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Improvements to Financial Reporting Standards

FINANCIAL REPORTING STANDARD

ACCOUNTING STANDARDS BOARD

Improvements to Financial Reporting Standards is issued by the Accounting Standards Board in respect of its application in the United Kingdom and by the Institute of Chartered Accountants in Ireland in respect of its application in the Republic of Ireland.

FINANCIAL REPORTING

STANDARD

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INTRODUCTION

1 This document sets out amendments to Financial Reporting Standards (FRS), including basis for conclusions and application guidance. The amendments set out in this document arise from the Financial Reporting Exposure Draft (FRED) issued by the Accounting Standards Board in June 2008.

2 Section 1 of this document sets out amendments to FRSs that arise from the International Accounting Standards Board's (IASB's) annual improvements project completed in May 2008. It also sets out improvements to FRS that relate to matters raised by UK constituents.

3 Section 2 of this document updates UK IFRS-based standards for consequential amendments that arise from new, revised or amendments made to International Financial Reporting Standards (IFRS).

4 Section 3 of this document updates FRS for editorial changes.

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1.1 FRS 7 'Fair Values in Acquisition Accounting'

The ASB is amending paragraph 82 of FRS 7 'Fair Values in Acquisition Accounting' following comments received that paragraph 82 of the FRS is contradictory to FRS 25 'Financial Instruments: Presentation'.

Paragraph 82 of FRS 7 previously required contingent consideration that is to be satisfied by the issue of shares to be accounted for in accordance with FRS 25. FRS 25, however, removes from its scope contracts for contingent consideration. To remove this apparent inconsistency, the ASB has decided to amend FRS 7 by requiring an entity to apply the classification principles in FRS 25.

FRS 7 is amended as follows:

The existing paragraph 82 is deleted and replaced with:

82 Where contingent consideration is to be satisfied by the issue of shares, amounts attributable to that consideration will need to be allocated between equity and liabilities in accordance with the classification principles in FRS 25 'Financial Instruments Presentation'.

This amendment shall be applied for accounting periods beginning on or after 1 January 2009. Earlier application is permitted.

1.2 FRS 17 'RETIREMENT BENEFITS'

In July 2005 the ASB issued FRED 39 'Amendment to FRS 12 Provisions, Contingent Liabilities and Contingent Assets and Amendment to FRS 17 Retirement Benefits'. As part of this FRED, the ASB proposed to amend paragraph 16 of FRS 17 by replacing 'mid-market value' with 'current bid price'. The ASB proposed this amendment to converge the measurement requirement of FRS 17 for quoted securities held as part of pension scheme assets with the measurement requirements of IAS 19 'Employee Benefits'. The ASB issued this amendment in December 2006 when it issued an amendment to FRS 17.

The ASB has observed that, in addition to the amendment to the measurement requirement for quoted securities, it should also have amended the measurement requirement for unitised securities from the 'average of the bid and offer prices' to 'current bid price'.

To address this matter, the ASB is amending paragraph 16 of FRS 17 such that unitised securities are measured at 'current bid price'.

FRS 17 is amended as follows:

The existing paragraph 16 is amended to read as follows:

16 For quoted securities, the current bid price is taken as the fair value. For unquoted securities, an estimate of fair value is used. The fair value of unitised securities is taken to be the current bid price.

A new paragraph 95D is inserted:

95D Paragraph 16 was amended by 'Improvements to FRS' in December 2008. An entity shall apply that amendment for accounting periods beginning on or after 1 January 2009. If an entity applies the amendment for an earlier period, it shall disclose that fact. Consistent with paragraph 95C, an entity is not required to restate corresponding amounts for the first two of the previous four accounting periods required by paragraph 77(o).

1.3 FINANCIAL REPORTING STANDARD 21 (IAS 10) 'EVENTS AFTER THE BALANCE SHEET DATE'*

In May 2008, as part of its annual improvements process, the IASB amended IAS 10 'Events after the Reporting Period' to clarify that dividends declared after the balance sheet date do not give rise to a liability as no obligations exist at that time. As FRS 21 is a UK IFRS-based standard, the ASB is making the same amendment that the IASB has made to IAS 10 to FRS 21.

FRS 21 is amended as follows:

Paragraph 13 is amended to read as follows:

13 If dividends are declared (ie the dividends are appropriately authorised and no longer at the discretion of the entity) after the ~~reporting period~~ <u>balance sheet date</u> but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the ~~end of the reporting period~~ <u>balance sheet date</u> because no obligation exists at that time. Such dividends are disclosed in the notes <u>to the financial statements.</u> ~~accordance with IAS 1 *Presentation of Financial Statements*.~~

This amendment shall be applied for accounting periods beginning on or after 1 January 2009. Earlier application is permitted.

* *The ASB decided not to amend UK FRS for terminology changes made by the IASB as a result of its revised IAS 1 'Presentation of Financial Statements' issued in September 2007. Consequently the ASB has not amended the title of FRS 21. The ASB issued FRS 21 in December 2004.*

AMENDMENT TO BASIS FOR CONCLUSIONS TO FINANCIAL REPORTING STANDARD 21 (IAS 10)

A footnote is added at the end of paragraph BC4.

* In 2007, the Board was advised that paragraph 13, taken in isolation, could be read to imply that a liability should be recognised in some circumstances on the basis that a constructive obligation exists, such as when there is an established pattern of paying a dividend. Therefore, the Board amended paragraph 13 by *Improvements to IFRSs* issued in May 2008 to state that no such obligation exists.

1.4 FRS 24 (IAS 29) 'FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES'

In May 2008, as part of its annual improvements process, the IASB amended IAS 29 'Financial Reporting in Hyperinflationary Economies' to:

(i) reflect the fact that a number of assets and liabilities may or must be measured on the basis of current value rather than a historical value (paragraphs 6, 15 and 19); and

(ii) update the terms used in IAS 29 to be consistent with other IFRSs (paragraphs 8, 14, 20, 28 and 34).

As FRS 24 is a UK IFRS-based standard, the ASB is making the same amendments to FRS 24 as those made by the IASB to IAS 29.

FRS 24 is amended as follows:

A footnote is added to the title of the Standard above paragraph 1 to read as follows:

* As part of *Improvements to IFRSs* issued in May 2008, the Board changed terms used in IAS 29 to be consistent with other IFRSs as follows: (a) 'market value' was amended to 'fair value', and (b) 'results of operations' and 'net income' were amended to 'profit or loss'. <u>In this footnote 'the Board' refers to the IASB. The ASB made the same amendment to FRS 24 as part of its 'Improvements to FRS' issued in December 2008.</u>

Paragraphs 6, 8, 14, 15, 19, 20, 28 and 34 are amended to read as follows:

THE RESTATEMENT OF FINANCIAL STATEMENTS

6 Entities that prepare financial statements on the historical cost basis of accounting do so without regard either to changes in the general level of prices or to increases in specific prices of recognised assets or liabilities. The exceptions to this are those assets and liabilities that the entity is required, or chooses where applicable in accordance with the relevant accounting Standard, to measure at current value ~~at fair value~~. ~~For example, property, plant and equipment may be revalued to fair value and biological assets are generally required to be measured at fair value.~~ Some entities, however, present financial statements that are based on a current cost approach that reflects the effects of changes in the specific prices of assets held.

THE RESTATEMENT OF FINANCIAL STATEMENTS

8 **The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy~~, whether they are based on a historical cost approach or a current cost approach,~~ shall be stated in terms of the measuring unit current at the balance sheet date ~~end of the reporting period~~. The corresponding amounts ~~figures~~ for the previous period required by FRS 28 'Corresponding Amounts' ~~IAS 1 *Presentation of Financial Statements* (as revised in 2007)~~ and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the balance sheet date ~~end of the reporting period~~. For the purpose of presenting ~~comparative~~ corresponding amounts**

in a different presentation currency, paragraphs 42(b) and 43 of FRS 23 (IAS 21) *The Effects of Changes in Foreign Exchange Rates* ~~(as revised in 2003)~~ apply.

HISTORICAL COST FINANCIAL STATEMENTS

~~Statement of financial position~~ Balance Sheet

14 All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the balance sheet date ~~end of the reporting period~~, such as net realisable value and fair value, so they are not restated. All other non-monetary assets and liabilities are restated.

15 Most non-monetary items are carried at cost or cost less depreciation; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the balance sheet date ~~end of the reporting period~~. For example, property, plant and equipment, inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets are restated from the dates of their purchase. Inventories of partly-finished and finished goods are restated from the dates on which the costs of purchase and of conversion were incurred.

19 The restated amount of a non-monetary item is reduced, in accordance with appropriate ~~IFRSs~~ Standards, when it exceeds its recoverable amount. For example, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount and restated amounts of inventories are reduced to net realisable value.

20 An investee that is accounted for under the equity method may report in the currency of a hyperinflationary economy. The balance sheet and profit and loss account ~~statement of financial position and statement of comprehensive income~~ of such an investee are restated in accordance with this Standard in order to calculate the investor's share of its net assets and profit or loss. When the restated financial statements of the investee are expressed in a foreign currency they are translated at closing rates.

GAIN OR LOSS ON NET MONETARY POSITION

28 The gain or loss on the net monetary position is included in the profit and loss account ~~profit or loss~~. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 13 is offset against the gain or loss on net monetary position. Other profit and loss ~~income and expense~~ items, such as interest income and expense, and foreign exchange differences related to invested or borrowed funds are also associated with the net monetary position. Although such items are separately disclosed, it may be helpful if they are presented together with the gain or loss on net monetary position in the profit and loss account ~~in the statement of comprehensive income~~.

CORRESPONDING AMOUNTS ~~FIGURES~~

34 Corresponding amounts ~~figures~~ for the previous reporting period, whether they were based on a historical cost approach or a current cost approach, are restated by applying a general price index so that the corresponding ~~comparative~~ financial statements are presented in terms of the measuring unit current at the balance sheet date ~~end of the reporting period~~. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit

current at the balance sheet date ~~end of the reporting period~~. For the purpose of presenting ~~comparative~~ corresponding amounts in a different presentation currency, paragraphs 42(b) and 43 of ~~IAS 21~~ FRS 23 apply.

This amendment shall be applied for accounting periods beginning on or after 1 January 2009. Earlier application is permitted.

Amendment to Basis for Conclusions to Financial Reporting Standard 24 (IAS 29)

A Basis for Conclusions containing BC1 and BC2 is inserted as follows:

Basis for Conclusions on FRS 24 (IAS 29) 'Financial Reporting in Hyperinflationary Economies'

ASB note: The IASB's Basis for Conclusions, which accompanies IAS 29, is set out below in full. All references in this section to 'the Board' and 'Board members' are references to the IASB Board and IASB Board members.

This Basis for Conclusions accompanies, but is not part of, IAS 29.

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on amending IAS 29 *Financial Reporting in Hyperinflationary Economies* in 2008. Individual Board members gave greater weight to some factors than to others.

BC2 Paragraph 6 of the previous version of the Standard did not reflect the fact that a number of assets and liabilities may or must be measured on the basis of a current value rather than a historical value. Therefore, the Board included examples rather than a definitive list of such items by *Improvements to IFRSs* issued in May 2008.

1.5 Financial Reporting Standard 25 (IAS 32) 'Financial Instruments: Presentation'

In May 2008 the IASB issued amendments to its accounting standards IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures'. The amendments to IAS 28 and IAS 31 sought to remove an inconsistency in the disclosure requirements for entities that are eligible and elect to account for investments in associates and joint ventures at fair value. The IASB decided to make consequential amendments to IAS 32 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures' by amending the scope paragraphs of IAS 32 and IFRS 7 and deleting the general requirement to make disclosures in accordance with IAS 27 'Consolidated and Separate Financial Statements,' IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures'.

As FRS 25 (IAS 32) and FRS 29 (IFRS 7) are UK IFRS-based standards, the ASB considered whether to reflect the amendments made by the IASB in its converged FRS. The ASB, simultaneously to these deliberations, received comments that the scope paragraph of FRS 26 (paragraph 2(a)) was not clear. The comments noted that FRS 2 did not address parent entity financial statements, but addressed the conditions under which an undertaking that is a parent undertaking of other undertakings (its subsidiary undertakings) should prepare consolidated financial statements. Consequently, the purpose of the reference to FRS 2 in paragraph 2(a) of FRS 26 was questioned.

In addition, the requirement set out in the scope paragraph that FRS 26 be applied to an interest in a subsidiary, quasi-subsidiary or associated undertaking, partnership or joint venture that is accounted for as held for resale was questioned. It was noted that FRS 7 'Fair Values in Acquisition Accounting' specified the accounting requirements for an interest in a separate business acquired and sold as a single unit within approximately one year from the date of acquisition. It was therefore considered that this requirement was unnecessary and could possibly give rise to contradictory requirements.

Consequently, the ASB decided to amend the scope paragraphs of FRS 26, FRS 25 and FRS 29.

This amendment removes a redundant reference in FRS 26 to FRS 2. It also removes the requirement for an interest in a subsidiary, quasi-subsidiary or associated undertaking, partnership or joint venture that is accounted for as held for resale to apply FRS 26; the requirements for such investments are contained in FRS 7. As a consequence, the ASB has not identified any potential effects arising from the changes to the scope of FRS 26.

In relation to the effect of the proposed amendments to FRS 25 and FRS 29, at present these standards require that where entities apply FRS 26 to an interest in a subsidiary, quasi-subsidiary or associated undertaking, partnership or joint venture that is accounted for as held for resale the disclosure requirements of FRS 2 'Accounting for Subsidiary Undertakings', FRS 5 'Reporting the Substance of Transactions' and FRS 9 'Associates and Joint Ventures' are required. As FRS 26 will no longer specify that such investments be accounted in accordance with the standard, then the ASB noted that the disclosure requirements specified in FRS 25 and FRS 29 need to be removed.

The ASB considers that the disclosure requirements of FRS 5 regarding the substance of the transaction and the disclosure requirements of FRS 9 provide useful information to users. However the ASB noted that as it had already formed the view that there were no effects arising from the proposed amendments to FRS 26, then similarly there could be no effect by removing the disclosure requirements in FRS 25 and FRS 29. In addition, the ASB noted that the scope paragraphs of FRS 5 and FRS 9 are not restrictive.

FRS 25 is amended as follows:

Paragraph 4 of FRS 25 is amended to read as follows:

4 ***This Standard shall be applied ~~by all entities~~ to all types of financial instruments except:***

(a) ~~those~~ interests in ~~subsidiaries, associates and joint ventures that are accounted for in accordance with IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates or IAS 31 Interests in Joint Ventures~~ subsidiary, quasi-subsidiary and associated undertakings, partnerships and joint ventures, including those which are accounted for under FRS 5 **'Reporting the Substance of Transactions'*****; and FRS 9*** **'Associates and Joint Ventures'*****. ~~However, in some cases, IAS 27, IAS 28 or IAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39; in those cases, entities shall apply the requirements of this Standard~~. However, entities shall ~~also~~ apply this Standard to all derivatives linked to interests in subsidiaries, ~~associates~~ quasi-subsidiary or associated undertakings, partnerships or joint ventures.***

The title above paragraph 96 is amended to read:

EFFECTIVE DATE AND TRANSITION

Paragraph 97D is added as follows:

97D Paragraph 4 was amended by 'Improvements to Financial Reporting Standards' issued in December 2008. An entity shall apply this amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact and apply the amendments to paragraph 2 of FRS 26 and paragraph 3 of FRS 29. An entity is permitted to apply these amendments prospectively.

1.6 Financial Reporting Standard 26 (IAS 39) 'Financial Instruments: Recognition and Measurement'

In May 2008, as part of its annual improvements process, the IASB made three amendments to IAS 39. The amendments were to:

(i) remove the prohibition on reclassification of derivatives that are designated and effective hedging instruments which prevented a derivative from being accounted for at fair value through profit or loss when it did not qualify for hedge accounting, and vice versa (paragraph 9);

(ii) remove an inconsistency relating to whether the revised or original effective interest rate of a debt instrument should be applied when remeasuring the instrument's carrying amount on the cessation of fair value hedge accounting. The clarification uses the revised effective interest rate (paragraph 50A and AG8); and

(iii) remove a conflict between IAS 39 (FRS 26) and IFRS 8 'Operating Segments' regarding the need for hedging instruments to involve a party external to the reporting entity (paragraph 73).

As FRS 26 is a UK IFRS-based standard, the ASB is making the same amendments to FRS 26 as those made to IAS 39.

In addition, the ASB is amending the scope of FRS 26 consistent with the change made to the scope of FRS 25 (see section 1.5).

FRS 26 is amended as follows:

Paragraphs 2, 9, 73 are amended and paragraphs 50A, 108I and 108J are inserted to read as follows:

2 **This Standard shall be applied ~~by all entities~~ to all types of financial instruments except:**

(a) ~~those~~ interests in ~~subsidiaries, associates and joint ventures that are accounted for under IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* or IAS 31 *Interests in Joint Ventures*~~ subsidiaries, quasi-subsidiaries and associated undertakings, partnerships and joint ventures, including those which are accounted for under FRS 5 *Reporting the Substance of Transactions*; and FRS 9 *Associates and Joint Ventures*. ~~However, entities shall apply this Standard to an interest in a subsidiary, associate or joint venture that according to IAS 27, IAS 28 or IAS 31 is accounted for under this Standard~~. However, entities shall ~~also~~ apply this Standard to derivatives on an interest in a subsidiary, ~~associate~~ quasi-subsidiary or associated undertaking, partnership or joint venture unless the derivative meets the definition of an equity instrument of the entity in FRS 25.

9 ***The following terms are used in this Standard with the meanings specified:***

...

Definitions of Four Categories of Financial Instruments

A financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability that meets either of the following conditions.

(a) It is classified as held for trading. A financial asset or financial liability is classified as held for trading if:

(i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

(b) …

MEASUREMENT

Reclassifications

50A The following changes in circumstances are not reclassifications for the purposes of paragraph 50:

(a) a derivative that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;

(b) a derivative becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge;

(c) financial assets are reclassified when an insurance company changes its accounting policies in accordance with FRS 18 Accounting Policies ~~IFRS 4 paragraph 45~~.

HEDGING

Hedging Instruments

Qualifying Instruments

73 For hedge accounting purposes, only instruments that involve a party external to the reporting entity (ie external to the group or individual entity that is being reported on) can be designated as hedging instruments. Although individual entities within a consolidated group or divisions within an entity may enter into hedging transactions with other entities within the group or divisions within the entity, any such intragroup transactions are eliminated on consolidation. Therefore, such hedging transactions do not qualify for hedge accounting in the consolidated financial statements of the group. However, they may qualify for hedge accounting in

the individual or separate financial statements of individual entities within the group, provided that they are external to the individual entity that is being reported on.

EFFECTIVE DATE AND TRANSITION

108I Paragraph 2(a) was amended by 'Improvements to Financial Reporting Standards issued in December 2008. An entity shall apply this amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact and apply the amendments to paragraph 4 of FRS 25 and paragraph 3 of FRS 29. An entity is permitted to apply these amendments prospectively.

108J Paragraphs 9, 73 and AG8 are amended and paragraph 50A is added by *Improvements to FRSs* ~~*IFRSs*~~ issued ~~May~~ December 2008. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. An entity shall apply the amendments in paragraphs 9 and 50A as of the date and in the manner it applied the 2005 amendments described in paragraph 105A. Earlier application of all these amendments is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

AMENDMENTS TO APPLICATION GUIDANCE ON FRS 26 (IAS 39) 'FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT'

The headings above paragraph AG8 and paragraph AG8 is amended to read as follows:

DEFINITIONS

Effective Interest Rate

AG8 If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate calculated in accordance with paragraph 92. The adjustment is recognised in profit or loss as income or expense.

AMENDMENTS TO BASIS FOR CONCLUSIONS ON FRS 26 (IAS 39): 'FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT'

The Basis for Conclusions to FRS 26 is amended as follows:

After paragraph BC35, paragraph BC35A is added. After paragraph BC70, a heading and paragraphs BC70A and BC70B are added. Paragraph BC172A is added.

Effective interest rate (paragraph 9 and AG5–AG8)

BC35A The Board identified an apparent inconsistency in the guidance in the revised IAS 39. It related to whether the revised or the original effective interest rate of a debt instrument should be applied when remeasuring the instrument's carrying amount on the cessation of fair value hedge accounting. A revised effective interest rate is calculated when fair value hedge accounting ceases. The Board removed this inconsistency as part of *Improvements to IFRSs* issued in May 2008 by clarifying that the remeasurement of an instrument in accordance with paragraph AG8 is based on the revised effective interest rate calculated in accordance with paragraph 92, when applicable, rather than the original effective interest rate.

MEASUREMENT

Definitions (paragraph 9)

BC70A The definition of a financial asset or financial liability at fair value through profit or loss excludes derivatives that are designated and effective hedging instruments. Paragraph 50 of IAS 39 prohibits the reclassification of financial instruments into or out of the fair value through profit or loss category after initial recognition. The Board noted that the prohibition on reclassification in paragraph 50 might be read by some as preventing a derivative financial instrument that becomes a designated and effective hedging instrument from being excluded from the fair value through profit or loss category in accordance with the definition. Similarly, it might be read as preventing a derivative that ceases to be a designated and effective hedging instrument from being accounted for at fair value through profit or loss.

BC70B The Board decided that the prohibition on reclassification in paragraph 50 should not prevent a derivative from being accounted for at fair value through profit or loss when it does not qualify for hedge accounting and vice versa. Therefore, in *Improvements to IFRSs* issued in May 2008, the Board amended the definitions in paragraph 9(a) and added paragraph 50A to address this point.

Hedging Using Internal Contracts

BC172A Previously, paragraph 73 referred to the need for hedging instruments to involve a party external to the reporting entity. In doing so, it used a segment as an example of a reporting entity. However, IFRS 8 *Operating Segments* requires disclosure of information that is reported to the chief operating decision maker even if this is on a non-IFRS basis. Therefore, the two IFRSs appeared to conflict. In *Improvements to IFRSs* issued in May 2008, the Board removed from paragraph 73 references to the designation of hedging instruments at the segment level.

1.7 FRS 29 'FINANCIAL INSTRUMENTS: DISCLOSURES'

In May 2008, as part of its annual improvements process, the IASB amended paragraph IG13 of IFRS 7 'Financial Instruments: Disclosures' to remove total interest income as a component of finance costs. As FRS 29 is a UK IFRS-based standard, the ASB is making the same amendment to FRS 29 as those made to IFRS 7.

In addition, the ASB is amending the scope of FRS 29 consistent with the change made to the scope of FRS 25 and FRS 26 (see section 1.5).

FRS 29 is amended as follows:

Paragraph 3 is amended to read as follows:

3 This ~~IFRS~~ Standard shall be applied by all entities to all types of financial instruments except:

(a) **~~those~~ interests in ~~subsidiaries, associates and joint ventures that are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* or IAS 31 *Interests in Joint Ventures*~~ subsidiaries, quasi-subsidiaries and associated undertakings, partnerships and joint ventures, including those which are accounted for under FRS 5 *Reporting the Substance of Transactions*; and FRS 9 *Associates and Joint Ventures*. ~~However, in some cases, IAS 27, IAS 28 or IAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39; in those cases, entities shall apply the requirements of this IFRS~~. However, entities shall ~~also~~ apply this Standard ~~IFRS~~ to all derivatives linked to interests in subsidiaries, ~~associates~~ quasi-subsidiaries or**

associated undertakings, partnerships or joint ventures unless the derivative meets the definition of an equity instrument in FRS 25 ~~IAS 32~~.

Paragraph 44D is inserted as follows:

44D Paragraph 3(a) was amended by 'Improvements to Financial Reporting Standards' issued in December 2008. An entity shall apply this amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact and apply the amended paragraph 2 of FRS 26 and paragraph 4 of FRS 25 issued in May 2008 for that earlier period. An entity is permitted to apply the amendment prospectively.

AMENDMENT TO GUIDANCE ON IMPLEMENTING FINANCIAL REPORTING STANDARD 29 (IFRS 7)

After paragraph IG12, the heading and paragraph IG13 are amended, and a footnote is added to read as follows:

Total interest expense (paragraph 20(b))*

IG13 Total interest expense disclosed in accordance with paragraph 20(b) is a component of ~~finance costs, which paragraph 82(b) of IAS 1 requires to be presented separately in the statement of comprehensive income. The~~ <u>the</u> line item for finance costs <u>which</u> may also include amounts associated with non-financial liabilities.

* In *Improvements to IFRSs* issued in May 2008, the Board amended paragraph IG13 and removed 'total interest income' as a component of finance costs. This amendment removed an inconsistency with paragraph 32 of IAS 1 *Presentation of Financial Statements,* which precludes the offsetting of income and expenses (except when required or permitted by an IFRS). <u>The ASB notes that UK FRS and the requirements of the Companies Act do not prohibit the netting of finance costs with finance income on the face of the profit and loss account, providing the gross amounts are disclosed in the notes to the financial statements.</u>

SECTION 2: AMENDMENTS TO FINANCIAL REPORTING STANDARDS ARISING FROM NEW, REVISED OR AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

FRS		Amendment arising from:
FRS 20 (IFRS 2) 'Share-based payments'	2.1	IFRS 3 'Business Combinations' revised January 2008.
FRS 21 (IAS 10) 'Events after the Balance Sheet Date'	2.2	IAS 1 'Presentation of Financial Statements' revised September 2007; and IFRS 5 'Non-current assets Held for Sale' and 'Discontinued Operations' issued March 2004.
FRS 22 (IAS 33) 'Earnings Per Share'	2.3	IFRS 8 'Operating Segments' issued November 2006; and IFRS 3 'Business Combinations' revised January 2008
FRS 23 (IAS 21) 'The Effects of Changes in Foreign Exchange Rates'	2.4	IAS 1 'Presentation of Financial Statements' revised September 2007; and IAS 27 'Consolidated and Separate Financial Statements' revised January 2008.
FRS 25 (IAS 32) 'Financial Instruments: Presentation'	2.5	IAS 1 'Presentation of Financial Statements' revised September 2007.
FRS 26 (IAS 39) 'Financial Instruments: Recognition and Measurement'	2.6	IAS 1 'Presentation of Financial Statements' revised September 2007; and IAS 27 'Consolidated and Separate Financial Statements' revised January 2008.
FRS 29 (IFRS 7) 'Financial Instruments: Disclosures'	2.7	IAS 1 'Presentation of Financial Statements' revised September 2007.

2.1 FRS 20 (IFRS 2) 'SHARE-BASED PAYMENTS'

In January 2008 the IASB issued a revised IFRS 3 'Business Combinations', representing completion of the second phase of its business combinations project. The ASB has decided not to implement the revised IFRS 3 into UK FRS at this time.

The revised IFRS 3 made a consequential amendment to IFRS 2 'Share-based Payments'. As FRS 20 is a UK IFRS-based standard, the ASB is making the same amendment to FRS 20. The amendment maintains consistency in the text of the FRS 20 and IFRS 2 only.

Paragraph 5 is amended to read as follows:

5 As noted in paragraph 2, this FRS ~~IFRS~~ ... Similarly, the cancellation, replacement or other modification of *share-based payment arrangements* because of a business combination or other equity restructuring shall be accounted for in accordance with this FRS ~~IFRS~~. ~~IFRS 3 provides guidance on determining whether equity instruments issued in a business combination are part of the consideration transferred in exchange for control of the acquiree (and therefore within the scope of IFRS 3) or are in return for continued service to be recognised in the post-combination period (and therefore within the scope of this IFRS).~~

Paragraph 61 is inserted and struck through as follows:

61 ~~IFRS 3 (as revised in 2008) amended paragraph 5. An entity shall apply that amendment for annual periods beginning on or after [1 July 2009]. If an entity applies IFRS 3 (revised 2008) for an earlier period, the amendment shall also be applied for that earlier period.~~

AMENDMENT TO BASIS FOR CONCLUSIONS TO FINANCIAL REPORTING STANDARD 20 (IFRS 2)

In the Basis for Conclusions on FRS 20, paragraph BC84 is amended to read as follows:

BC84 Fair value is already used in other areas of accounting, including other transactions in which non-cash resources are acquired through the issue of equity instruments. For example, consideration transferred in a business combination* is measured at fair value, including the fair value of any equity instruments issued by the entity.

**ASB footnote: FRS 6 'Acquisition and Mergers' permits the use of merger accounting. Where merger accounting is applied, the carrying values of the assets and liabilities of the parties to the combination are not required to be adjusted to fair value on consolidation.*

2.2 FRS 21 (IAS 10) 'EVENTS AFTER THE BALANCE SHEET DATE'*

The ASB is amending FRS 21 (IAS 10) 'Events after the Balance Sheet Date' as a consequence of:

(i) IAS 1 'Presentation of Financial Statements', which was revised September 2007 and which made consequential amendments to the terminology in paragraphs IN1, 21, and BC4; and

(ii) IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' which was issued March 2004 and which made consequential amendments to paragraph 22(b) and (c) of FRS 21 (IAS 10).

FRS 21 is amended as follows:

The footnote in paragraph IN1 '(IAS 10)' is amended to read as follows:

> 'In September 2007 the IASB amended the title of IAS 10 from '*Events after the Balance Sheet Date'* to '*Events after the Reporting Period'* as a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007*.
>
> **ASB footnote: The ASB decided not to amend UK FRSs for terminology changes and, consequently, has not amended the title of FRS 21. The ASB issued FRS 21 in December 2004'*

* *The IASB has amended the title to IAS 10 as a consequence of terminology changes introduced as part of the revisions to IAS 1 'Presentation of Financial Statements' issued in September 2007. The ASB is not introducing these terminology changes into UK FRS at this time and has not therefore amended the title of FRS 21.*

Paragraph 21 is amended to read as follows:

21 **If non-adjusting events after the ~~reporting period~~ balance sheet date are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category on non-adjusting events after the ~~reporting period~~ balance sheet date:**

...

Paragraph 22(b) and (c) is amended to read as follows:

(b) announcing a plan to discontinue an operation;

(c) major purchases of assets, ~~classification of assets as held for sale in accordance with IFRS 5 *Non current Assets Held for Sale and Discontinued Operations*, other~~ and disposals of assets, or expropriation of major assets by government;

This amendment shall be applied for accounting periods beginning on or after 1 January 2009. Earlier application is permitted.

AMENDMENTS TO THE BASIS FOR CONCLUSIONS TO FRS 21 (IAS 10)

The Basis for Conclusions on FRS 21 (IAS 10) is amended as described below.

The title is amended to **'Basis for Conclusions on IAS 10 '*Events after the Reporting Period*'** and footnoted as follows:

> In September 2007 the IASB amended the title of IAS 10 from *Events after the Balance Sheet Date* to *Events after the Reporting Period* as a consequence of the amendments in IAS 1 *Presentation of Financial Statements* (as revised in 2007)*.
>
> *The ASB decided not to make the terminology changes to UK FRS that arose from IAS 1 and, consequently, did not amend the title of FRS 21.

Paragraph BC4 is footnoted as follows:

BC4 For this limited clarification of IAS 10 the main change made is in paragraphs 12 and 13 (paragraphs 11 and 12 of the previous version of IAS 10). As revised, those paragraphs state that if dividends are declared after the balance sheet date*, an entity shall not recognise those dividends as a liability at the balance sheet date. ...

> * IAS 1 *Presentation of Financial Statements* (as revised in 2007) replaced the term 'balance sheet date' with 'end of the reporting period'.

2.3 FRS 22 (IAS 33) 'EARNINGS PER SHARE'

FRS 22 (IAS 33) 'Earnings Per Share' is amended as a consequence of:

(i) IFRS 8 'Operating Segments' issued in November 2006, which replaced IAS 14 'Segment Reporting'. Paragraph 2 is amended to clarify the scope of FRS 22 applies to entities that are in the process of filing financial statements with a securities commission or other regulatory information for the purpose of issuing ordinary shares in a public market; and

(ii) IFRS 3 'Business Combinations' revised January 2008. The ASB has decided not to implement the revised IFRS 3 into UK FRS at this time. It is, however, amending paragraph 22 of FRS 22, which confirms that ordinary shares issued as part of the consideration transferred in a business combination are included in the weighted average number of shares from the acquisition date.

FRS 22 is amended as follows:

Paragraph 2 is amended to read as follows:

2 **This Standard shall apply to:**

(a) the separate or individual financial statements of an entity:

(i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or

(ii) that files, or is in the process of filing, its financial statements with a securities

commission or other regulatory information for the purpose of issuing ordinary shares in a public market; and

(b) the consolidated financial statements of a group with a parent:

(i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or

(ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory information for the purpose of issuing ordinary shares in a public market.

This amendment shall be applied for accounting periods beginning on or after 1 January 2009. Earlier application is permitted.

Paragraph 22 is amended to read as follows:

22 Ordinary shares issued as part of the cost of ~~consideration transferred in~~ a business combination are included in the weighted average number of shares from the acquisition date. This is because the acquirer incorporates into its profit and loss account ~~statement of comprehensive income~~ the acquiree's profits and losses from that date.

This amendment shall be applied for accounting periods beginning on or after 1 July 2009. Earlier application is permitted.

2.4 FRS 23 (IAS 21) 'THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES'

FRS 23 (IAS 21) is amended as a consequence of:

(i) IAS 1 'Presentation of Financial Statements' revised September 2007, which make terminology changes to paragraph IN14(a) and (b), paragraphs 37, 41, 45, 48, 52 and 60A; and

(ii) IAS 27 'Consolidated and Separate Financial Statements' (revised January 2008), which inserts paragraphs 48A-48D and amends paragraphs 48, 49 and 60B. The ASB is amending the text of FRS 23 to retain consistency with IAS 21. The ASB has decided, however, not to introduce the requirements of paragraphs 48A-48D and 49 into UK FRS at this time as it considers the requirements of these paragraphs are inconsistent with FRS 2 'Accounting for Subsidiary Undertakings' and FRS 9 'Associates and Joint Ventures'.

FRS 23 is amended as follows:

Paragraph IN14(a) is amended as follows:

- 'at the closing rate at the date of that balance sheet' is amended to 'at the closing rate at the date of that statement of financial position'.

- 'each income statement' is amended to 'each statement of comprehensive income or separate income statement'.

In paragraph IN14(b) is amended as follows:

- '(eg balance sheet and income statement amounts)' is amended to '(eg amounts in a statement of financial position and statement of comprehensive income)'.

Paragraph 37 is amended to read as follows:

37 The effect ... Exchange differences arising from the translation of a foreign operation previously recognised ~~in other comprehensive income~~ through the statement of total recognised gains and losses in accordance with paragraphs 32 and 39(c) are not reclassified from ~~equity~~ reserves to profit or loss until the disposal of the operation.

Paragraph 41 is amended to read as follows:

41 The exchange difference referred to in paragraph 39(c) result from:

(a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate.

(b) translating the opening net assets at a closing rate that differs from the previous closing rate.

These exchange differences are not recognised in profit or loss because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. The cumulative amount of the exchange differences is presented separately in reserves ~~in a separate component of equity~~ until disposal of the foreign operation. When the exchange differences relate to a foreign operation that is consolidated but not wholly owned ...

Paragraph 45 is amended to read as follows:

45 The incorporation ... Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference is recognised in profit or loss or, if it arises from the circumstances described in paragraph 32, it is recognised through the statement of total recognised gains and losses ~~in other comprehensive income~~ and accumulated in a separate component of reserves ~~equity~~ until the disposal of the foreign operation,

Paragraph 48 (including the title) is amended and paragraphs 48A-48D are inserted to read as follows:

Disposal or partial disposal of a Foreign Operation

48 **On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised through the statement of total recognised gains and losses ~~in other comprehensive income~~ and accumulated in a separate component of reserves ~~equity~~, shall be reclassified from reserves ~~equity~~ to the profit or loss ~~(as a reclassification adjustment)~~ when the gain or loss on disposal is recognised ~~(see IAS 1 Presentation of Financial Statements (as revised in 2007)~~.**

~~48A~~ ~~In addition to the disposal of an entity's entire interest in a foreign operation, the following are accounted for as disposals even if the entity retains an interest in the former subsidiary, associate or jointly controlled entity:~~

~~(a)~~ ~~the loss of control of a subsidiary that includes a foreign operation;~~

~~(b) the loss of significant influence over an associate that includes a foreign operation; and~~

~~(c) the loss of joint control over a jointly controlled entity that includes a foreign operation.~~

~~48B On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be derecognised, but shall not be reclassified to profit or loss.~~

~~**48C On the partial disposal of a subsidiary that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall reclassify to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income.**~~

~~48D A partial disposal of an entity's interest in a foreign operation is any reduction in an entity's ownership interest in a foreign operation, except those reductions in paragraph 48A that are accounted for as disposals.~~

Paragraph 49 is amended to read as follows:

49 An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity. ~~The payment of a dividend is part of a disposal only when it constitutes a return of the investment, for example when the dividend is paid out of pre-acquisition profits~~. A write-down of the

carrying amount of a foreign operation, either because of its own losses or because of an impairment recognised by the investor, does not constitute a partial disposal. Accordingly, no part of the foreign exchange gain or loss recognised though the statement of total recognised gains and losses ~~in other comprehensive income~~ is reclassified to profit or loss at the time of a write-down.

Paragraph 52 is amended to read as follows:

52 An entity shall disclose .....

(b) net exchange differences recognised through the statement of total recognised gains and losses ~~in other comprehensive income~~ and accumulated in a separate reserve ~~equity~~, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

Paragraphs 60A and 60B are amended to read as follows:

60A **The ASB amended paragraphs 37, 41, 45, 48 and 52 as part of its 'Improvements to Financial Reporting Standards' issued in December 2008. ~~IAS 1 (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraphs 27, 30–33, 37, 39, 41, 45, 48 and 52.~~ An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. ~~If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.~~**

60B **~~IAS 27 (as amended 2008) added paragraphs 48A–48D and amended paragraph 49. An entity shall apply those amendments for annual periods beginning on or after 1 July 2009. If an entity~~**

~~**applied IAS 27 (amended 2008) for an earlier period, the amendments shall be applied for that earlier period**~~**:**

AMENDMENTS TO THE BASIS FOR CONCLUSIONS TO FRS 23 (IAS 21)

The Basis for Conclusions to FRS 23 (IAS 21) is amended for consequential amendments arising from:

(i) IAS 1 'Presentation of Financial Statements' issued in September 2007, the rubric preceding the Basis for Conclusions is amended, paragraphs BC25A, BC25B, BC25D and BC25E are footnoted; and

(ii) IAS 27 'Consolidated and Separate Financial Statements', a new heading and paragraphs BC33 and BC34 are inserted after paragraph BC32.

The rubric preceding the Basis for Conclusions is amended as follows:

This Basis for Conclusions accompanies, but is not part of, IAS 21.

Paragraph BC1 was amended and paragraphs BC25A–BC25F were added in relation to the amendment to IAS 21 issued in December 2005.

In this Basis for Conclusions the terminology has not been amended to reflect the changes made by IAS 1 Presentation of Financial Statements *(as revised in 2007).*

Paragraphs BC25A, BC25B, BC25D and BC25E are footnoted as follows:

BC25A The principle in paragraph 32 is that exchange differences arising on a monetary item that is, in substance, part of the reporting entity's net investment in a foreign operation are initially recognised in a separate component of equity* in the consolidated financial statements of the reporting entity. Among ...

BC25B The requirements ... IAS 21 (as revised in 2003) requires the exchange differences arising on the loan to be recognised in profit or loss in the consolidated financial statements of Parent P, whereas those differences would be recognised initially in equity★ in the consolidated financial statements of Parent P, if the loan were to be denominated in sterling or Mexican pesos.

BC25D The Board noted ... Therefore, the principle in paragraph 32 to recognise exchange differences arising on a monetary item initially in a separate component of equity★ effectively results in the monetary item being accounted for in the same way as an equity investment in the foreign operation when consolidated financial statements are prepared. The Board ...

BC25E Accordingly ... The amendment requires exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognised initially in a separate component of equity★ in the consolidated financial statements. This ...

★ As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such differences are recognised in other comprehensive income.

A new heading and paragraphs BC33 and BC34 are inserted after paragraph BC32 as follows:

Disposal and partial disposal of a Foreign Operation★

BC33 In the second phase of the business combinations project, the Board decided that the loss of control, significant influence or joint control of an entity is accounted for as a disposal for the purposes of IAS 21.

Accordingly, a former parent accounts for the loss of control over a subsidiary as a disposal of the subsidiary, even if the former subsidiary becomes an associate or jointly controlled entity of the former parent. Similarly, an investor accounts for the loss of significant influence over an associate or the loss of joint control over a jointly controlled entity as a disposal. The Board decided that the change in the nature of the investment is a significant economic event.

BC34 The Board also decided in the second phase of the business combinations project that:

(a) changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (ie transactions with owners in their capacity as owners);

(b) if a parent loses control of a subsidiary, the parent reclassifies from equity to profit or loss (as a reclassification adjustment) the parent's share of the exchange differences recognised in other comprehensive income relating to a foreign operation in that subsidiary; and

(c) if an investor loses significant influence over an associate or loses joint control over a jointly controlled entity, the investor reclassifies from equity to profit or loss (as a reclassification adjustment) the exchange differences recognised in other comprehensive income relating to a foreign operation in that associate or jointly controlled entity.

The amendments in paragraphs 48A–49 of the Standard reflect those decisions for the disposal or partial disposal of a foreign operation.

*These paragraphs were added to the Basis for Conclusions as a consequence of amendments to IAS 27 *Consolidated and Separate Financial Statements* made as part of the second phase of the business combinations project in 2008.

2.5 FRS 25 (IAS 32) 'FINANCIAL INSTRUMENTS: PRESENTATION'

In FRS 25 (IAS 32) 'Financial Instruments: Presentation' paragraphs 50A to 50E are replaced with the amended paragraphs 72 to 76 of IAS 1 'Presentation of Financial Statements', following the IASB's issuing a revised IAS 1 in September 2007.

Paragraphs 50A to 50E are deleted and replaced to read as follows:

50A An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the balance sheet date ~~reporting period~~, even if:

(a) the original term was for a period longer than twelve months, and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date ~~reporting period~~ and before the financial statements are authorised for issue.

50B If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the balance sheet date ~~reporting period~~ under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation as current.

50C When an entity breaches a provision of a long-term loan arrangement on or before the balance sheet date, ~~end of the reporting period~~ with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the balance sheet date ~~reporting period~~ and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the balance sheet date ~~end of the reporting period~~, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

50D However, an entity classifies the liability as non-current if the lender agreed by the balance sheet date ~~end of the reporting period~~ to provide a period of grace ending at least twelve months after the balance sheet date ~~reporting period~~, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

50E In respect of loans classified as current liabilities, if the following events occur between the balance sheet date ~~end of the reporting period~~ and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with ~~IAS 10~~ FRS 21 (IAS 10) *Events after the Balance Sheet Date ~~Reporting Period~~:*

(a) refinancing on a long-term basis;

(b) rectification of a breach of a long-term loan arrangement; and

(c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the balance sheet date ~~reporting period~~.

This amendment shall be applied for accounting periods beginning on or after 1 January 2009. Earlier application is permitted.

AMENDMENTS TO THE BASIS FOR CONCLUSIONS TO FRS 25 (IAS 32)

The following amendments are made to this Basis for Conclusions to FRS 25(IAS 32):

(i) paragraphs BC8 and BC22 are amended as a consequence of IAS 1; and

(ii) a footnote is inserted to BC49(h) as a consequence of IAS 27 'Consolidated and Separate Financial Statements' (revised January 2008).

In the Basis for Conclusions on FRS 25 (IAS 32), paragraphs BC8 and BC22 are footnoted as follows:

BC8 The Board ... also agreed that it should provide examples of how such entities might present their income statement★ and balance sheet◆ (see Illustrative Examples 7 and 8).

★ IAS 1 *Presentation of Financial Statements* (as revised in 2007) requires an entity to present all income and expense items in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).

◆IAS 1 (revised 2007) replaced the term 'balance sheet' with 'statement of financial position'.

BC22 The Standard requires the separate presentation on an entity's balance sheet★ of liability and equity components of a single financial instrument. ...

★ IAS 1 (as revised in 2007) replaced the term 'balance sheet' with 'statement of financial position'.

In the Basis for Conclusions on FRS 25 (IAS 32), in paragraph BC49(h) 'minority interest' is footnoted as follows:

In January 2008 the IASB issued an amended IAS 27 *Consolidated and Separate Financial Statements*, which amended 'minority interest' to 'non-controlling interests*'.

Footnote:

* The ASB has retained the term 'minority interest'.

2.6 FRS 26 (IAS 39) FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

The following amendments are made to FRS 26:

(i) as a consequence of terminology changes made by IAS 1 'Presentation of Financial Statements' (revised September 2007) paragraphs IN24, 54, 55, 68, 98, 100, 101, 102, 105, 108, AG99B are amended and paragraph 103D is inserted; and

(ii) as a consequence of IAS 27 'Consolidated and Separate Financial Statements' (revised January 2008), paragraph 102 is amended and paragraph 103E is inserted.

Paragraph IN24 is amended as follows (insert underlined text and delete struck-through text):

IN24 The Standard requires that when a hedged forecast transaction occurs and results in the recognition of a *financial* asset or a *financial* liability, the gain or loss recognised in other comprehensive income ~~deferred in equity~~ does not adjust the initial carrying amount of the asset or liability (ie basis adjustment is prohibited), but remains in equity and is ~~recognised in~~ reclassified from equity to profit or loss consistently with the recognition of gains and losses on the asset or liability as a reclassification adjustment. For hedges of forecast transactions that result in the recognition of a *non-financial* asset or a *non-financial* liability, the entity has a choice of whether to apply basis adjustment or retain the hedging gain or loss in equity and ~~report~~ reclassify it from equity ~~in~~ to profit or loss when the asset or liability affects profit or loss as a reclassification adjustment.

Paragraphs 54, 55, 68, 98, 100, 101, 102, 105 and 108 are amended and paragraph 103E is inserted to read as follows:

54 **If, as a result … Any previous gain or loss on that asset that has been recognised ~~in other comprehensive income~~ through the statement of total recognised gains and losses in accordance with paragraph 55(b) shall be accounted for as follows:**

(a) In the case … If the financial asset is subsequently impaired, any gain or loss that has been recognised through the statement of total recognised gains and losses ~~in other comprehensive income~~ is ~~in~~ reclassified from reserve(s) ~~equity~~ to profit or loss in accordance with paragraph 67.

(b) In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognised in profit or loss when the financial asset is sold or otherwise disposed of. If the financial asset is subsequently impaired any previous gain or loss that has been recognised through the statement of total recognised gains and losses ~~in other comprehensive income~~ is reclassified from reserve(s) ~~equity~~ to profit or loss in accordance with paragraph 67.

55 **A gain or loss … shall be recognised, as follows.**

…

(b) A gain or loss on an available-for-sale financial asset shall be recognised through the statement of total recognised gains and losses ~~in other comprehensive income~~,

except for impairment losses (see paragraphs 67–70) and foreign exchange gains and losses (see Appendix A paragraph AG83), until the financial asset is derecognised. At that time, the cumulative gain or loss previously recognised through the statement of total recognised gains and losses ~~in other comprehensive income~~ shall be reclassified from reserves ~~equity~~ to profit or loss ~~as a reclassification adjustment (see IAS 1 *Presentation of Financial Statements* (as revised in 2007)~~). However, ...

68 **The amount of the cumulative loss that is reclassified from ~~equity~~ reserves and recognised in profit or loss under paragraph 67 shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit of loss.**

98 **If a hedge ...**

(a) It reclassifies the associated gains and losses that were recognised through the statement of total recognised gains and losses ~~in other comprehensive income~~ in accordance with paragraph 95 to profit or loss ~~as a reclassification adjustment (see IAS 1 (revised 2007))~~ in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as in the periods that depreciation expense or cost of sales is recognised). However, if an entity expects that all or a portion of a loss recognised through the statement of total recognised gains and losses ~~in other comprehensive income~~ will not be recovered in one or more future periods, it

shall reclassify from reserves ~~equity~~ to profit or loss ~~as a reclassification adjustment~~ the amount that is not expected to be recovered.

(b) It removes the associated gains and losses that were recognised through the statement of total recognised gains and losses ~~in other comprehensive income~~ in accordance with paragraph 95.

100 **For cash flow hedges other than those covered by paragraphs 97 and 98, amounts that had been recognised through the statement of total recognised gains and losses ~~in other comprehensive income~~ shall be reclassified from reserves ~~equity~~ to profit or loss ~~as a reclassification adjustment (see IAS 1 (revised 2007))~~ in the same period or periods during which the hedged forecast transaction affects profit or loss (for example, when a forecast sale occurs).**

101 **In any of the following circumstances an entity shall discontinue prospectively the hedge accounting specified in paragraphs 95-100:**

(a) The hedging instrument expires or is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy). In this case, the cumulative gain or loss on the hedging instrument that has been recognised ~~in other comprehensive income~~ through the statement of total recognised gains and losses from the period when the hedge was effective (see paragraph 95(a)) shall remain separately in ~~equity~~ reserves

until the forecast transaction occurs. When the transaction occurs, paragraph 97, 98 or 100 applies.

(b) The hedge no longer meets the criteria for hedge accounting in paragraph 88. In this case, the cumulative gain or loss on the hedging instrument that has been recognised ~~in other comprehensive income~~ <u>through the statement of total recognised gains and losses</u> from the period when the hedge was effective (see paragraph 95(a)) shall remain separately in ~~equity~~ <u>reserves</u> until the forecast transaction occurs. When the transaction occurs, paragraph 97, 98 or 100 applies.

(c) The forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument that remains recognised directly in ~~equity~~ <u>reserves</u> from the period when the hedge was effective (see paragraph 95(a)) shall be ~~reclassified from equity to profit and loss~~ <u>recognised in profit or loss.</u> A forecast transaction that is no longer highly probable (see paragraph 88(c)) may still be expected to occur.

(d) The entity revokes the designation. For hedges of a forecast transaction, the cumulative gain or loss on the hedging instrument that remains recognised directly in ~~equity~~ <u>reserves</u> from the period when the hedge was effective (see paragraph 95(a)) shall remain separately in ~~equity~~ <u>reserves</u> until the forecast transaction occurs or is no longer expected to occur. When the transaction occurs, paragraph 97, 98 or 100 applies. If the transaction is no longer

expected to occur, the cumulative gain or loss that had been recognised directly in the ~~equity~~ reserves shall be ~~reclassified from equity~~ recognised in profit or loss ~~as a reclassification adjustment~~.

102 **Hedges of a net investment …**

(a) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (see paragraph 88) shall be recognised through the statement of total recognised gains and losses ~~in other comprehensive income;~~ and

(b) the ineffective portion shall be recognised in profit or loss.

The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised through the statement of total recognised gains and losses ~~in other comprehensive income~~ shall be recognised in ~~reclassified from equity to~~ profit or loss ~~as a reclassification adjustment (see IAS 1 (revised 2007))~~ in accordance with paragraphs 48-49 of FRS 23 ~~IAS 21~~ on disposal or partial disposal of the foreign operation.

103E **The ASB amended the terminology in paragraphs 98 and 100-102 as part of its 'Improvements to Financial Reporting Standards' issued in December 2008. ~~IAS 1 (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraphs 26, 27, 34, 54, 55, 57, 67, 68, 95(a), 97, 98, 100, 102, 105, 108, AG4D, AG4E(d)(i), AG56, AG67, AG83 and AG99B~~. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. ~~If an~~**

~~entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.~~

105 **When ... For any such financial asset, the entity shall recognise all cumulative changes in fair value in a separate component of ~~equity~~ <u>reserves</u> until subsequent derecognition or impairment, when the entity shall reclassify that cumulative gain or loss from <u>reserves</u> ~~equity~~ to profit or loss ~~as a reclassification adjustment (see IAS 1(revised 2007))~~. The entity ...**

108 **An entity shall not adjust the carrying amount of non-financial assets and non-financial liabilities to exclude gains and losses related to cash flow hedges that were included in the carrying amount before the beginning of the financial year in which this Standard is first applied. At the beginning of the financial period in which this Standard is first applied, any amount recognised outside profit or loss (<u>through the statement of total recognised gains and losses</u> ~~in other comprehensive income~~ or directly <u>in reserves</u> ~~equity)~~ for a hedge of a firm commitment that under this Standard is accounted for as a fair value hedge shall be reclassified as an asset or liability, except for a hedge of foreign currency risk that continues to be treated as a cash flow hedge.**

AMENDMENT TO FRS 26 APPENDIX A APPLICATION GUIDANCE

FRS 26 Appendix A *Application guidance* is amended as described below.

Paragraph AG99B is amended to read as follows:

AG99B If a hedge of a forecast intragroup transaction qualifies for hedge accounting, any gain or loss that is recognised <u>through the statement of total recognised gains and losses</u> ~~in other comprehensive income~~ in accordance with paragraph 95(a) shall be reclassified from <u>reserves</u> ~~equity~~ to profit or loss ~~as a reclassification adjustment~~ in the same period or periods during which the foreign currency risk of the hedged transaction affects consolidated profit or loss.

AMENDMENT TO BASIS FOR CONCLUSIONS TO FRS 26 (IAS 39)

The Basis for Conclusions to FRS 26 (IAS 39) is amended as a consequence of IAS 1 'Presentation of Financial Statements' as revised in September 2007 as described below.

The rubric preceding the Basis for Conclusions is amended as follows:

This Basis for Conclusions accompanies, but is not part of, IAS 39.

In this Basis for Conclusions the terminology has not been amended to reflect the changes made by IAS 1 Presentation of Financial Statements *(as revised in 2007).*

Paragraphs BC75, BC125, BC155, BC167, BC221(c) and BC222(p) and (s)(iii) are footnoted as follows:

BC75 IAS 39 ... It requires some gains and losses to be recognised in profit or loss, and others to be recognised initially as a component of equity.* This combination of measurement and recognition requirements can result in inconsistencies, which some refer to as 'accounting mismatches', between the accounting for an asset (or group of assets) and a liability (or group of liabilities). The notion ...

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 these other gains and losses are recognised in other comprehensive income.

BC125 In the Exposure Draft ... The Board noted that this was consistent with the recognition of changes in the fair value of available-for-sale financial assets directly in equity* (see paragraph 55(b)).

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such changes are recognised in other comprehensive income.

BC155 The question ... The entity enters into a derivative to hedge against possible future changes in the US dollar/euro exchange rate. Such a hedge is classified as a cash flow hedge under IAS 39, with the effect that gains and losses on the hedging instrument (to the extent that the hedge is effective) are initially recognised in equity*. The question ...

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such gains and losses are recognised in other comprehensive income.

BC167 If the internal swap ... This is because the gains and losses on the internal swap in the banking book would be recognised in equity* to the extent the hedge is effective and the gains and losses on the internal swap in the trading book would be recognised in profit or loss.

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such gains and losses are recognised in other comprehensive income.

BC221(c) The Board decided to eliminate the option to recognise in profit or loss gains and losses on available-for-sale financial assets (IAS 39, paragraph 55(b)), and thus require such gains and losses to be recognised in equity*. The change ...

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such gains and losses are recognised in other comprehensive income.

BC222 The main changes from the Exposure Draft's proposals are as follows:

...

(p) The Exposure Draft ... Impairment losses recognised on available-for-sale equity instruments cannot be reversed through profit or loss, ie any subsequent increase in fair value is recognised in equity*.

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such gains and losses are recognised in other comprehensive income.

(s) The Exposure Draft ...

(iii) it is consistent with paragraphs 97 and 98 that any gain or loss that is recognised directly in equity* in a cash flow hedge of a forecast intragroup transaction should be reclassified into consolidated profit or loss in the same period or periods during which the foreign currency risk of the hedged transaction affects consolidated profit or loss.

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such gains and losses are recognised in other comprehensive income.

AMENDMENT TO FRS 26 (IAS 29) ILLUSTRATIVE EXAMPLES FRS 26 (IAS 39)

The Illustrative Examples accompanying FRS 26 (IAS 39) are amended as described below. The following amendments arise from IAS 1 'Presentations of Financial Statements' (revised 2007). These are necessary to ensure consistency of terminology with the revised IAS 1.

In paragraphs IE14, IE18, IE24, IE26, IE28 and IE30, 'income statement' is amended to 'profit or loss'.

References to 'balance sheet line item' are amended to 'line item in the statement of financial position'.

References to 'deferred in equity', 'reported in equity', 'recognised in equity' and 'recognised directly in equity' are amended to 'recognised in other comprehensive income'.

In the tables in Questions D.2.1 and D.2.2, 'changes in equity' is amended to 'changes in other comprehensive income'.

In Question E.2.1, 'on its balance sheet' is amended to 'in its statement of financial position'.

Question E.3.1 is amended as follows (delete struck-through text; insert underlined text):

> **Entity A holds … On 20 December ~~2000~~ 20X0, the fair value of the shares is CU120 and the cumulative gain recognised in <u>other comprehensive income</u> ~~equity~~ is CU20. … Under IAS 39.55(b), should Entity A ~~recognise~~ <u>reclassify</u> the cumulative gain of CU20 recognised ~~in equity~~ <u>in other comprehensive income from equity to</u> ~~in~~ profit or loss <u>as a reclassification adjustment</u>?**

Yes. The transaction qualifies for derecognition under IAS 39. IAS 39.55(b) requires ~~that~~ the cumulative gain or loss ~~that has been recognised in equity~~ on an available-for-sale financial asset that has been recognised in other comprehensive income be ~~recognised in~~ reclassified from equity to profit or loss when the asset is derecognised. In the ...

Question E.3.2 is amended as follows (delete struck-through text; insert underlined text):

For an available-for-sale monetary financial asset, the entity reports recognised changes in the carrying amount relating to changes in foreign exchange rates in profit or loss in accordance with IAS 21.23(a) and IAS 21.28 and other changes in the carrying amount in other comprehensive income ~~in equity~~ in accordance with IAS 39. How is the cumulative gain or loss that is recognised ~~in equity~~ in other comprehensive income determined?

...

To illustrate: on 31 December 20X1 ~~2001~~ Entity A acquires a bond ... Entity A classifies the bond as available for sale, and thus recognises gains and losses ~~in equity~~ in other comprehensive income. The entity's ...

On 31 December 20X2 ~~2002~~, the foreign currency has appreciated ... In this case, the cumulative gain or loss to be recognised in other comprehensive income and accumulated in equity ~~directly in equity~~ is the difference between the fair value and the amortised cost on 31 December 20X2 ~~2002~~, ie LC38 (= LC2,120 – LC2,082).

Interest received on the bond on 31 December 20X2 ~~2002~~ is FC59 (= LC118). Interest ...

Cr	Fair value change in ~~equity~~ <ins>other comprehensive income</ins>	LC38

On 31 December <ins>20X3</ins> ~~2003~~, the foreign currency has appreciated further ... The cumulative gain or loss to be ~~recognised directly~~ <ins>accumulated</ins> ~~in equity~~ <ins>in other comprehensive</ins> income is the difference between the fair value and the amortised cost on 31 December <ins>20X3</ins> ~~2003~~, ie negative LC40 (= LC2,675 – LC2,715). Thus, ~~there is a debit to~~ <ins>the amount recognised in other comprehensive income</ins> ~~equity~~ equal<ins>s</ins> ~~to~~ the change in the difference during <ins>20X3</ins> ~~2003~~ of LC78 (= LC40 + LC38).

Interest received on the bond on 31 December <ins>20X3</ins> ~~2003~~ is FC59 (= LC148). Interest ...

Dr	Fair value change in <ins>other comprehensive income</ins> ~~equity~~	LC78

Question E.3.3 is amended as follows:

- the heading '**E.3.3 IAS 39 and IAS 21 Exchange differences arising on translation of foreign entities: equity or income?**' is amended to '**E.3.3 IAS 39 and IAS 21 Exchange differences arising on translation of foreign entities: other comprehensive income or profit or loss?**'.

- (in the fourth paragraph of the answer) 'its income statement' is amended to 'its profit or loss'.

- (in the last paragraph of the answer) 'classified as equity' is amended to 'accumulated in equity'.

In Question E.3.4, the answer is amended as follows:

- '*Income statement*' is amended to '*Profit or loss*'.
- 'in profit or loss or in equity' is amended to 'in profit or loss or in other comprehensive income'.
- 'recognises gains and losses on available-for-sale monetary financial assets in equity' is amended to 'recognises gains and losses on available-for-sale monetary financial assets in other comprehensive income'.
- 'resulting in a loss in equity' is amended to 'resulting in a loss recognised in other comprehensive income'.

Question E.4.9 is amended as follows:

- '**be recognised in profit or loss**' is amended to '**be reclassified from equity to profit as a reclassification adjustment**'.
- 'removed from equity and recognised in profit or loss' is amended to 'reclassified from equity to profit or loss'.
- 'also recognised in profit or loss' is amended to 'also reclassified from equity to profit or loss'.

In Question F.1.2, in the answer to the second question, 'future sale is recognised in profit or loss' is amended to 'future sale is reclassified from equity to profit or loss as a reclassification adjustment'.

In Question F.1.5, the answer is amended as follows (delete struck-through text, insert underlined text):

> No. An internal contract designated at the subsidiary level or by a division as a hedge results in the recognition of changes in the fair value of the item being hedged in profit or loss (a fair value hedge) or in the recognition of the changes in the fair value of the

internal derivative ~~in equity~~ in other comprehensive income (a cash flow hedge). There is no basis for changing the measurement attribute of the item being hedged in a fair value hedge unless the exposure is offset with an external derivative. There is also no basis for ~~including~~ recognising the gain or loss on the internal derivative in ~~equity~~ other comprehensive income for one entity and recognising it in profit or loss by the other entity unless it is offset with an external derivative. In cases ... It should be noted, however, that there will be no effect on profit or loss and ~~equity~~ other comprehensive income of reversing ... Just as the internal derivatives offset at the treasury level, their use as fair value hedges by two separate entities or divisions within the consolidated group will also result in the offset of the fair value amounts recognised in profit or loss, and their use as cash flow hedges by two separate entities or divisions within the consolidated group will also result in the fair value amounts being offset against each other in other comprehensive income ~~equity~~. However, there may be an effect on individual line items in both the consolidated ~~income~~ statement of comprehensive income and the consolidated ~~balance sheet~~ statement of financial position, for example when internal derivatives that hedge assets (or liabilities) in a fair value hedge are offset by internal derivatives that are used as a fair value hedge of other assets (or liabilities) that are recognised in a different line item in the statement of financial position ~~balance sheet~~ or statement of comprehensive income ~~statement line item~~. In addition, to the extent that one of the internal contracts is used as a cash flow hedge and the other is used in a fair value hedge, ~~the effect on profit or loss and equity~~ gains and losses recognised would not offset since the gain (or loss) on the internal derivative used as a fair value hedge would be recognised in profit or loss and the corresponding loss (or gain) on the internal derivative used as a cash flow hedge would be recognised in ~~equity~~ other comprehensive income.

In Question F.1.6, the second paragraph of the answer is amended as follows:

- 'profit or loss or equity' is amended to 'profit or loss or other comprehensive income'.
- 'gains and losses that are initially recognised in equity are recognised in profit or loss' is amended to 'gains and losses that are initially recognised in other comprehensive income are reclassified from equity to profit or loss'.
- 'profit or loss and equity' is amended to 'profit or loss and other comprehensive income'.

Question F.1.7 is amended as described below.

The following references are amended as described below.

- '*Dr Equity*' is amended to '*Dr Other comprehensive income*'.
- '*Cr Equity*' is amended to '*Cr Other comprehensive income*'.
- 'Income' is amended to 'Profit or loss'.
- 'Equity' is amended to 'Other comprehensive income'.

In *Case 1*, 'the income statement' is amended to 'profit or loss'. *Case 2* is amended as follows (delete struck-through text, insert underlined text):

> ...
>
> A and B complete the necessary documentation, the hedges are effective, and both A and B qualify for hedge accounting in their individual financial statements. A ~~defers~~ <u>recognises</u> the gain of LC20 on its internal derivative transaction in ~~a hedging reserve in equity~~ <u>other comprehensive income</u> and B ~~defers~~ recognises the loss of LC50 in ~~its hedging reserve in equity~~ <u>other comprehensive income</u>. TC does ...

Case 3 is amended as follows (delete struck-through text, insert underlined text):

> …
>
> As in cases 1 and 2, A and B apply hedge accounting for their cash flow hedges and TC measures its derivatives at fair value. A ~~defers~~ recognises a gain of LC20 on its internal derivative transaction ~~in equity~~ in other comprehensive income and B ~~defers~~ recognises a loss of LC50 on its internal derivative transaction in other comprehensive income ~~in equity~~. …

In Questions F.1.7 *Case 3* and *Case 4*, F.5.2, F.5.3 and F.5.6, 'Cr Equity' and 'Dr Equity' are amended to 'Cr Other comprehensive income' and 'Dr Other comprehensive income' respectively.

In the answer to Question F.1.10, 'reports changes in the fair value of the share in equity' is amended to 'recognises changes in the fair value of the share in other comprehensive income'.

In the answers to Questions F.2.4 and F.6.5, 'recognised directly in equity through the statement of changes in equity' is amended to 'recognised in other comprehensive income'.

In Question F.3.3, '**the income statement**' is amended to '**profit or loss**'.

In Question F.3.4, 'amount recognised directly in equity is transferred to profit or loss' is amended to 'amount recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment'.

In Question F.5.2, 'it credits the effective portion of the change in fair value of the swap, ie the net change in fair value of CU49, to equity' is amended to 'it recognises the effective portion of the change in fair value of the swap, ie the net change in fair value of CU49, in other comprehensive income'.

In Question F.5.3, '2001' is amended to '20X1', '2002' is amended to '20X2' and 'it debits the entire change in fair value of the forward contract (CU80) to equity' is amended to 'it recognises the entire change in fair value of the forward contract (CU80) in other comprehensive income'.

In Question F.5.6, references to the years '2001' and '2002' are amended to '20X1' and '20X2' respectively and 'directly in equity' is amended to 'in other comprehensive income' (six times).

Question F.6.2 is amended as described below.

The section '*Systems considerations*' of Issue (b) is amended as follows:

- 'the adjustments to equity from changes in the fair value of a hedging instrument should be recognised in profit or loss' is amended to 'the cumulative gains and losses recognised in other comprehensive income from changes in the fair value of a hedging instrument should be reclassified to profit or loss'.

- 'should be recognised in profit or loss' is amended to 'should be reclassified from equity to profit or loss'.

In Issue (f), 'recognised initially in equity are reclassified out of equity and recognised in profit or loss' is amended to 'recognised initially in other comprehensive income are reclassified from equity to profit or loss'.

Issue (g) is amended as follows:

- 'should be recognised in profit or loss' is amended to 'should be reclassified from equity to profit or loss'.

- 'are recognised in profit or loss' is amended to 'are reclassified from equity to profit or loss'.

In Issue (h), 'net cumulative gain or loss is recognised in profit or loss' is amended to 'net cumulative gain or loss is reclassified from equity to profit or loss'.

Issue (j) is amended as follows:

- 'are reclassified into profit or loss' is amended to 'are reclassified from equity to profit or loss'.

- 'shall reclassify immediately into profit or loss' is amended to 'shall reclassify immediately from equity to profit or loss'.

In Question F.6.3, the section '*Systems considerations*' in '**Designation objectives**' is amended as follows:

- (in the second paragraph) 'track of deferred derivative gains and losses in equity' is amended to 'track of gains and losses recognised in other comprehensive income'.

- (in the second paragraph, twice) 'be recognised in profit or loss' is amended to 'be reclassified from equity to profit or loss'.

- (in the second and third paragraphs) 'be reclassified out of equity' is amended to 'be reclassified from equity to profit or loss'.

In Question F.6.4, 'amounts recognised in equity are released to profit or loss' is amended to 'amounts recognised in other comprehensive income are reclassified from equity to profit or loss'.

2.7 FRS 29 (IFRS 7) 'Financial Instruments: Disclosures'

FRS 29 (IFRS 7) is amended for consequential amendments arising from IAS 1 'Presentation of Financial Statements,' revised in September 2007. Paragraphs 20, 23(c) and (d) and 27(c) are amended and paragraph 44E is inserted.

Paragraph 20 including the heading is amended to read as follows:

~~Statement of comprehensive income~~ <u>Profit and Loss Account and Statement of Total Recognised Gains and Losses</u>

20 An entity shall disclose the following items of income, expense, gains or losses either in the ~~statement of comprehensive income~~ <u>profit and loss account, statement of total recognised gains and losses</u> or in the notes:

(a) net gains or net losses on:

(i) ...

(ii) available-for-sale financial assets, showing separately the amount of gain or loss recognised <u>through the statement of recognised gains and losses</u> ~~in other comprehensive income~~ during the period and the amount reclassified from ~~equity~~ <u>reserves</u> to the profit or loss for the period;

(iii) ...

Paragraphs 21, 23(c) and 23(d) are amended to read as follows:

21 In accordance with paragraph ~~117~~ 55 of FRS 18 Accounting Policies ~~IAS 1 *Presentation of Financial Statements (as revised in 2007)*~~, an entity discloses~~, in the summary of significant~~ the accounting policies that are material in the context of the entity's financial statements.~~, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.~~

23 For cash flow hedges, an entity shall disclose: ...

(c) the amount that was recognised through the statement of total recognised gains and losses ~~other comprehensive income~~ during the period;

(d) the amount that was reclassified from ~~equity~~ reserves to the profit or loss for the period, showing the amount included in each line item in the profit or loss account ~~statement of comprehensive income~~: and ...

In paragraph 27(c) 'in equity' is amended to 'through the statement of total recognised gains and losses'. Also in paragraph 27(c) total equity is struck through and total reserves inserted.

Paragraph 44E is inserted as follows:

44E **The ASB amended paragraphs 20, 21, 23 (c) and (d) as part of its 'Improvements to Financial Reporting Standards' issued in December 2008. ~~IAS 1 (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraphs 20, 21.–23(c)~~**

~~and (d) and B5 of Appendix B.~~ An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. ~~If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.~~

AMENDMENT TO BASIS FOR CONCLUSIONS TO FRS 29 (IFRS 7)

The following amendments are made to the Basis for Conclusions to FRS 29 (IFRS 7). These arise as a consequence of IAS 1 'Presentation of Financial Statements' (revised September 2007).

The rubric preceding the Basis for Conclusions on IFRS 7 is amended as follows:

This Basis for Conclusions accompanies, but is not part of, IFRS 7.

In this Basis for Conclusions the terminology has not been amended to reflect the changes made by IAS 1 Presentation of Financial Statements *(as revised in 2007).*

SECTION 3: EDITORIAL CORRECTIONS TO FINANCIAL REPORTING STANDARDS

3.1 The IASB from time to time publishes, on its website, a list of editorial corrections required to IFRS. The ASB has decided it should incorporate into UK IFRS-based standards editorial corrections made by the IASB.

The amendments are set out below.

Document	**Position in text**	**Deleted**	**Substituted/ inserted**
FRS 26 (IAS 39)	in paragraph IN6, at end after 'Standard'		'because they are insurance contracts and are therefore outside the scope of the Standard because of the general scope exclusion for such contracts'
FRS 26 (IAS 39)	in paragraph 55	**'(paragraphs 89 102), shall'**	**'(paragraphs 89-102) shall'**
FRS 26 (IAS 39)	In answer to Question E.2.1	'recognised on its'	'recognised in its'
FRS 26 (IAS 39)	Answer to question E.3. 2, paragraph above second table	'LC15 (=LC59. [2.00 – 1.75])'	'LC15 (=FC59 x [2.00 – 1.75])'
FRS 20 Vesting Conditions and Cancellations	IG Example 9A Year 2 figures in Liability column	'600' and '(1,800)'	'(600)' and '1,800'
FRS 26 (IAS 39)	answer to Question F.1.6	'profit or loss or [in] equity'	'profit or loss or [in] other comprehensive income'
FRS 20 (IFRS 2)	in last sentence of footnote to paragraph BC88	'includes'	'include'

Document	Position in text	Deleted	Substituted/ inserted
FRS 29 (IFRS 7)	in paragraph B26, first sentence	after 'equity price risk' delete rest of sentence	after 'equity price risk' insert amended text, as follows: 'are (a) a holding of equities in another entity and (b) an investment in a trust that in turn holds investments in equity instruments.'
FRS 25 (IAS 32)	in heading above paragraph 11	**'AG3-AG24'**	**'AG3-AG23'**
FRS 25 (IAS 32)	in heading below paragraph BC6	**'17-20 and AG25-AG26'**	**'17-20, AG25 and AG26'**
FRS 25 (IAS 32)	in paragraph BC49(d)	*'Classification of Financial Instruments – Contingent Settlement Provisions'*	
FRS 26 (IAS 39)	in paragraph 2(j)	***'Provisions, Contingent Liabilities and Contingent Assets'***	
FRS 26 (IAS 39)	in paragraph 47(c)(i)	***'Provisions, Contingent Liabilities and Contingent Assets'***	
FRS 26 (IAS 39)	in paragraph AG29	*'Financial Instruments: Disclosure and Presentation'*	
FRS 26 (IAS 39)	in paragraph AG33(c)	*'The Effects of Changes in Foreign Exchange Rates'*	
FRS 26 (IAS 39)	in paragraph AG46	'paragraphs 48, 49'	'paragraphs 48–49'

Document	Position in text	Deleted	Substituted/ inserted
FRS 26 (IAS 39)	in heading above paragraph AG69	'48 and 49'	'48-49'
FRS 26 (IAS 39)	in paragraph BC86A	'10 million' [three times]	'CU10 million' [three times]
FRS 26 (IAS 39)	in paragraph BC221(e)	'EITF 02-3'	'EITF 0-23'
FRS 26 (IAS 39)	in E.4.10	**'IAS 39.67'**	**'IAS 39'**

3.2 The ASB is also making the following editorial corrections in addition to those of the IASB.

Document	Position in text	Deleted/Strike-through	Substituted/ inserted
FRS 21	Paragraph 12	FRS • (IAS 32) Financial Instruments: Disclosure and Presentation	FRS 25 (IAS 32) Financial Instruments: Presentation
FRS 25	Paragraph IN13	relative-fair value	relative-fair-value
FRS 25	Paragraph 9(c)	'short term'	'short-term'
FRS 25	Paragraph 10	'non financial'	'non-financial'
FRS 25	Paragraph 27	'non financial and paragraphs 8 10'	'non-financial and paragraphs 8-10
FRS 25	Paragraph 49(c)	'non recourse'	'non-recourse'
FRS 25	Paragraph 59(c)	'non financial'	'non-financial'
FRS 25	Paragraph 97(B)a	FRS 25	FRS 26
FRS 25	Paragraph AG20	'non financial'	'non-financial'
FRS 25	Paragraph AG30	'IAS 39'	'FRS 26'
FRS 26	Paragraph 2(b)(i)	AG84AG93	AG84-AG93

Document	Position in text	Deleted/Strike-through	Substituted/inserted
FRS 26	Paragraph 9A	'within the meaning of Article 1(13) of Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field'	by Council Directive 2004/39/EC
FRS 26	Paragraph 54(b) 1st sentence	~~'remain in equity'~~	'remain in reserves'
FRS 26	Paragraph 54(b) 2nd sentence	~~'recognised directly in equity'~~	'recognised through the statement of total recognised gains and losses'
FRS 26	Paragraph AG83 penultimate sentence	~~'recognised directly in equity'~~	'recognised through the statement of total recognised gains and losses'.
FRS 26	Paragraph 103A	Renumber the second paragraph 103A to 103D.	
FRS 26	Paragraph 108E	Renumber the second paragraph 108E to 108G.	
FRS 26	Paragraph 108F	Renumber the second paragraph 103A to 108H.	
FRS 26	Appendix B Line above paragraph 1	'Paragraphs 1 and 2'	'Paragraphs **3** and **5**'
FRS 26	Paragraph N6	FRS 25	FRS 26
FRS 29	Paragraph 3c	paragraphs 81-84	paragraph 27
FRS 25	Paragraph 4c		before FRS 7 Fair Value in Acquisition Accounting 'paragraph 27'
FRS 26	Paragraph 2(f)	paragraphs 81-84	paragraph 27

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