the use of hindsight in those circumstances.